



# OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT TO CONGRESS

APRIL 1 — SEPTEMBER 30, 2006

PROMOTING INTEGRITY AND ACCOUNTABILITY



## MISSION STATEMENT

The mission of the U.S. Postal Service Office of Inspector General is to conduct and supervise objective and independent audits, reviews, and investigations relating to Postal Service programs and operations to:

- Prevent and detect fraud, waste, and misconduct;
- Promote economy, efficiency, and effectiveness;
- Promote program integrity; and
- Keep the Governors, Congress, and Postal Service management informed of problems, deficiencies, and corresponding corrective actions.

## A MESSAGE FROM THE INSPECTOR GENERAL

It has been 10 years since Congress created the U.S. Postal Service Office of Inspector General. During this time, we aligned our Audit and Investigative offices with appropriate Postal Service components to effectively carry out our mission. In the past year, we expanded our investigative mission to include employee mail theft, completing the transition of jurisdiction of all internal crimes from the U.S. Postal Inspection Service (USPIS).

To accomplish our new work, we added additional staff, expanded our investigative responsibilities, and established new offices across the country.

We also expanded our communications capabilities by introducing more efficient and immediate responses to callers reporting fraud, waste, and misconduct affecting Postal Service programs and operations. This expansion, called the Virtual Front Office, provides access to someone specially trained to classify and route calls to appropriate OIG staff or external organization.

During this semiannual period, April 1 to September 30, 2006, our Office of Investigations closed 3,799 cases and referred 1,775 to management for administrative action. Special Agents conducted investigations resulting in 281 arrests, informations, and indictments. Fines, restitutions, and recoveries totaled \$76.4 million; of this amount, \$12.4 million was returned to the Postal Service. Closed investigations covered contract fraud, embezzlement, injury compensation fraud, computer crimes, and employee misconduct.

Highlights of the Office of Audit's accomplishments in this reporting period include issuing 240 audit reports that identified over \$357 million in cost savings or funds put to better use and \$2 million in revenue impact. The Office of Audit tackled important issues in the Postal Service's network to increase efficiencies and did timely work in the aftermath of Hurricanes Katrina and Rita. They carried out a number of Value Propositions (agreements between audit directors and Postal Service Vice Presidents, consenting to a

specific body of work in a specific time frame) that continue to get positive feedback from Postal Service management.

This semiannual report focuses on six major management challenges (risks) the Postal Service faced during the reporting period ending September 30, 2006: Strategic Direction, Cost Control, Revenue Generation, Customer Service, Human Capital, and Integrity and Security. The OIG strives to assist the Postal Service in managing these risks.

I thank Postal Service officials, the Governors, and Congress for their support, useful suggestions, and advice. I look forward to continuing to help address the major risks the Postal Service faces in FY 2007.



# SUMMARY OF PERFORMANCE

April 1 — September 30, 2006

## Audit

Reports issued.....	240
Significant recommendations issued .....	86
Total reports with financial impact .....	79
Funds put to better use .....	\$280,766,200
Questioned costs <sup>1</sup> .....	\$76,474,109
Revenue Impact .....	\$2,029,937
<b>Total<sup>2</sup>.....</b>	<b>\$359,270,246</b>

## Investigations<sup>3</sup>

Investigations completed .....	3,799
Arrests .....	152
Indictments/informations .....	129
Convictions/pretrial diversions <sup>4</sup> .....	109
Administrative actions .....	1,775
Cost avoidance .....	\$57,527,822
Total fines, restitutions, and recoveries .....	\$76,488,294
Amount to Postal Service <sup>5</sup> .....	\$12,410,819

## Hotline Contacts

Telephone calls .....	23,430
e-Mail .....	10,176
Virtual Front Office calls .....	1,288
Mail .....	1,095
Voice mail messages .....	505
Facsimile — FAX.....	317
<b>Total Contacts.....</b>	<b>36,811</b>

1 Includes unsupported costs of \$146,106.

2 The Postal Service agreed to recommendations or proposed alternative corrective actions that, if implemented, could result in more than \$359 million in savings.

3 Statistics include joint investigations with the U.S. Postal Inspection Service and other law enforcement agencies.

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

5 Amount included in fines, restitution, and recoveries.

# TABLE OF CONTENTS

<b>Management challenges (risks) confronting the Postal Service</b> .....	2
Strategic direction.....	3
Cost control .....	4
Revenue generation.....	11
Customer service .....	12
Human capital.....	15
Integrity and security .....	17
Audit activities .....	18
Investigative activities .....	24
<b>Feature story</b> .....	35
Virtual Front Office (VFO).....	35
<b>Organizational chart</b> .....	36
<b>Map of office locations</b> .....	37
<b>Appendices</b> .....	38
<b>Appendix A</b> – Reports issued to Postal Service management .....	38
Reports with quantifiable potential monetary benefits.....	39
Report listing .....	42
<b>Appendix B</b> – Findings of questioned costs .....	48
<b>Appendix C</b> – Recommendations that funds be put to better use .....	50
<b>Appendix D</b> – Reports with significant recommendations pending corrective actions.....	51
<b>Appendix E</b> – Significant management decisions in audit resolution.....	53
<b>Appendix F</b> – Investigative statistics.....	53
<b>Appendix G</b> – Summary of U.S. Postal Inspection Service investigative actions under 39 U.S.C. § 3013 .....	54
<b>Appendix H</b> – Closed Congressional and Board of Governors inquiries .....	55
<b>Supplemental information</b> .....	58
Freedom of Information Act.....	58
Workplace Environment .....	59
Glossary.....	60

## MANAGEMENT CHALLENGES (RISKS) CONFRONTING THE POSTAL SERVICE

*The Postal Service is a \$70 billion business delivering 212 billion pieces of mail a year (46 percent of the world's mail) to 144 million delivery points. This requires managing almost 800,000 employees and contractors, 38,000 facilities, and 214,000 vehicles. The complexity of managing such a large enterprise is complicated by macro issues such as declining First-Class Mail volume, and various regulatory and legal constraints that limit managerial autonomy. The Postal Service and the Board of Governors are aware of the risks they face in this environment and are attentive to the issues. The fundamental challenges they continue to assess and act on include strategic direction, cost control, revenue generation, customer service, and human capital issues. In addition, maintaining the integrity and security of the Postal Service is an inherent challenge with any organization of its size.*

*The current business environment is especially challenging in light of the Postal Service's commitment to reduce millions of work hours, while other factors outside of the control of the Postal Service — such as the prospect of postal reform, natural disasters such as hurricanes and floods, or the fluctuation of fuel prices — impact the management and financial condition of the Postal Service. In the midst of this dynamic environment, the Postal Service continues to fulfill its legal mandate of universal mail service.*

*Consistent with our mission to conduct audits and investigations relating to its programs and operations, we have conducted an extensive body of work to help the Postal Service manage its major risks.*

*One of the ways we work with the Postal Service is through Value Propositions. These augment our ability to work jointly with the Postal Service by identifying areas that, with examination, could yield savings and maximize the value added to the Postal Service. A Value Proposition is an agreement between the audit directors and Postal Service Vice Presidents, consenting to a specific body of work in a specific time frame. The agreement includes the area of focus, objectives/goals, scope of work, Office of Inspector General (OIG) resources, Postal Service resources, anticipated value, and deliverables.*

*Following are more details about the management challenges facing the Postal Service and examples of our related findings and recommendations during the reporting period.*

## STRATEGIC DIRECTION

As part of its overarching strategic direction, the Postal Service plans to continue increasing its effectiveness and efficiency and ensuring that products and services are self-sustaining, while balancing legal considerations and stakeholder views. These are primary goals in the Postal Service's Strategic Transformation Plan. The Postal Service has many important initiatives in progress, including optimizing its processing and delivery networks and increasing investments in technology to streamline operations. These initiatives are critical if the Postal Service is to continue providing mail services to customers at a reasonable price. Historically, mail volume (revenue) growth has covered the growth of the delivery point network (cost). Today, declining First-Class Mail volumes make this increasingly difficult to achieve.

The Postal Service's most significant effort to streamline operations is its ongoing redesign of the immense mail processing network, called the Evolutionary Network Development (END) initiative. This initiative involves migration to a flexible mail processing and distribution network that increases operational efficiency, reduces costs, and improves consistency of service.

We work closely with the Postal Service as it endeavors to transform its network to increase operational efficiency. For example, the Postal Service implemented nine Area Mail Processing consolidations between January and June of this year. We reviewed two of these consolidations (in Bridgeport, Connecticut, and Pasadena, California) and found that they can be expected to reduce Postal Service costs and promote efficiencies. However, the Postal Service did not always follow its internal processes in preparing and reviewing the proposals, and needs to provide more specificity in its guidance for completion and review of the proposal

worksheets. We will be reviewing more such consolidations, as well as evaluating whether the proposed consolidations fully consider the potential impacts on customer service.

Although the Postal Service has made some progress in transforming its network this year, its END implementation efforts progressed cautiously. In mid-February, more than 40 additional proposals for consolidating processing operations were under consideration for implementation in late spring or early summer, and plans were to have another group of proposals in the late summer or early fall. However, the Postal Service has since scaled back these plans. Headquarters executives approved implementation of only one of the proposals that were under consideration in mid-February, and it has not yet been implemented. Additional proposals have been submitted and are currently under consideration.

Several factors have impacted the Postal Service's network realignment efforts. These include:

- Strong resistance to consolidation efforts from key stakeholders. For example, one union launched an advertising campaign aimed at raising public concern about mail consolidations.
- Requests from members of Congress to suspend certain consolidations pending the completion of OIG or Government Accountability Office reviews.
- The filing for an advisory opinion with the Postal Rate Commission on changes in postal services related to END implementation. Since the filing in mid-February, the Postal Service has responded to hundreds of questions associated with the filing and has participated in hearings to address these concerns.

### MANAGEMENT RESPONSE TO OIG WORK

We adhere to professional audit standards and present our audit work to management for comments prior to issuing a final report. Unless otherwise noted in the audit work discussed in this report, management has agreed, or partially agreed, with our recommendations and is taking, or has already taken, corrective action to address the issues we raised.

## COST CONTROL

A management challenge facing the Postal Service is to control costs, especially given the significant infrastructure investment required to meet its universal service obligation. Delivery now extends to more than 144 million delivery points with about 290,000 city and rural Letter Carriers, and more than 6,000 highway route contractors with box delivery. Based on these facts and our work in related areas, we believe cost control continues to be a significant challenge for the Postal Service. The greatest opportunities to reduce costs are in the areas of optimizing the network to control delivery costs, increasing efficiencies of technology investments, and maximizing the cost-effectiveness of contracts.

### ***Optimization of Surface Transportation and Mail Transport Equipment Service Center Networks.***

The Postal Service spends close to \$3 billion annually for contracted surface transportation to move mail and mail transport equipment across highway and rail networks nationwide. During this reporting period, we evaluated whether the Postal Service can reduce costs by reducing the number of highway contract trips originating at the Atlanta, Greensboro, and Dallas Mail Transport Equipment Service Centers (MTESCs) and servicing Processing & Distribution Centers (P&DCs) throughout the Great Lakes and Pacific Areas. We also looked at whether management complied with the Postal Service's over-the-road (OTR) container processing policy.

We concluded that the Postal Service could save approximately \$25 million over the term of affected highway contracts by canceling, not renewing or modifying, 420 scheduled highway trips; and by stopping the inappropriate shipment of serviceable OTR containers to the MTESC. The Postal Service could eliminate the trips

without affecting on-time service by consolidating mail and equipment loads to better utilize trailer capacity. The Postal Service took corrective action to quickly implement transportation reductions.

Further, at the request of management, we evaluated proposed changes to the current MTESC equipment inspection and payment authorization process. We determined changes to the MTESC quality assurance process did not provide the independent quality controls needed to ensure that the operating contractor's work was done properly, equipment met standards, or payments should be approved. The Postal Service placed the proposed changes on hold and said they would advise us of any additional system modifications.

### ***Hurricane Katrina-related Fuel Supply Shortages and Cost Increases.***

The Postal Service uses about 810 million gallons of fuel annually to operate its nationwide transportation network. Increases in fuel costs have a dramatic impact on the Postal Service's costs. According to the Postal Service, each penny increase in the cost of a gallon of fuel costs the Postal Service about \$8 million annually.

During our audit of postal operations in the wake of Hurricane Katrina, Postal Service transportation and supply management officials expressed concern about damage to the Gulf Coast fuel industry and infrastructure and potential nationwide fuel shortages resulting from the storm's impact. Officials also were concerned about rising fuel prices, but said shortages were more critical in terms of impacting the Postal Service's ability to move mail.

Federal contingencies may alleviate some of the impact on Postal Service operations caused by fuel supply shortages. The U.S. Strategic Petroleum Reserve,



administered by the U.S. Department of Energy, is the largest stockpile of government-owned emergency crude oil in the world. It provides the federal government with a response option when disruption in commercial oil supplies threatens the U.S. economy. It has been used only twice: first in 1991, at the beginning of Operation Desert Storm; and second in 2005, in response to Hurricane Katrina.

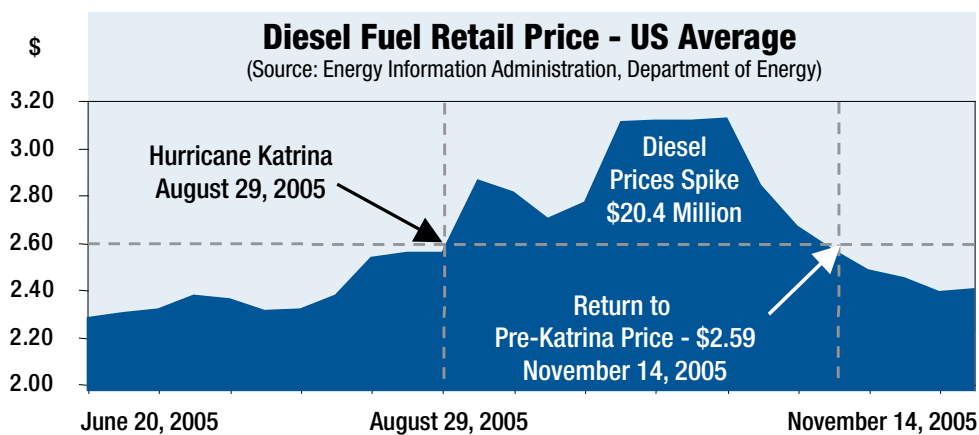
During our audit, we monitored nationwide fuel supplies. Although significant fuel shortages did not materialize, Hurricane Katrina disrupted the Gulf Coast fuel industry and created a significant nationwide spike in fuel prices. As indicated by the following chart, on August 29, 2005, the day Hurricane Katrina hit the Gulf Coast, the nationwide average price for diesel fuel was \$2.59 per gallon. However, after the hurricane struck, diesel fuel prices rose to more than \$3.10 per gallon and did not return to pre-Hurricane Katrina levels for more than 11 weeks.

A similar analysis of all transportation-related fuel prices suggests the Postal Service might have incurred a total of more than \$32.8 million in Hurricane

Katrina-related fuel costs. Since Postal Service Managers have little control over disruption to national oil inventories created by events as catastrophic as Hurricane Katrina, we did not make any fuel-related recommendations. As part of our ongoing effort to assist the Postal Service in controlling and reducing fuel costs, our FY 2007 audit work will cover two programs: the effectiveness of the Postal Service's program for purchasing bulk diesel fuel, and Postal Service's management of the Voyager Fuel Card program. Both programs cover thousands of highway network transportation contractors. (See page 17 for related investigative work in this area.)

**Management of the National Trailer Fleet.**

We audited the National Trailer Lease Requirements in the Capital Metro Area, evaluating trailer fleet management and identifying opportunities to reduce costs and concluded that improvements could be made. Due to fleet management control weaknesses, the Postal Service leased more trailers than they needed. The Postal Service may have missed an opportunity to save more than \$402,000



when it allocated more trailers to the Capital Metro Area than it needed. However, the Postal Service still has the opportunity

This facility also had vacant floor space, which management could use to house other processing operations.



Due to fleet management control weaknesses, the Postal Service leased more trailers than it needed.

- Assess whether using smaller carrier sequence barcode sorters located in Associate Offices or Delivery Distribution Centers was more efficient than using the larger delivery barcode sorters located in P&DCs. Both of these machines sort mail automatically in delivery sequence.

We reviewed the use of the carrier sequence barcode sorters in the Seattle District, where the Postal Service has discontinued using this equipment at many of its facilities. However, we found that further opportunities existed to use the delivery barcode sorters rather than the carrier sequence barcode sorters to process mail at the North Bend, Blaine, and South Sound facilities. This would reduce mail processing and maintenance workhours, increase processing efficiency, and increase the use of DBCSs. We estimate that using the existing and anticipated DBCS capacity would save 10,521 workhours, which could produce a cost avoidance of approximately \$3.7 million over 10 years.

to save more than \$1.5 million by returning unneeded trailers.

***Domestic Mail Processing Efficiency.***

Although the Postal Service believes the END initiative will produce significant savings, it recognizes that this may be difficult and take many years to realize. Therefore, the Postal Service continues to pursue cost savings within its current network. For example, the Postal Service and the OIG worked together in the Pacific and Western Areas to:

- Improve the efficiency of operations at the Los Angeles, California Worldway Airport Mail Center (AMC). We concluded the Worldway AMC did not fully adjust workhours in response to changes in workload, use mechanized equipment effectively, and staff operations commensurate with the workload. We recommended a reduction of 760,000 workhours, which could produce a cost avoidance of about \$192 million over 10 years.

- Continue to improve mail processing efficiency and service within plants. For Standard Mail, this includes using a series of color-coded tags to ensure that mail is processed efficiently in a first-in, first-out sequence to meet processing, dispatch, and delivery targets. A color-coded tag represents the day of the week that mail arrived on Postal Service premises and denotes targeted clearance from the facility in 1 or 2 days, depending on the type of Standard Mail. Left is an example of a blue color-coded tag used at the Portland, Oregon, P&DC.



This is a blue color-coded tag used at the Portland, Oregon, P&DC.

We also completed two audits in a series of reviews assessing whether P&DCs are complying with the National Color Code Policy and best practices. At the P&DCs in Portland, Oregon, and San Diego, California, we concluded that the Postal Service was generally processing Standard Mail using the correct color-code processes. Although we observed some Standard Mail containers without color-coded tags and other containers where the date and time were not shown on the color-coded tag, we did not observe any delayed mail, operational plan failures, or negative service impacts from these practices. We recommended that the Postal Service tighten controls over its color-coding processes and provide training as necessary.

#### ***Efficiency of International Record Units.***

We worked with the Postal Service to assess the efficiency of 11 International Records Units (IRU) across the nation. IRUs communicate with foreign postal administrations on mailing matters, and reconcile and maintain international mail

records. In addition, IRU personnel enter inbound international mail volumes and make adjustments to volumes, which the International Accounting Branch uses to bill foreign postal administrations.

Our review found IRUs operated in an antiquated, inefficient, and manual work environment. Most of the work functions at the IRUs, which support more than 2 million hard copy records, were manually-driven and paper based. As a result, the Postal Service used more workhours than necessary to accomplish the IRU mission. Over the last several years, the Postal Service began to take action to improve IRU efficiency, such as automating its processes and moving from paper-based documents to paperless. Notwithstanding these actions, we made four recommendations to further improve and update the IRU operations.

***International Air Mail.*** The Postal Service spends more than \$200 million annually to transport international mail, at rates mostly set by the Department of



Our review found International Records Units operated in an antiquated, inefficient, and manual work environment.

Transportation (DOT), not the market. Evidence suggests that the Postal Service pays more than it would on the open market. The Postal Service procures most of its transportation from private sector carriers. It spent \$211.5 million to transport international mail by air in fiscal year (FY) 2004, and another \$358 million for military mail. Lifting restrictions on the Postal Service's ability to contract for international mail air transportation would be beneficial because the Postal Service would then be able to negotiate its rates directly with any carrier it considers appropriate. Deregulating international mail air transportation would achieve market-based pricing and operational flexibility.

We believe DOT regulation of international mail air transportation rates and requirements that the Postal Service use U.S. flag carriers (planes) are holdovers from an earlier period. These requirements are economically inefficient and many stakeholders oppose them. DOT regulations unnecessarily raises costs for postal rate-

payers and taxpayers. The Postal Service should be free to procure international air transportation the way it purchases any other form of transportation.

**Delivery Vehicles.** The Postal Service maintains a fleet of approximately 188,000 vehicles dedicated to delivering mail, and can augment this fleet via lease or rental agreements with employees or commercial vendors. The Postal Service requires its Managers to fully use postal-owned vehicles before approving a lease. In May 2005, the Postal Service analyzed postal-owned delivery vehicles and compared the number of motorized routes to on-hand vehicle inventory. In addition, as of July 2005, the Postal Service paid about \$5 million annually to employees and commercial vendors to supplement its delivery fleet.

We reviewed this issue and found the Postal Service has made strides to reduce costs associated with delivery vehicle expenditures over the past 3 years. However, more efficient delivery



Excess and underused delivery vehicles and leased delivery vehicles from employees and commercial vendors were used when Postal Service-owned vehicles were available.

vehicle usage could save the Postal Service more than \$22 million in funds put to better use and unrecoverable costs over the next 2 years. We found:

- Excess and underused delivery vehicles and leased delivery vehicles from employees and commercial vendors were used when Postal Service-owned vehicles were available.
- Delivery officials did not monitor the reasonableness of payments or the need for contracts with employees for use of their personal vehicles.
- Management did not consistently follow guidance and did not have visibility and control of excess Postal Service-owned delivery vehicles within their areas.
- A \$135 million firm fixed price proposal for the Automated Flats Sorting Machines (Phase 2), which disclosed more than \$5 million in questioned costs;
- A \$36 million firm fixed price proposal for the Flats Sequencing System Pre-production Program, which disclosed more than \$6 million in questioned costs;
- Three firm fixed price proposals totaling \$82 million, which disclosed \$7 million in questioned costs; and
- A settlement proposal of more than \$2 million, which was questioned in its entirety as the Postal Service did not order the goods invoiced.

We recommended changes to help delivery officials make better use of delivery vehicles, use excess vehicles to reduce planned purchases of delivery vehicles for rural routes, and reallocate vehicles between areas to eliminate shortages. We also recommended that management terminate non-emergency employee and commercial leases where practical, and establish controls to reduce the potential for mismanagement or uneconomical expenditures.

**Maximizing the Cost-Effectiveness of Contracts.** We issued 14 contract-related audit reports during the reporting period. Specifically, we evaluated five cost proposals associated with major systems. We also conducted nine audits involving rates, lease expenses, decrement factors, billings, a settlement proposal, a contractor's purchasing system, a quality system, and two accounting systems. These audits identified potential contract savings of more than \$21 million. Some of our more significant work includes audits of:

**Contract Administration.** We conducted two audits of the Postal Service's process for noncompetitively awarding contracts to former employees. We found that controls over the noncompetitive contract process were generally effective. However, management could make improvements by ensuring that awarded contracts received appropriate market research, that statements of work were adequate, and that contracts contained proper justification in order to decrease the risk of mishandling Postal Service funds. In addition, management needs to ensure that they properly classify employees (and those contractors being treated as employees) and withhold the appropriate payroll taxes.

**Technology Acquisition Management.** The Technology Acquisition Management (TAM) organization in the Postal Service manages the acquisition, testing and acceptance, deployment, and integration of new technology systems. These systems include complex automation equipment, advanced mechanization, and mail processing protection systems

designed to increase efficiencies in mail processing and distribution, delivery, and mail protection operations. TAM develops contract specifications and customer requirements, as well as deployment strategies and schedules.

In a September 2004 report, we recommended that the Postal Service develop written policies and procedures to better manage acquisitions. In response, the Postal Service initiated efforts to further develop, standardize, and document its internal procedures to address program management activities such as conditional acceptance criteria. The Postal Service then sought our assistance in the development efforts, so together we formed a Value Proposition Agreement to develop the *TAM Process Guide*.

The objective of the agreement was to promote acquisition practices that maximize benefits for the Postal Service. We used benchmarking to identify areas for improvement, which were incorporated into the TAM guide. This guide establishes the control environment and infrastructure for successful programs. We acknowledge the Postal Service's commitment to enhancing its processes by using the documented procedures to strengthen its ability to deliver the right capabilities on schedule and at predictable costs. The *TAM Process Guide* is nearly complete, and the Postal Service will begin training employees to instill process discipline once the final version of the guide is published.

**Biohazard Detection System.** The Biohazard Detection System (BDS) is an early warning system to detect biohazards at P&DCs. The purpose of the BDS is to reduce the threat to Postal Service personnel and the public from biohazardous materials sent through the mail. The BDS unit collects and tests air samples from the Advanced Facer Cancellor

System (AFCS) during mail processing operations. While in operation, the BDS consumes cartridges and buffer fluids. Nationwide, these BDS consumables cost about \$526 million over the BDS' 5-year life.

We assessed the cost of consumable usage and determined that the usage exceeded AFCS operational needs. This occurred primarily because BDS and AFCS start and shutdown operations were not synchronized. If uncorrected, overuse of BDS consumables would cost the Postal Service \$79 million over the life of the program.

During the audit, we discussed opportunities for a technological solution to start and stop the BDS in conjunction with the AFCS, thereby eliminating manual coordination between operations and maintenance. Proposals included software and hardware modifications that management could readily incorporate. Implementing a technological solution would enable the Postal Service to significantly reduce the average daily consumable usage. Management agreed with the recommendations to pursue a technological solution and reemphasize established manual procedures.

## REVENUE GENERATION

Another management challenge facing the Postal Service is enhancing its core services and providing greater value to its customers while also growing revenue. We believe the Postal Service could do more to ensure all revenue is being collected, recorded, and reported accurately. To ensure this occurs, we will continue reviewing new value-added products such as the Priority Mail Flat Rate Box and Premium Forwarding Service that the Postal Service is developing to ensure these products are growing revenue. Following is an example of one such audit.

**Express Mail Service.** Express Mail service is the Postal Service's premium delivery service for documents and packages weighing up to 70 pounds. Customers using Express Mail service may pay postage with adhesive stamps, meter stamps, or through an Express Mail Corporate Account (EMCA). Customers have three options for opening and maintaining an EMCA: participating in the Centralized

Account Processing System (CAPS), using a personal or business credit card, or establishing a trust account. The minimum balance in the trust account must equal either an average week's postage and fees or \$100, whichever is higher. In all areas, the district's Expedited Service Specialists (ESS) are responsible for managing these trust accounts.

We audited 450 EMCAs in the Postal Service's nine areas and found that ESSs did not always properly manage EMCA trust accounts. ESSs had not collected revenue from 179 EMCAs with overdrawn balances. As a result, the Postal Service has recoverable revenue of \$319,014 from customers who have overdrawn EMCAs, yet who continue to mail packages. Further, ESSs did not close accounts after negative balances existed for three consecutive months. We recommended that management contact EMCA customers to collect the postage due or, if appropriate, close the accounts and refer them to a collection agency.



Customers using Express Mail service may pay postage with adhesive stamps, meter stamps, or through an Express Mail Corporate Account (EMCA).

## CUSTOMER SERVICE

We believe that a management challenge facing the Postal Service is balancing its mandated public service obligation with the need to remain viable. In addition to timely, reliable, and accurate delivery at low cost, customers expect convenient and effective service. The Postal Service has been successful in improving service under the *Strategic Transformation Plan*, even as it has reduced operational costs. Postal Service customers have easier access to products and information, and many more options for using the mail to maintain business and personal relationships. Under the *Strategic Transformation Plan*, the Postal Service aims to continue its initiatives to exceed customer expectations — by focusing on core business, isolating and eliminating quality problems, managing to standards built around the customer, and quickly replicating successes across the organization. The

Postal Service is also committed to evolving to reflect changing customer demands, designing new products to meet new needs, and creating new solutions that customers value.

**Delayed Mail.** The Postal Service considers mail delayed when it is not processed or dispatched to meet its scheduled delivery date. Under normal circumstances, First-Class Mail should reach its destination anywhere within the continental U.S. within three business days.

In response to a November 2005 Congressional inquiry, we reviewed allegations of delayed and undelivered mail in Las Cruces, New Mexico. The inquiry stated delayed mail resulted in businesses putting “stop payments” on undelivered, lost, or late checks; the Department of Labor levying fees for late reports that were actually posted timely; the need to reissue employee child sup-



In another review at the Dallas Bulk Mail Center, we found delayed mail was not accurately reported on the mail condition report.



port checks; contracting bids lost in the mail; and delays of up to 2 weeks to deliver mail within the state.

Our review confirmed that delayed mail existed at the Las Cruces Carrier Annex and the Main Post Office, causing repeated customer complaints. Further, management had not taken timely action to correct the situation. Management met with us in December 2005 to discuss the Congressional inquiry and how to correct the delayed mail problem. Postal Service officials were confident that they could correct conditions associated with delayed mail and agreed with our findings and recommendations. We recommended that management establish procedures to track and monitor the implementation of recommendations from management reviews. Additionally, we recommended that management evaluate and respond timely to customer complaints. Postal Service officials stated that the delayed mail problem was due to turnover of district management staff, insufficient staff at the facility, and untimely response to recommendations made in a management review.

Following a March 2006 Congressional inquiry, our Office of Investigations looked at allegations about mail delayed in the Los Angeles District. The Member heard that not only was mail delayed, but the delays were not properly recorded and delayed mail was hidden off-site. We confirmed that there was substantial delayed mail over the winter (2005-2006). However, we found the delayed mail was properly documented in the Mail Condition Reporting System (MCRS), and was not hidden from District management. In fact, the facility was reporting substantial amounts of delayed mail daily. We also noted that the mail flow later improved, as Postmasters at a number of receiving locations confirmed

to us during interviews in April. We found no evidence to substantiate the claim that postal employees had stored or hidden mail in vehicles off-site.

In another review at the Dallas, Texas, Bulk Mail Center, we found delayed mail was not accurately reported on the mail condition report. Our tests showed that delayed mail was underreported over a 2-week period in June 2006, by 243,000 mail items, including pieces, bundles, and trays. Although we did not find this to be deliberate, by underreporting delayed mail the Postal Service understated the problem, and consequently did not take timely action to correct the delays. During the review, the Postal Service began taking corrective action in this area.

**Ghost Numbers.** A Mail Service Provider (MSP) specializes in preparing mailings for customers. Some MSPs perform the entire mail preparation and induction process, from printing mailpieces to depositing them into the mailstream, while others presort and mail under the MSP's permit number. MSPs may combine their customers' mail to take advantage of lower postage rates, such as bulk rates.

When an MSP presents a mailing, the Postal Service requires a postage statement. A postage statement lists the name and permit number of the MSP in the "By" field (if the MSP is mailing under its own permit number), and the name and permit number of the mail owner in the "For" field (if the MSP is mailing under its customer's permit number). When no permit number is associated with a mail owner on a postage statement, acceptance Clerks at the Business Mail Entry Unit create a "ghost" permit number in the *PostalOne!* system identifying the mail owner. The Postal Service uses these fields on postage statements to collect customer information for

#### AUDIT WORK

The cumulative efforts of the OIG pursuing its mission benefits the Postal Service in many ways. For example, we conducted unannounced audits at a New York post office since FY 2002. This unit — with more than \$15 million in annual revenue — has had repeated internal control and compliance issues related to accountability examinations; trust and suspense items; inactive Business Reply Mail (BRM) accounts; payroll; and Voyager and IMPAC cards. In FY 2006, thanks to the Postmaster and his staff's hard work, we did not identify any significant internal control or compliance issues and issued a "no-findings" report.

marketing purposes, and to track mail volume and sales revenue by customer.

We reported that the Postal Service could improve its collection and use of customer information. We recommended that the Postal Service clarify procedures for Mail Acceptance Clerks to follow when mail service providers do not identify the mail owners in the postage statement's "For" field; and revise Postal Service Form 3615, Mailing Permit

Application and Customer Profile, to include a notice explaining the intended use of customer data collected. Postal management implemented recommendations for PS 3615 and clarified instructions for acceptance Clerks.



We recommended that the Postal Service clarify procedures for Mail Acceptance Clerks to follow when mail service providers do not identify the mail owners in the postage statements.

## HUMAN CAPITAL

Another management challenge the Postal Service faces is the resolution of workforce and workplace issues. Adding to that challenge is the need to create a flexible workforce as part of the END initiative. Further, controlling costs associated with workplace programs, such as workers' compensation programs and grievance-arbitration service centers, is important to the Postal Service's success.

**Workers' Compensation Programs.** A significant cost that impacts the Postal Service is workers' compensation expenses for injured workers. The size of the bargaining unit workforce and nature of work performed are the primary factors that made the Postal Service the largest participant (47 percent of the total federal workforce cases) in the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) in 2006.

Although the Postal Service has taken positive steps over the past 3 years to reduce workers' compensation expenses, in chargeback year 2006 these expenses increased from \$840 million to \$884 million (5 percent).

According to the Postal Service, the increase was caused in part by technological improvements that reduced the number of rehabilitation assignments available for injured employees. At the same time, administrative fees OWCP charged to the Postal Service, which are set by statute and therefore binding, increased from \$37 million in 2001 to \$48.3 million in 2006 (about 30 percent). These fees represent approximately 5 percent of the Postal Service's total medical and compensation costs. We have encouraged the Postal Service to seek legislative change for the replacement of the DOL's OWCP, which could

result in a substantial savings to the Postal Service.

During this reporting period, we conducted several reviews of the Postal Service workers' compensation costs. Specifically,

- A review of controverted and challenged workers' compensation claims in selected areas found the Postal Service ensured only eligible employees were placed on the periodic roll. However, we also found that the Postal Service did not always properly controvert and/or challenge claims, nor did they consistently track and monitor the claims in accordance with Postal Service policies and procedures. For example, of the 139 claims reviewed totaling \$533,760 in workers' compensation benefits, we identified seven claims in which the Postal Service did not provide detailed information to support its position that employees were not entitled to these benefits. As a result, the Postal Service paid more than \$57,000 for workers' compensation claims accepted by the OWCP, that if properly controverted or challenged, may have been denied. Further, we projected the Postal Service did not recover more than \$108,000 in continuation of pay (COP) benefits for chargeback year 2004 workers' compensation claims the OWCP denied.
- An initiative led by the Postal Service, which used an OIG-developed database, discovered more than \$3.8 million in duplicate medical payments since July 2003, of which \$711,689 was credited back to the Postal Service by OWCP as of September 2006. The OWCP is not required to reimburse agencies for the administrative fees they charge to process duplicate payments,

### AUDIT WORK

During an audit in Oklahoma, we shared a best practice from the Pacific Area, which was subsequently implemented by the Oklahoma District and now helps prevent dog bites. This dog bite prevention concept was later featured on an Oklahoma news station as a special report on "Red Flagged Mail Routes." This best practice incorporated the use of Map Point software, which enables users to discover patterns and target problem areas by tracking accidents and incidents — including those involving dangerous dogs.



The Postal Service's six grievance-arbitration service centers were in compliance with national and local union agreement provisions for logging appeals and scheduling arbitrations.

rendering approximately \$195,000, (about 5 percent of the duplicate payment amount) unrecoverable for the Postal Service.

- A review of schedule award payments in the New York Metro Area concluded the Postal Service may have been overcharged \$10,750 and undercharged \$15,060, in chargeback years 2004 and 2005. Although the amounts are not significant when compared to the total schedule award payments in the area (\$6.7 million), they highlight the fact that some employees may not have received benefits to which they were entitled, while others may have received more.

***Grievance-Arbitration Service Centers.*** We reviewed the quality of operations at the Postal Service's six grievance-arbitration service centers and concluded that the service centers were in compliance with the relevant provisions of national and local union agreements related to the logging of appeals and scheduling of arbitrations. However, we believe the Postal

Service could improve internal controls to ensure full operational efficiency. In addition, we found opportunities to reduce costs associated with lost hearing dates where the Postal Service paid cancellation fees. For example, the Postal Service incurred more than \$356,000 in unrecoverable questioned costs for FYs 2004 and 2005 for arbitrators who received late notification of cancelled hearing dates, some of which could have been avoided. Finally, we recommended that the Postal Service could save \$5.5 million over a 10-year period by consolidating the six service centers. However, it must accomplish any consolidation with the cooperation of the four major unions, since management alone cannot initiate a consolidation without the unions' agreement. Our report contained nine recommendations to improve the operations of the six service centers. Management agreed with five of the recommendations, said they needed to conduct more research and study regarding two of them, and disagreed with the remaining two. We are working with management to resolve the disagreement.

## INTEGRITY AND SECURITY

The integrity of processes and personnel is an essential element for safeguarding Postal Service products, customers, services, and assets. This includes data accuracy, completeness, and the privacy of electronic information maintained within the Postal Service's network infrastructure and voice systems. Ultimately, this integrity helps maintain a stable, sound, and transparent Postal Service.

### Audit Activities

Auditors assess the integrity of processes and programs to safeguard Postal Service products, customers, services, and assets. Auditors evaluate data accuracy and completeness as well as the security and privacy of electronic information maintained within the Postal Service's

network infrastructure and voice systems. Ultimately, this integrity helps maintain a stable, sound, and transparent Postal Service. Following is audit work conducted in this area.

***Postal Service Effectiveness in Times of Disaster.*** During its long history, the Postal Service has faced both natural and man-made disasters that adversely impacted mail delivery. Such incidents led to a renewed emphasis on more effectively securing the nation's mail system. Our audits focus on key vulnerabilities to help the Postal Service further protect the integrity of the mail stream.

In support of Postal Service security, we participate in the Mail Security Task Force and attend training relating to emergency planning and dangerous mail



Overall, we found that the Postal Service responded to Hurricanes Katrina and Rita rapidly and successfully under difficult and unprecedented circumstances.

investigations. We are also a member of the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable, which shares information on related security work performed by all OIGs. In one collaboration, the PCIE tasked the Inspectors General with assuring appropriate oversight of financial and procurement processes and operations relating to Hurricane Katrina. We then established a task force of auditors and investigators who conducted extensive work on this issue.

During the course of our reviews after Hurricanes Katrina and Rita, we found that more than 300 Postal Inspectors and Postal Police Officers responded to safeguard Postal Service employees, provide security guidance to postal Managers, and ensure that infrastructures

were secure and operational. Further, U.S. Postal Inspection Service (USPIS) personnel escorted fuel and other recovery-related goods (such as lights and generators) into Alabama, Louisiana, and Mississippi. The USPIS also initiated an educational campaign to prevent fraud schemes related to Katrina relief efforts.

In a review of the actions taken by the Postal Service and the USPIS to locate employees in the days after Katrina, we concluded that these actions were timely and effective. We also determined that the Mississippi District's actions to track employees' locations in the days and months following the hurricane were effective, but the Southwest Area's actions needed improvement. Although employees were responsible for informing the Postal Service of their locations as they moved about the country, Katrina's catastrophic effects were so overwhelming they may have precluded many employees from keeping in contact with their employer. Our report included one recommendation for the Postal Service to improve its ability to account for employees after a natural emergency. Management agreed to implement the recommendation.

Further, we reviewed the Postal Service's and USPIS's procurement transactions related to Hurricane Katrina response, recovery, and reconstruction efforts to determine whether the USPIS had effective controls over these transactions. Overall, we found that the Postal Service and the USPIS had effective controls over procurement transactions and that these were valid, authorized, and supported by the appropriate documentation. However, the Postal Service could make improvements to ensure International Merchant Purchase Authorization Card (IMPAC) holders sign U.S. bank statements within 5 days of receipt, as policy requires.



In a review of the actions taken by the Postal Service and the USPIS to locate employees in the days after Katrina, we concluded that these actions were timely and effective.



Our audit found the Postal Service took steps in anticipation of Hurricane Katrina and responded rapidly to the storm's impact on the Gulf Coast.

In addition, we audited the Postal Service's response to Hurricane Katrina, focusing on its transportation, infrastructure, and logistical support activities, such as fuel management. We reviewed whether Postal Service transportation and logistics were effective in preparation for, during, and immediately after Hurricane Katrina; and whether Postal Service officials protected its resources.

Our audit found the Postal Service took steps in anticipation of Hurricane Katrina and responded rapidly to the storm's impact on the Gulf Coast. As a result, it preserved funds and other resources and made the task of reconstituting its network less difficult. We concluded that timely action to suspend and terminate unneeded highway contract routes in the hurricane emergency zone saved the Postal Service about \$2.8 million and made those funds available for other emergency transportation needs. Despite the efforts of its supply management and contracting officials to protect federal resources, the Postal Service may have incurred more than \$32.8 million in excess fuel costs related to Hurricane Katrina due to disruption to the Gulf Coast's oil industry. Additionally, the audit disclosed that since the Postal Service transportation and logistics network is well established, the federal government

can use the network more effectively to relieve disruption during natural disasters or terrorist attacks.

We recommended that Postal Service officials verify the actual termination of unneeded highway contract routes and coordinate with federal authorities to better leverage Postal Service capacity during future national emergencies.

While the Postal Service took noteworthy actions in responding to the hurricanes, opportunities exist to enhance emergency preparedness (EP) and responses in the event of a future natural disaster. Specifically, management needs to:

- Revise the Integrated Emergency Management Plan (IEMP) to sufficiently address area and headquarters-level functions, including coordination with the federal government during responses that require Postal Service involvement in the National Response Plan.
- Ensure that field operations personnel complete, approve, validate, and implement IEMPs, which incorporate both stand-alone plans for hurricanes, as well as lessons learned.
- Develop an alternative incident management system to assist the Postal Service in managing emergencies throughout each stage of EP.
- Establish performance measures for all hazards to achieve emergency management goals that effectively enhance the Postal Service's EP and incorporate them into the core goals for headquarters, area, and field-level emergency Managers.
- Identify and develop mandatory EP training at each level of the Postal Service for hazards, as necessary, based on risks and vulnerabilities.

## ENTERPRISE PAYMENT SWITCH

The Payment Switch is off-the-shelf hardware/software that captures electronic payment transactions and submits them to the card processors for payment. Scheduled for production in 2007, the Payment Switch supports a broad range of electronic payment types, including credit card, debit card, checks, and Internet payments. Due to the number of transactions the Postal Service processes each year, it is required to comply with the terms of the Payment Card Industry (PCI) Data Security Standard (DSS), and have an annual on-site security audit and quarterly network scans performed.

Overall, we found that the Postal Service responded to Hurricanes Katrina and Rita rapidly and successfully under difficult and unprecedented circumstances. As a result, the Postal Service safeguarded employees, continued to deliver the mail in the Gulf Coast region, and protected the sanctity of the mail and the nation's mail system.

**Information Security.** The Postal Service established the Information Security Assurance (ISA) process to ensure that application security risks are evaluated and security controls are documented and tested prior to application deployment. A review of the ISA process confirmed that the Postal Service has made progress in clearing the backlog of ISA projects and implementing a more comprehensive vulnerability testing program. However, additional work is needed to ensure that the Postal Service completes all ISA processes thoroughly and timely. The Postal Service also needs to address issues related to the accuracy, consistency, reliability, and availability of data with the Enterprise Information Repository.

Two other reviews also provided recommendations for improving ISA processes. An application control review of the Change of Address system determined that the Postal Service deployed its Postal Automated Redirection System without completing a code review, security evaluation, certification, and accreditation and acceptance letters. We recommended that the Postal Service complete these documents. Finally, a review of the requirements and design of the Enterprise Payment Switch Solution provided three recommendations for incorporating existing security requirements into security assessment checklists, applying the updated check-

lists to the Payment Switch system assessments, and updating security guidance.

**Enterprise Payment Switch Solution Phase 1: Requirements and Design.** In calendar year 2005, the Postal Service processed around 250 million debit and credit card transactions, including transactions originating at self-service centers and traditional post offices nationwide, as well as transactions originating through mail orders, telephone orders, and the Internet. The total value of transactions processed in FY 2005 exceeded \$8.3 billion.

We worked with the Postal Service to evaluate the security of the proposed credit and debit processing solution to verify that the routing and storage of customer information is secure within the Postal Service systems and the Payment Switch environment. Our project is divided into multiple phases to facilitate timely reporting in step with the Postal Service development and implementation of the Payment Switch solution. We conducted Phase 1 of the project during the development of the Payment Switch solution.

Audit work to date encompassed the Payment Switch design as well as systems and components that will feed into or receive output from the Payment Switch. We also evaluated the design of the Payment Switch in the context of the Payment Card Industry (PCI) Data Security Standard (DSS) and Postal Service policies. We will focus on system integration and customer acceptance testing, data transmissions, and mainframe controls during the second phase of the project.

Overall, we believe the Postal Service is making security a priority as it designs



and develops the Payment Switch system with security as a priority. The findings and recommendations presented in our Phase 1 report provide the Postal Service with areas where improvements could be made to further enhance the security of the system and prepare it for compliance with PCI requirements.

Management agreed with nine recommendations, but disagreed with our recommendation to synchronize system time clocks across Payment Switch vendors. Management noted that synchronizing system clocks with all parties involved with the Payment Switch project is a complicated initiative and is not considered part of the project. We agree that synchronizing system clocks is not a simple task but encourage the Postal Service to reconsider this requirement as they move forward with development of the Payment Switch solution.

**Router and Switch Controls.** Routers and switches are critical components of Postal Service telecommunication services. With increased reliance on electronic commerce and networking, equipment failures or breaches of these components can severely affect the Postal Service's ability to deliver information across and outside the organization. As a result, Postal Service operations and reputation depend on secure and reliable routers and switches.

We determined that, overall, information technology center policies and procedures provide adequate control over routers and switches. However, to further enhance the security and administration of these devices, the Postal Service could implement improvements that would strengthen the management of network topology, inventory, access, and change control. Furthermore, retaining critical configuration files off-site and reviewing them annually mitigates



Routers and switches are critical components of Postal Service telecommunication services.

potential weaknesses in the management of these devices.

**Security Assessment Audit of Telephone Lines and Modems.** Each year we conduct various security assessments to ensure that computer systems provide a level of security commensurate with the criticality of the system and the information it contains. We conduct phone sweeps of the Postal Service's telephone network to ensure that modems and other potential telephone network vulnerabilities have been properly secured. This year, we conducted modem security assessments in the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers (IT/ASC).

Modems represent a point of vulnerability for most computer networks because they are designed to provide access around, rather than through, typical network perimeter defenses such as firewalls and intrusion detection software. Working in cooperation with

Postal Service officials, our phone sweep security modem assessments identified opportunities to strengthen access controls to sensitive networks by employing stronger and more effective safeguards. Our assessment is that Postal Service telecommunication professionals do an effective job managing security controls for modems.

***Providing Reliable and Transparent Information – CA-PKI.*** The Postal Service requires accurate information to make decisions that affect day-to-day operations, to meet Congressional reporting requirements, and to conduct long-term planning. To be effective, the information must also be timely, reliable, and available to those who need it, yet protected from those who do not.

Homeland Security Presidential Directive 12 (HSPD-12) established a federal policy to create and use a government-wide secure and reliable form of identification for federal employees and contractors. A secure and reliable form of identification would include an external digital certificate from an external Certification Authority (CA)/Public Key Infrastructure (PKI). A digital certificate is an electronic identity card that establishes credentials when doing business or other transactions on the Web. A CA is a trusted third party responsible for issuing and managing digital certificates. Further, as a main component of the PKI, a CA certifies that the individual granted the digital certificate is who he or she claims to be. PKI is a combination of technology (hardware and software), process (policies, practices, and procedures), and legal components (agreements).

During this reporting period, we issued two reports on the results of our follow-up audit of the Certificate Authority Public Key Infrastructure (CA-PKI) Compliance at the Eagan, Minnesota, IT/ASC. We

performed these audits, requested by management, to validate Postal Service actions taken in response to KPMG International recommendations for the PKI environment.

The key generation ceremony (KGC) is a formal process which provides assurance that certificates are generated and protected in a trusted and reliable way, and is a critical step in the deployment of a PKI. During a KGC, root keys are generated, cloned, and stored securely.

The first report in June 2006 highlighted the generation of the initial PKI key and resolution of nearly all the KPMG documentation recommendations. However, corrective actions for a number of the operational recommendations were still in process. We concluded that, with the completion of the formal key generation ceremony and with the exception of those items that still require corrective action, the Postal Service had made significant progress implementing the CA-PKI environment under the requirements of HSPD-12.

We followed up with a second report in September 2006 that described improvements made to the documentation and operational environments since we issued the first report. In general, with the exception of 27 operational items that we were unable to validate because they require specific additional activities or events to occur, we determined the Postal Service corrected issues identified in the KPMG compliance audit. Management concurred with our recommendation to complete the PKI operational environment by establishing the HSPD-12 Registration Authorities and Subscribers and implementing the disaster recovery backup environment.



The Postal Service is implementing an Enterprise Resources Planning (ERP) system to replace more than 70 legacy systems that currently support the agency's human resources and payroll systems.

**Human Capital Enterprise SAP Human Resources Project.** The Postal Service is implementing an Enterprise Resources Planning (ERP) system to replace more than 70 legacy systems that currently support the agency's human resources and payroll systems. When fully implemented, the Postal Service will use SAP R/3, a commercial ERP solution, to incorporate human resource functionality for all Postal Service employees into a single integrated system. Data preparation and testing issues delayed the initial implementation of the Triboro performance cluster in the New York Metro Area until January 2006, with the next two clusters and the shared services center scheduled to come online in February 2007. We continue to monitor the Postal Service's implementation of the SAP human resource system and have issued three reports since September 2005 addressing: the need for core security oversight and change management; controls over access to sensitive data; and roles and separation of duties.

**U.S. Postal Inspection Service Oversight.**

Under the Inspector General Act of 1978, as amended, we are required to provide oversight of the USPIS. We conducted three qualitative assessment reviews of investigative and related administrative processes. As a result, USPIS management made changes to investigative procedures to improve management controls and agreed to provide additional training to Postal Inspectors to address the issues identified during our reviews.

We reviewed the Consumer Fraud Awareness Fund (CFAF) and found that, overall, the USPIS managed the CFAF efficiently and effectively, and has effective controls to reduce the risk of CFAF fraud, waste, and mismanagement. Specifically, it has:

- Documented policies and procedures regarding the transaction and approval process.
- Implemented procedures to ensure separation of duties to reduce the risk of error, waste, mismanagement, and fraud.

- Provided senior management with regular reports on the status of the fund.
- Reported to senior management all expenditures that could give the appearance of inappropriate use.

As a support function to the USPIS, the Security Investigation Service Center (SISC) was generally effective in supporting USPIS's mission. However, USPIS management could improve its background security clearance process to reduce its carryovers for these clearances, provide formal annual and refresher training, and revise procedures for handling complaints of mail loss and rifling.

Using a facility risk-rating model, the USPIS implemented several initiatives to identify potential vulnerabilities of Postal Service facilities through security reviews and observations of mail processing conditions. In coordination with the USPIS, we began assessing physical security programs and plan to report on the effectiveness of security in place for facilities, employees, customers, and mail.

We are currently reviewing the Postal Service's and USPIS's security controls and processes to ensure that they are effective and follow Department of Homeland Security and executive guidance. Additionally, we will continue reviewing new initiatives for detection and protection systems and the development, implementation, and coordination of emergency preparedness plans.

## Investigative Activities

The investigative efforts of Special Agents assist the Postal Service in detecting and deterring misconduct and helps maintain the integrity of the postal system and its employees. The vast majority of postal personnel are dedicated, hard working public servants whose daily efforts instill trust in America's postal system. However, it takes only one incident of theft or misconduct to potentially diminish that trust. Investigations of these breeches of integrity are a key component in maintaining the trust in the system and safeguarding the Postal Service's revenue and assets. With Special Agents stationed in more than 80 offices nationwide, that mission is carried out by investigating internal postal crimes involving:

- Mail theft by employees
- Injury compensation fraud
- Embezzlements and financial crimes
- Contract fraud
- Kickbacks
- Computer crimes
- Internal affairs
- Narcotics

Special Agents also investigate bribery, extortion, conflicts of interest, and allegations against postal executives. Investigative Analysts examine data and analyze trends to augment investigators' work in the field. Analysts and Special Agents partner to find solutions to help detect and prevent fraud. They operate as a headquarters intelligence unit, providing investigative analysis and research, reviewing investigative trends, and facilitating strategic initiatives.

**Employee Mail Theft.** “No government agency touches the public in the way the Postal Service does. No other government agency has the one-to-one, personalized service with its customers, 6 days-a-week, 52 weeks-a-year,” said Delores Killelte, Postal Service Vice President and Consumer Advocate.

“Americans trust the Postal Service to be discreet in handling their mail and to safeguard their personal information.”

For the second year in a row, Americans rated the Postal Service as the number one agency they trust to protect their privacy, according to a new study by the Ponemon Institute, LLC.

The American public expects to receive their letters and parcels on time and intact. Citizens have an expectation that their mail will not be stolen, rifled, read, or obstructed while in the possession of Postal Service employees. That expectation and trust extends to every one of the 690 million letters that travel across the country daily. Whether it’s a First-Class letter or a Priority Mail piece, Express Mail overnight service, a magazine, or a family heirloom in Registered Mail, all are handled by the women and men of the Postal Service.

Most postal employees work diligently to move the mail to its proper destination. Unfortunately, a small number of individuals betray the public’s trust. Investigating and identifying those employees who steal mail and seeking their prosecution is now our responsibility.

In March 2006, the Chairman of the Board of Governors and the Postmaster General announced their decision to complete the investigative realignment

between the OIG and the USPIS. This realignment involved a transfer of all employee misconduct investigations, including theft of mail, to the OIG. The announcement presented a schedule to complete this transfer of responsibility and established September 1, 2006, as the start date of our responsibilities for employee mail theft. The transition is scheduled to be complete by January 1, 2007.



To prepare for this transition and the new investigative responsibilities, our Office of Investigations has hired more than 260 new investigators since April 1, 2006. With the transfer of investigative responsibilities to the OIG, the USPIS reduced its complement of inspectors investigating internal mail theft. Many of the Postal Inspectors specializing in these types of internal investigations have transferred to the OIG.

A steering committee of experienced internal mail theft specialists has been created to chart the course for the mail theft mission. Special Agents assigned mail theft duties have completed a rigorous training program to prepare for taking on these new duties.

Office of Investigations management is taking a lead role in partnering with the mailing industry by attending strategic meetings with key mailers, such as Netflix, and major financial industry associations, such as the International Association of Financial Crimes Investigators, to ensure a seamless transfer of responsibilities. Additionally, these partnerships will identify and exchange best practices, and share loss prevention strategies.

On September 1, Special Agents immediately were called into action, as described in the case brief below.

■ **First mail theft apprehension since transition of jurisdiction.** A Southwest Area District Postal Manager advised us that a Letter Carrier was suspected of taking government checks from his postal unit while on annual leave, delivering them, and receiving payments from customers for expedited delivery. On September 1, Special Agents observed the carrier preparing for his route, pulling government checks from his case and setting them aside. The carrier clocked out and left the building on annual leave. Our Special Agents immediately attempted to locate those government checks in the mail to be delivered by the relief carrier, but were unable to find them. When the suspect carrier stopped at a local bank, Special Agents observed a small bundle of checks in plain view on the front seat of his car.

The carrier was detained and brought back to the post office. A total of 30 pieces of mail, including 26 Treasury checks valued at \$13,327, were confiscated from the suspect. The carrier was immediately placed on emergency suspension by management.

**Injury Compensation Fraud Investigative Results.** As part of the largest civilian workforce in the federal government, working in a multitude of diverse jobs, postal employees are exposed to situations that can cause on-the-job injuries. As required by law, the Postal Service funds workers' compensation benefits for employees who sustain job-related injuries. The monetary and medical benefits paid by the Postal Service to workers' compensation claimants totaled \$884 million in 2006. Of this amount,

\$325 million was for medical payments to providers, and \$559 million was for compensation to claimants and beneficiaries. Administered by the U.S. Department of Labor (DOL), the Office of Workers' Compensation Programs (OWCP) provides payment to providers and compensation to claimants and beneficiaries. The Postal Service later reimburses OWCP in a process known as "charge-back billing."

The vast majority of employees on workers' compensation receive benefits because of legitimate job-related injuries. However, a small percentage of postal employees and healthcare providers abuse the system. These schemes cost the Postal Service millions of dollars each year in compensation payments, medical costs, administrative expenses, and enforcement costs.

We initiate criminal investigations when we suspect individuals or healthcare providers of defrauding the DOL's Federal Employees' Compensation Act benefits fund. Criminal prosecutions are an effective deterrent to fraud and may permanently prevent the improper payment of any additional compensation. Any cases that may require administrative action are referred to the Postal Service and the DOL. Special Agents work closely with injury compensation specialists from the Postal Service on all phases of these investigations.

An example of an innovative crime prevention approach was undertaken by our Denver Field Office and the Postal Service's Colorado/Wyoming District Injury Compensation and Control Office. The team produced a DVD entitled "Workers' Compensation Fraud – Somebody's Watching," which focused on the negative impact on the Postal Service of fraudulent compensation claims. The presentation reached nearly 14,500 district employees in September 2006.

#### INJURY COMPENSATION FRAUD INVESTIGATIVE RESULTS

April 1 – September 30, 2006

- 966 fraud investigations resolved
- \$52 million in compensation payments avoided
- 8 arrests
- 9 indictments/informations
- 6 convictions
- 34 employees removed

During this reporting period, injury compensation fraud investigations resulted in more than \$52 million in cost savings/avoidances. Investigations by Special Agents resulted in the arrests of eight suspects and in 125 administrative personnel actions, including removals, and letters of warning. Following are examples of injury compensation fraud cases investigated by our Special Agents during this reporting period.

- **Doctor Defrauds OWCP of More Than \$100,000 in Healthcare Scam.** A Hotline tip disclosed that a doctor was submitting fraudulent bills and receiving payment for higher-level services than were actually administered to postal employees (upcoding).

The OWCP overpayment for services was estimated at \$105,000. Our investigation revealed the doctor's billing Clerks admitted that the doctor threatened to harm them if they alerted law enforcement and others to his deceptive billing practices.

We executed a federal search warrant at the doctor's offices. On August 2, 2006, a federal grand jury in the Western District of New York issued a 64-count indictment of healthcare fraud. The indictment charged that the doctor directed his office staff to bill at the highest code available without any regard to the level of service he actually provided to his patients. In addition to treble damages, the U.S. Attorney's Office is pursuing recovery of our investigative costs using forfeiture procedures.

- **Eighteen-Year Scam by Maintenance Employee Leads to a Year in Prison and Restitution of More Than \$242,000.**

On June 5, 2006, a Maintenance plumber with the Postal Service, since

1981, pleaded guilty to making false statements and concealing material information to obtain workers' compensation benefits. The plumber began receiving disability payments in September 1988 after claiming he suffered a lower-back injury in June. Although the Postal Service offered him a job as a "modified office aide,"



The OIG is now responsible for investigating and identifying employees who steal mail and seeking their prosecution.

he claimed he was unable to work without significant pain. From 2001 through 2004, the employee completed several government forms on which he denied doing any work and stated that his condition had not improved. However, investigators gathered evidence that contradicted these claims, including surveillance and photographs of the employee doing physical labor in his yard and community. The loss attributed to this case is approximately \$450,000. On September 11, 2006, the plumber was sentenced to 12 months incarceration and ordered to pay \$242,015 in restitution.

■ **Western Area Letter Carrier Found Guilty for Not Reporting Income.** On June 2, 2006, a Letter Carrier was found guilty on three counts of false statement or fraud to obtain workers' benefits. The former carrier injured his knee when a dog bit him in January 2002. In November 2002, he filed a workers' compensation claim. On each form, the carrier indicated he had no employment beyond his federal job during the periods he claimed for compensation. Although the Office of Workers' Compensation Programs denied two claims, he received more than \$3,500 in benefits for the other three claims. Investigators found he earned money by welding and hanging Christmas lights while supposedly incapacitated. In August, the carrier was sentenced to 3 years probation, fined \$2,000, and ordered to pay \$3,596 in restitution.

■ **Supervisor in Southwest Area Removed for OWCP Fraud.** On May 26, 2006, the Postal Service removed a supervisor from duty for "Unacceptable Conduct – Failure to Follow Instructions." The former supervisor injured his wrist while on duty in August 2003 and was placed on the periodic roll. The DOL OWCP informed the former supervisor that OWCP payment recipients must immediately notify the DOL of any change in work status. The investigation revealed the supervisor returned to work in July 2004, but continued to collect OWCP benefits until September 2005. During an interview, the former supervisor admitted he was not entitled to receive this money and intended to repay it later. In April 2006, the OWCP issued a Letter of Demand ordering him to repay \$35,027.

■ **Capital Metro Area Carrier Removed for Off-Duty Activities.** On January 23, 2006, a Letter Carrier allegedly sus-

tained an injury when a co-worker kicked a stack of mail tubs into the carrier's leg. The carrier then hit his thigh on a metal piece of mail processing equipment. On January 26, 2006, the carrier submitted a Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation. On January 27, the carrier accepted an offer to work in limited-duty status (with medical restrictions); however, he did not return to work until April 3. While off duty, he drove himself to medical appointments and played pool on a weekly basis. On April 5, Special Agents interviewed the carrier, who admitted to driving a vehicle and playing pool while receiving Continuation of Pay. He provided a sworn written statement and was subsequently placed in an off-duty, non-pay status. On May 23, he received a Notice of Removal, effective June 28, 2006.

#### **Embezzlements and Financial Crimes.**

Employee embezzlements may involve postal employees who steal money from cash drawers; sophisticated schemes involving the manipulation of postal money orders or money order funds; or the falsification of financial records. Financial investigations also cover theft, misconduct, falsification of records, and conversion and misuse of Postal Service property.

When post offices experience unusual or significant shortages, our investigators employ various investigative techniques to uncover embezzlements. Improper or lax postal procedures are reported to management for corrective action. When employees are found to be responsible for missing postal funds, they are reported to management for appropriate administrative action. In cases that warrant criminal prosecution, offenders not only face the possible loss of their jobs, but also may face jail time and court-ordered restitution.



■ **Fifteen Northeast Area VMF Employees Removed for Time-Card Abuse.** An extensive investigation of time-card abuse identified a ring of postal employees who were abusing the timekeeping system. Special Agents conducted numerous surveillances and reviewed Time and Attendance Collection System records to identify suspicious time entries. Eventually, the investigation determined that many employees were routinely swiping one another's time cards to record fraudulent clock hits. In May 2006, 15 employees were removed because of these activities, with several others receiving lesser administrative actions.

■ **Former Postmaster Gets Jail and \$28,500 Debt for Theft.** On April 28, 2006, a U.S. District Court judge ordered a former Postmaster to spend 6 months in prison and pay restitution of \$28,562 for funds he stole from his Capital Metro Area post office. The former Postmaster pleaded guilty on February 2, 2006, to two counts of theft of government property. He was removed from the Postal Service on January 23, 2006, as a result of the investigation.

The investigation began from an audit of another Capital Metro Area post office for a vending machine funds shortage. While determining that the shortage resulted from a lack of internal controls for that particular machine, investigators found that the defendant, who at that time was Manager of the post office, appeared to be living beyond his means.

Based on these shortages and the Postmaster's financial position, we reviewed financial records from the post office where the Manager now served as Postmaster.

Our review of financial records, as well as records from the county Treasurer's Office, revealed an embezzlement of \$26,924. In addition, the former Postmaster accepted checks for Post Office Box rentals that he did not record, as he should have. One witness saw the Postmaster selling stamps without entering the transactions — approximately 20 to 30 times — from July 2003 through January 2004.

■ **Former BMEU Clerk Draws 30 Months in Prison for Theft.** On August 8, 2006, a U.S. District Court Judge sentenced a former Clerk at a Western Area Bulk Mail Entry Unit (BMEU) to a 30-month prison term for theft of public records and theft of property used by the Postal Service.

Investigators determined that the Clerk accepted bulk mailings from customers without charging the customers' accounts for postage. In all, he failed to charge for 503 mailings, totaling \$449,265 in potential revenue. The court found that the former Clerk was angry and sought to injure the Postal Service because of his perceived injustices involving the overtime policy and being overlooked for a promotion. Because the Clerk did not take the money for personal use, the BMEU was able to recover \$361,807 of the uncharged postage from business mailers by the end of this reporting period.



A Mail Handler explains the Standard Mail color-coding process for the Dulles, Virginia, Processing and Distribution Center to an OIG Auditor and Special Agent.

Investigators executed a search warrant at the Clerk's residence where they found 93 flat plastic Postal Service tubs, two Postal Service identification badges, many Postal Service uniforms, and eight Postal Service/government keys. Special Agents also found a document that listed more than \$400,000 in postal mailings that the Clerk did not appropriately enter into the system. OIG and USPIS investigators arrested the Clerk the same day.

**Contract Fraud.** The Postal Service is presently managing more than \$39.8 billion in postal contracts. These contracts range from multimillion dollar national contracts for services such as transportation networks and information technology infrastructures to local contracts for supplies and services at individual postal facilities. The sheer volume and the huge dollar value of contracts provide opportunities for contractors and employees to defraud the Postal Service. The Office of Investigations aids the Postal Service by assessing its management of acquisitions and contracts and stepping in to shut down fraud as Special Agents aggres-



Misconduct by postal employees is one of the many crimes investigated by OIG Special Agents. Criminal violations are presented to U.S. Attorneys for prosecution; results of other misconduct investigations are provided to postal management for administrative action.

sively investigate allegations of contract improprieties.

Contract fraud schemes range from failure of contractors to meet contract specifications to payment of bribes to postal employees; from irregular chargebacks to double and false billing. Other significant schemes uncovered include kickbacks, conflict of interest, and misuse of contract modifications.

During the reporting period, Special Agents conducted 30 contract fraud investigations, resulting in two arrests, 24 debarments and suspensions, and more than \$6.6 million in funds returned to the Postal Service. In addition, we were involved in joint cases that resulted in settlements totaling more than \$25 million. Examples of contract fraud investigations conducted by Special Agents during this reporting period follow.

■ **IMPAC and Voyager Fleet Cards.** In addition to acquiring goods and services through contracts, the Postal Service uses International Merchant Purchase Authorization Cards (IMPACs) and Voyager Fleet Cards. The IMPAC Program processed transactions totaling approximately \$384 million during this reporting period and earned the Postal Service approximately \$2.4 million in refunds. The Voyager Fleet Card Program pays for the fuel, oil, repair, maintenance, and washing of more than 220,000 Postal Service vehicles. The program processed more than \$357 million during this reporting period, with documented savings and cost avoidance to the Postal Service of almost \$27 million.

■ **Highway Contractor to Pay \$120,000 for Withholding Fuel Rebates.** On June 5, 2006, a Postal Service highway transport contractor agreed to pay \$120,000 under a settlement agreement with the

U.S. Attorney's Office in Dallas for failing to pass on fuel rebates to the Postal Service. Of the total, \$116,400 goes to the Postal Service and \$3,600 to the Department of Justice.

Our data analysis confirmed the Texas contractor received nearly \$80,000 in fuel discounts between 2001 and 2004. Nevertheless, the company did not account for these discounts on fuel certifications it submitted to the Postal Service for payment. Postal Service highway transport contractors receive fuel purchase rebates or discounts from fuel providers via Fuel Purchase Plans. Any discounts the contractors receive are to be passed back to the Postal Service.

- **Large Postal Service Contractor Signs \$5 Million Settlement Agreement for Contract Irregularities.** On July 17, 2006, a large postal contractor signed a settlement agreement with the Postal Service and the OIG to resolve a dispute over postal automation equipment contracts. The contractor did not admit any wrongdoing. The Postal Service has received \$5 million and will offset the contractor's previously included legal costs from future pricing agreements beginning in calendar year 2006. The primary subcontractor costs were much lower than the costs that the primary contractor submitted to the Postal Service.
- **Atlanta Contractor Pays Postal Service \$630,000 to Avoid False Billing Suit.** On July 14, 2006, the contractor for a postal mail transportation equipment service center (MTESC) in Atlanta paid the Postal Service \$630,000 as part of a settlement agreement. The company was one of four contractors the Postal Service used to manage its nationwide MTESC program. As background, an MTESC sorts, repairs, and distributes

mail transport equipment (MTE), which includes empty mailbags, mail trays, and metal containers.

Based on an anonymous Hotline allegation, our Special Agents discovered that the company was replacing previously billed and processed MTE with new barcodes and placards, thus generating new claims for payment and causing the Postal Service to be billed twice. The Hotline complaint alleged that the company shift supervisors were not only aware of the double-billing scheme, but also helped to replace placards and barcodes on goods for which the Postal Service had already been billed. The company also made large inventory adjustments through a software inventory and billing program as a means of justifying shortages and missing inventory. For example, the company would electronically enter inventory into the system and bill the Postal Service without actually stocking or restocking all of the equipment. When it was time to balance (or adjust) the inventory, Managers and Supervisors would delete the previously added adjustments, thereby enabling the company to pocket what the Postal Service paid.

- **Contractor Agrees to Repay \$63,000 for False Vehicle Repair Claims.** In a plea agreement signed on June 15, 2006, the General Manager of a postal contract repair facility agreed to pay restitution of \$63,362 for submitting false claims to the Postal Service. On June 20, 2006, the U.S. Attorney's Office filed a Criminal Information in U.S. District Court in Santa Ana, California, charging the General Manager with one count of false claims.

The General Manager of the contract repair facility, worked in tandem with a former postal accident investigator to

defraud the Postal Service for personal financial gain. The former investigator signed a plea agreement on February 16, 2006, to pay restitution of \$113,000 and serve 12–18 months in prison for false claims. The former employee received more than \$300,000 by submitting more than 100 fictitious or inflated accident repair claims to the Postal Service from the repair facility. In return, he received free repairs of his personal vehicles and kickbacks from the repair contractor when the Postal Service paid the claims.

- **Secretary Pleads Guilty to Theft after a Spending Spree with IMPAC Card.** A former secretary at a Western Area Processing and Distribution Center pleaded guilty to theft of government property in U.S. District Court on April 5, 2006. Her sentencing has not yet been scheduled. A grocery chain investigator alerted the USPIS that the postal employee might be misusing a Postal Service International Merchant Purchase Authorization Card (IMPAC). The investigator said the woman used her IMPAC to purchase \$11,835 in grocery gift cards; she then used the gift cards to purchase personal items. The USPIS referred the case to us.

Our investigation determined that between October 1, 2004, and September 30, 2005, the secretary misused her IMPAC to purchase more than \$15,000 in gift cards for personal use. She concealed her theft by altering official records, including forging her supervisor's approval to requisitions and monthly statements, and falsifying previously approved requisitions.

The secretary confessed to unauthorized gift card purchases, forgeries, and alterations of account records during an interview with our Special

Agents on September 26, 2005. She resigned from the Postal Service on December 24, 2005.

**Computer Crimes.** As the Postal Service information infrastructure expands and the number of products and services available over the World Wide Web increases, the agency faces increased exposure to online risks. Unauthorized access into Postal Service networks and improper usage of computers by employees are just two types of computer crimes that the Postal Service may fall victim to. Training for and investigating these computer crimes is a top OIG priority to ensure the Postal Service's networks and databases remain secure.

Our Computer Crimes Unit initiates investigations and provides digital forensics support to OIG investigations. During the reporting period, the unit grew its investigations support by 26 percent, supporting more than 600 requests and 313 investigations with digital forensics support services. Following is an example of a computer crimes investigation:

- **Postal Manager Resigns After Special Agents Discover Child Pornography on his Postal Service Computer.** The USPIS told us a Manager was allegedly misusing his Postal Service computer to download pornography. Our Computer Crimes Unit Special Agents, working with the Postal Service ACE Infrastructure Support Team, recovered more than 118,000 images on the Manager's computer, many of which were pornographic and several of which appeared to be child pornography. In May 2006, we retained the services of a certified forensic pediatrician who verified the images were of underage children. The Manager was subsequently interviewed and arrested by our Special Agents on a federal arrest warrant. He was remanded to a Metropolitan

Correctional Center until August 31, 2006, when he appeared before a U.S. Magistrate and was released on bond. The case will be brought before a federal grand jury. Following his detention hearing, the Manager resigned from the Postal Service.

#### **Internal Affairs and Executive Investigations.**

We maintain a Special Inquiries Division (SID) and an Internal Affairs Division (IAD) as part of the Office of Investigations. SID/IAD conducts criminal and administrative investigations of Postal Service executives, USPIS personnel, and whistleblower reprisal investigations. Among the investigative activity for the reporting period was the following case.

#### ■ **Postal Executive Investigated for Questionable Business Expenses and Misconduct.**

We received allegations of the misconduct of a Postal Service Vice President during the period from January 2003 through December 2005. The investigation disclosed that the executive engaged in a pattern of misusing Postal Service funds. He also engaged in intimidating, and embarrassing behavior with several female employees and contractors. The findings were presented to management and the Board of Governors and, according to the Postal Service, the executive was separated from the Postal Service. As a result of the investigation, the Postal Service made changes to its officers' travel policies and guidelines.

#### **Postal Service Officers' Travel Expense Guidelines.**

Due to the preceding investigation of a senior Postal Service official and in response to a request from management, we evaluated whether Postal Service officers' travel guidelines were reasonable when compared to other entities' travel policies. We reviewed guidelines prescribed by other federal and local government entities, private

corporations, not-for-profit organizations, and trade journals. We met regularly with Finance personnel to provide feedback on our benchmarking results and to discuss potential changes to the current guidelines.

In general, we noted the travel guidelines instituted by the Postal Service for its officers differed, in some cases, from travel guidelines prescribed by the entities and sources against which we benchmarked. Based on our benchmarking, we determined the guidelines did not always incorporate key best practices.

We offered suggestions for the Postal Service to consider when updating the officers' travel guidelines, including:

- prohibiting reimbursement for alcoholic beverages,
- establishing specific guidelines for tipping,
- establishing a per diem or maximum allowable amount for meals and lodging and incidental charges when traveling and/or representing the Postal Service, and
- referencing existing policies and procedures that provide a clear and consistent framework for reimbursing representation expenses such as business meals.

The Postal Service recently updated its officers' travel guidelines to incorporate many of our suggestions.

**Whistleblower Activity.** A whistleblower is an employee or a former employee who reports misconduct to people or entities that have the power to take corrective action. Generally, the misconduct is a violation of law, rule, regulation, and/or a direct threat to public interest — fraud, health, safety violations, and corruption

are just a few examples. The employee must reasonably believe his or her employer has committed a violation of some law, rule, or regulation; testify or commence a legal proceeding on the legally protected matter; or refuse to violate the law. OIG whistleblower activity during this period:

- OIG investigations initiated: 34
- Investigations closed with no finding of retaliation or deferred to other adjudicative body: 15
- Open investigations: 17
- OIG found reprisal: 2

**Narcotics.** Illegal drugs in the workplace can negatively impact employee productivity and safety. They also affect employee judgment and can increase stress levels, leading to acts of violence or hostility. Use and sale of narcotics by employees on duty can contribute to other crimes such as theft, embezzlements, and fraudulent workers' compensation claims.

Our mission in dealing with illegal drugs in the workplace focuses on detection, investigation, and prevention. Detection of illegal drug sales, distribution, and usage in the workplace is the first step in this overall approach. Employees selling or distributing illegal drugs are vigorously investigated and prosecution is pursued. Postal employees who are using drugs may be referred to the Postal Service Employee Assistance Program for treatment.

Prevention remains a key long-term strategy for providing a safe and drug-free work environment for postal employees. Deterring employee drug use is the desired outcome for the prevention effort. Following is a typical narcotics investigation involving a postal employee:

- **Letter Carrier Charged with Selling Marijuana on Route.** A Western Area Letter Carrier was charged in County Circuit Court with selling marijuana. After a joint investigation between the OIG and with local police, the postal employee was arrested for allegedly selling drugs from his postal truck while delivering mail. The Letter Carrier remained in jail after failing to post a \$10,000 bond. He has been placed on unpaid leave pending the outcome of the criminal case against him.

## FEATURE STORY

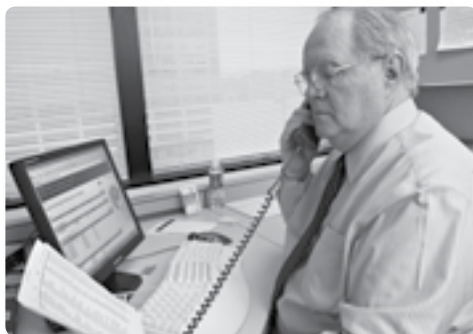
### VIRTUAL FRONT OFFICE (VFO)

To make it easier for callers to report concerns of possible fraud, waste, and misconduct affecting Postal Service programs and operations, we established a Virtual Front Office (VFO). All calls are now routed to one centralized location that provides extended hours with personnel on duty.

On April 3, 2006, the VFO began operating. All callers — whether they dial OIG Headquarters or any of its main field offices — are promptly greeted by VFO staff located in the OIG's Headquarters office in Arlington, Virginia. VFO staff are on duty from 7:30 a.m. to 8 p.m., Eastern Time, Monday through Friday, except holidays.

After calls come in, they are routed to an appropriate destination (Hotline Program Analyst, a requested party, or externally to the Postal Service's Consumer Affairs Department, the USPIIS, Headquarters operator, and so forth).

Callers on certain investigative matters are put in immediate contact with an OIG investigator. From its inception through



Hotline Analyst referring Postal Service Manager to a Special Agent in the field.

September 30, the VFO has referred nearly 1,300 calls to Special Agents.

Another VFO benefit was freeing up limited administrative support personnel in the field so they can now provide needed support to auditors and investigators in their offices.

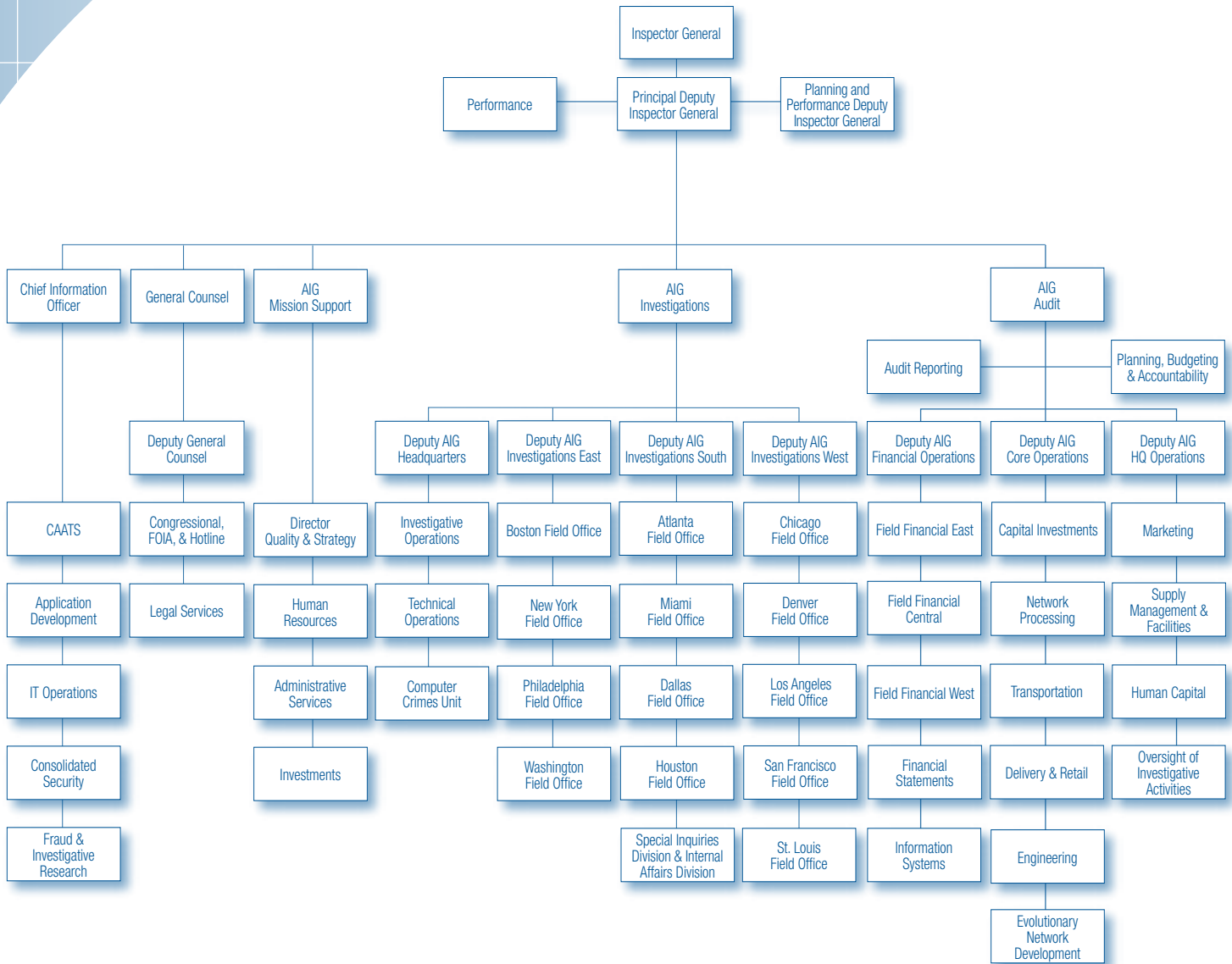
The OIG also set up a new toll-free phone number to provide Postal Service Managers with direct access to the VFO.



OIG staff discusses Hotline complaint related to workplace environment issues.

# U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL ORGANIZATIONAL CHART

As of September 30, 2006



## Abbreviations

- AIG Assistant Inspector General
- CAATS Computer Assisted Assessment Techniques
- CIO Chief Information Officer
- FOIA Freedom of Information Act
- IT Information Technology
- HQ Headquarters

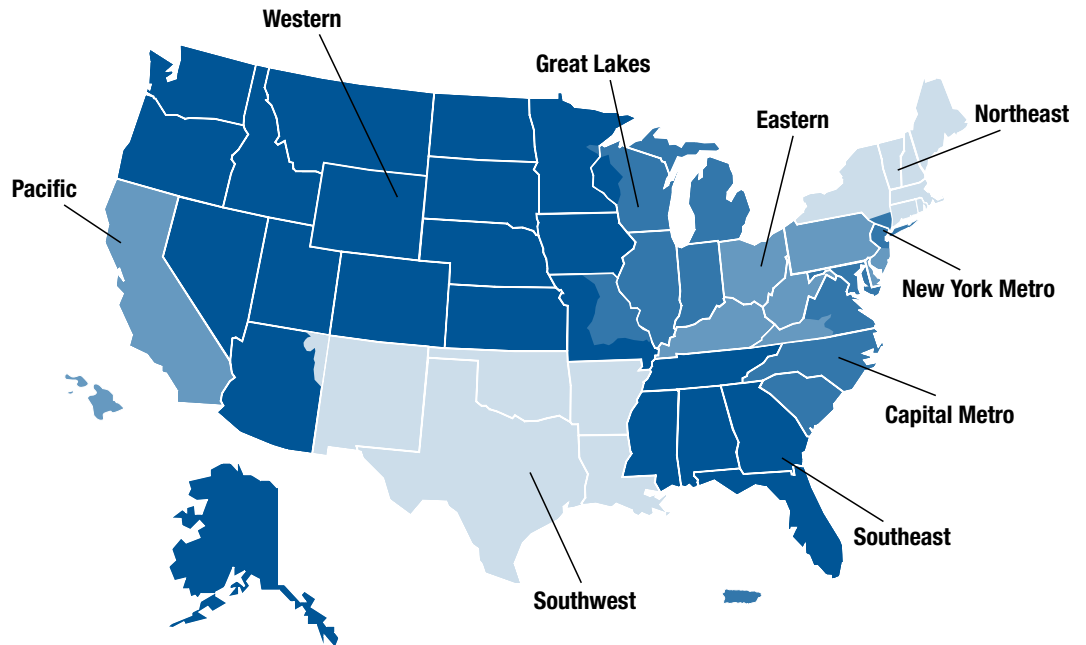


# U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL OFFICE LOCATIONS

The OIG currently has more than 1,100 employees located in more than 80 offices nationwide.

## THE OIG HAS OFFICES IN EACH OF THE POSTAL SERVICE'S NINE AREAS.

Albuquerque, New Mexico  
 Anchorage, Alaska  
 Arlington, Virginia  
 Atlanta, Georgia  
 Baltimore, Maryland  
 Baton Rouge, Louisiana  
 Bedford, Texas  
 Billings, Montana  
 Birmingham, Alabama  
 Boston, Massachusetts  
 Buffalo, New York  
 Charleston, West Virginia  
 Charlotte, North Carolina  
 Chicago, Illinois  
 Clarksburg, West Virginia  
 Cleveland, Ohio  
 Columbus, Ohio  
 Coppell, Texas  
 Covington, Kentucky  
 Dallas, Texas  
 Denver, Colorado  
 Des Moines, Iowa  
 Detroit, Michigan  
 Eagan, Minnesota  
 El Paso, Texas  
 Gary, Indiana  
 Grand Rapids, Michigan  
 Greensboro, North Carolina  
 Harrisburg, Pennsylvania  
 Hoboken, New Jersey  
 Houston, Texas  
 Independence, Missouri  
 Indianapolis, Indiana  
 Jackson, Mississippi  
 Jacksonville, Florida  
 Kansas City, Kansas  
 Knoxville, Tennessee  
 Las Vegas, Nevada  
 Little Rock, Arkansas  
 Long Island, New York  
 Los Angeles, California  
 Louisville, Kentucky  
 Memphis, Tennessee



Miami, Florida  
 Milwaukee, Wisconsin  
 Nashville, Tennessee  
 New Haven, Connecticut  
 New Orleans, Louisiana  
 New York, New York  
 Norfolk, Virginia  
 Oklahoma City, Oklahoma  
 Omaha, Nebraska  
 Orlando, Florida  
 Philadelphia, Pennsylvania  
 Phoenix, Arizona  
 Pittsburgh, Pennsylvania  
 Portland, Maine  
 Portland, Oregon  
 Providence, Rhode Island  
 Raleigh, North Carolina  
 Richmond, California  
 Richmond, Virginia  
 Riverside, California  
 Sacramento, California  
 Salt Lake City, Utah  
 San Antonio, Texas  
 San Diego, California

San Francisco, California  
 San Jose, California  
 San Juan, Puerto Rico  
 San Mateo, California  
 Santa Clarita, California  
 Seattle, Washington  
 Shreveport, Louisiana  
 Sioux Falls, South Dakota  
 Spokane, Washington  
 Springfield, Massachusetts  
 St. Louis, Missouri  
 St. Paul, Minnesota  
 Syracuse, New York  
 Tallahassee, Florida  
 Tampa, Florida  
 Trenton, New Jersey  
 Vancouver, Washington  
 Wilmington, Delaware

## APPENDICES

The Inspector General Act of 1978 requires semiannual reports on the immediately preceding 6-month periods ending March 31 and September 30. These reports are sent to Congress and made available to the public.

This report summarizes OIG activities and illustrates significant problems, abuses, and deficiencies, along with recommendations and corrective actions related to the administration of U.S. Postal Service programs and operations during the reporting period.

During the last 6 months, the Postal Service agreed with OIG recommendations that identified potential monetary benefits of more than \$359 million.

The appendices on the following pages fulfill the requirements of the Act.

## Appendix A

### DEFINITIONS

#### FUNDS PUT TO BETTER USE

Funds that could be used more efficiently by implementing recommended actions.

#### QUESTIONED COSTS

A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, and so forth.

#### UNSUPPORTED COSTS

A cost that is not supported by adequate documentation. Unsupported costs are included in Questioned Costs.

#### REVENUE IMPACT

Amounts from revenue-generating functions such as retail sales, rent, leases, or fees that were underpaid or not realized. In addition, this category includes increased revenue from existing functions and generating revenue from new sources.

### REPORTS ISSUED TO POSTAL SERVICE MANAGEMENT

For the period April 1 — September 30, 2006

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

#### Summary

Following is a summary, by principal area, of reports issued to Postal Service management. The following pages list each issued report.

Management Challenge	Number of Reports Issued	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
Strategic Direction	2	—	—	—	—
Cost Control	205	\$275,245,119	\$75,951,472	\$88,570	\$1,710,923
Revenue Generation	1	—	—	—	\$319,014
Customer Service	5	—	—	—	—
Human Capital	3	\$5,521,081	\$522,637	\$57,536	—
Integrity and Security	24	—	—	—	—
<b>Total</b>	<b>240</b>	<b>\$280,766,200</b>	<b>\$76,474,109</b>	<b>\$146,106</b>	<b>\$2,029,937</b>

## Reports with Quantifiable Potential Monetary Benefits

Report Title	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
<b>COST CONTROL</b>				
<b>DELIVERY AND RETAIL</b>				
Address Management System Information – Great Lakes Area DR-AR-06-008; 9/30/06	\$2,678,506	—	—	—
Management of Delivery Vehicle Utilization DR-AR-06-005; 6/14/ 2006	\$18,075,613	\$4,720,875	—	—
Management of Retail Workhours in Relation to the Workload – New York Area, Triboro District DR-AR-06-006; 8/9/2006	—	\$20,166	\$20,166	—
<b>ENGINEERING</b>				
Biohazard Detection System DA-AR-06-006; 9/30/2006	\$33,822,953	\$45,916,184	—	—
<b>FISCAL YEAR 2005 POSTAL SERVICE FINANCIAL STATEMENTS AUDIT</b>				
St. Louis Information Technology and Accounting Service Center FT-AR-06-015; 4/21/2006	—	\$45,559	\$45,559	—
<b>FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT</b>				
Albert Thomas Station – Houston, Texas FF-AR-06-201; 6/30/2006	—	—	—	\$18,033
Anderson Business Mail Entry Unit – Anderson, South Carolina FF-AR-06-160; 5/11/2006	—	—	—	\$3,668
Ashland Business Mail Entry Unit – Ashland, Massachusetts FF-AR-06-129; 4/21/2006	—	—	—	\$1,662
Beechnut Station – Houston, Texas FF-AR-06-209; 7/13/2006	—	—	—	\$2,199
Berryessa Station – San Jose, California FF-AR-06-228; 8/2/2006	—	\$746	\$746	\$4,196
Bethlehem South Side Station – Bethlehem, Pennsylvania FF-AR-06-166; 5/17/2006	—	—	—	\$1,691
Cardiss Collins Postal Store – Chicago, Illinois FF-AR-06-250; 8/17/2006	—	—	—	\$79,413
Cleburne Main Post Office – Cleburne, Texas FF-AR-06-168; 5/18/2006	—	\$154	\$154	\$1,242
Dallas Business Mail Entry Unit – Dallas, Texas FF-AR-06-234; 8/10/2006	—	—	—	\$141,482
Dayton Business Mail Entry Unit – Dayton, New Jersey FF-AR-06-156; 5/9/2006	—	—	—	\$2,003
Denver Downtown Station – Denver, Colorado FF-AR-06-186; 6/6/2006	—	—	—	\$186,303
Eagle Station Post Office – Bloomington, Illinois FF-AR-06-180; 5/26/2006	—	\$2,876	—	—
Easley Business Mail Entry Unit – Easley, South Carolina FF-AR-06-191; 6/6/2006	—	—	—	\$108,759
Fort Worth Business Mail Entry Unit – Fort Worth, Texas FF-AR-06-123; 4/5/2006	—	—	—	\$91,197
Grand Crossing Station – Chicago, Illinois FF-AR-06-133; 4/11/2006	—	\$68,431	\$17,583	\$27,095
Hamilton – Fairfield Branch – Fairfield, Ohio FF-AR-06-245; 8/16/2006	—	—	—	\$437,000
Hartford Main Post Office – Hartford, Connecticut FF-AR-06-230; 8/9/2006	—	—	—	\$30,810
Horseheads Business Mail Entry Unit – Horseheads, New York FF-AR-06-128; 4/24/2006	—	—	—	\$1,521
Howell Post Office – Howell, Michigan FF-AR-06-278; 9/28/06	—	\$390	—	\$9,665
Leesburg Business Mail Entry Unit – Leesburg, Virginia FF-AR-06-147; 4/26/2006	—	—	—	\$4,947
Linda Vista Station – San Diego, California FF-AR-06-252; 8/17/2006	—	\$7,147	—	—
Little Rock Main Post Office – Little Rock, Arkansas FF-AR-06-244; 8/15/2006	—	\$2,314	\$775	—
Long Prairie Business Mail Entry Unit – Long Prairie, Minnesota FF-AR-06-178; 5/31/2006	—	\$2,414	—	\$203,650
Los Gatos Main Post Office – Los Gatos, California FF-AR-06-136; 5/3/2006	—	\$2,802	\$1,493	\$257
Madison Business Mail Entry Unit – Madison, Wisconsin FF-AR-06-176; 5/23/2006	—	—	—	\$43,656

## Reports with Quantifiable Potential Monetary Benefits

Report Title	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
Mail Bar Coding Contract Postal Unit – Ft. Myers, Florida FF-AR-06-151; 5/1/2006	—	—	—	\$2,484
Meadow Brook Station – Birmingham, Alabama FF-AR-06-169; 5/22/2006	—	—	—	\$2,070
Miamisburg Business Mail Entry Unit – Miamisburg, Ohio FF-AR-06-143; 4/27/2006	—	—	—	\$74,275
Middleton Post Office – Middleton, Wisconsin FF-AR-06-177; 5/24/2006	—	—	—	\$5,580
Moiiliili Finance Station – Moiliili, Hawaii FF-AR-06-261; 9/1/2006	—	—	—	\$1,056
Oak Brook Post Office – Oak Brook, Illinois FF-AR-06-280; 9/28/2006	—	\$257	—	\$2,665
Oakland Business Mail Entry Unit – Oakland, California FF-AR-06-137; 5/11/2006	—	—	—	\$63,614
Ontario Main Post Office – Ontario, California FF-AR-06-200; 7/10/2006	—	\$9,458	—	\$6,698
Overton Post Office – Overton, Nevada FF-AR-06-259; 8/28/2006	—	\$555	\$555	\$168
Pewaukee Business Mail Entry Unit, Pewaukee, Wisconsin FF-AR-06-276; 9/22/2006	—	—	—	\$34,220
Pikeville Business Mail Entry Unit – Pikeville, Kentucky FF-AR-06-231; 8/3/2006	—	—	—	\$759
Pittsburg Main Post Office – Pittsburg, California FF-AR-06-152; 5/17/2006	—	\$771	\$771	\$3,812
Placentia Main Post Office – Placentia, California FF-AR-06-220; 7/20/2006	—	\$2,019	—	\$2,102
Post Falls Business Mail Entry Unit – Post Falls, Idaho FF-AR-06-153; 5/2/2006	—	—	—	\$1,030
Reno Business Mail Entry Unit – Reno, Nevada FF-AR-06-206; 7/11/2006	—	—	—	\$66,866
River Oaks Post Office – Houston, Texas FF-AR-06-215; 7/28/2006	—	—	—	\$1,134
Rochester Post Office – Rochester, Michigan FF-AR-06-138; 4/20/2006	—	—	—	\$743
Ruidoso Main Post Office – Ruidoso, New Mexico FF-AR-06-274; 9/28/2006	—	—	—	\$12,900
Santa Ana Processing and Distribution Center Window Unit – Santa Ana, California FF-AR-06-148; 5/1/2006	—	\$6,603	—	\$4,914
Southeastern Business Mail Entry Unit – Southeastern, Pennsylvania FF-AR-06-126; 4/3/2006	—	—	—	\$5,980
Southfield Business Mail Entry Unit – Southfield, Michigan FF-AR-06-207; 7/13/2006	—	—	—	\$6,206
Spearfish Business Mail Entry Unit – Spearfish, South Dakota FF-AR-06-155; 5/2/2006	—	—	—	\$2,923
Spring City Post Office – Spring City, Pennsylvania FF-AR-06-226; 8/1/2006	—	\$1,085	—	\$201
Tierrasanta Postal Store – San Diego, California FF-AR-06-272; 9/21/2006	—	\$768	\$768	\$160
Tigard Branch – Portland, Oregon FF-AR-06-243; 8/14/2006	—	\$1,157	—	\$4,748
Warren Business Mail Entry Unit – Warren, Michigan FF-AR-06-193; 6/22/2006	—	—	—	\$3,166
<b>NETWORK OPERATIONS PROCESSING</b>				
Efficiency of Carrier Sequence Barcode Sorters NO-AR-06-005; 8/2/2006	\$3,688,930	—	—	—
Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center NO-AR-06-006; 9/12/2006	\$192,173,980	—	—	—
<b>SUPPLY MANAGEMENT &amp; FACILITIES</b>				
Controls Over Noncompetitive Contracts Awarded to Former Postal Service Employees CA-AR-06-002; 5/26/2006	—	\$137,636	—	—
Firm Fixed Price Proposal for the Singulate Scan Induction Unit Optical Character Reader System Submitted by Lockheed Martin Systems Integration – Owego CA-CAR-06-022; 5/9/2006	—	\$1,679,508	—	—
Participation on an Integrated Process Team for the Flats Sequencing System Preproduction Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company CA-CAR-06-030; 8/22/2006	—	\$6,314,373	—	—

## Reports with Quantifiable Potential Monetary Benefits

Report Title	Funds Put to Better Use	Questioned Costs	Unsupported Costs	Revenue Impact
Report on Audit of Firm Fixed Price Proposal for Biohazard Detection System Dual Collection Production Program Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-026; 6/26/2006	—	\$5,277,065	—	—
Report on Audit of Firm Fixed Price Proposal for Biohazard Detection System Dual Identifier Pilot Program Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-024; 5/26/2006	—	\$36,305	—	—
Report on Audit of Firm Fixed Price Revised Proposal for 150 Automated Flats Sorting Machine-Automatic Induction Phase 2 Systems, Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-023; 5/26/2006	—	\$5,196,545	—	—
Report on Audit of Verification of Fiscal Year 2004 Claimed Common Area Maintenance (CAM) Expenses at Postal Service Leased Facilities at the Los Angeles Terminal Annex CA-CAR-06-025; 6/9/2006	—	\$42,131	—	—
Settlement Proposal Under Contract 102591-03-Q-0454 Submitted by Hasler Incorporated CA-CAR-06-027; 7/5/2006	—	\$2,470,818	—	—
Supplemental Report on Agreed-Upon Procedures Review of Cendant Mobility Services Billings to the U.S. Postal Service Under Contract 198525-97-B-0696 CA-CAR-06-020; 5/26/2006	—	\$961,280	—	—
Universal Computing Connectivity Contract CA-AR-06-003; 9/1/2006	—	\$882,350	—	—
<b>TRANSPORTATION</b>				
Mail Transport Equipment – Transportation of Over-the-Road Containers NL-AR-06-014; 9/29/2006	\$10,465,495	\$1,738,252	—	—
Mail Transport Equipment Service Center Network – Highway Transportation Routes – Atlanta NL-AR-06-009; 8/18/2006	\$801,097	—	—	—
Mail Transport Equipment Service Center Network – Highway Transportation Routes – Dallas NL-AR-06-012; 9/28/2006	\$1,476,981	—	—	—
Mail Transport Equipment Service Center Network – Highway Transportation Routes – Greensboro NL-AR-06-010; 9/18/2006	\$1,607,510	—	—	—
Surface Transportation – Processing and Distribution Center Transportation Routes – Great Lakes Area NL-AR-06-008; 7/25/2006	\$5,289,849	—	—	—
Surface Transportation – Processing and Distribution Center Transportation Routes – Pacific Area NL-AR-06-011; 9/21/2006	\$3,650,035	—	—	—
Vehicle Management – National Trailer Lease Requirements – Capital Metro Area NL-AR-06-013; 9/29/06	\$1,514,170	\$402,478	—	—
<b>REVENUE GENERATION</b>				
<b>DELIVERY AND RETAIL</b>				
Overdrawn Express Mail® Corporate Accounts DR-AR-06-007; 8/9/2006	—	—	—	\$319,014
<b>HUMAN CAPITAL</b>				
<b>HUMAN CAPITAL</b>				
Postal Service's Grievance-Arbitration Service Centers HM-AR-06-006; 8/29/2006	\$5,521,081	\$356,510	—	—
Postal Service's Injury Compensation Program's Controversion and Challenge Process in Selected Areas HM-AR-06-004; 5/19/2006	—	\$166,127	\$57,536	—
<b>TOTAL</b>	<b>\$280,766,200</b>	<b>\$76,474,109</b>	<b>\$146,106</b>	<b>\$2,029,937</b>

## Report Listing

Complete listing of all OIG Reports issued to Postal Service management.  
For the period of April 1 — September 30, 2006.

### STRATEGIC DIRECTION

#### EVOLUTIONARY NETWORK DEVELOPMENT

Pasadena, California, Processing and Distribution  
Center Consolidation  
EN-AR-06-001; 9/26/06

#### NETWORK OPERATIONS PROCESSING

Bridgeport, Connecticut, Processing and  
Distribution Facility Outgoing Mail Consolidation  
NO-AR-06-010; 9/30/06

### COST CONTROL

#### AUDIT OF STATISTICAL TESTS FOR FISCAL YEAR 2006 COST AND REVENUE ANALYSIS

Alaska District FF-AR-06-253; 8/17/2006	Dallas District FF-AR-06-248; 8/24/2006	Seattle District FF-AR-06-190; 6/6/2006
Arkansas District FF-AR-06-134; 4/12/2006	Greater Michigan District FF-AR-06-197; 6/16/2006	South Jersey District FF-AR-06-216; 7/18/2006
Capital District FF-AR-06-188; 6/2/2006	Los Angeles District FF-AR-06-198; 6/20/2006	Tennessee District FF-AR-06-251; 8/17/2006
Central Plains District FF-AR-06-266; 9/5/2006	Maine District FF-AR-06-247; 8/15/2006	
Columbus District FF-AR-06-170; 5/17/2006	Nevada-Sierra District FF-AR-06-192; 6/6/2006	

#### DELIVERY AND RETAIL

Address Management System Information – Great Lakes Area DR-AR-06-008; 9/30/06	Delivery and Retail Standard Operating Procedures – Northeast Area DR-MA-06-004; 9/8/2006	Delivery and Retail Standard Operating Procedures – Western Area DR-MA-06-003; 9/27/06
Delivery and Retail Standard Operating Procedures – Eastern Area DR-MA-06-006; 9/28/06	Delivery and Retail Standard Operating Procedures – Pacific Area DR-MA-06-002; 9/27/06	Management of Delivery Vehicle Utilization DR-AR-06-005; 6/14/2006
Delivery and Retail Standard Operating Procedures – Great Lakes Area DR-MA-06-008; 9/29/06	Delivery and Retail Standard Operating Procedures – Southeast Area DR-MA-06-007; 9/25/2006	Management of Retail Workhours in Relation to the Workload – New York Area, Triboro District DR-AR-06-006; 8/9/2006
Delivery and Retail Standard Operating Procedures – New York Metro Area DR-MA-06-005; 9/28/06	Delivery and Retail Standard Operating Procedures – Southwest Area DR-MA-06-009; 9/30/06	

#### ENGINEERING

Biohazard Detection System DA-AR-06-006; 9/30/06	Technology Acquisition Management Process Guide – Phases 3 and 4, Production, Deployment, and Maintenance DA-WP-06-002; 9/22/06
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#### FINANCIAL STATEMENT

Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data FT-AR-06-017; 9/26/06	St. Louis Information Technology and Accounting Service Center FT-AR-06-015; 4/21/2006
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## FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDIT

Eastern Area Financial Installation Audit FF-AR-06-142; 4/25/2006	Post Offices, Stations, and Branches FF-AR-06-196; 6/20/2006
New York Metro Area Financial Installation Audit FF-AR-06-140; 4/24/2006	Self-Service and Automated Postal Centers FF-AR-06-127; 4/7/2006
Northeast Area Financial Installation Audit FF-AR-06-141; 4/24/2006	

## FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT

Albert Thomas Station – Houston, Texas FF-AR-06-201; 6/30/2006	Clinton Business Mail Entry Unit FF-AR-06-150; 5/1/2006	Glendive Post Office – Glendive, Montana FF-AR-06-187; 6/6/2006
Anderson Business Mail Entry Unit – Anderson, South Carolina FF-AR-06-160; 5/11/2006	Columbus Business Mail Entry Unit – Columbus, Indiana FF-AR-06-184; 5/31/2006	Grand Crossing Station – Chicago, Illinois FF-AR-06-133; 4/11/2006
Ann Arbor Post Office – Ann Arbor, Michigan FF-AR-06-260; 8/29/2006	Coronado Station Self-Service Postal Center – El Paso, Texas FF-AR-06-268; 9/26/06	Greenfield Business Mail Entry Unit – Greenfield, Massachusetts FF-AR-06-161; 5/19/2006
Aptos Business Mail Entry Unit – Aptos, California FF-AR-06-267; 9/11/2006	Dallas Business Mail Entry Unit – Dallas, Texas FF-AR-06-234; 8/10/2006	Greenville Business Mail Entry Unit – Greenville, North Carolina FF-AR-06-222; 7/25/2006
Archbold Business Mail Entry Unit – Archbold, Ohio FF-AR-06-129; 4/21/2006	Dallas Main Post Office – Dallas, Texas FF-AR-06-205; 7/13/2006	Greenville Business Mail Entry Unit – Greenville, South Carolina FF-AR-06-236 8/7/2006
Ashburn Automated Postal Center – Ashburn, Virginia FF-AR-06-181; 5/31/2006	Dania Post Office – Dania, Florida FF-AR-06-154; 5/2/2006	Hamburg Business Mail Entry Unit – Hamburg, New York FF-AR-06-146; 4/28/2006
Ashland Business Mail Entry Unit – Ashland, Massachusetts FF-AR-06-129; 4/21/2006	Dayton Business Mail Entry Unit – Dayton, New Jersey FF-AR-06-156; 5/9/2006	Hamilton – Fairfield Branch – Fairfield, Ohio FF-AR-06-245; 8/16/2006
Aurora Post Office – Aurora, Missouri FF-AR-06-224; 7/24/2006	Denver Downtown Station – Denver, Colorado FF-AR-06-186; 6/6/2006	Harrison Post Office – Harrison, Maine FF-AR-06-232; 8/3/2006
Battle Creek Main Post Office – Battle Creek, Michigan FF-AR-06-270; 9/28/2006	Downtown Station – Flagstaff, Arizona FF-AR-06-132; 4/5/2006	Hartford Main Post Office – Hartford, Connecticut FF-AR-06-230; 8/9/2006
Beechnut Station – Houston, Texas FF-AR-06-209; 7/13/2006	Eagle Station Post Office – Bloomington, Illinois FF-AR-06-180; 5/26/2006	Hilliard Post Office – Hilliard, Ohio FF-AR-06-239; 8/15/2006
Berryessa Station – San Jose, California FF-AR-06-228; 8/2/2006	Easley Business Mail Entry Unit – Easley, South Carolina FF-AR-06-191; 6/6/2006	Hingham Business Mail Entry Unit – Hingham, Massachusetts FF-AR-06-159; 5/11/2006
Bethlehem Lehigh University Contract Postal Unit – Bethlehem, Pennsylvania FF-AR-06-195; 6/13/2006	Farmingdale Business Mail Entry Unit – Farmingdale, New York FF-AR-06-246; 8/15/2006	Horseheads Business Mail Entry Unit – Horseheads, New York FF-AR-06-128; 4/24/2006
Bethlehem South Side Station – Bethlehem, Pennsylvania FF-AR-06-166; 5/17/2006	Farmingdale Main Post Office – Farmingdale, New York FF-AR-06-235; 8/7/2006	Howell Post Office – Howell, Michigan FF-AR-06-278; 9/28/2006
Big Bend Post Office – Big Bend, Wisconsin FF-AR-06-262; 8/30/2006	Fayetteville Main Office Window – Fayetteville, North Carolina FF-AR-06-125; 4/3/2006	Hunlock Creek Post Office – Hunlock Creek, Pennsylvania FF-AR-06-249; 8/16/2006
Canon City Post Office – Canon City, Colorado FF-AR-06-183; 5/30/2006	Fleming Island Branch – Orange Park, Florida FF-AR-06-179; 5/24/2006	Huntsville Permit Office – Huntsville, Texas FF-AR-06-275; 9/26/2006
Cardiss Collins Postal Store – Chicago, Illinois FF-AR-06-250; 8/17/2006	Foodtown Contract Postal Unit #375 – Brooklyn, New York FF-AR-06-144; 5/9/2006	Huntsville West Station – Huntsville, Alabama FF-AR-06-164; 5/16/2006
Carlton Post Office – Carlton, Oregon FF-AR-06-204; 7/17/2006	Fort Dodge Business Mail Entry Unit – Fort Dodge, Iowa FF-AR-06-135; 4/14/2006	Hyde Park Post Office – Hyde Park, New York FF-AR-06-257; 8/23/2006
Cheyenne Southside Contract Postal Unit – Cheyenne, Wyoming FF-AR-06-221; 7/25/2006	Fort Worth Business Mail Entry Unit – Fort Worth, Texas FF-AR-06-123; 4/5/2006	Idaho Falls Business Mail Entry Unit – Idaho Falls, Idaho FF-AR-06-223; 7/25/2006
City Stop Contract Postal Unit – Las Vegas, Nevada FF-AR-06-214; 7/31/2006	Gaylord Business Mail Entry Unit – Gaylord, Michigan FF-AR-06-208; 7/12/2006	Jackson Business Mail Entry Unit – Jackson, Mississippi FF-AR-06-167; 5/16/2006
Cleburne Main Post Office – Cleburne, Texas FF-AR-06-168; 5/18/2006		

## FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT

Johnston Post Office Automated Postal Center – Johnston, Rhode Island FF-AR-06-218; 8/3/2006	Mendenhall Post Office – Mendenhall, Pennsylvania FF-AR-06-263; 8/31/2006	Post Falls Business Mail Entry Unit – Post Falls, Idaho FF-AR-06-153; 5/2/2006
Junction City Business Mail Entry Unit – Junction City, Kansas FF-AR-06-242; 8/15/2006	Miamisburg Business Mail Entry Unit – Miamisburg, Ohio FF-AR-06-143; 4/27/2006	Radford University Contract Postal Unit – Radford, Virginia FF-AR-06-199; 6/20/2006
Lake Zurich Post Office – Lake Zurich, Illinois FF-AR-06-131; 4/6/2006	Middle Island Main Post Office, Middle Island, New York FF-AR-06-265; 9/8/2006	Reno Business Mail Entry Unit – Reno, Nevada FF-AR-06-206; 7/11/2006
Lamesa Contract Postal Unit – Enid, Oklahoma FF-AR-06-158; 5/8/2006	Middleton Post Office – Middleton, Wisconsin FF-AR-06-177; 5/24/2006	Rexburg Business Mail Entry Unit – Rexburg, Idaho FF-AR-06-212; 7/14/2006
Lansing Business Mail Entry Unit – Lansing, Michigan FF-AR-06-217; 7/19/2006	Millburn Business Mail Entry Unit – Millburn, New Jersey FF-AR-06-162; 5/12/2006	Riegelsville Post Office – Riegelsville, Pennsylvania FF-AR-06-273; 9/25/06
Leesburg Business Mail Entry Unit – Leesburg, Virginia FF-AR-06-147; 4/26/2006	Minneapolis Contract Postal Unit #112 – Minneapolis, Minnesota FF-AR-06-255; 8/18/2006	River Oaks Post Office – Houston, Texas FF-AR-06-215; 7/28/2006
Libertyville Business Mail Entry Unit – Libertyville, Illinois FF-AR-06-139; 4/26/2006	Moiliili Finance Station – Moiliili, Hawaii FF-AR-06-261; 9/1/2006	Rochester Post Office – Rochester, Michigan FF-AR-06-138; 4/20/2006
Linda Vista Station – San Diego, California FF-AR-06-252; 8/17/2006	Montclair Station – Denver, Colorado FF-AR-06-264; 9/5/2006	Ruidoso Main Post Office – Ruidoso, New Mexico FF-AR-06-274; 9/28/06
Linda's Hallmark Contract Postal Unit – Phoenix, Arizona FF-AR-06-157; 5/4/2006	Mosinee Business Mail Entry Unit – Mosinee, Wisconsin FF-AR-06-165; 5/15/2006	Salisbury Business Mail Entry Unit – Salisbury, Maryland FF-AR-06-202; 6/28/2006
Little Rock Main Post Office – Little Rock, Arkansas FF-AR-06-244; 8/15/2006	Mount Juliet Business Mail Entry Unit – Mount Juliet, Tennessee FF-AR-06-172; 5/17/2006	Sam Rayburn Contract Postal Unit – Jasper, Texas FF-AR-06-238; 8/8/2006
Loehmann's Plaza – Rochester, New York FF-AR-06-124; 4/3/2006	Natchez Business Mail Entry Unit – Natchez, Mississippi FF-AR-06-130; 4/6/2006	Santa Ana Processing and Distribution Center Window Unit – Santa Ana, California FF-AR-06-148; 5/1/2006
Long Prairie Business Mail Entry Unit – Long Prairie, Minnesota FF-AR-06-178; 5/31/2006	Neptune Station – Brooklyn, New York FF-AR-06-185; 6/1/2006	Schenectady Main Post Office – Schenectady, New York FF-AR-06-149; 4/27/2006
Los Gatos Main Post Office – Los Gatos, California FF-AR-06-136; 5/3/2006	New Haven Business Mail Entry Unit – New Haven, Connecticut FF-AR-06-258; 8/24/2006	Sebago Lake Contract Postal Unit – Standish, Maine FF-AR-06-240; 8/9/2006
Madison Business Mail Entry Unit – Madison, Wisconsin FF-AR-06-176; 5/23/2006	Oak Brook Post Office – Oak Brook, Illinois FF-AR-06-280; 9/28/2006	Shade Community Post Office – Shade, Ohio FF-AR-06-173; 5/22/2006
Mail Bar Coding Contract Postal Unit – Ft. Myers, Florida FF-AR-06-151; 5/1/2006	Oakland Business Mail Entry Unit – Oakland, California FF-AR-06-137; 5/11/2006	Shasta Lake Main Post Office – Shasta Lake, California FF-AR-06-237; 8/9/2006
Manahawkin Business Mail Entry Unit – Manahawkin, New Jersey FF-AR-06-219; 7/26/2006	Omaha Business Mail Entry Unit – Omaha, Nebraska FF-AR-06-210; 7/13/2006	Shawnee Main Post Office – Shawnee, Oklahoma FF-AR-06-271; 9/18/2006
Mandan Post Office – Mandan, North Dakota FF-AR-06-241; 8/10/2006	Ontario Main Post Office – Ontario, California FF-AR-06-200; 7/10/2006	Southeastern Business Mail Entry Unit – Southeastern, Pennsylvania FF-AR-06-126; 4/3/2006
Manitowoc Business Mail Entry Unit – Manitowoc, Wisconsin FF-AR-06-182; 5/26/2006	Overton Post Office – Overton, Nevada FF-AR-06-259; 8/28/2006	Southfield Business Mail Entry Unit – Southfield, Michigan FF-AR-06-207; 7/13/2006
Marshall Contract Postal Unit – Marshall, Minnesota FF-AR-06-171; 5/17/2006	Parkway Finance Station – Bronx, New York FF-AR-06-145; 5/9/2006	Spearfish Business Mail Entry Unit – Spearfish, South Dakota FF-AR-06-155; 5/2/2006
Marshfield Business Mail Entry Unit – Marshfield, Wisconsin FF-AR-06-229; 8/2/2006	Pewaukee Business Mail Entry Unit – Pewaukee, Wisconsin FF-AR-06-276; 9/22/06	Spring City Post Office – Spring City, Pennsylvania FF-AR-06-226; 8/1/2006
Maxton Post Office – Maxton, North Carolina FF-AR-06-194; 6/15/2006	Pikeville Business Mail Entry Unit – Pikeville, Kentucky FF-AR-06-231; 8/3/2006	Squirrel Hill Station – Pittsburgh, Pennsylvania FF-AR-06-213; 7/17/2006
Meadow Brook Station – Birmingham, Alabama FF-AR-06-169; 5/22/2006	Pittsburg Main Post Office – Pittsburg, California FF-AR-06-152; 5/17/2006	Stevens Point Business Mail Entry Unit – Stevens Point, Wisconsin FF-AR-06-233; 8/7/2006
	Placentia Main Post Office – Placentia, California FF-AR-06-220; 7/20/2006	



## FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT

Strongstown Community Post Office – Strongstown, Pennsylvania FF-AR-06-189; 6/6/2006	Turbotville Post Office – Turbotville, Pennsylvania FF-AR-06-269; 9/13/2006	Westside Station Post Office – Alexandria, Louisiana FF-AR-06-277; 9/28/2006
Tampa Main Office Window Unit – Tampa, Florida FF-AR-06-211; 7/17/2006	Turlock Main Post Office – Turlock, California FF-AR-06-174; 5/19/2006	Winthrop Post Office – Winthrop, Maine FF-AR-06-254; 8/21/2006
Tell City Post Office – Tell City, Indiana FF-AR-06-227; 8/1/2006	Warren Business Mail Entry Unit – Warren, Michigan FF-AR-06-193; 6/22/2006	York Business Mail Entry Unit – York, Pennsylvania FF-AR-06-203; 6/30/2006
Tierrasanta Postal Store – San Diego, California FF-AR-06-272; 9/21/2006	West Roxbury Post Office Automated Postal Center – West Roxbury, Massachusetts FF-AR-06-256; 8/23/2006	Yuma Business Mail Entry Unit – Yuma, Arizona FF-AR-06-225; 7/31/2006
Tigard Branch – Portland, Oregon FF-AR-06-243; 8/14/2006		

## INFORMATION SYSTEMS

System Software Controls at the Eagan, Minnesota and San Mateo, California Information Technology and Service Centers  
IS-AR-06-016; 9/11/2006

## MARKETING

International Mail Air Transportation Rates MS-WP-06-002; 6/29/2006	White Paper – USPS Cost Burdens MS-WP-06-001; 6/22/2006
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## NETWORK OPERATIONS PROCESSING

Capping Report on the Efficiency of the International Records Units Operations NO-AR-06-008; 9/27/2006	Efficiency of Carrier Sequence Barcode Sorters NO-AR-06-005; 8/2/2006	Facility Utilization at the Los Angeles, California, Worldway Airport Mail Center NO-AR-06-007; 9/22/2006
Color-Coding of Standard Mail at the Portland, Oregon, Processing and Distribution Center NO-MA-06-003; 9/26/2006	Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center NO-AR-06-006; 9/12/2006	

## SUPPLY MANAGEMENT &amp; FACILITIES

Accounting System Internal Controls of Siemens Energy and Automation, Incorporated, Postal Automation Division CA-CAR-06-029; 8/4/2006	Participation on an Integrated Process Team for the Flats Sequencing System Preproduction Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company CA-CAR-06-030; 8/22/2006	Report on Audit of Verification of Fiscal Year 2004 Claimed Common Area Maintenance (CAM) Expenses at Postal Service Leased Facilities at the Los Angeles Terminal Annex CA-CAR-06-025; 6/9/2006
Audit of Siemens Energy and Automation Incorporated, Postal Automation, Forward Pricing Rate Proposal for Fiscal Years 2006 Through 2010 CA-CAR-06-021; 5/16/2006	Postal Service New Construction Lifecycle CA-MA-06-003; 8/31/2006	Report on Quality System at FKI Logistex CA-CAR-06-028; 7/21/2006
Contractor Purchasing System Review of Siemens Logistics and Assembly Systems Incorporated, Postal Automation CA-CAR-06-019; 4/20/2006	Preaward Survey of Accounting System at Francotyp-Postalia, Incorporated CA-CAR-06-031; 9/11/2006	Settlement Proposal Under Contract 102591-03-Q-0454 Submitted by Hasler Incorporated CA-CAR-06-027; 7/5/2006
Controls Over Noncompetitive Contracts Awarded to Former Postal Service Employees CA-AR-06-002; 5/26/2006	Report on Audit of Firm Fixed Price Proposal for Biohazard Detection System Dual Collection Production Program Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-026; 6/26/2006	Supplemental Report on Agreed-Upon Procedures Review of Cendant Mobility Services Billings to the United States Postal Service Under Contract 198525-97-B-0696 CA-CAR-06-020; 5/26/2006
Determination of a Decrement Factor for Use on Northrop Grumman Corporation, Electronic Systems, Electronic Systems Company United States Postal Service Subcontracts CA-CAR-06-018; 4/4/2006	Report on Audit of Firm Fixed Price Proposal for Biohazard Detection System Dual Identifier Pilot Program Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-024; 5/26/2006	Technology Acquisition Management Process Guide – Phase 2, Development CA-WP-06-001; 6/29/2006
Firm Fixed Price Proposal for the Singulate Scan Induction Unit Optical Character Reader System Submitted by Lockheed Martin Systems Integration – Owego CA-CAR-06-022; 5/9/2006	Report on Audit of Firm Fixed Price Revised Proposal for 150 Automated Flats Sorting Machine-Automatic Induction Phase 2 Systems, Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-023; 5/26/2006	Universal Computing Connectivity Contract CA-AR-06-003; 9/1/2006

## TRANSPORTATION

Mail Transport Equipment – Transportation of Over-the-Road Containers  
NL-AR-06-014; 9/29/2006

Mail Transport Equipment Service Center Network – Highway Transportation Routes – Atlanta  
NL-AR-06-009; 8/18/2006

Mail Transport Equipment Service Center Network – Highway Transportation Routes – Dallas  
NL-AR-06-012; 9/28/2006

Mail Transport Equipment Service Center Network – Highway Transportation Routes – Greensboro  
NL-AR-06-010; 9/18/2006

Mail Transport Equipment Service Center Network – Proposed Change to Quality Inspection and Payment Authorization Controls  
NL-AR-06-007; 7/20/2006

Surface Transportation – Processing and Distribution Center Transportation Routes – Great Lakes Area  
NL-AR-06-008; 7/25/2006

Surface Transportation – Processing and Distribution Center Transportation Routes – Pacific Area  
NL-AR-06-011; 9/21/2006

Vehicle Management – National Trailer Lease Requirements – Capital Metro Area  
NL-AR-06-013; 9/29/2006

## REVENUE GENERATION

### DELIVERY AND RETAIL

Overdrawn Express Mail® Corporate Accounts  
DR-AR-06-007; 8/9/2006

## CUSTOMER SERVICE

### DELIVERY AND RETAIL

Las Cruces, New Mexico Delayed Mail  
DR-MA-06-001; 6/5/2006

## ENGINEERING

Strategic Alignment of Engineering Programs  
DA-AR-06-005; 9/22/2006

## MARKETING

Postal Service's Use of Ghost Numbers  
MS-MA-06-002; 9/19/2006

## NETWORK OPERATIONS PROCESSING

Color Coding of Standard Mail at the Margaret L. Sellers Processing and Distribution Center  
NO-MA-06-004; 9/28/2006

Mail Processing Internal Controls at the Dallas Bulk Mail Center  
NO-AR-06-009; 9/28/2006

## HUMAN CAPITAL

### HUMAN CAPITAL

Postal Service's Grievance-Arbitration Service Centers  
HM-AR-06-006; 8/29/2006

Postal Service's Injury Compensation Program's Controversion and Challenge Process in Selected Areas  
HM-AR-06-004; 5/19/2006

Postal Service's Schedule Awards Program in the New York Metro Area – Report I  
HM-AR-06-007; 9/29/2006

## INTEGRITY AND SECURITY

### FINANCIAL STATEMENT

Postal Service Officers' Travel Expense Guidelines  
FT-WP-06-001; 9/29/2006

### HURRICANES KATRINA AND RITA

Hurricane Katrina – Effectiveness of the Postal Service Transportation and Logistics Network NL-AR-06-006; 6/29/2006	Postal Inspection Service's Procurement Transactions Related to Hurricane Katrina Response, Recovery, and Reconstruct Efforts SA-AR-06-004; 5/30/2006	Postal Service Emergency Preparedness for Hurricanes Katrina and Rita SA-AR-06-007; 8/3/2006
Postal Inspection Service Emergency Preparedness for Hurricane Katrina SA-AR-06-005; 6/5/2006	Postal Service Actions to Locate and Track Employees After Hurricane Katrina HM-AR-06-005; 8/28/2006	Postal Service's Replacement and Repair of Facilities Affected by Hurricane Katrina FA-MA-06-001; 5/26/2006

### INFORMATION SYSTEMS

Certificate Authority Public Key Infrastructure Compliance at the Information Technology and Accounting Service Center in Eagan, Minnesota IS-AR-06-015; 9/1/2006	Information Security Assurance Process IS-AR-06-009; 5/4/2006	Security Assessment Audit of Telephone Lines and Modems (PhoneSweep) at Eagan, Minnesota, Host Computing Services IS-CS-06-002; 6/9/2006
Change of Address – Application Control Review IS-AR-06-013; 7/17/2006	Information System Access Controls at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers IS-AR-06-018; 9/27/2006	Security Vulnerability Assessment of Legacy Applications at the Eagan Host Computing Services, Eagan, Minnesota IS-CS-06-004; 8/30/2006
Enterprise Payment Switch Solution Phase 1: Requirements and Design IS-AR-06-017; 9/27/2006	Information System Policy and Procedure Controls IS-AR-06-014; 8/14/2006	Status of Follow-up Audit of Certificate Authority Public Key Infrastructure Compliance IS-AR-06-012; 6/8/2006
Follow-up at the Engineering Research and Development Center, Merrifield, Virginia IS-AR-06-010; 5/5/2006	Router and Switch Controls at Selected Postal Service Information Technology Centers IS-AR-06-011; 5/25/2006	Technical Report – Security Assessment Audit of Telephone Lines and Modems (PhoneSweep) at San Mateo, California, Host Computing Services IS-CS-06-003; 8/18/2006
Human Capital Enterprise SAP Human Resources Project – System Controls Over Roles and Separation of Duties IS-AR-06-008; 5/2/2006		

### OVERSIGHT OF INVESTIGATIVE ACTIVITIES

Follow-up Review of the Postal Inspection Service Consumer Fraud Awareness Fund SA-AR-06-006; 6/15/2006	Postal Inspection Service's Security Investigations Service Center SA-AR-06-002; 4/20/2006
Postal Inspection Service Noncompetitive Contract Process SA-AR-06-003; 5/2/2006	Qualitative Assessment Review of the Postal Inspection Service's Chicago Division QAR-QA-06-005; 6/14/2006

## FINDINGS OF QUESTIONED COSTS

For the period April 1 — September 30, 2006

**Questioned Cost:** A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, or contract.

### Office of Inspector General

As required by the IG Act, the following pages show the total number of audit reports and the total dollar value of questioned costs in audit reports.

Description	Number of Reports	Questioned Costs	Unsupported Costs Included in Questioned Costs
Reports for which no management decision was made at the beginning of the reporting period	21	\$66,873,895	\$4,719,637
Reports requiring management decision that were issued during the reporting period	36	\$76,474,109	\$146,106
<b>TOTAL</b>	<b>57</b>	<b>\$143,348,004</b>	<b>\$4,865,743</b>
Reports for which a management decision was made during the reporting period (i+ii)	36	\$71,828,174	\$146,248
(i) Dollar Value of disallowed cost		\$16,556,705	\$100,689
(ii) Dollar value of cost not disallowed		\$55,271,469	\$45,559
Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing.	21	\$71,519,830	\$4,719,495
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	4	\$675,721	—
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	8	\$58,657,940	\$4,718,940

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

Subject	Report Number	Report Date	Questioned Costs	Unsupported Costs Included in Questioned Costs
Audit of Termination for Convenience Settlement Proposal Under Contract Number 3AAERD-03-P-6080 Submitted by Government Telecommunications, Incorporated	CA-CAR-06-003	11/8/2005	\$547,466	—
Audit of Fiscal Year 2001 Incurred Cost of New Breed Corporations	CA-CAR-06-006	12/9/2005	\$7,767	—
Audit of Fiscal Year 2002 Incurred Cost of New Breed Corporations	CA-CAR-06-007	12/9/2005	\$89,576	—
Audit of Firm Fixed Price Proposal for the Ventilation and Filtration System at Morgan Station Submitted by Accu-Sort Systems, Incorporated	CA-CAR-06-015	3/29/2006	\$30,912	—
<b>TOTAL</b>			<b>\$675,721</b>	<b>—</b>

## Appendix B

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

<b>Subject</b>	<b>Report Number</b>	<b>Report Date</b>	<b>Questioned Costs</b>	<b>Unsupported Costs Included in Questioned Costs</b>
Contract Audit – Bell and Howell Mail and Messaging Technologies	CA-CAR-03-002	10/16/2002	\$343,759	—
Contract Audit – D. L. Kaufman, Incorporated	CA-CAR-03-011	2/11/2003	\$4,028,935	—
Audit of Termination for Convenience Price Adjustment Claim Submitted by Abcon Associates, Incorporated	CA-CAR-04-022	6/16/2004	\$4,478,385	\$2,702,465
Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005	9/30/2004	\$42,751,032	—
Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006	9/30/2004	\$2,016,475	\$2,016,475
Audit of Firm Fixed Price Proposal Submitted by International Business Machines, Global Services, Business Consulting Services – Federal, Under Proposal Number APC 035R3	CA-CAR-05-017	5/3/2005	\$3,127,088	—
Audit of Equitable Price Adjustment Claim Submitted by Advanced Construction Technologies, Ltd. Under Contract Number 362575-00-B-0399	CA-CAR-05-020	6/15/2005	\$1,780,367	—
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Corporation, Electronic Systems Company, Under Solicitation Number 3BMHRD-03-Z5541	CA-CAR-05-021	6/27/2005	\$131,899	—
<b>TOTAL</b>			<b>\$58,657,940</b>	<b>\$4,718,940</b>

## RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period April 1 — September 30, 2006

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

As required by the IG Act, this page shows the total number of audit reports and the total dollar value of recommendations for funds that management can put to better use.

### Office of Inspector General

Description	Number of Reports	Dollar Value
Reports for which no management decision was made at the beginning of the reporting period	8	\$67,376,226
Reports issued during the reporting period	13	\$280,766,200
<b>TOTAL</b>	<b>21</b>	<b>\$348,142,426</b>
Reports for which a management decision was made during the report period	14	\$282,776,620
(i) Value of recommendations agreed to by management		\$245,109,450
(ii) Value of recommendations that were not agreed to by management		\$37,667,170
Reports for which no management decision was made by the end of the reporting period.	7	\$65,365,806
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	1	\$2,235,812
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	4	\$56,094,743

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

Subject	Report Number	Report Date	Recommend Funds Put to Better Use
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Western Area	NL-AR-06-001	2/14/2006	\$2,235,812
<b>TOTAL</b>			<b>\$2,235,812</b>

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

Subject	Report Number	Report Date	Recommend Funds Put to Better Use
Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006	9/30/2004	\$7,300,150
Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005	9/30/2004	\$40,296,954
Bulk Mail Center Highway Transportation Routes – Pacific Area	NL-AR-05-012	9/21/2005	\$3,123,562
Delivery Vehicle Utilization – General Services Administration Leased Vehicles	DR-AR-05-018	9/29/2005	\$5,374,077
<b>TOTAL</b>			<b>\$56,094,743</b>

## Appendix D

## Reports with Significant Recommendations Pending Corrective Actions

For the period through September 30, 2006

As required by the IG Act, the following pages include a list of each audit report for which no management decision has been made by the end of the reporting period.

### Office of Inspector General

Issue Date	Number of Recommendations	Report Title	Report Number
9/25/2003	2	Efficiency of Work Performed by Business Mail Entry Clerks in the San Francisco Business Mail Entry Unit	AO-AR-03-002
9/29/2005	3	Delivery Vehicle Utilization – General Services Administration Leased Vehicles	DR-AR-05-018
8/09/2006	1	Overdrawn Express Mail Corporate Accounts	DR-AR-06-007
9/25/2006	2	Delivery and Retail Standard Operating Procedures – Southeast Area	DR-MA-06-007
9/29/2006	3	Delivery and Retail Standard Operating Procedures – Great Lakes Area	DR-MA-06-008
9/26/2006	3	Pasadena, California, Processing and Distribution Center Consolidation	EN-AR-06-001
12/22/2005	1	Intelligent Mail Data Acquisition System	DA-AR-06-001
2/10/2006	2	Flat Remote Encoding System for Automated Flat Sorting Machine 100	DA-AR-06-003
9/30/2006	2	Biohazard Detection System	DA-AR-06-006
12/30/2005	3	IMPAC Card Purchases – Chicago District	FF-AR-06-038
1/30/2003	1	Fiscal Year 2002 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-03-008
8/21/2003	2	Propriety of Postal Service Utility Payments	FT-AR-03-011
1/10/2005	1	Fiscal Year 2004 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center	FT-AR-05-005
3/15/2005	1	Fiscal Year 2004 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-05-009
3/22/2006	1	J.T. Weeker (Chicago) International Service Center – Inbound International Mail	FT-AR-06-013
4/21/2006	3	Fiscal Year 2005 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-06-015
3/31/2006	1	Postal Service's Share of Health Insurance Premiums for Retired Employees	FT-AR-06-016
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
7/22/2005	5	Complaints Regarding Personnel Issues in the Caribbean District	HM-AR-05-009
8/11/2005	1	Action Taken By Pacific Area Regarding Complaints of a Hostile Work Environment in the Sacramento District	HM-AR-05-010
5/19/2006	3	Postal Service's Injury Compensation Programs' Controversion and Challenge Process in Selected Areas	HM-AR-06-004
8/29/2006	9	Postal Service's Grievance-Arbitration Service Centers	HM-AR-06-006
9/29/2006	5	Postal Service's Schedule Awards Program in the New York Metro Area – Report I	HM-AR-06-007
2/22/2002	3	Review of the Facilities Management System for Windows	IS-AR-02-003
9/30/2003	6	General Controls at the Engineering Research and Development Center, Merrifield, Virginia	IS-AR-03-008
9/30/2004	1	Postal Service's Business Partner Connectivity	IS-AR-04-014
10/25/2004	1	Reports Distribution	IS-AR-05-001
4/18/2005	3	Security Controls in Voice Systems – Louisiana District	IS-AR-05-007
6/03/2005	4	Security Assessment Summary Report	IS-AR-05-010
9/30/2005	1	National Voice Services – Savings Opportunities	IS-AR-05-016

Issue Date	Number of Recommendations	Report Title	Report Number
2/10/2006	6	Security Vulnerability Assessment and Audit of Automated Postal Center Systems	IS-AR-06-003
5/02/2006	1	Human Capital Enterprise SAP Human Resources Project – System Controls Over Roles and Separation of Duties	IS-AR-06-008
5/05/2006	1	Follow up at the Engineering Research and Development Center, Merrifield, Virginia	IS-AR-06-010
5/25/2006	3	Router and Switch Controls at Selected Postal Service Information Technology Centers	IS-AR-06-011
9/27/2006	2	Enterprise Payment Switch Solution Phase 1: Requirements and Design	IS-AR-06-017
9/27/2006	2	Information System Access Controls at the Eagan, Minnesota, and San Mateo, California, Information Technology and Accounting Service Centers	IS-AR-06-018
12/23/2005	2	Security Over Sensitive Customer Data on Automated Postal Center Kiosks	IS-MA-06-001
7/09/2002	3	Review of eBusiness Agreements	EM-AR-02-012
3/31/2004	1	Efficiency of the Oakland International Service Facility and the Regatta Facility	NO-AR-04-007
9/24/2004	1	Efficiency of the New York International Service Center	NO-AR-04-009
3/30/2005	1	Efficiency Review of the Akron, Ohio, Processing and Distribution Center	NO-AR-05-009
6/17/2005	1	Efficiency of the Los Angeles International Service Center	NO-AR-05-011
2/22/2006	1	Efficiency Review of the Washington Bulk Mail Center	NO-AR-06-003
9/12/2006	1	Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center	NO-AR-06-006
6/13/2003	1	Postal Inspection Service Tracking of Investigative Workhours and Activity	SA-AR-03-003
4/21/2004	1	Postal Inspection Service's Postal Police Officers	SA-AR-04-001
9/30/2004	5	Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005
9/30/2004	2	Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006
1/25/2005	2	Mail Transport Equipment Service Center Network – Network Realignment – Pittsburgh, Detroit, Cleveland. Audit Note: \$33 million monetary benefit identified during audit and not reported in the SARC	NL-AR-05-001
9/21/2005	1	Bulk Mail Center Highway Transportation Routes – Pacific Area	NL-AR-05-012
9/28/2005	3	Commercial Air Network Operations	NL-AR-05-015
04/21/2005	2	Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations	NL-MA-05-001
2/14/2006	3	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Western Area	NL-AR-06-001
3/10/2006	1	Intermodal Rail and Highway Transportation Between the Great Lakes and Western Areas	NL-AR-06-002
3/28/2006	1	Mail Transport Equipment Service Center Network – Highway Transportation Routes – Memphis	NL-AR-06-005
6/29/2006	2	Hurricane Katrina – The Effectiveness of the Postal Service Transportation and Logistics Network	NL-AR-06-006
7/20/2006	2	Mail Transport Equipment Service Center Network – Proposed Change to Quality Inspection and Payment Authorization Controls	NL-AR-06-007
7/25/2006	3	Surface Transportation – Processing and Distribution Center Transportation Routes – Great Lakes Area	NL-AR-06-008
8/18/2006	2	Mail Transport Equipment Service Center Network – Highway Transportation Routes – Atlanta	NL-AR-06-009
9/18/2006	3	Mail Transport Equipment Service Center Network – Highway Transportation Routes – Greensboro	NL-AR-06-010
9/21/2006	3	Surface Transportation – Processing and Distribution Center Transportation Routes – Pacific Area	NL-AR-06-011
9/28/2006	2	Mail Transport Equipment Service Center Network – Highway Transportation Routes – Dallas	NL-AR-06-012
9/29/2006	4	Vehicle Management – National Trailer Lease Requirements – Capital Metro Area	NL-AR-06-013
09/29/2006	1	Mail Transport Equipment – Transportation of Over the Road Containers	NL-AR-06-014



## Appendix E

### SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period April 1 — September 30, 2006

As required by the IG Act, this appendix discusses information concerning any significant management decision with which the Inspector General disagrees and which is currently in audit resolution.

#### Office of Inspector General

The OIG has no significant management decisions in audit resolution as of September 30, 2006.

## Appendix F

### INVESTIGATIVE STATISTICS<sup>1</sup>

For the period April 1 — September 30, 2006

	Misconduct Statistics	Employee Mail Theft Statistics <sup>4</sup>
Investigations completed	3,799	438
Arrests/Information/Indictments	281	323
Convictions/Pretrial Diversions <sup>2</sup>	109	232
Administrative actions	1,775	404
Cost avoidance	\$57,527,822	—
Fines, restitution, and recoveries	\$76,488,294	—
Amount to Postal Service <sup>3</sup>	\$12,410,819	—

<sup>1</sup> Statistics include joint investigations with the Postal Inspection Service and other law enforcement agencies.

<sup>2</sup> Convictions reported in this frame may be related to arrests made in prior reporting periods.

<sup>3</sup> Amount included in Fines, Restitution, and Recoveries.

<sup>4</sup> Cases worked solely by the Postal Inspection Service.

## SUMMARY OF U.S. POSTAL INSPECTION SERVICE ACTIONS UNDER 39 U.S.C. § 3013

For the period April 1 — September 30, 2006

The Postal Reorganization Act requires the Postmaster General to furnish information, on a semiannual basis, on the investigative activities of the Postal Service by the U.S. Postal Inspection Service. With passage of the Deceptive Mail Prevention and Enforcement Act in December 1999, the Postal Service's reporting obligations were changed. The Act requires the Postal Service to submit its semiannual report on investigative activities to the Office of Inspector General rather than to the Board of Governors, expands the subject matter that must be reported, and revises the reporting schedule to coordinate with the OIG *Semiannual Report to Congress*. The information in the report includes actions directed at combating crimes involving the mail; costs and expenditures devoted to Postal Service investigative activities; use of subpoena power; and any additional information the OIG may require.

The following information summarizes the administrative and judicial actions initiated and resolved during the reporting period. These actions include the issuance of cease and desist orders directed to mailers, actions to intercept payments fraudulently induced, and orders seeking to intercept fraudulent mailings.

Type of Scheme	Complaints Filed	Consent Agreements	False Representation Order	Cease & Desist Orders
Advance fee	1	—	—	—
Contests/sweepstakes	1	—	—	—
Coupon fraud	1	1		1
False billings	8	6	4	11
Internet auction	7	7	2	6
Lotteries (foreign and domestic)	1	—	—	—
Medical	2	—	—	—
Merchandise:				
failure to furnish	1	1	—	—
failure to pay	3	3	1	3
Miscellaneous	7	6	—	4
Telemarketing	3	3	1	3
Work at home	16	16	3	16
<b>TOTAL</b>	<b>51</b>	<b>43</b>	<b>11</b>	<b>44</b>

### Investigative Expenses<sup>1</sup>

Type	Dollar Amount
Personnel	\$158,473,256
Nonpersonnel	33,289,758
<b>TOTAL</b>	<b>\$191,763,014</b>
Capital Obligations	\$8,272,142

<sup>1</sup> Numbers have been normalized to reflect the transfer of the Information Technology Division to the Postal Service's Chief Technology Office organization.

### Subpoenas

Case #	Date Issued	Scheme
06-004	6/8/2006	Work at home
06-005	7/18/2006	Failure to render
06-006	7/18/2006	Failure to render
06-007	8/16/2006	Solicitation in guise of invoice
06-008	9/5/2006	Failure to pay

### Other Administrative Actions

Administrative Action Requests	74
Temporary Restraining Orders Requested	1
Temporary Restraining Orders Issued	1
Cases Using Direct Purchase Authority	—
Civil Penalties (Section 3012) Imposed	\$25,000
Test Purchases	—
Withholding Mail Orders Issued	16
Voluntary Discontinuances	16

## Appendix H

**CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES**

For the period April 1 — September 30, 2006

This appendix lists the 31 Congressional and Board of Governors inquiries the OIG closed during this reporting period. We reviewed these inquiries to help identify systemic issues and to determine the need for future Postal Service-wide audits.

**Inspector General**

Requestor	Allegation/Concern	Our Major Findings	Closure Date
Senator, Iowa	Communication to Postal Inspectors of decision to transfer jurisdiction to OIG for employee crimes and misconduct to the OIG.	Addressed concerns in a meeting with law enforcement employee organization.	5/23/2006
Representative, Wisconsin	Request for Inspector General testimony from the House Judiciary Committee.	Inspector General Williams appeared and provided testimony.	9/27/2006

**Investigations**

Requestor	Allegation/Concern	Our Major Findings	Closure Date
Senator, Virginia	Kickbacks and contracting irregularities at a Vehicle Maintenance Facility.	We investigated but did not substantiate charges. Reported findings to Postal Service district management, resulting in several personnel actions.	4/7/2006
Senator, Nebraska	Supervisor improperly accessed and disseminated employee background investigation information.	Our investigation revealed main records system at facility was protected adequately, but secondary system was not. We forwarded recommended improvements to management.	4/6/2006
Senator, Washington	Contractor fraudulently failed to provide supplies and services as agreed in a Portland, Oregon, facility.	We reviewed, but did not substantiate allegation. We found the contractor performed the work management requested.	8/30/2006
Representative, Texas	Management directed Letter Carriers to insert direct mail materials into the pages of circulars; whistleblower retaliation for reporting.	Our review did not substantiate retaliation charge. Referred direct mail issue to Postal Service for evaluation.	6/21/2006
Representative, California	Allegations of racial, cultural, sexual harassment, and threats at facility.	We conducted an informal review and reported findings to the requestor.	4/26/2006
Representative, South Carolina	Rural Route Carrier stole a dog.	We investigated, found no evidence to back this charge.	5/10/2006
Representative, Illinois	Employee used Postal Service equipment and time to conduct political business.	Our investigation found activities were non-partisan and did not violate Hatch Act; use of postal equipment and time referred to management.	8/7/2006
Representative, Illinois	Employee used Postal Service equipment and time to conduct political business.	OIG investigation found activities were non-partisan and did not violate Hatch Act; use of postal equipment and time referred to management.	8/8/2006
Representative, Nevada	Whistleblower retaliation.	We were unable to substantiate that the employee made a timely, protected communication.	9/15/2006
Representative, California	Hiding and false reporting of delayed mail; hostile work environment in Los Angeles District.	We found delayed mail was properly documented in the Mail Condition Reporting System. Management surveyed the workplace climate and recommended management action.	7/12/2006
Representative, California	Hiding and false reporting of delayed mail; hostile work environment in Los Angeles District. (NEW allegation/concern.)	We found delayed mail was properly documented in the Mail Condition Reporting System. Management surveyed the workplace climate and recommended management action.	7/12/2006
Representative, Oklahoma	Allegations of misconduct and possible whistleblower reprisal.	We conducted two investigations, finding a prima facie case of reprisal for whistleblowing.	6/28/2006

## Audits

Requestor	Allegation/Concern	Our Findings	Closure Date
Representative, New Mexico	Substantial delays in mail delivery in Las Cruces, New Mexico.	We addressed this as part of the Management Advisory - Las Cruces, New Mexico, Delayed Mail, issued 6/05/06.	6/9/2006
Representative, California	Lack of openness and community involvement in Postal Service process for conducting Area Mail Processing study of the Pasadena P&DC.	These issues were addressed in the Audit Report - Pasadena, California, Processing and Distribution Center Consolidation, issued 9/26/06.	8/16/2006
Representative, Oklahoma	Incumbent contractor denied an opportunity to bid on contract renewal.	We reviewed and found the Postal Service properly followed contracting rules.	4/7/2006
Governors	Mail process skewed to expedite External First-Class Mail and enhance performance scores at the Jacksonville, Florida, P&DC.	Our review found these operations did not favor collection mail.	6/28/2006
Representative, New York	Review of the current change of address (COA) program operated by the Postal Service.	We provided a response based on an audit addressing data integrity in the COA process. We found existing controls are sufficient to ensure overall integrity, but recommended improvements regarding acceptance and notification of PS Form 3575, Official Mail Forwarding Change of Address Order.	8/3/2006
Mayor, St. Petersburg, Florida	Requested OIG audit of the Area Mailing Processing (AMP) Survey for the St. Petersburg P&DC.	We have several site-specific consolidation reviews underway, but cannot commit to reviewing St. Petersburg-to-Tampa consolidation in 2007.	8/9/2006
Representative, Virgin Islands	Mail processing and delivery concerns sent to the GAO with copy to the OIG.	We will coordinate audit work with GAO in the upcoming fiscal year.	8/17/2006

## Mission Support

Requestor	Allegation/Concern	Our Findings	Closure Date
Senator, Virginia	Status of constituent application for employment with the OIG.	Provided status report only.	5/26/2006

## General Counsel

Requestor	Allegation/Concern	Our Findings	Closure Date
Senator, Virginia	Allegations of intimidation, harassment, and violation of privacy by management.	We did not substantiate allegations and noted jurisdictional issues with other federal agencies.	5/25/2006
Senator, California	Mail delivery issues at the Santa Barbara Post Office and East Beach Facility.	Officials at the Postal Service Government Relations Office asserted jurisdiction.	4/5/2006
Senator, Texas	Special agent made a defamatory communication and illegally disclosed personal information during course of investigation.	We found the communication was in the nature of a question, not a defamatory statement and part of proper investigative work.	4/11/2006
Representative, California	Requested investigation into constituent's 1997 removal from Postal Service.	We found matter was addressed outside OIG jurisdiction (through arbitration) and records were no longer available, limiting our further review.	8/11/2006
Senator, Minnesota	Delays in processing an individual workers' compensation claim.	We determined officials at the local Postal Service Human Resource office are assisting.	4/6/2006
Representative, Florida	Insufficiency of OIG investigation of allegations against a postal supervisor.	Review determined no additional work was necessary.	4/12/2006
Representative, New York	Status of records from a worker's compensation investigation.	Our FOIA Office processed documents for release.	6/15/2006
Senator, Texas	Supervisor directed a contractor use a pretext to gain information about an employee's medical leave.	We found that management addressed the issue consistent with postal policy.	8/30/2006

## General Counsel

Requestor	Allegation/Concern	Our Findings	Closure Date
Senator, Minnesota	Follow-up questions regarding delay of workers' compensation claim.	We did not identify cause of delay, but reviewed Northland District Office processing record.	7/5/2006
Representative, New York	Supervisors failed to respond fully to harassment by co-workers.	We were unable to proceed, due to inexact recall of participants and destruction of materials in question.	9/15/2006
Senator, Texas	Special Agent made a defamatory communication and illegally disclosed personal information during course of investigation.	We found the communication was in the nature of a question, not a defamatory statement, and part of proper investigative work.	6/8/2006
Senator, Georgia	Requested investigation into constituent's 1997 removal from Postal Service.	We found matter was addressed outside OIG jurisdiction (through arbitration) and records were no longer available, limiting our further review.	8/11/2006
Representative, Florida	Union requested review of incidents at Central Florida facility.	Officials in the USPIS asserted jurisdiction.	7/26/2006
Senator, Texas	Assault by supervisor at Port.	We received this correspondence in error.	7/18/2006
Senator, Texas	Mail tampering and theft of an individual's mail.	We notified the delivery supervisor, who agreed to address the concerns. The USPIS previously reviewed and did not substantiate a similar complaint.	8/8/2006
Representative, California	Racial discrimination at a Los Angeles facility; suggestion for Manager selection.	We found no evidence of racial discrimination and referred the selection issue to the Postal Service's Government Relations Office.	8/3/2006
Senator, Mississippi	Inquiry on behalf of constituent.	No action (outside statutory authority).	8/11/2006
Representative, Pennsylvania	Inquiry on behalf of constituent.	No action (outside statutory authority).	8/11/2006
Senator, Mississippi	Inquiry on behalf of constituent.	No action (outside statutory authority).	8/29/2006

## Referrals

Requestor	Allegation/Concern	Referred To	Closure Date
Representative, New York	Unfair working conditions and harassment at a postal facility.	The Equal Employment Opportunity Commission OIG.	4/20/2006
State Representative, Oklahoma	Mail content issues.	The Postal Service Government Relations Office.	5/23/2006
Representative, Missouri	Fraudulent transfer of periodical postage privileges.	The Postal Service Government Relations Office.	5/23/2006
Senator, West Virginia	Postal Service employment.	The Postal Service Government Relations Office.	7/16/2006
Senator, Virginia	Cash sent by mail never reached addressee, but sender received damaged envelope from the undeliverable mail department.	The Postal Inspection Service.	8/3/2006
Representative, California	Postal Service employment.	The Postal Service Government Relations Office.	8/17/2006
Representative, California	Labor contract violations.	The Postal Service Government Relations Office.	8/31/2006

## SUPPLEMENTAL INFORMATION

### FREEDOM OF INFORMATION ACT

The Freedom of Information Act (FOIA) Office for the Postal Service Office of Inspector General operates independently of, but frequently coordinates with, its counterparts at the Postal Service and Postal Inspection Service. The FOIA Office receives requests for records from the public, the media, and Postal Service employees. The Freedom of Information Act, according to the Department of Justice, "generally provides that any person has a right, enforceable in court, to obtain access to federal agency records, except to the extent that such records (or portions of them) are protected from public disclosure by one of nine exemptions."

#### Activities

For the period April 1 – September 30, 2006

Requests	Number of Requests
Carryover from prior period	7
Received during period	121
<b>Total on hand during the period</b>	<b>128</b>

OIG actions	Number of Requests
<b>Processed during the period</b>	<b>116</b>
Requests released in full	21
Requests partially granted	38
Requests not granted	12
Requests referred to another agency	29
No records	16
Not proper FOIA requests	–
Withdrawn	–

Balance	Number of Requests
Balance at the end of the period (pending)	12

Processing Days	Number of Days
Median processing days to respond to a FOIA request	15

## WORKPLACE ENVIRONMENT

The Workplace Environment Team receives referrals involving workplace environment and operational issues from multiple sources, including the Hotline, Congress, the Board of Governors (BOG), and management. Complaints reviewed by the team include sexual harassment; discrimination; harassment and intimidation; nepotism; mail delivery and processing; and workplace safety issues. The team's role was expanded to include internal complaints received from OIG employees. This process provides OIG employees another avenue to report their concerns, in addition to Equal Employment Opportunity avenues. During this reporting period, there was a 90 percent increase in the number of referrals received compared to the last reporting period.

### Activities

For the period April 1 – September 30, 2006

<b>Referrals</b>	<b>Total</b>
Carryover from prior period	57
Complaints received from Hotline	397
Congressional/BOG/Postal Service Management	7
Internal	4
Other	2
<b>Total on hand during this period</b>	<b>467</b>

<b>Workplace Environment Actions</b>	<b>Total</b>
Complaints closed during the period	431
Referred to Postal Service management	114
Referred to OIG Office of Investigations	39
Referred to OIG Office of Audit	1
Summary of findings reported to Congress/BOG/Postal Service Management	8
Conducted limited inquiry into allegations/issues and referred to database	115
Referred to database for statistical analysis and possible systemic reviews	154
<b>Referrals pending at the end of the period</b>	<b>36</b>

## GLOSSARY

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

**AMC** – An Air Mail Center is a postal facility at an airport that receives, concentrates, transfers, dispatches, and distributes mail transported by air.

**APC** – Automated Postal Center, a kiosk that dispenses postage and provides several mailing services. APCs allow customers to weigh, calculate, and apply exact postage, and ship Express Mail and Priority Mail items, packages, and First-Class letters right at the kiosks. They also provide easy access to postal products and services.

**Bargaining unit employee** – A Postal Service employee who is represented by a labor organization (union) that negotiates with the Postal Service for the wages, hours, and other terms and conditions of employment. These employees include City Carriers, Clerks, Mail Handlers, Rural Carriers, Special Delivery Messengers, Maintenance Employees, and Motor Vehicle Operators.

**BDS** – See Biohazard Detection System.

**BMC** – Bulk Mail Center, where packages and standard mail are processed.

**BMEU** – See Business mail entry unit.

**Bulk mail** – Mail that is rated for postage partly by weight and partly by the number of pieces in the mailing. The term is generally used to refer to Standard Mail (A).

**Business Mail Entry Unit (BMEU)** – The area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance. The BMEU includes dedicated platform space, office space, and a staging area on the workroom floor.

**Biohazard Detection System** – The Biohazard Detection System (BDS) is a system that is used to detect the presence of harmful bio-agents that may exist in mailpieces that are processed in Processing and Distribution Centers (P&DCs) operated by the Postal Service. The BDS continuously monitors the air for hazardous aerosol contaminants that may be released by mail being handled by one or more Postal Service mail processing systems.

**Carrier Sequence Barcode Sorter (CSBCS)** – This is a small, high-speed barcode sorter machine designed specifically for decentralized processing in associate offices. It has a throughput of about 19,000 pieces per workhour.

**CPU** – CPUs are contractor-owned and operated facilities, under contract to the Postal Service to provide selected postal services such as accepting mail and selling postage, supplies, and Postal Service money orders to the public. CPUs are usually located in a store or place of business.

**Delivery Barcode Sorter (DBCS)** – This is a multi-level, high-speed barcode sorting machine located in mail processing facilities. DBCS throughput is about 39,000 pieces per workhour.

**END initiative** – The Evolutionary Network Development (END) initiative is the next step in the Postal Service's efforts to create a flexible logistics network to reduce costs,

increase overall effectiveness, and improve consistency of service.

**Express Mail Service** – A mail class that provides expedited delivery service for mailable matter subject to certain standards. It is available in five basic domestic service offerings (Same Day Airport Service, Custom Designed Service, Next Day Service, Second Day Service, and Military Service). Express Mail International Service is available between the United States and most foreign countries. Express Mail is a Postal Service trademark.

**False billings scheme** – Mailing solicitations in the guise of billings.

**FECA** – Postal Service employees injured while performing their duties may be eligible for compensation under the Federal Employee's Compensation Act (FECA).

**FEHB** – The Federal Employees Health Benefits (FEHB) program helps federal employees, retirees, and their survivors meet healthcare needs through a wide selection of health plans across the country.

**First-Class Mail** – A class of mail that includes all matter wholly or partly in writing or typewriting, all actual and personal correspondence, all bills and statements of account, and all matter sealed or otherwise closed against inspection. First-Class Mail comprises three subclasses: postcards, letters and sealed parcels, and Priority Mail. Any mailable matter may be sent as First-Class Mail. First-Class Mail is a Postal Service trademark.

**Flat-size mail** – A mailpiece that exceeds one of the dimensions for letter-size mail (11-1/2 inches long, 6-1/8 inches high, 1/4 inch thick) but that does not exceed the maximum dimension for the mail processing category (15 inches long, 12 inches high, 3/4-inch thick). Dimensions are different for automation rate flat-size mail eligibility. Flat-size mail may be unwrapped, sleeved, wrapped, or enveloped.

**Fraud Internet schemes** – Fraudulent schemes using the Internet with a connection to the mail.

**FY** – Fiscal Year.

**Highway contract routes** – A route served by a postal contractor to carry mail by highway between designated points.

**IEMP** – The Postal Service's Integrated Emergency Management Plan that improves coordination or planning and response activities among functional areas in the event of an emergency.

**IMPAC** – The International Merchant Purchase Authorization Cards (IMPAC) are how the Postal Service acquires goods and services through contracts.

**Logistical support network** – Activities or programs that support the transportation of mail, such as fuel procurement, mail transport equipment procurement and management, and vehicle management and maintenance.

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



**Merchandise failure to pay scheme** – Mail order merchandise acquired without providing payment.

**Merchandise misrepresentation scheme** – Mail order merchandise or services that are materially misrepresented in advertising.

**OWCP** – Administered by the U.S. Department of Labor, the Office of Workers' Compensation Programs (OWCP) provides direct compensation to providers, claimants, and beneficiaries.

**PCIE / ECIE** – The President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency (PCIE-ECIE) address integrity, economy, and effectiveness issues that transcend individual government agencies. This organization also seeks to increase the professionalism and effectiveness of IG personnel throughout the government.

**Postal Rate Commission (PRC)** – An independent federal agency that makes recommendations on Postal Service requests for changes in postal rates and mail classifications. The five commissioners are nominated by the President and approved by the U.S. Senate.

**Postal Reorganization Act** – The statute that requires postal rates and fees to "provide sufficient revenues so that the total estimated income and appropriations... will equal as nearly as practicable total estimated costs." (Public Law 91-375, signed August 12, 1970.)

**Priority Mail** – First-Class Mail that weighs more than 13 ounces and, at the mailer's option, any other mail matter weighing 13 ounces or less. Priority Mail provides expedited delivery.

**Processing and Distribution Center/Facility (P&DC/F)** – A central mail facility that processes and dispatches part or all of both incoming mail and outgoing mail for a designated service area. It also provides instructions on the preparation of collection mail, dispatch schedules, and sorting plan requirements to mailers.

**Remote Encoding Centers** – When all computer-based means of resolving address information have been exhausted at a mail facility, an image of an address is sent to a remote encoding center (REC), where operators use video display terminals and keyboards to process the address information. The results of this encoding are sent back electronically to the facility that has the mailpiece, thereby keeping the mailpiece in the automated mailstream.

**Retail facility** – A postal unit of a Post Office and its subordinate units as well as military Post Offices that sell postage stamps and provide other postal retail services to customers. The subordinate units are within the service area of a main post office and include post office

stations, post office branches, contract postal units, and nonpersonnel units.

**SSPC** – Self-Service Postal Centers are unstaffed Postal Service vending machines that provide postage stamps and other retail products and services.

**Standard Mail** – A class of mail that includes advertisements, circulars, newsletters, magazines, small parcels, and merchandise.

**Unsupported costs** – Costs that are questioned because of inadequate supporting documentation for the proposed/claimed costs.

**USPIS** – U.S. Postal Inspection Service, a law enforcement arm of the Postal Service that provides assurance to American businesses for the safe exchange of funds and securities through the U.S. Mail; to postal customers of the "sanctity of the seal" in transmitting correspondence and messages; and to postal employees of a safe work environment.

**Verification** – The procedural checks of a mailing presented by a mailer to determine proper preparation and postage payment.

**Value proposition** – Develops audit work that maximizes benefits to the Postal Service and assists top management in reaching their goals.

**VESS** – Vending Equipment Sales and Service (VESS) System data is an online database that offers real-time tracking of product sales, miscellaneous costs, and maintenance and service for vending machines.

**VMF** – A Vehicle Maintenance Facility (VMF) is where the Postal Service maintains and repairs vehicles.

**Voyager Fleet Cards** – These are credit cards used by postal employees to acquire automotive goods and services, such as gasoline or repairs.

**Work at home scheme** – Schemes, such as envelope stuffing, that do not provide home employment.

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**OFFICE OF INSPECTOR GENERAL**

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