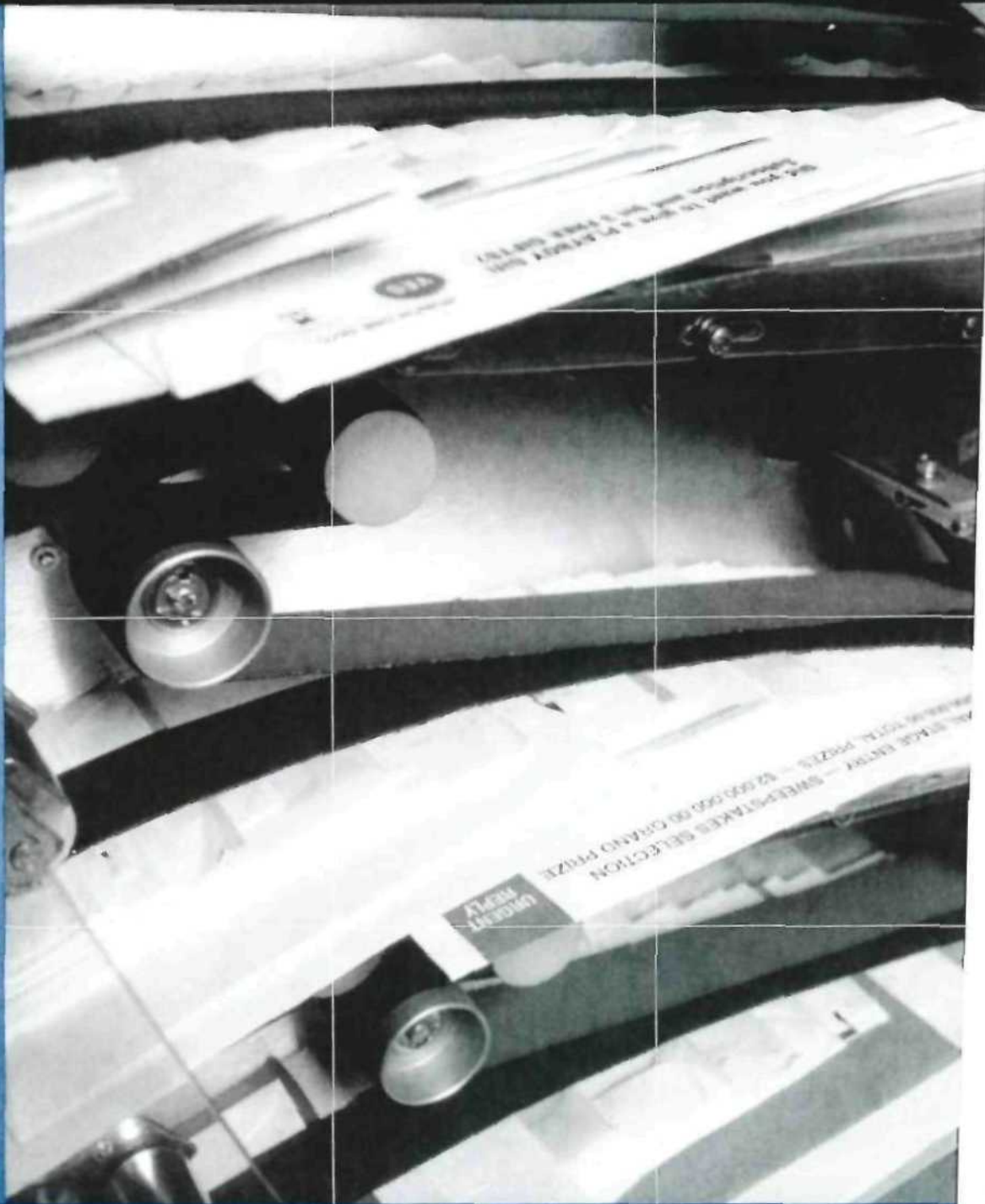




OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2005 – MARCH 31, 2006



UNITED STATES
POSTAL SERVICE



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

I am pleased to report that on March 10, 2006, a memorandum was signed jointly by the Chairman of the Board of Governors and the Postmaster General announcing the completion of the transfer of investigative jurisdiction for employees from the Postal Service to the Office of Inspector General (OIG).

A timetable has been established for moving employee misconduct investigations — including employee theft of the mail — from the U.S. Postal Inspection Service (USPIS) to the OIG. By January 2, 2007, the OIG will have full responsibility for the investigation of internal crimes. Responsibility for security and the investigation of external crimes remains with the USPIS.

Resources needed for this work will be provided in two stages, and it is our desire that the positions be filled to the extent possible by former postal inspectors.

The unified investigative force and clarity of mission will permit the OIG to become dramatically more agile in its continuing quest to remain a world-class organization. We will have the ability to deploy seasoned expert investigative resources and yet take a fresh look at approaches for investigating and deterring misconduct.

This new change will make it much simpler to communicate our mission to stakeholders. I value our stakeholder partnerships and the new changes will allow a broadening and strengthening of bonds.

I am grateful to Chairman Jim Miller and Postmaster General Jack Potter for the time, energy, and seasoned judgment they brought to this effort.

Our value to the Postal Service continues as evidenced by significant increases in the following key outcomes: a \$42 million increase in monetary impact over the same period last year, 100 percent acceptance of OIG significant rec-

ommendations made this reporting period, and a \$30 million increase in Workers' Compensation cost avoidance compared to the FY 2005 total.

In the first half of this fiscal year, October 1, 2005, through March 31, 2006, we issued 200 audit reports and management advisories. These efforts resulted in a total monetary impact of \$176,029,064.

In addition, we closed 3,481 cases and referred 1,290 to management for administrative action; we made 249 arrests and indictments/informations; and returned more than \$8.5 million in fines, restitutions, and recoveries to the Postal Service.

This semiannual report focuses on the four strategic goals outlined in the Postal Service's Strategic Transformation Plan 2006–2010: Improve Service, Generate Revenue, Reduce Costs, and Achieve Results with a Customer-Focused, Performance-Based Culture. We discuss the state of the Postal Service through our eyes and explain how our work adds value. Finally, we have a separate chapter that discusses preserving integrity and security.

David Williams

SUMMARY OF PERFORMANCE

October 1, 2005 – March 31, 2006

Audit

Reports issued.....	200
Significant recommendations issued	45
Total reports with financial impact.....	59
Funds put to better use.....	\$150,951,892
Questioned costs ¹	\$22,498,172
Revenue impact	\$2,579,000
Total².....	\$176,029,064

Investigations³

Investigations completed	2,558
Arrests	141
Indictments/informations	108
Convictions/pretrial diversions ⁴	100
Administrative actions	1,202
Cost avoidance.....	\$57,775,818
Fines, restitutions, and recoveries ⁵	\$1,051,875,966
Amount to Postal Service ⁶	\$8,523,982

Hotline contacts

Facsimile – FAX.....	309
e-Mail.....	5,705
Standard Mail.....	958
Voice mail messages	1,521
Telephone calls	21,234
Total contacts	29,727

1 Includes unsupported costs of \$404,472.

2 The Postal Service agreed to recommendations or proposed alternative corrective actions that, if implemented, could result in more than \$176 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 frame may be related to arrests made in prior reporting periods.

5 The majority of these recoveries (\$1,029,000,000) are the result of judgments in two False Claims Act investigations worked jointly with other federal agencies.

6 Amount included in fines, restitution, and recoveries.

TABLE OF CONTENTS

Assessing strategic transformation progress	2
Reduce costs.....	2
Generate revenue.....	11
Achieve results with a customer-focused performance-based culture.....	13
Improve service.....	18
Preserving integrity and security	20
Investigative activities	20
Security.....	23
Organizational chart	26
Map of office locations	27
Appendices	28
Appendix A – Reports issued to Postal Service management	28
Reports with quantifiable potential monetary benefits.....	29
Report listing	32
Appendix B – Findings of questioned costs	37
Appendix C – Recommendations that funds be put to better use	39
Appendix D – Reports with significant recommendations pending corrective actions.....	40
Appendix E – Significant management decisions in audit resolution.....	42
Appendix F – Investigative statistics.....	42
Appendix G – Summary of U.S. Postal Inspection Service investigative actions under 39 U.S.C. § 3013.....	43
Appendix H – Closed congressional and Board of Governors inquiries.....	44
Supplemental information	46
Investigative synopses	46
Freedom of Information Act	49
Workplace environment.....	50
Glossary.....	51



ASSESSING STRATEGIC TRANSFORMATION PROGRESS

In this Semiannual Report to Congress, our audits and reviews assess the status of the Postal Service's progress toward the strategic goals articulated in its Strategic Transformation Plan: 2006-2010, issued in September 2005. The Postal Service's plan describes how it intends to improve the value of mail services and sustain a financially stable enterprise that best serves the nation's mailing needs while providing affordable and reliable service.

The Postal Service's strategic goals are to reduce costs, generate revenue, achieve results with a customer-focused performance-based culture, and improve service. Each of these strategic goals presents significant challenges to the Postal Service. Following is a discussion of work we completed during the October 1, 2005, through March 31, 2006, reporting period in each of these areas.

REDUCE COSTS

The Postal Service's strategy to reduce costs is improving operational efficiency. This strategy includes expanding standardization and process control; reducing the cost of meeting universal service obligations by focusing on major cost drivers, especially delivery operations and supply chain management; capturing improvements from existing equipment and technology; and targeting new investments to further drive productivity gains. The strategy emphasizes continued partnerships with customers by developing low-cost forms of customer access via technology and product simplification. Additionally, the Postal Service plans to examine facility capacities to transition from overlapping single-product networks to an integrated multiproduct network.

The Postal Service has enjoyed success in reducing its costs in recent years. As outlined in the *2005 USPS Annual Report*, the Postal Service met its *2002 Transformation Plan* commitment to remove \$5 billion in costs (one year ahead of schedule). It further pledged to cut an additional \$5 billion in costs through 2010. The Postal Service also reduced its \$11.3 billion fiscal year (FY) 2001 debt to zero in FY 2005, virtually eliminating interest expenses in FY 2005.

Our work assisted the Postal Service in identifying significant opportunities to reduce costs in the areas of controlling delivery costs, optimizing the mail processing network, improving transportation efficiency, and maximizing the cost-effectiveness of contracts. In addition, we assessed whether the Postal Service appropriately factored efficiencies and cost savings into the ratemaking process. We found that the Postal Service appropriately factored cost reduction programs into its 2005 rate case. Additionally, the Postal Service budget process requires managers to achieve planned efficiencies and cost savings, and factor workhour reductions from cost reduction programs into its budgets.

A number of factors impact the Postal Service's ability to reduce costs. Among these are the additional cost burdens it bears, and the significant infrastructure investment required to meet its universal service obligation.



An OIG audit showed management can improve operations by adequately reviewing the daily mail volumes when determining workhours for each carrier's route.

ADDITIONAL COST BURDENS

The Postal Service bears cost burdens that are not borne by any other business. Cost burdens are mandates, wholly or partially unfunded and borne by the Postal Service due to legislation or other constraints. Five such cost burdens are:

- The Postal Service must place the overfunding of its Civil Service Retirement System (CSRS) obligations in an escrow account.
- The Postal Service must pay CSRS costs associated with retirees' military service predating their employment with the Postal Service.
- The Postal Service did not receive the rebate available to other employers who provide qualified prescription drug coverage to their annuitants under Medicare Part D.
- Current laws prevent the Postal Service from freely contracting air transportation for international mail.
- The Postal Service must provide air bypass service in Alaska.

These additional cost burdens impact the Postal Service's ability to operate in a businesslike manner and represent a combined annual cost of approximately

\$5.2 billion. To put this in perspective, lifting these five obligations would reduce the price of the 39-cent stamp by approximately three cents.

CONTROLLING DELIVERY COSTS

The need to contain delivery costs challenges the Postal Service each year, as the number of delivery points grows with increases in population. The number of delivery points increased by 2.9 million from FY 2003 through FY 2005. To appreciate the volume of mail that the Postal Service delivers, in FY 2005, the Postal Service delivered more than 211 billion pieces of mail to 144 million delivery points.

Controlling delivery costs is critical for the Postal Service because mail delivery requires a significant investment including personnel, mail processing equipment, transportation, and buildings. The Postal Service's *Strategic Transformation Plan: 2006-2010* stated that delivery is its largest cost center and will be the focus of intensive efforts to find new savings. One area, city delivery, with more than 85 million delivery points and more than 228,000 city letter carriers, accounts for more than 72 percent of the budgeted workhours for delivery operations (rural and city) in FY 2006.



VALUE PROPOSITION DEFINED

The Value Proposition augments the OIG's ability to work jointly with the Postal Service to identify areas that, with examination, could yield savings and maximize the value added to the Postal Service. It is an agreement between the audit director and their counterpart Postal Service vice president, consenting to a specific body of work in a specific timeframe. The agreement includes the area of focus, objectives/goals, scope of work, OIG resources, Postal Service resources, anticipated value, and deliverables.

City Letter Carrier Operations. One of our initial value proposition agreements with the vice president of Delivery and Retail assessed the management of city letter carrier operations. We completed our agreement by reviewing operations in 12 Great Lakes Area delivery facilities. We found management can improve operations by adequately reviewing the daily mail volumes when determining workhours for each carrier's route.

Delivery unit supervisors and managers in two of the assessed districts did not adequately match workhours with workload. From January 1 through May 31, 2005, we identified 127,385 unjustified workhours in these two districts, valued at about \$1.5 million in unrecoverable costs. Management in the two districts agreed with the findings and recommendations. They implemented new procedures and provided training to correct these issues.

We concluded this value proposition agreement with a national capping report. Based on our findings and recommendations, the vice president of Delivery and Retail issued a letter stating that delivery and retail units will officially implement standardized delivery management practices beginning in FY 2006.

A key component of city delivery standardization is the morning standard operating procedures (AM SOP) program and new Delivery and Retail Standard Operating Procedures. These procedures establish standard practices for managing all delivery and retail functions at the unit level and oversight responsibilities at each tier of management above the unit level. We are currently assessing the implementation of the Delivery and Retail Standard Operating Procedures in areas, districts, and delivery and retail units.

OPTIMIZING THE MAIL PROCESSING NETWORK

The Postal Service's mail processing network is one of the largest in the world with 675 facilities, 16,750 highway network routes, and 214,000 vehicles with an operating cost of about \$25 billion annually. To process the mail more efficiently, the Postal Service developed automation equipment to replace some manual handling and reduce costs. During the reporting period, we assessed the Evolutionary Network Development (END) and Area Mail Processing (AMP) initiatives, and the efficiency of Bulk Mail Centers (BMC).

Evolutionary Network Development and Area Mail Processing. The Postal Service recognizes the need for a comprehensive redesign of its vast processing and transportation network. Declines in First-Class Mail volume, increased competition from the private sector, increased automation and mail processing by mailers, and shifts in population demographics have resulted in excess capacity in the Postal Service's mail processing and transportation infrastructure. (In FY 2004, First-Class Mail volume was 5.7 billion pieces below the peak volume in FY 2001.)

The Postal Service's *Strategic Transformation Plan: 2006-2010* calls its overall network redesign END. The goal of END is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service.

The Postal Service had some early successes using an incremental approach to implement network changes. Postal Service accomplishments over the last 6 years include:

- Reducing 187 million workhours, which equates to 90,000 staff years.
- Closing more than 90 mail processing facilities.
- Implementing 14 AMP proposals and conducting more than 60 feasibility studies to consolidate mail processing operations.
- Reducing highway routes covering more than 65 million miles.

Although the Postal Service has made progress, streamlining the network presents many challenges. During this reporting period, we issued a status report on the END initiative that outlined the following challenges:

- Working with stakeholders on network change issues, due to concerns that sometimes arise among the public when the Postal Service consolidates facilities.
- Elevating the END project management framework beyond mail processing.
- Developing plans to ensure proper sequence and integration of END incremental changes.
- Ensuring local network changes are integrated with END.

SUPPORT FOR THE POSTAL SERVICE BOARD OF GOVERNORS AND CAPITAL INVESTMENTS COMMITTEE

The OIG responds to requests for audit work and provides information to support two of its most important stakeholders, the Postal Service Board of Governors (BOG) and the Postal Service's Capital Investments Committee (CIC).

BOG Travel Expenses. We conduct audits in support of the BOG's independent public accountant's overall opinion on the Postal Service's financial statements. The BOG requires annual audits of its travel and miscellaneous expenses and Postal Service Officers' travel and representation expenses. We have audited these expenses since FY 1998, and found they were properly supported and in compliance with Postal Service policies, procedures, and guidelines. During the reporting period, the BOG chairman requested a review of the "Guidelines Relating to Governors' Official Expenses." To address this request, the Postal Service and the OIG formed a review committee. The committee was tasked with reviewing the guidelines relating to governors' official expenses, and making recommendations that will help provide clarification and consistency with other Postal Service policies and federal regulations. The committee anticipates completing its review by May 2006.

Capital Investments. We review all Decision Analysis Reports (DAR) submitted to the CIC, a committee of senior postal executives appointed by the Postmaster General. We conduct these reviews using a two-tiered approach:

For all capital investments less than \$25 million, we provide an overall assessment of the reasonableness of the business case for the capital investment and the adequacy of the supporting information for the DAR.

For all capital investments of \$25 million or greater, we provide an overall assessment of whether the capital project is in the best business interest of the Postal Service, the adequacy and depth of the supporting information for the DAR, and the overall contribution of the capital investment to the Postal Service.

The results and recommendations are shared with the DAR sponsor, Postal Service Headquarters, the CIC, and the BOG, as appropriate.

To date, our assessments and recommendations have been well received, resulting in a more fully informed approval process and improved business processes, and, in one instance, identifying \$2 million that the Postal Service could put to better use. Overall, we found that the capital investments made during the reporting period have been in the best business interest of the Postal Service.

Network changes made through the AMP process are one of the END building blocks. The Postal Service uses this process to consolidate mail processing functions and eliminate excess capacity, increase efficiency, and better use resources. We found the AMP process to be fundamentally sound; however, management of the process and guidance can be improved. We will continue to work closely with the Postal Service as it further transforms its network to increase operational efficiency.

Efficiency of Bulk Mail Centers. The 21 BMCs are highly mechanized mail processing plants where Parcel Post, Standard Mail (advertising mail), and Periodicals are prepared for distribution. We assessed the efficiency of mail processing operations at the Washington, D.C., BMC, and recommended that the Postal Service improve efficiency by reducing 400,000 workhours. These reductions could help avoid costs of about \$118 million over the next 10 years.

IMPROVING TRANSPORTATION

The Postal Service spends more than \$2.7 billion annually for contracted surface transportation to move mail across highway and rail networks nationwide. During the reporting period, we assessed the BMC surface transportation routes and the Mail Transport Equipment Service Centers (MTESC).

Optimization of Bulk Mail Center Surface Transportation Routes. A significant component of the Postal Service's surface transportation network is its BMC network. Bulk mail is less time-sensitive than other mail such as First-Class Mail, and is generally moved over long distances on highway and rail routes.

Between March 2004 and March 2006, we audited BMC surface transportation routes and issued 13 reports, including a summary report. Our nationwide audit included detailed work in all nine Postal Service areas, and involved close cooperation with plant, area, and headquarters transportation officials. We examined



The OIG analyzed more than 500 rail trips from Los Angeles to Atlanta, Greensboro and Jacksonville; and from Minneapolis to Seattle.

about 1,100 highway transportation contracts covering more than 9,500 highway trips, and more than 500 rail trips from Los Angeles to Atlanta, Greensboro and Jacksonville; and from Minneapolis to Seattle.

We concluded that the Postal Service could save about \$40.6 million over the term of affected highway contracts by modifying 430 scheduled highway trips to eliminate trips or reduce trip frequency; or by transporting some mail currently moved by rail in excess space on scheduled highway routes. Transportation costs could be reduced without negatively affecting mail on-time performance as mail volume was low and could be consolidated on other trips.

The area vice presidents agreed with all of our recommendations and generally agreed with our monetary impact assessments. They noted, however, that due to the dynamic nature of the transportation network, the calculation of future savings was imprecise.

Throughout these audits, Postal Service transportation officials took proactive action to rapidly implement transportation reductions. We will continue to work with the Postal Service to evaluate surface transportation routes and identify opportunities to reduce costs. We are currently assessing Processing and Distribution Center (P&DC) transportation routes, and plan to evaluate Postal Service-owned and operated transportation routes.

FINANCIAL STATEMENTS ACCOUNT FOR THE POSTAL SERVICE'S COSTS AND REVENUES

Here is an outline of the Postal Service's financial position and a summary of the financial audits of Postal Service installations we performed in support of the independent accountant's opinion on the financial statements.

Postal Service's Financial Position

The Postal Service achieved remarkable results in FY 2005, realizing a net income of \$1.4 billion. Further, with the equivalent of \$700 million in cost savings, the Postal Service achieved its \$5 billion cost reduction goal, a full year ahead of schedule.

At slightly under \$70 billion, revenues increased \$964 million over FY 2004, but operating expenses increased from \$65.9 billion in FY 2004 to \$68.3 billion in FY 2005. The Postal Service expects revenues to continue to increase during FY 2006, primarily due to the January 2006 postal rate increase. It also expects to limit operating expense increases including cost reductions of \$1.1 billion by eliminating 42 million workhours.

The Postal Service reduced its debt from \$11.3 billion in FY 2001 to \$1.8 billion in FY 2004. Cash flows from operations in FY 2005 enabled the Postal Service to repay all remaining debt, which is the first year since postal reorganization in 1971 that the Postal Service ended the year with no debt obligations outstanding. This resulted in virtually eliminating interest expenses in FY 2005, compared to FY 2001 through 2003, during which the Postal Service paid an average of \$327 million in interest each year.

The Postal Civil Service Retirement System Funding Reform Act of 2003 significantly influences the Postal Service's debt levels. Beginning in FY 2006, the Act requires "cost savings" (the difference between what the Postal Service would have paid without the law and the contributions the Act requires) be held in escrow and not be obligated or spent until otherwise authorized by law. For FY 2006, cash flow from operations will not be sufficient to fund the escrow, estimated at \$3.1 billion, and all capital investments. Therefore, the Postal Service expects to borrow at least \$1 billion to cover the shortfall.

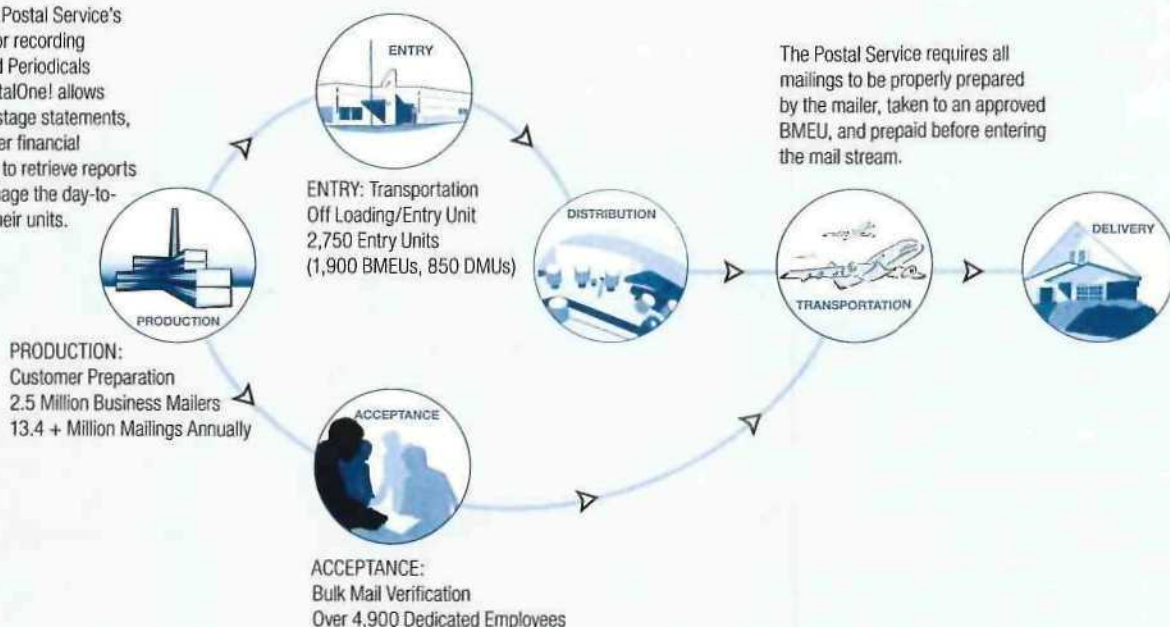
From FY 2004 to FY 2005, the Postal Service reduced the number of career employees from 707,485 to 704,716. However, for the first time in 6 years, workhours increased over the prior year. The 11 million workhour increase was due to the increased workload as a result of two million additional delivery points and six billion additional pieces of mail. Additionally, in FY 2005, workers' compensation expense decreased by approximately \$401 million. The Postal Service stated that this reduction was a result of its ongoing efforts to prevent on-the-job injuries and its joint initiative with the DOL OWCP to increase the number of injured employees returning to work.

This past year, the Postal Service did a commendable job of managing costs. Postal legislation may be close, as the House passed its reform bill in July 2005 and the Senate passed a similar version in February 2006. Each bill includes financial relief from the requirement to place \$3.1 billion in escrow each year and a provision to transfer certain retirement costs back to the Treasury. However, the President has indicated he would veto any proposed legislation that is not budget neutral, while the Postal Service says if Congress passes budget-neutral legislation, this would jeopardize its ability to provide universal service at affordable rates.

BUSINESS MAIL ENTRY PROCESS

Presorting mail is a work-sharing incentive that offers discounted postage rates to customers in exchange for performing a portion of the work associated with the mailing.

PostalOne! is the Postal Service's primary system for recording business mail and Periodicals transactions. PostalOne! allows users to enter postage statements, deposits, and other financial transactions, and to retrieve reports necessary to manage the day-to-day business of their units.



The Postal Service requires all mailings to be properly prepared by the mailer, taken to an approved BMEU, and prepaid before entering the mail stream.

FINANCIAL AUDITS OF POSTAL INSTALLATIONS

Each year, an independent auditor issues an opinion on the Postal Service's financial statements. We conduct financial audits of postal installations to support this opinion. Our audits determine whether financial transactions are reasonably and fairly presented in the accounting records and whether internal controls are in place and effective. This assists in assuring the accuracy and reliability of financial data used by management for decision-making.

To accomplish this, we audit a representative sample of Postal Service installations. Installations include post offices, business mail entry units (BMEU), self-service postal centers (SSPC), contract postal units (CPU), automated postal centers (APC), and stamp distribution offices (SDO). We also observe Postal Service data collectors conducting statistical tests of cost, revenue, and volume data at different district locations.

At management's request, we reviewed the implementation of morning standard operating procedures (AM SOP) at numerous post offices in

FY 2005. In FY 2006, we are evaluating adherence to aviation security procedures at retail locations across the country.

All financial installation audits are unannounced. At the conclusion of each audit, we issue a report to district and local management. At the end of each fiscal year, we issue capping reports to headquarters, summarizing the overall results of the individual audits. In FY 2005, we also issued capping reports to each of the nine Postal Service areas. Over the past 6 years, we issued more than 1,500 field financial audit reports, making significant recommendations for operational improvements at the local level and for systemic issues at the area and headquarters levels.

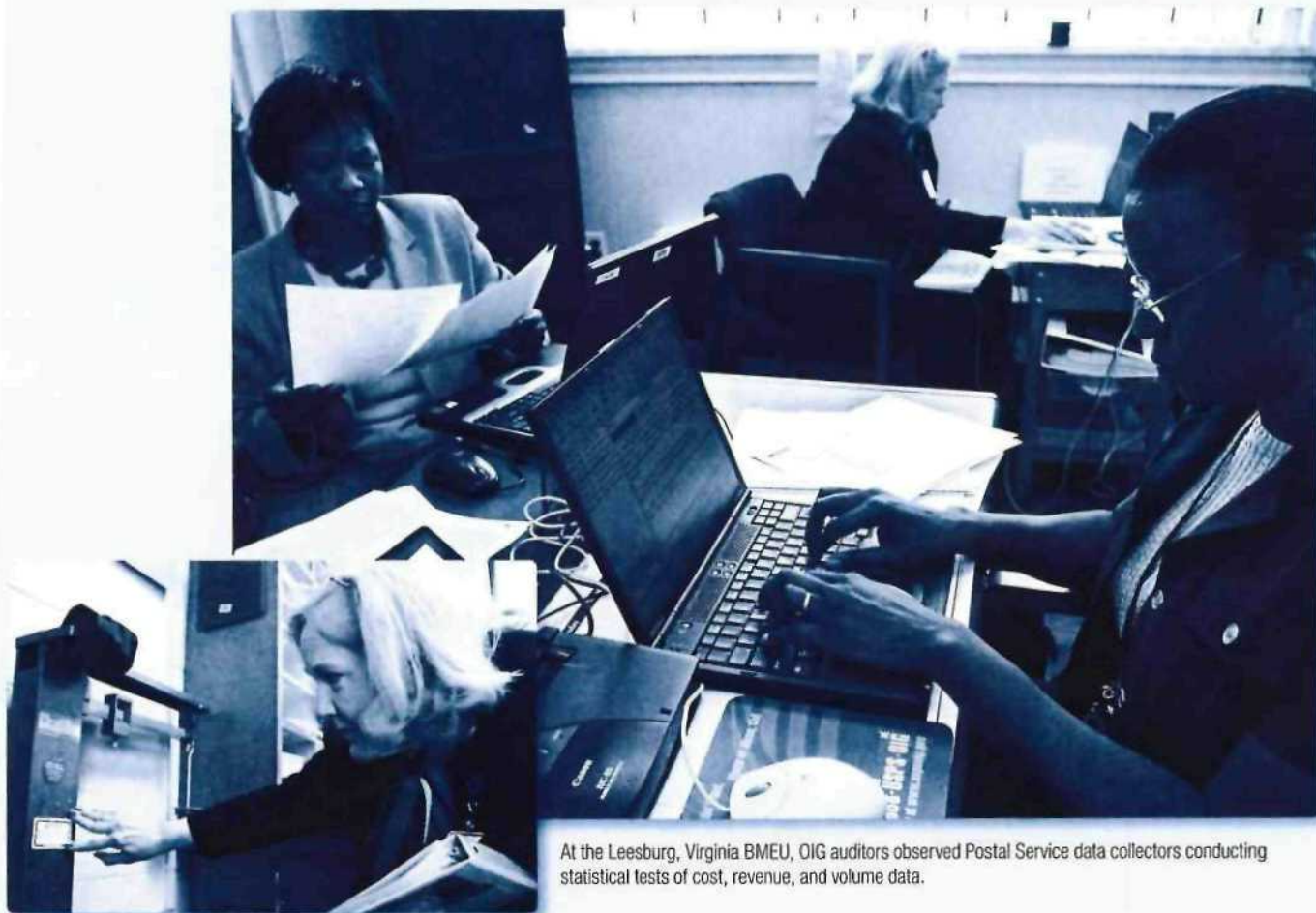
In FY 2005, we issued 205 reports on facilities that generated approximately \$4.9 billion in revenue during the prior fiscal year. In addition, we conducted 20 cost and revenue analysis audits and concluded that the Postal Service generally conducted tests in accordance with prescribed policies and procedures. Overall, we concluded that financial transactions were fairly represented in Postal Service financial systems and internal controls were generally in place and effective at almost all of the units audited. During

the course of our work, we made 49 referrals to our Office of Investigations (OI) when we suspected criminal wrongdoing.

Also during FY 2005, our office and Postal Service management identified several high-risk areas that warranted audits outside the normal scope of financial installation audits. As a result, we conducted five additional projects that resulted in referrals to OI for criminal inquiry and the identification of nearly \$500,000 in questioned costs, including questionable credit card purchases in one district.

Post Offices, Stations, and Branches. Postal Service operations generate revenue at post offices, which include main offices, branches, and stations. During our unannounced audits of statistically selected post offices each year, we conduct counts of all stamps and cash. We also review almost every aspect of the Postal Service's financial operations, including payroll, money orders, post office box services, business reply mail, and expenditures for the month audited.

During FY 2005, we identified control and compliance issues related to cash and stamp accountability; financial accounting and



At the Leesburg, Virginia BMEU, OIG auditors observed Postal Service data collectors conducting statistical tests of cost, revenue, and volume data.

OIG auditors evaluate the Postal Service's mail acceptance and verification procedures through record reviews and observations of mail acceptance.

management; post office boxes and caller service; payroll; and credit cards at 92 statistically selected post offices, branches, and stations.

Business Mail Entry Units. The Postal Service established BMEUs for authorized business mailers to present business mailings in volume. During FY 2005, our audits of 98 BMEUs identified internal control and compliance issues related to customer accounts and eligibility, mail acceptance and verification procedures, special postage payment systems, and revenue protection.

We evaluate the Postal Service's mail acceptance and verification procedures through record reviews and observations of mail acceptance. We also evaluate revenue through our tests of customer payments and account balances. This enables us to provide assurance that BMEUs accurately state their revenue and have effective internal controls.

Cost, Revenue, and Analysis. Annually, the Postal Service prepares a report to aid in determining whether each class of mail bears the direct and indirect cost attributed to each class of mail or service, as required by law. Since Postal Service accounting systems do not provide data by

class and subclass of mail, the Postal Service has developed statistical models to attribute costs. The accuracy of this data is critical to the Postal Service as it is an important component of the rate-making process. To this end, we conduct cost, revenue, and analysis (CRA) audits to determine whether the Postal Service is conducting statistical tests to collect cost, revenue, and volume data in accordance with established policies and procedures. For our FY 2005 CRA audits, we concluded that the Postal Service generally conducted tests of the specific systems observed in accordance with policies and procedures.

Audits of SSPCs, APCs, CPUs, and SDOs. On a yearly rotational basis, we conduct audits of SSPCs, APCs, CPUs, and SDOs. These audits consist primarily of counts of stamps and cash, and reviews of internal controls.


SSPCs are unstaffed Postal Service vending machines that provide postage stamps and other retail products and services. Machines can be located in either Postal Service facilities or nonpostal sites such as shopping malls, large office buildings, or housing complexes.

APCs are customer-friendly kiosks where customers can ship packages, buy stamps, and verify ZIP Codes.

CPUs are contractor-owned and operated facilities, under contract to the Postal Service. They provide certain 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.

SDOs receive and ship stamps, Postal Service stationery, philatelic products, and money orders. They also provide stamps and stamp products for all post offices, branches, and stations within their service area.

Our FY 2005 audits of five SSPC and 10 APC units identified internal control and compliance issues related to cash and stamp accountabilities, security, vending financial accounting and reporting, APC refunds, and spoiled variable rate labels. We're conducting audits of CPUs in FY 2006 and SDOs in FY 2007.



Mail Transport Equipment Service Center Network. We evaluated whether opportunities exist for the Postal Service to save money by reducing the number of highway round-trips originating at the San Francisco and Memphis MTESCs. We also assessed whether management complied with the Postal Service's over-the-road (OTR) container processing policy.

We concluded that the Postal Service could save approximately \$1.8 million over the term of existing contracts by canceling, not renewing, or modifying 102 round-trips, and by stopping the inappropriate shipment of serviceable OTR containers to the MTESC. The Postal Service could eliminate the trips without affecting customer service by consolidating loads to better utilize trailer capacity. The Postal Service generally agreed with our findings and recommendations.

MAXIMIZING THE COST-EFFECTIVENESS OF CONTRACTS

We issued 17 contract-related audits during the reporting period. Specifically, we evaluated cost proposals associated with the Dual Collection Bio-Hazard Detection System, maintenance of deployed bio-hazard detection system equipment, and the Remote Encoding System.

We also performed financial risk assessments, verified incurred costs, audited a termination proposal, and reviewed estimating practices and an accounting system. We identified a potential contract savings of \$10 million that includes a review of a \$44 million firm fixed-price proposal, with a \$5 million option for the Remote Encoding System. The audit disclosed more than \$7 million in questioned costs, consisting primarily of labor, subcontract, and cooperative agreement independent research and development costs. Also included in the \$10 million potential contract savings were reviews of firm fixed price proposals totaling approximately \$39 million, along with a \$1 million termination for convenience proposal. These audits disclosed almost \$3 million in questioned costs, consisting primarily of material, direct labor, overhead, and inventory costs.

GENERATE REVENUE

A major challenge facing the Postal Service is increasing revenue while streamlining core services, controlling costs, and providing greater value to its customers. In doing so, the Postal Service must provide high-quality customer service along with greater efficiency.

The Postal Service's strategy to generate revenue is fostering growth through customer value. It plans to create more customer value in core products and services. This will increase mail volume and revenue to continue financing universal service and the growing delivery network. Customer value is defined as increased product utility, improved ease of use and access, and more reliable, predictable performance at affordable prices.

The Postal Service has identified opportunities to provide greater customer value and increase revenue through various innovations. These include:

- Worksharing, where mailers (or mailer agents) do part of the work the Postal Service would normally perform.
- Click-N-Ship, which allows customers to print and pay for labels using their home or business computer and printer. Coupled with Carrier Pickup, customers can schedule online, free next-day pick up of packages at their homes or businesses.
- Customized MarketMail, which offers direct mailers the opportunity to capture a target audience by permitting advertising mail to be any shape and virtually any material.

We believe opportunities exist to increase revenue with hybrid mail services and the PC Postage program. We further believe the Postal Service could do more to ensure it is accurately collecting,

recording, and reporting all revenue; and strengthening internal controls to minimize risks relating to financial transactions.

Hybrid Mail Services. Hybrid mail services combine electronically-generated mail with hard-copy mail for delivery by the Postal Service. For each hybrid service, the Postal Service has revenue-sharing agreements with partner companies that provide the hard-copy production of customers' orders, and share an agreed-upon percentage of the production revenue from those orders with the Postal Service. The Postal Service also receives all postage revenue from these transactions.

We reviewed three hybrid services programs: Netpost CardStore, Netpost Premium Postcards, and Netpost Mailing Online. Our audit found that controls were not adequate to track revenue from hybrid services revenue-sharing agreements. Specifically, the Postal Service could not validate the amount of production or postage revenue the hybrid services business partners submitted. We recommended that the Product Management group, which manages hybrid services, work with a group such as the Marketing Technology and Channel Management group or a third-party contractor to generate test transactions for each of the hybrid services. We also recommended that management determine the feasibility of each hybrid services partner establishing a mailing permit strictly for hybrid services mailings. Management agreed with our recommendations.



PC Postage. PC Postage is a trademark of the Postal Service for products developed by commercial vendors that allow customers to print postage from personal computers. Customers can print postage onto envelopes, labels, and documents such as self-mailers. The Postal Service Postage Technology Management (PTM) office manages the PC Postage program.

We audited the PC Postage refund review process and found that it was effective and efficient overall. However, the PTM could improve its statistical sampling when reviewing refund requests, and update requirements for access to providers' physical and electronic records. Security and access controls over the

storage and destruction of non-dated indicia at one PC Postage provider were inadequate. We also found that although the Postal Service National Meter Accounting and Tracking System can verify that a customer account is closed and a requested refund amount is correct, it cannot determine whether a reimbursement was previously paid for the account. Management agreed with our recommendations.



Customers can print postage onto envelopes, labels, and documents such as self-mailers.

ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED PERFORMANCE-BASED CULTURE

Maximizing human capital resources by maintaining an efficient workforce is the Postal Service's keystone to capitalizing on performance and productivity. The Postal Service had a productive year last year despite facing some major challenges. As outlined in its *2005 USPS Annual Report*, efficiency continued on an upward swing, with an unprecedented sixth consecutive year of growth in total factor productivity (TFP), which is the equivalent of more than \$700 million in cost savings.

To achieve results with a customer-focused performance-based culture, the Postal Service plans to engage and motivate the workforce. It is focusing on four critical human resource strategies: engaging employees, developing and managing talent, establishing and maintaining market-based compensation, and managing complement to assure flexibility.

We extensively reviewed the effectiveness of the Postal Service during times of disaster, including the impact of Hurricane Katrina. We also assessed the Postal Service's ability to resolve workforce and workplace issues, such as ensuring employee safety and addressing health insurance premium and workers' compensation program issues.

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. These incidents led to a renewed emphasis on developing initiatives to more effectively secure the nation's mail system. By focusing on key vulnerabilities, our audits have shown how the Postal Service can 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 Integrated Emergency Management Plans (IEMPs) and Dangerous Mail 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. For the latest 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 an extensive body of work on this issue. We also conducted work related to Hurricane Rita.

As part of the PCIE task force effort, we reviewed the Postal Service's actions to safeguard employees before Hurricane Katrina made landfall in the four affected districts: Alabama, Louisiana, Mississippi, and North Florida, where Katrina was predicted to significantly impact hundreds of Postal Service facilities and thousands of employees. We concluded that the Postal Service took appropriate actions per the IEMPs and supplemental hurricane plans related to effective notification of employees.

TFP DEFINED

The Postal Service defines Total Factor Productivity (TFP) as a ratio of the workload to resources used. Workload includes the number and type of delivery points, and mail volume adjusted for weight, size, level of mailer preparation, and mode of transportation. Resources include labor, equipment, facilities, and transportation costs. The assessment is conducted by an independent firm, using audited postal financial data.



Further, under extraordinarily difficult circumstances, the Postal Service moved the mail, assessed damage to the mail processing network, and quickly reestablished mail processing operations in the Gulf Coast region. To maintain mail processing operations impacted by the hurricane, the Postal Service:

- Implemented continuity of operations plans.
- Performed additional work to process mail in advance of the storm.
- Moved First-Class Mail processing operations to contingency sites.
- Placed an embargo on the acceptance of Standard Mail destined for the New Orleans area.
- Established temporary mail processing facilities.

- Processed more than 500,000 Change-of-Address forms for customers displaced by the storm.

We are currently evaluating Postal Service actions taken to locate and account for employees after Hurricane Katrina made landfall.

National Change of Address. The National Change of Address (COA) process provides a way for customers to change their address using a Postal Service form, the Internet, or the telephone. While we were conducting an application control review of this process, Hurricane Katrina hit the Gulf Coast. As a result of the displacement of more than one million customers, the workload for all types of COAs increased. From September 1 to November 15, 2005, the number of COAs processed from hurricane-affected ZIP Codes nearly tripled, compared to the same period in the previous year.



UNITED STATES POSTAL SERVICE

Official Change of Address Kit
Please take one per address change. See instructions for details.

May - August 2005
Pub. 75 Vol. 34
MG-39

U.S. MAIL

NOW! **CHANGE YOUR ADDRESS ONLINE!**

- ◊ Instant Address Validation
- ◊ Secure & Private
- ◊ Email Confirmation

USPS.com

Printed at no cost to the U.S. Postal Service or its customers

EXPIRES: August 31, 2005

The National Change of Address process provides a way for customers to change their address using a Postal Service form, the Internet, or the telephone.

Postal Service officials responded to this crisis by creating new procedures to redirect mail to affected customers. We assessed these procedures to ensure displaced customers received their mail in a timely manner. We are coordinating with the Postal Service to ensure that they incorporate these procedures into a formal policy, such as the IEMP, to provide improved guidance to Postal Service officials in responding to future disasters.

In addition, the Postal Service Information Technology department addressed customer issues by implementing a waiver on the use of credit card validation and modified both the Internet and intranet websites to quickly provide pertinent information to both employees and customers.

Overall, we concluded that the Postal Service quickly and effectively responded to Hurricanes Katrina and Rita under extraordinarily difficult circumstances. Its Office of Emergency Preparedness developed procedures to better manage incidents, implement protective measures, and integrate processes. The Postal Service relied on lessons learned from previous hurricanes; took actions consistent with the IEMP; safeguarded employees; assessed damages and reestablished facilities, mail processing and transportation logistics networks; and assessed costs for environmental assessments and cleanup.

While we concluded the Postal Service did a commendable job of maintaining and reestablishing mail processing operations in the immediate aftermath of the hurricanes, we also identified several issues that could improve the Postal Service's preparedness and response to future disasters. These include improving the coordination of internal communications, establishing contingency sites outside the hurricane zone, and ensuring

back-up power availability at Postal Service facilities.

Although management disagreed with the recommendations as stated, we considered their comments as responsive to our recommendations.

Employee Safety. The Postal Service has worked to improve both safety and the workplace environment, while focusing employee development and compensation programs on achieving performance objectives.

We reviewed the extent to which the North Texas P&DC identified root causes and implemented prevention programs for accidents and Occupational Safety and Health Administration (OSHA) injuries and illnesses (I&Is) that occurred most often in the facility. We concluded that they identified and documented the root causes for most of the FY 2003 accidents and OSHA I&Is. In addition, we found a new hazard in the loading dock area and determined that some hazardous conditions previously identified in a safety inspection had reoccurred. Management took corrective actions on all the conditions we identified.

Employer Health Insurance for Annuitants. Acting on information provided by Postal Service management, we reviewed the adequacy of internal controls over administration of the Postal Service's share of health insurance premiums paid for about 444,000 retirees and survivors, and the accuracy of amounts paid for those premiums, which totaled \$1.5 billion in FY 2005.

We coordinated with the Office of Personnel Management (OPM) and determined that internal controls need improvement and that OPM billed the Postal Service \$3.1 million for 70 individuals who were, in fact, not Postal Service retirees. Our

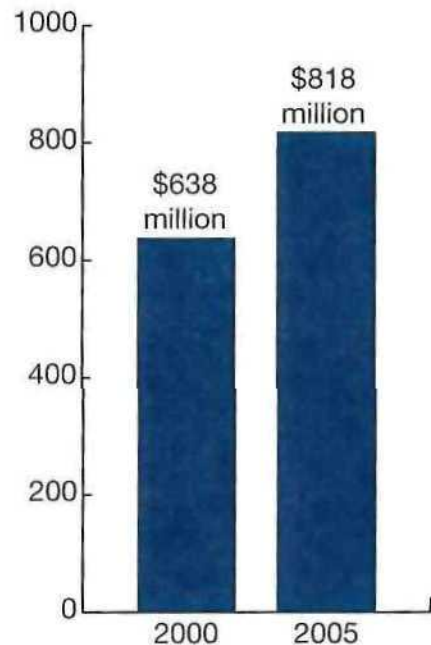
calculation represents average annual payments from June 1994 through August 2005, which was the average duration of health benefits paid for those individuals.

As a result, OPM credited the November 2005 billing for the overpaid amount. Additionally, OPM discontinued billing for those individuals for an estimated future cost avoidance of \$3.5 million over the next 10 years. Although management did not agree with the future cost avoidance identified, they did agree with the intent of the finding and will enhance their controls to closely monitor the exception report from OPM and resolve any differences.

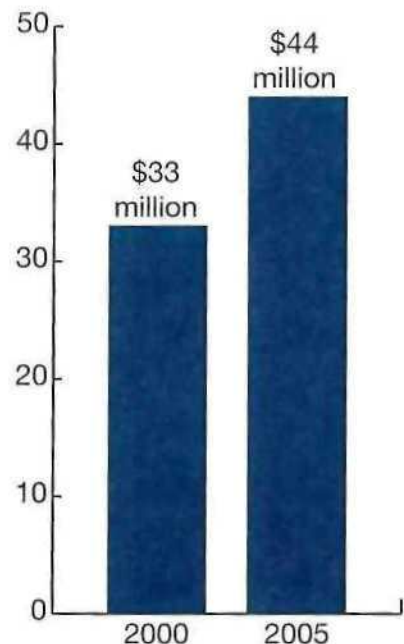
Workers' Compensation Programs. A significant cost impacting the Postal Service is workers' compensation expenses for injured workers. Although the Postal Service has taken positive steps that reduced annual workers' compensation expenses over the past 2 years, cash outlays have increased from \$666 million in 2000 to \$840 million in 2005 (approximately 26 percent).

The sheer size of the bargaining unit workforce and nature of work performed are the primary factors that made the Postal Service the largest participant in the Department of Labor's (DOL's) Office of Workers' Compensation Programs (OWCP) in 2005. The Postal Service represented about 46 percent of total federal workforce cases and continued to be the largest payer. At the same time, administrative fees OWCP charged to the Postal Service increased from \$33 million in 2000 to \$44 million in 2005 (33 percent increase). These fees represent about five percent of the Postal Service's total medical and compensation costs.

In a private business, this would not be as problematic as it is for the Postal Service because the business could choose to



Cost of workers' compensation for injured workers.



Administrative fees OWCP charged to the Postal Service.

change administrative providers. However, unlike private businesses, the Postal Service does not have flexibility due to law that binds it to the DOL.

We evaluated whether the Postal Service could replace its current workers' compensation program, currently administered by the DOL OWCP, with a less costly one.

Our review found that on the positive side, savings would most likely occur if the Postal Service had its own workers' compensation program. These savings would be in the areas of continuation of pay (COP) elimination and a 3-day waiting period, reduced OWCP administrative fees and Postal Service third-party administrators, physician selection, buyout options, mandatory retirements, compensation limits and dependency status, and accountability controls.

Challenges to replacing the current OWCP program include potential resistance by the Postal Service's four major employee unions if workers' compensation benefits are reduced. Also, legislative action would be needed to separate the Postal Service from the existing OWCP.

Additionally, we issued a supplement to a previously issued report that included recommendations to OWCP management to improve its schedule awards program.

The report used a statistical sample to project that in chargeback year 2004, the Postal Service was overcharged nearly \$250,000 and undercharged about \$240,000 for schedule awards in the Pacific Area. Schedule award compensation is payable to employees based on the severity of the impairment for the partial loss or loss of use of certain members, organs, or functions of the body as a result of an OWCP-accepted injury.

The overcharges represent about 1.2 percent of the \$20.6 million paid to Postal Service employees in chargeback year 2004 in the Pacific Area. Further, these charges indicate that OWCP over- and underpaid four percent of the Pacific Area employees who received schedule award payments.

An initiative led by the Postal Service resulted in a review of more than \$173 million in medical billings to OWCP from January 1, 2000, through February 28, 2006. This initiative uses a database we developed to help identify potentially fraudulent billing schemes.

Since it began in July 2003, the Postal Service has discovered more than \$3.5 million in duplicate medical payments, of which \$527,000 was credited back to the Postal Service by OWCP as of March 2006. During the first two quarters of FY 2006, the Postal Service identified more than \$1 million in duplicate payments from the previous billing period of FYs 2001 through 2004. DOL is not required to reimburse agencies for the administrative fees they charge to process duplicate payments, rendering \$176,000 (about five percent of the duplicate payment amount) unrecoverable for the Postal Service.





IMPROVE SERVICE

The Postal Service's strategy to improve service is to provide timely, reliable delivery, and improved customer service across all access points. It plans to improve the quality of postal services by focusing on the end-to-end service performance of all mail, and ensuring that postal products and services meet customer expectations by being responsive, consistent, and easy to use. However, improving service is a significant concern for the Postal Service while it simultaneously works to cut costs. Our work in this area is aimed at helping the Postal Service improve operational efficiencies related to customer service.

Area Mail Processing Consolidations.

In conjunction with END, the Postal Service seeks to improve mail processing efficiency and service using AMP consolidations. It is conducting a system-wide review of mail processing and transportation operations over the next several years. In support of this effort, we are conducting a series of audits to examine the justification and impact of selected AMPs approved for implementation in FY 2006. In addition, we plan to assess whether projected improvements in efficiency or service were achieved from an AMP consolidation implemented in FY 2004. As part of these reviews, we will evaluate the service implications associated with these consolidations.

Address Management System & Delivery Point Sequencing.

The Postal Service spends more than \$1 billion annually to handle undeliverable mail. Incorrect address information increases mail processing operating costs and adversely impacts customer service due to the diminished value of information for business mailers. Over the years, the Postal Service has strived for the highest quality address information for internal use and for its customers, in part because the use of correct and complete address information can reduce costs and improve service. As it processes increasing volumes of mail on automated equipment, the quality of address information takes on new importance.

In March 1993, the Postal Service implemented delivery point sequencing (DPS) to reduce manual mail sorting, improve efficiency, and reduce costs. In 1994, it established the Address Management System (AMS) to capture, correct, and complete address information. AMS enhances the efficiency of mail processing and delivery through automation. Address information in AMS is captured in sorting programs used to process mail in DPS. Mail that cannot be processed on automated equipment requires manual processing, which is more costly to the Postal Service.

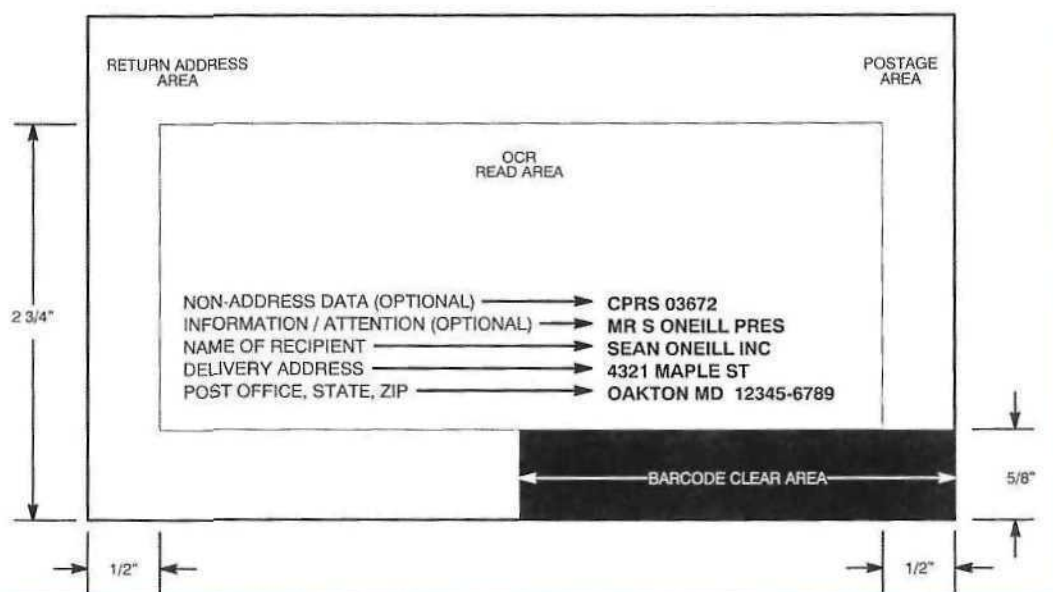
In the Southwest Area, Rio Grande District we assessed the Postal Service's management of AMS quality street review results to ensure address information is correct and complete. The street reviews include:

- Identifying all possible delivery addresses included in Address Information System products.
- Validating the number of possible delivery addresses assigned to each carrier route.

- Validating the correct delivery sequence for each carrier route.
- Assigning ZIP+4 Codes to maximize compatibility with automated equipment.

Our assessment found Postal Service officials can implement best practices from other locations to improve the quality of their AMS data. Since street reviews were not conducted for all routes, more than 106,000 AMS data errors may exist in the district reviewed. We found that the Rio Grande District could incur processing and delivery costs of \$988,945 over the next 10 years because of remaining AMS errors. Management agreed with our findings and recommendations that could result in \$988,945 in funds put to better use.

We plan to expand our review to assess the Postal Service's management of AMS quality street review results nationwide.



As the Postal Service continues processing increasing volumes of mail on automated equipment, the quality of address information takes on new importance in reducing costs and improving service.

PRESERVING INTEGRITY AND SECURITY

The integrity of Postal Service processes and personnel is an essential element for ensuring the safety of its products, customers, services, and assets. Ultimately, this integrity helps to maintain a stable and sound Postal Service.

INVESTIGATIVE ACTIVITIES

In addition to the many administrative and management safety measures already in place, the OIG and the U.S. Postal Inspection Service (USPIS) work to safeguard the Postal Service. These two law enforcement agencies are responsible for investigating criminal, civil, and administrative matters related to the Postal Service. The OIG's mandate is to investigate contract fraud and employee misconduct. Some results of the OIG's investigative efforts are highlighted here.

The OIG also embarked on an initiative to analyze trends and root causes of employee misconduct and fraud across the Postal Service. This ongoing analysis will help management at all levels develop actionable countermeasures for these vulnerabilities. The ability to identify trends will also assist the OIG with the efficient distribution of its own resources.

Acquisitions and Contract Fraud. The Postal Service was responsible for active contracts totaling more than \$25 billion to date in FY 2006. To assess the Postal Service's management of acquisitions and contracts, we continue to aggressively investigate allegations of contract improprieties.

In one continuing investigation involving transportation services, an owner of various trucking companies fraudulently received approximately \$1.5 million in fuel rebates from petroleum companies and kept them for his personal use. In January 2006, the owner pleaded guilty in U.S. District Court to five counts of making false statements, embezzlement, theft, defrauding the IRS, and making false statements to the IRS. In the same

month, the Postal Service sent letters to several postal highway transportation contractors associated with this investigation and notified them of their immediate suspensions and proposed debarment.

In another case, a contractor supporting a highway contract route fraudulently claimed \$120,468 from the Postal Service for services he did not provide. A federal court charged the contractor with one count of false claims in January 2006.

In an investigation involving services to the Postal Service, the OIG identified a contractor who fraudulently claimed to dispose of hazardous material. In March 2006, a federal grand jury indicted the chief manager of the company. The indictment charges the manager with making false statements, obstruction of justice, and improper storage of hazardous waste. The Postal Service Accounts Payable Accounting and Reporting System (APARS) disclosed more than 20 payments to the company for recycling materials between October 1998 and October 2003. The manager faces up to 40 years in prison and a \$1.25 million fine, if found guilty on all counts.

An investigation of a construction contractor determined the contractor falsely certified payments to its subcontractor and completed construction work when in fact it had not done either. In November 2005, a default judgment of \$175,630 was filed in U.S. District Court against the company, the president, and the secretary. This judgment follows a civil complaint filed in September 2005 against the same three defendants under the False Claims Act.

IMPAC and Voyager Fleet Cards. In addition to acquiring goods and services through contracts, the Postal Service uses International Merchant Purchase Authorization Cards (IMPAC) and Voyager Fleet Cards. The IMPAC Program processed transactions totaling approximately \$99 million in Quarter 1 of FY 2006 and earned the Postal Service approximately \$600,000 in refunds during that time. The Voyager Fleet Card Program — which pays for the fuel, oil, repair, maintenance, and washing of more than 220,000 Postal Service vehicles — processed more than \$181 million, through Quarter II of FY 2006, with documented savings and cost avoidance to the Postal Service of almost \$15 million.

Our investigation in this area involved a Post Office Operations Manager's (POOM's) secretary who misused her IMPAC to purchase more than \$15,000 in gift cards for her personal use. She concealed her theft of gift cards by altering official records, including forging her supervisor's approval for requisitions and monthly statements. The POOM's secretary resigned in December 2005 and was

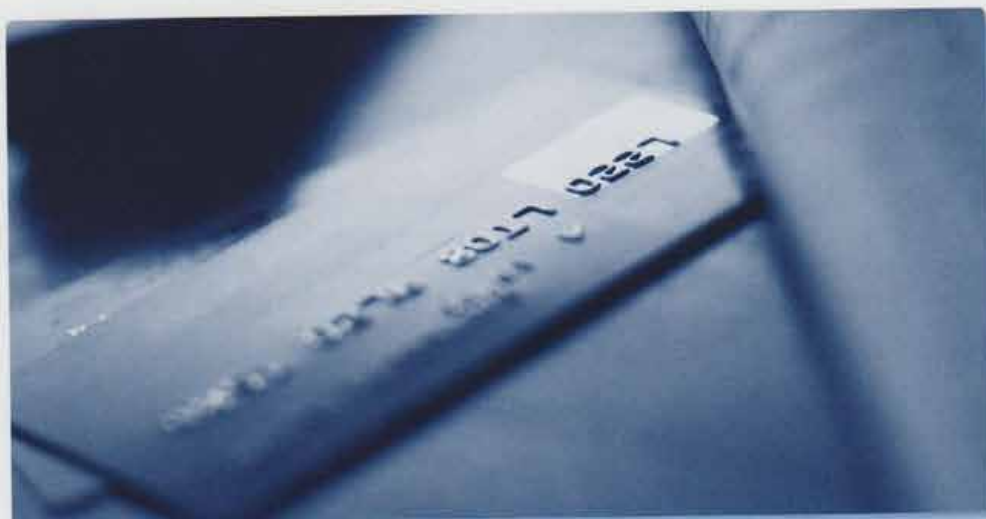
indicted for theft by a federal grand jury in February 2006.

In another investigation conducted jointly with the USPIS and the New York City Police Department, agents identified a letter carrier and two non-Postal Service employees who used Voyager credit cards to make unauthorized purchases of approximately \$10,000 in automobile fuel for their personal automobiles. In October 2005, all three individuals pleaded guilty to embezzlement in federal court.

FINANCIAL INVESTIGATIONS

Financial investigations cover a wide range of activity, including embezzlement, theft, misconduct, falsification of records, and conversion and misuse of Postal Service property. These investigations frequently involve employees and contractors.

In one significant case, we investigated a senior postal official after receiving allegations of questionable travel charges. Our special agents determined the official had not complied with Postal Service guide-



The IMPAC Program processed transactions totaling approximately \$99 million in the first quarter of FY 2006 and earned the Postal Service approximately \$600 thousand in refunds during that time period.



Since its inception nearly 10 years ago, the OIG's Hotline staff has received more than 200,000 calls.

lines and the investigation eventually led to the individual's resignation.

In another case, special agents worked jointly with postal inspectors to investigate a station manager who was issuing money orders to himself and falsely claiming that the money orders were refunded to customers. In October 2005, the manager was sentenced in U.S. District Court to 18 months incarceration and ordered to pay more than \$162,000 in restitution.

Finally, we investigated a self-service postal center (SSPC) technician who stole more than \$580,000 over a 13-year period from various vending machines under his responsibility. In December 2005, the technician pleaded guilty to a one-count criminal information charging him with misappropriation of postal funds.

FRAUDULENT WORKERS' COMPENSATION

The Postal Service is one of the largest participants in the Federal Employees' Compensation Program and paid \$456 million in compensation from July 1, 2005, through December 31, 2005.

Of this amount, \$167 million was for medical payments to providers, and \$289 million was for compensation to claimants and beneficiaries. Administered by the DOL, OWCP provides direct compensation to providers, claimants, and beneficiaries. The Postal Service later reimburses OWCP in a process known as charge-back billing.

During this reporting period, healthcare fraud investigations resulted in more than \$57 million in cost avoidance and approximately 299 administrative personnel actions, including removals, letters of warning, and claim terminations.

In April 2005, we formed the first-ever Federal Worker's Compensation Forum to reduce workers' compensation costs and combat fraud related to the Federal Employees' Compensation program. To date, 18 other OIGs have agreed to participate. These participating agencies annually spend more than \$2 billion in OWCP benefits, a total that accounts for nearly 90 percent of all government OWCP costs.

SECURITY

Because of the terrorist attacks in September 2001, the federal government began focusing attention on improving the safety and security of our nation's critical infrastructures. Due to its sheer size and geographic dispersion, securing the nation's mail system is a significant challenge. However, through innovation and focus on key vulnerabilities, the Postal Service has made significant strides toward protecting the integrity of the mailstream and making its systems safer and more secure.

The OIG and USPIA are continuing to work in partnership in order to ensure effective investigative results and assist the Postal Service in addressing its management challenge of securing the nation's mail system.

SECURITY AND CONTROLS IN TECHNOLOGY INVESTMENTS

We perform reviews of information systems general controls to support the annual financial statement audit, and to assess the security and controls on data in those systems.

FY 2005 Information Systems General Controls. During the reporting period, we confirmed that general controls over systems, data, and computer-related infrastructure at the Information Technology and Accounting Service Centers (ITASCs) provided reasonable assurance that data were complete, secure, and validated for accuracy; data integrity was provided; and business practices complied with Postal Service policies, procedures, and standards.

However, we found that management needs additional controls and actions in the areas of accessing mainframe resources, granting Unix System Services access privileges, managing mainframe

accounts, managing and monitoring capital and sensitive equipment, timely repairing surveillance equipment, monitoring and updating badge access systems, using badges properly, and interfacing mainframe telecommunications and software security products. Additionally, a theme common to four of the six reports was access to critical mainframe systems not being disabled or modified as necessary when employees changed job duties within the Postal Service. As a result of our audit work, Postal Service management corrected these issues or targeted them for priority resolution.

Data Communications Controls. We reviewed five data communications software products to determine if management adequately implemented controls over the software. The Postal Service uses these communications software products to format, manage, and move data, files and programs across its networks. Some of these products contain their own internal security controls, which depend on or supplement mainframe security. It is important that management control these products because of their powerful privileges.

Overall, controls over data communications software were in place at the ITASCs and functioning in accordance with Postal Service procedures. For example, mainframe security rules restricted access to important software resources, including some commands. Furthermore, data center procedures enforced segregation of duties and effectively granted appropriate access to programs and files.

We made four recommendations to management to improve the security interface between mainframe telecommunications and security software products, which included reviewing and updating security configurations and tables. Management

agreed with all recommendations and is in the process of correcting the issues.

Automated Postal Center Kiosks. In April 2004, the Postal Service began deploying APCs. These self-service kiosks offer Postal Service customers a broad range of products, services, and information through a smart vending platform that is available 24 hours-a-day, 7 days-a-week. The 2,500 APC kiosks generated more than \$283 million in total revenue during FY 2005, and appear to be popular with consumers.

We assessed whether customer data and information resources related to APC systems were protected from unauthorized use. Our audit gathered data from selected kiosks and conducted security scans of selected servers on-site at the vendor laboratory. Our analysis of data collected during transmissions of payment card authorization requests and approvals, periodic sales activity, and end-of-day closeouts confirmed that the Postal Service adequately secured sensitive debit and credit card information during transmission. However, we identified a number of areas where management could improve security over APC kiosks, servers, and the storage of sensitive customer data.

The findings and recommendations in two subsequent reports provide the Postal Service with the information necessary to:

- Reduce the risk of potential misuse of their information resources and customer data.
- Help ensure the security of the APC system.
- Improve the management of limited resources.
- Improve compliance with the provisions of their security and record management requirements, as well as their obligations as a participant in the debit/credit card industry.
- Strengthen security over customer data and information resources related to these conditions on APC systems.

Management agreed with all of our recommendations.

Postal Inspection Service Oversight.

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

As a support function to USPIS, the Security Investigation Service Center (SISC) and the Human Resources Service Center (HRSC) were generally effective in supporting USPIS's mission. However, for the SISC, 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 mail loss and rifling complaints. Also, the USPS could increase HRSC operational efficiencies and further assist the Postal Service with its goals to manage cost and improve productivity. Specifically, Postal Service and USPS officials could realize a cost savings of approximately \$14.4 million over the next 10 years by transitioning USPS's personnel-related transactions to the Postal Service Human Resources Shared Service Center, or another feasible alternative.

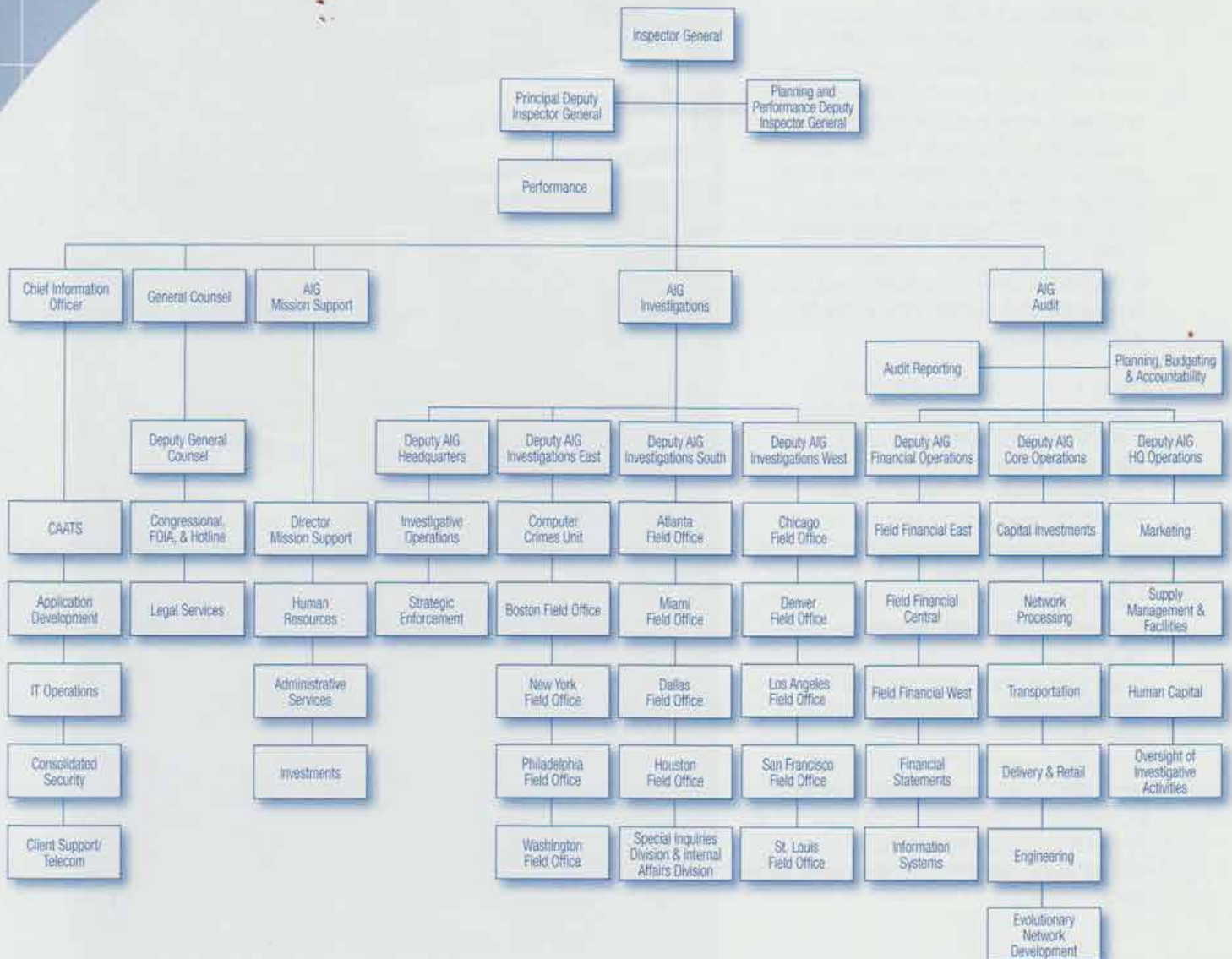
Using a facility risk-rating model, the USPS implemented several initiatives to identify potential vulnerabilities of Postal Service facilities through security reviews and observation of mail processing conditions. In coordination with the USPS, we plan to assess security programs and report on the effectiveness of security in place for facilities, employees, customers, and mail. Additionally, we will continue reviewing new initiatives for detection and protection systems and the development, implementation, and coordination of emergency preparedness plans. We are currently reviewing the Postal Service's and USPS's emergency management policies and training efforts to ensure that they are adequate and follow Department of Homeland Security and executive guidance.



The Postal Service's 2,500 Automated Postal Center kiosks generated more than \$283 million in total revenue during FY 2005.

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

As of March 31, 2006

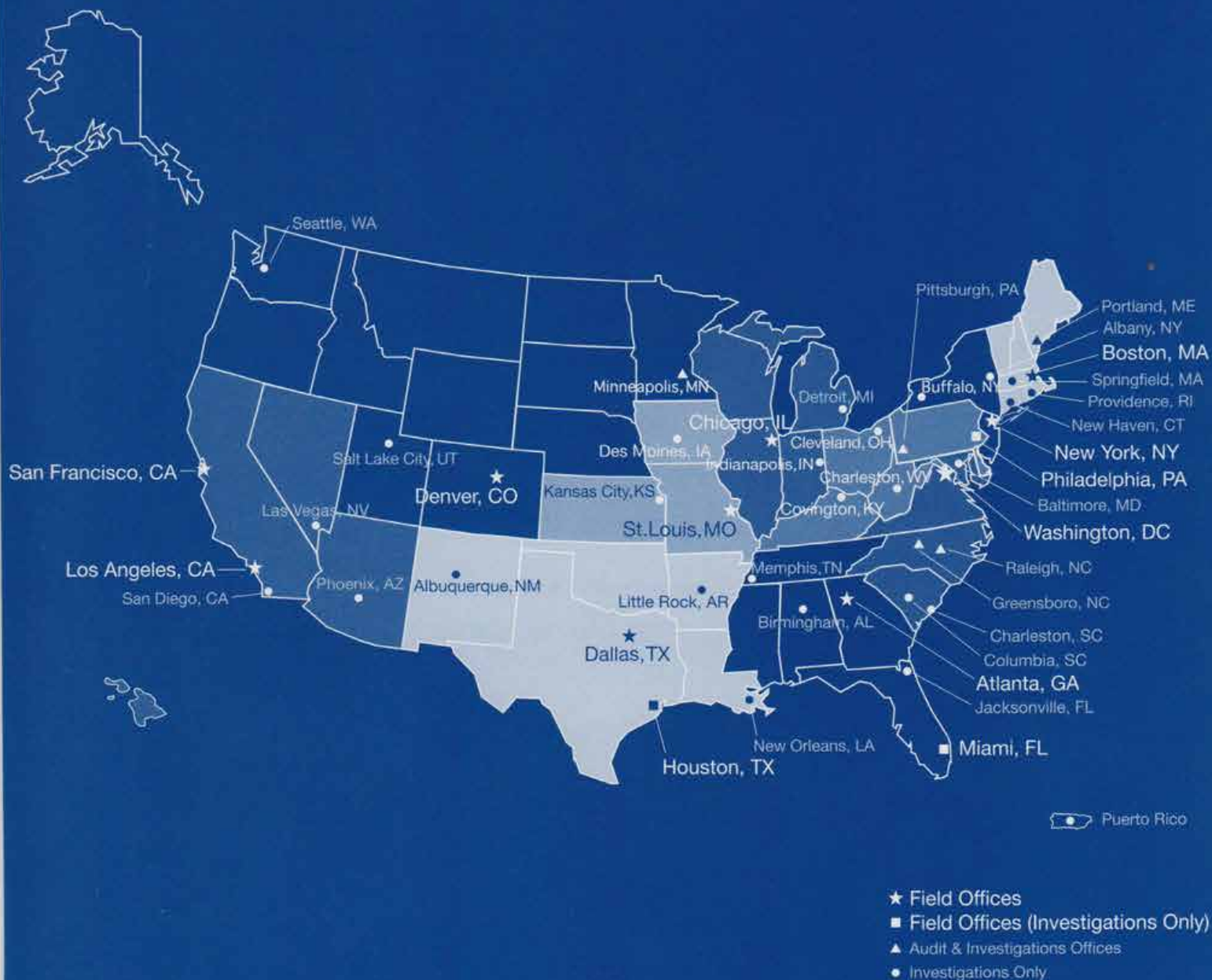


Abbreviations

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 850 employees located in 13 field offices as well as other locations nationwide.



APPENDICES

The Inspector General Act of 1978 requires semiannual reports on the immediately preceding six-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 six months, the Postal Service agreed with OIG recommendations that identified potential monetary benefits of more than \$216 million.

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

Appendix A

DEFINITIONS

QUESTIONED COSTS

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

UNSUPPORTED COSTS

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

FUNDS PUT TO BETTER USE

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

IMPACT REVENUE

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 October 1, 2005 — March 31, 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 Goals	Number of Reports Issued	Questioned Costs	Unsupported Costs	Funds Put to Better Use	Revenue Impact
Achieve Results with a Customer-Focused Performance-Based Culture	17	\$6,185,103	—	\$21,300,000	—
Generate Revenue	5	\$102,000	—	\$1,121,794	—
Improve Service	8	—	—	\$988,945	—
Reduce Costs	170	\$16,211,069	\$404,472	\$127,541,153	\$2,579,000
Total	200	\$22,498,172	\$404,472	\$150,951,892	\$2,579,000

Reports With Quantifiable Potential Monetary Benefits

Report Title	Questioned Costs	Unsupported Costs	Funds Put to Better Use	Revenue Impact
ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED PERFORMANCE-BASED CULTURE				
ENGINEERING				
Flat Recognition Improvement Program DA-AR-06-002; 1/25/2006	\$6,185,103	-	-	-
Oversight of Investigative Activities				
Postal Inspection Service Human Resources Service Center SA-AR-06-001; 3/30/2006	-	-	\$21,300,000	-
GENERATE REVENUE				
MARKETING				
PC Postage Refund Review MS-AR-06-002; 3/31/2006	\$102,000	-	-	-
NETWORK OPERATIONS - PROCESSING				
Efficiency of the Chicago Airmail Records Unit at the J.T. Weeker International Service Center NO-AR-06-002; 12/22/2005	-	-	\$1,121,794	-
IMPROVE SERVICE				
DELIVERY AND RETAIL				
Address Management System - Southwest Area, Rio Grande District DR-AR-06-001; 1/25/2006	-	-	\$988,945	-
REDUCE COSTS				
DELIVERY AND RETAIL				
City Letter Carrier Operations - Detroit District DR-AR-06-002; 2/8/2006	\$723,586	-	-	-
City Letter Carrier Operations - Greater Indiana District DR-AR-06-003; 3/28/2006	\$765,487	-	-	-
FIELD FINANCIAL				
IMPAC Card Purchases - Chicago District FF-AR-06-038; 12/30/2005	\$480,985	\$402,766	-	-
FINANCIAL STATEMENT				
Fiscal Year 2005 Postal Service Financial Statements Audit - San Mateo Information Technology and Accounting Service Center FT-AR-06-010; 1/26/2006	\$2,800	-	\$5,600	-
J.T. Weeker (Chicago) International Service Center - Inbound International Mail FT-AR-06-013; 3/22/2006	-	-	-	\$147,729
Postal Service's Share of Health Insurance Premiums for Retired Employees FT-AR-06-016; 3/31/2006	\$3,147,520	-	\$3,501,097	-
Terminated Station Contracts FT-AR-06-011; 2/3/2006	\$290,370	-	\$82,307	-
FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDIT				
Eau Claire Post Office - Eau Claire, Wisconsin FF-AR-06-013; 11/9/2005	-	-	-	\$2,119
Los Angeles Main Post Office - Los Angeles, California FF-AR-06-014; 11/14/2005	\$618	\$618	-	\$1,508,273
Milwaukee Business Mail Entry Unit - Milwaukee, Wisconsin FF-AR-06-007; 10/31/2005	\$208	-	-	\$35,268
Pewaukee Business Mail Entry Unit - Pewaukee, Wisconsin FF-AR-06-008; 10/18/2005	-	-	-	\$148,613
Saratoga Springs Business Mail Entry Unit - Saratoga Springs, New York FF-AR-06-018; 11/21/2005	-	-	-	\$663
Stillwater Business Mail Entry Unit - Stillwater, Minneapolis FF-AR-06-005; 10/13/2005	\$203	-	-	\$1,298
Wanamaker Branch - Indianapolis, Indiana FF-AR-06-004; 10/13/2005	\$8,453	-	-	-

Reports With Quantifiable Potential Monetary Benefits

Report Title	Questioned Costs	Unsupported Costs	Funds Put to Better Use	Revenue Impact
FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT				
Athens Business Mail Entry Unit – Athens, Ohio FF-AR-06-104; 3/20/2006	\$1,990	–	–	\$915
Baltimore Main Office Window – Baltimore, Maryland FF-AR-06-045; 1/27/2006	\$7,144	–	–	\$159,485
Bentonville Business Mail Entry Unit – Bentonville, Arkansas FF-AR-06-042; 1/12/2006	–	–	–	\$1,361
Bremerton Business Mail Entry Unit – Bremerton, Washington FF-AR-06-058; 1/19/2006	–	–	–	\$2,456
Cardiss Collins Postal Store – Post Office Box Section – Chicago, Illinois FF-AR-06-048; 1/9/2006	–	–	–	\$51,721
Del Rosa Station – San Bernardino, California FF-AR-06-065; 1/30/2006	\$868	\$391	–	–
Diamond Bar Branch – Diamond Bar, California FF-AR-06-111; 3/24/2006	\$5,026	–	–	\$4,410
El Monte Business Mail Entry Unit – El Monte, California FF-AR-06-026; 12/15/2005	\$116	–	–	\$1,591
Elizabeth Business Mail Entry Unit – Elizabeth, New Jersey FF-AR-06-083; 2/22/2006	–	–	–	\$1,323
Farmingdale Business Mail Entry Unit – Farmingdale, New York FF-AR-06-027; 12/29/2005	–	–	–	\$24,105
Hazelwood Business Mail Entry Unit – Hazelwood, Missouri FF-AR-06-082; 2/21/2006	\$8,551	–	–	–
Jonesboro Business Mail Entry Unit – Jonesboro, Arkansas FF-AR-06-093; 3/3/2006	–	–	–	\$4,369
Lake Jackson Permit – Lake Jackson, Texas FF-AR-06-117; 3/28/2006	\$599	–	–	\$1,359
Lemoine Post Office – Lemoine, Pennsylvania FF-AR-06-054; 1/12/2006	–	–	–	\$6,430
Marlboro Main Post Office – Marlboro, New Jersey FF-AR-06-109; 3/20/2006	\$697	\$697	–	–
Midway Main Office Window – San Diego, California FF-AR-06-100; 3/10/2006	–	–	–	\$44,857
Milpitas Main Post Office – Milpitas, California FF-AR-06-089; 3/2/2006	–	–	–	\$1,583
Monroe Business Mail Entry Unit – Monroe, Michigan FF-AR-06-086; 3/7/2006	–	–	–	\$1,796
New York Main Post Office – New York, New York FF-AR-06-052; 1/9/2006	\$21,754	–	–	\$4,200
Portland Business Mail Entry Unit – Portland, Maine FF-AR-06-019; 11/28/2005	–	–	\$5,138	–
Richardson Business Mail Entry Unit – Richardson, Texas FF-AR-06-039; 1/12/2006	\$935	–	–	\$4,722
Richmond Business Mail Entry Unit – Richmond, California FF-AR-06-072; 2/2/2006	–	–	–	\$11,929
Rogers Business Mail Entry Unit – Rogers, Minnesota FF-AR-06-036; 1/12/2006	–	–	–	\$540
Salt Lake City Main Post Office – Salt Lake City, Utah FF-AR-06-066; 1/24/2006	–	–	–	\$186,152

Reports With Quantifiable Potential Monetary Benefits

Report Title	Questioned Costs	Unsupported Costs	Funds Put to Better Use	Revenue Impact
San Antonio General Mail Facility Window Unit – San Antonio, Texas FF-AR-06-103; 3/22/2006	\$50,146	–	–	\$19,855
Wadesboro Post Office – Wadesboro, North Carolina FF-AR-06-116; 3/27/2006	\$37,470	–	–	\$198,037
Westerville Business Mail Entry Unit – Westerville, Ohio FF-AR-06-063; 1/23/2006	–	–	–	\$1,841
NETWORK OPERATIONS - PROCESSING				
Efficiency Review of the Washington Bulk Mail Center NO-AR-06-003; 2/22/2006	–	–	\$118,383,220	–
SUPPLY MANAGEMENT AND FACILITIES				
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	–	–	–
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-005; 11/29/2005	\$1,846,231	–	–	–
Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Electronic Systems Company CA-CAR-06-002; 11/3/2005	\$291,937	–	–	–
Audit of Firm Fixed Price Proposal Submitted by Siemens Logistics and Assembly Systems Incorporated Postal Automation Division CA-CAR-06-010; 1/30/2006	\$7,323,989	–	–	–
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 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	–	–	–
Post Award Audit of Cost or Pricing Data on Biohazard Detection System Fiscal Year 2006 Consumable Replenishment Under Contract Number 3BMHRD-03-Z-5541 at Northrop Grumman Electronic Systems Company CA-CAR-06-014; 3/14/2006	\$111,766	–	–	–
TRANSPORTATION				
Mail Transport Equipment Service Center Network – Highway Transportation Routes – Memphis, Tennessee NL-AR-06-005; 3/28/2006	\$282,645	–	\$416,752	–
Mail Transport Equipment Service Center Network – Highway Transportation Routes – San Francisco, California NL-AR-06-003; 3/23/2006	\$123,254	–	\$968,386	–
Surface Networks – Intermodal Rail and Highway Transportation Between the Great Lakes and Western Areas NL-AR-06-002; 3/10/2006	–	–	\$1,942,841	–
Surface Transportation – Bulk Mail Center Highway Transportation Routes – Western Area NL-AR-06-001; 2/14/2006	–	–	\$2,235,812	–
TOTAL	\$22,498,172	\$404,472	\$150,951,892	\$2,579,000

Report Listing

Complete listing of all OIG Reports issued to Postal Service management.
For the period October 1, 2005 — March 31, 2006

ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED PERFORMANCE-BASED CULTURE

ENGINEERING

Automated Package Processing System Deployment DA-AR-06-004; 3/21/2006	Flat Remote Encoding System for Automated Flat Sorting Machine 100 DA-AR-06-003; 2/10/2006	<i>Technology Acquisition Management Process Manual – Phase I, Proof of Concept</i> DA-WP-06-001; 3/28/2006
Flat Recognition Improvement Program DA-AR-06-002; 1/25/2006	Intelligent Mail Data Acquisition System DA-AR-06-001; 12/22/2005	

HUMAN CAPITAL

North Texas Processing and Distribution Center's Analysis of Root Causes of Accidents, Injuries, and Illnesses and the Implementation of Accident Prevention Programs HM-AR-06-003; 3/8/2006	Office of Workers' Compensation Programs' Schedule Award Payments to Postal Service Employees in the Pacific Area – Report I HM-AR-06-001; 1/17/2006	White Paper on Postal Service Participation in the Department of Labor's Office of Workers' Compensation Programs HM-OT-06-001; 10/17/2005
---	---	---

HURRICANES KATRINA AND RITA

Mail Processing Operations in the Wake of Hurricanes Katrina and Rita NO-MA-06-002; 3/27/2006	Postal Service Actions to Safeguard Employees From Hurricane Katrina HM-AR-06-002; 2/15/2006	Postal Service's Emergency Purchasing in Response to Hurricanes Katrina and Rita CA-MA-06-001; 3/7/2006
--	---	--

OVERSIGHT OF INVESTIGATIVE ACTIVITIES

Postal Inspection Service Human Resources Service Center SA-AR-06-001; 3/30/2006	Qualitative Assessment Review – Postal Inspection Service's New York Division QAR-QA-06-001; 10/13/2005	Qualitative Assessment Review of the Postal Inspection Service's Charlotte Division QAR-QA-06-004; 3/31/2006
Qualitative Assessment Review – Postal Inspection Service's Atlanta Division QAR-QA-06-003; 1/25/2006	Qualitative Assessment Review – Postal Inspection Service's San Francisco Division QAR-QA-06-002; 10/20/2005	

SUPPLY MANAGEMENT AND FACILITIES

Updated Estimated Fiscal Year 2005 Supply Chain Management Impact Associated With National Office Supply Contract CA-OT-06-001; 11/28/2005

GENERATE REVENUE

MARKETING

Cost Reduction Programs MS-MA-06-001; 3/20/2006	Hybrid Services MS-AR-06-001; 3/30/2006	PC Postage Refund Review MS-AR-06-002; 3/31/2006
--	--	---

NETWORK OPERATIONS - PROCESSING

Efficiency of the Chicago Airmail Records Unit at the J.T. Weeker International Service Center NO-AR-06-002; 12/22/2005	Status Report on the Evolutionary Network Development Initiative NO-MA-06-001; 3/20/2006
--	--

IMPROVE SERVICE**DELIVERY AND RETAIL**

Address Management System – Southwest Area,
Rio Grande District
DR-AR-06-001; 1/25/2006

INFORMATION SYSTEMS

Controls Over Sensitive Production Data Within
the Test Environment for the Human Capital
Enterprise SAP Human Resources Project
IS-AR-06-002; 2/13/2006

Data Input Validation for the Facilities Database
IS-AR-06-006; 3/30/2006

National Change of Address – Emergency
Preparedness IS-AR-06-005; 3/30/2006

Observation of the Certificate Authority-Public
Key Infrastructure External Environment at the
Eagan, Minnesota, Information Technology and
Accounting Service Center
IS-AR-06-007; 3/31/2006

Security Over Sensitive Customer Data on
Automated Postal Center Kiosks
IS-MA-06-001; 12/23/2005

Security Vulnerability Assessment and Audit of
Automated Postal Center Systems
IS-AR-06-003; 2/10/2006

Security Vulnerability Assessment at the
Engineering Research and Development Center,
Merrifield, Virginia
IS-CS-06-001; 2/10/2006

REDUCE COSTS**AUDIT OF STATISTICAL TESTS FOR FISCAL YEAR 2005**

Cost and Revenue Analysis
FF-AR-06-091; 3/6/2006

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

Central Florida District
FF-AR-06-061; 1/23/2006

Chicago District
FF-AR-06-114; 3/21/2006

New York District
FF-AR-06-059; 1/23/2006

South Florida District, Miami International Service
Center
FF-AR-06-098; 3/10/2006

DELIVERY AND RETAIL

City Letter Carrier Operations – Detroit District
DR-AR-06-002; 2/8/2006

City Letter Carrier Operations – Greater Indiana
District
DR-AR-06-003; 3/28/2006

City Letter Carrier Operations – National Capping
Report
DR-AR-06-004; 3/31/2006

FIELD FINANCIAL

IMPAC Card Purchases – Chicago District
FF-AR-06-038; 12/30/2005

FINANCIAL STATEMENT

Agreed-upon Procedures Report for Federal
Intragovernmental Transactions
FT-AR-06-006; 12/2/2005

Compliance with the Bank Secrecy Act
FT-AR-06-014; 3/31/2006

Fiscal Year 2005 Postal Service Financial
Statements Audit – Eagan Information
Technology and Accounting Service Center
FT-AR-06-009; 1/10/2006

Fiscal Year 2005 Postal Service Financial
Statements Audit – San Mateo Information
Technology and Accounting Service Center
FT-AR-06-010; 1/26/2006

Fiscal Year 2005 Postal Service Financial
Statements Audit – Washington, D.C.,
Headquarters
FT-AR-06-002; 11/16/2005

Internal Control Group
FT-MA-06-001; 3/28/2006

International Parcel Post Accruals
FT-AR-06-007; 12/27/2005

J.T. Weeker (Chicago) International Service
Center – Inbound International Mail
FT-AR-06-013; 3/22/2006

Operations at the Scanning and Imaging Center
Operated by Data Dimensions Fiscal Year 2005
Postal Service Financial Statements Audit,
Corporation
FT-AR-06-004; 11/22/2005

Opinion on the Postal Service's Special-Purpose
Financial Statements
FT-AR-06-005; 11/17/2005

Postal Service Board of Governors Travel and
Miscellaneous Expenses for Fiscal Year 2005
FT-AR-06-001; 11/16/2005

Postal Service Officers Travel and Representation
Expenses for Fiscal Year 2005
FT-AR-06-003; 11/16/2005

Postal Service's Share of Health Insurance
Premiums for Retired Employees
FT-AR-06-016; 3/31/2006

Retek Merchandising System Access
FT-AR-06-008; 1/9/2006

Segregation of Duties Over Capital Project
Payments
FT-AR-06-012; 2/15/2006

Terminated Station Contracts
FT-AR-06-011; 2/3/2006

FISCAL YEAR 2005 FINANCIAL INSTALLATION AUDIT

AM Standard Operating Procedures FF-AR-06-096; 3/20/2006	Great Lakes Area FF-AR-06-118; 3/28/2006	Pewaukee Business Mail Entry Unit – Pewaukee, Wisconsin FF-AR-06-008; 10/18/2005
Bing Southview Post Office – Binghamton, New York FF-AR-06-002; 10/19/2005	Los Angeles Main Post Office – Los Angeles, California FF-AR-06-014; 11/14/2005	Pottstown Business Mail Entry Unit – Pottstown, Pennsylvania FF-AR-06-003; 10/7/2005
Boston Station – McKeesport, Pennsylvania FF-AR-06-006; 10/14/2005	Milwaukee Business Mail Entry Unit – Milwaukee, Wisconsin FF-AR-06-007; 10/31/2005	Salem Business Mail Entry Unit – Salem, Ohio FF-AR-06-010; 11/7/2005
Business Mail Entry Units FF-AR-06-113; 3/30/2006	Mobile Post Office – Boston, Massachusetts FF-AR-06-020; 11/22/2005	Saratoga Springs Business Mail Entry Unit – Saratoga Springs, New York FF-AR-06-018; 11/21/2005
Capital Metro Area FF-AR-06-105; 3/20/2006	New Haven Main Post Office – New Haven, Connecticut FF-AR-06-001; 10/6/2005	Southeast Area FF-AR-06-099; 3/13/2006
Clymer Post Office – Clymer, New York FF-AR-06-009; 11/7/2005	Niceville Post Office – Niceville, Florida FF-AR-06-015; 11/7/2005	Southwest Area FF-AR-06-087; 3/1/2006
East Greenbush Post Office – East Greenbush, New York FF-AR-06-012; 11/9/2005	Omaha Air Mail Facility Postal Store – Omaha, Nebraska FF-AR-06-011; 11/2/2005	Stillwater Business Mail Entry Unit – Stillwater, Minnesota FF-AR-06-005; 10/13/2005
Eau Claire Post Office – Eau Claire, Wisconsin FF-AR-06-013; 11/9/2005	Pacific Area FF-AR-06-119; 3/30/2006	Wanamaker Branch – Indianapolis, Indiana FF-AR-06-004; 10/13/2005
Farmingdale Main Post Office – Farmingdale, New York FF-AR-06-016; 11/10/2005		Western Area FF-AR-06-112; 3/23/2006

FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT

Abilene Business Mail Entry Unit – Abilene, Kansas FF-AR-06-031; 12/9/2005	Chenoa Post Office – Chenoa, Illinois FF-AR-06-024; 11/30/2005	Fergus Falls Business Mail Entry Unit – Fergus Falls, Minnesota FF-AR-06-107; 3/17/2006
Ashville Post Office – Ashville, Ohio FF-AR-06-077; 2/14/2006	Columbus Business Mail Entry Unit – Columbus, Georgia FF-AR-06-115; 3/22/2006	Fremont Main Post Office Automated Postal Center – Fremont, California FF-AR-06-017; 11/21/2005
Athens Business Mail Entry Unit – Athens, Ohio FF-AR-06-104; 3/20/2006	Corona Main Post Office Automated Postal Center – Corona, California FF-AR-06-021; 11/22/2005	Garden Grove Business Mail Entry Unit – Garden Grove, California FF-AR-06-037; 12/28/2005
Baltimore Main Office Window – Baltimore, Maryland FF-AR-06-045; 1/27/2006	Cupertino Business Mail Entry Unit – Cupertino, California FF-AR-06-034; 12/19/2005	Gordonsville Business Mail Entry Unit – Gordonsville, Virginia FF-AR-06-090; 3/6/2006
Belcamp Business Mail Entry Unit – Belcamp, Maryland FF-AR-06-078; 2/9/2006	Danville Business Mail Entry Unit – Danville, California FF-AR-06-080; 2/14/2006	Goshen Post Office – Goshen, Connecticut FF-AR-06-088; 3/7/2006
Belmond Business Mail Entry Unit – Belmond, Iowa FF-AR-06-085; 2/23/2006	Del Rosa Station – San Bernardino, California FF-AR-06-065; 1/30/2006	Greenwood Village Branch – Englewood, Colorado FF-AR-06-108; 3/16/2006
Bentonville Business Mail Entry Unit – Bentonville, Arkansas FF-AR-06-042; 1/12/2006	Diamond Bar Branch – Diamond Bar, California FF-AR-06-111; 3/24/2006	Guin Post Office – Guin, Alabama FF-AR-06-023; 11/30/2005
Branson Post Office – Branson, Missouri FF-AR-06-046; 1/9/2006	El Monte Business Mail Entry Unit – El Monte, California FF-AR-06-026; 12/15/2005	Haleyville Post Office – Haleyville, Alabama FF-AR-06-025; 12/5/2005
Bremerton Business Mail Entry Unit – Bremerton, Washington FF-AR-06-058; 1/19/2006	Elizabeth Business Mail Entry Unit – Elizabeth, New Jersey FF-AR-06-083; 2/22/2006	Hartford Business Mail Entry Unit – Hartford, Connecticut FF-AR-06-069; 2/15/2006
Brighton Business Mail Entry Unit – Brighton, Colorado FF-AR-06-040; 1/4/2006	Elyria Business Mail Entry Unit – Elyria, Ohio FF-AR-06-032; 12/19/2005	Hazelwood Business Mail Entry Unit – Hazelwood, Missouri FF-AR-06-082; 2/21/2006
Brooklyn Kingsway Finance Station – Brooklyn, New York FF-AR-06-075; 3/7/2006	Etiwanda Station – Rancho Cucamonga, California FF-AR-06-064; 1/31/2006	Ithaca Business Mail Entry Unit – Ithaca, Michigan FF-AR-06-060; 1/23/2006
Burlington Business Mail Entry Unit – Burlington, North Carolina FF-AR-06-071; 2/8/2006	Fairfield Business Mail Entry Unit – Fairfield, California FF-AR-06-102; 3/15/2006	Jasper Business Mail Entry Unit – Jasper, Alabama FF-AR-06-041; 1/5/2006
Cardiss Collins Postal Store – Post Office Box Section – Chicago, Illinois FF-AR-06-048; 1/9/2006	Farmingdale Business Mail Entry Unit – Farmingdale, New York FF-AR-06-027; 12/29/2005	Jonesboro Business Mail Entry Unit – Jonesboro, Arkansas FF-AR-06-093; 3/3/2006

FISCAL YEAR 2006 FINANCIAL INSTALLATION AUDIT

Kinsman Post Office – Kinsman, Ohio FF-AR-06-079; 2/14/2006	Richmond Business Mail Entry Unit – Richmond, California FF-AR-06-072; 2/2/2006	Vincetown Post Office – Southampton, New Jersey FF-AR-06-022; 11/30/2005
Lake Jackson Permit – Lake Jackson, Texas FF-AR-06-117; 3/28/2006	Rogers Business Mail Entry Unit – Rogers, Minnesota FF-AR-06-036; 1/12/2006	Wadesboro Post Office – Wadesboro, North Carolina FF-AR-06-116; 3/27/2006
Lakewood Station Automated Postal Center – Dallas, Texas FF-AR-06-029; 12/7/2005	Salt Lake City Main Post Office – Salt Lake City, Utah FF-AR-06-066; 1/24/2006	Walla Walla Contract Postal Unit – Walla Walla, Washington FF-AR-06-095; 3/13/2006
Lemoine Post Office – Lemoine, Pennsylvania FF-AR-06-054; 1/12/2006	San Antonio General Mail Facility Window Unit – San Antonio, Texas FF-AR-06-103; 3/22/2006	Wallford Business Mail Entry Unit – Wallford, Connecticut FF-AR-06-094; 3/7/2006
Loudonville Post Office – Loudonville, Ohio FF-AR-06-047; 1/10/2006	San Mateo Main Post Office Automated Postal Center – San Mateo, California FF-AR-06-057; 1/19/2006	West Bend Post Office – West Bend, Wisconsin FF-AR-06-044; 1/4/2006
Mabank Main Post Office – Mabank, Texas FF-AR-06-097; 3/16/2006	Sandpoint Business Mail Entry Unit – Sandpoint, Idaho FF-AR-06-110; 3/23/2006	Westerville Business Mail Entry Unit – Westerville, Ohio FF-AR-06-063; 1/23/2006
Marlboro Main Post Office – Marlboro, New Jersey FF-AR-06-109; 3/20/2006	Savage Business Mail Entry Unit – Savage, Maryland FF-AR-06-056; 1/19/2006	Yellville Post Office – Yellville, Arkansas FF-AR-06-033; 12/13/2005
Midway Main Office Window – San Diego, California FF-AR-06-100; 3/10/2006	Scottdale Business Mail Entry Unit – Scottdale, Pennsylvania FF-AR-06-030; 12/12/2005	
Milpitas Main Post Office – Milpitas, California FF-AR-06-089; 3/2/2006	Sheboygan Business Mail Entry Unit – Sheboygan, Wisconsin FF-AR-06-070; 2/1/2006	
Monmouth Business Mail Entry Unit – Monmouth, Illinois FF-AR-06-101; 3/10/2006	Snapper Creek Branch – Miami, Florida FF-AR-06-068; 2/1/2006	
Monroe Business Mail Entry Unit – Monroe, Michigan FF-AR-06-086; 3/7/2006	South Calumet Station – Hammond, Indiana FF-AR-06-092; 3/9/2006	
Mountain Lakes Business Mail Entry Unit – Mountain Lakes, New Jersey FF-AR-06-073; 2/10/2006	South Deerfield Post Office – South Deerfield, Massachusetts FF-AR-06-051; 1/23/2006	
New York Main Post Office – New York, New York FF-AR-06-052; 1/9/2006	Southwick Post Office – Southwick, Massachusetts FF-AR-06-049; 1/27/2006	
Newark Business Mail Entry Unit – Newark, California FF-AR-06-035; 12/27/2005	St. Petersburg Business Mail Entry Unit – St. Petersburg, Florida FF-AR-06-084; 2/23/2006	
Newark Main Post Office Automated Postal Center – Newark, California FF-AR-06-074; 2/13/2006	Sugar Grove Post Office – Sugar Grove, Illinois FF-AR-06-055; 1/19/2006	
Newport Business Mail Entry Unit – Newport, Kentucky FF-AR-06-081; 2/23/2006	Sulphur Springs Station – Tampa, Florida FF-AR-06-106; 3/16/2006	
Park Forest Business Mail Entry Unit – Park Forest, Illinois FF-AR-06-062; 1/19/2006	Sylacauga Business Mail Entry Unit – Sylacauga, Alabama FF-AR-06-043; 1/5/2006	
Plymouth Business Mail Entry Unit – Plymouth, Indiana FF-AR-06-120; 3/28/2006	Tipton Business Mail Entry Unit – Tipton, Iowa FF-AR-06-0121; 3/28/2006	
Portland Business Mail Entry Unit – Portland, Maine FF-AR-06-019; 11/28/2005	Trion Post Office – Trion, Georgia FF-AR-06-028; 12/9/2005	
Prairie Du Chien Business Mail Entry Unit – Prairie Du Chien, Wisconsin FF-AR-06-122; 3/28/2006	Tucker Business Mail Entry Unit – Tucker, Georgia FF-AR-06-076; 2/10/2006	
Quincy Business Mail Entry Unit – Quincy, Illinois FF-AR-06-053; 1/10/2006	Uniontown Business Mail Entry Unit – Uniontown, Pennsylvania FF-AR-06-050; 1/10/2006	
Richardson Business Mail Entry Unit – Richardson, Texas FF-AR-06-039; 1/12/2006	University of Georgia Contract Postal Unit – Athens, Georgia FF-AR-06-067; 1/27/2006	

INFORMATION SYSTEMS

Data Communications Software Controls at the Eagan, Minnesota and San Mateo, California Information Technology and Accounting Service Centers
IS-AR-06-001; 10/19/2005

Fiscal Year 2005 Information Systems General Controls Capping Report
IS-AR-06-004; 3/6/2006

NETWORK OPERATIONS - PROCESSING

Area Mail Processing Guidelines
NO-AR-06-001; 12/21/2005

Efficiency Review of the Washington Bulk Mail Center
NO-AR-06-003; 2/22/2006

Proposed Enhancement of the Singulation Scan Induction Unit at Bulk Mail Centers
NO-AR-06-004; 3/31/2006

SUPPLY MANAGEMENT AND FACILITIES

Agreed Upon Procedures Review of First Health Group Corporation
CA-CAR-06-009; 1/24/2006

Agreed Upon Procedures Review to Verify Costs Included on Invoices Submitted for Reimbursement by C.H. Robinson Worldwide Under Contract Number 5BMSTR-05-B-3003
CA-CAR-06-011; 3/1/2006

Audit of Accounting System and Financial Capability Risk Assessment of C.H. Robinson Worldwide
CA-CAR-06-008; 12/16/2005

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

Audit of Firm Fixed Price Proposal for the Ventilation and Filtration System Hybrid Solution at Morgan Station Submitted by Accu-Sort Systems, Incorporated
CA-CAR-06-016; 3/29/2006

Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Electronic Systems Company
CA-CAR-06-005; 11/29/2005

Audit of Firm Fixed Price Proposal Submitted by Northrop Grumman Electronic Systems Company
CA-CAR-06-002; 11/3/2005

Audit of Firm Fixed Price Proposal Submitted by Siemens Logistics and Assembly Systems Incorporated Postal Automation Division
CA-CAR-06-010; 1/30/2006

Audit of Fiscal Year 2001 Incurred Cost of New Breed Corporations
CA-CAR-06-006; 12/9/2005

Audit of Fiscal Year 2002 Incurred Cost of New Breed Corporations
CA-CAR-06-007; 12/9/2005

Audit of Incurred Labor Billing Cost Submitted by ASR International Corporation Under Contract 2APSER-05-P-1775
CA-CAR-06-012; 3/1/2006

Audit of Information Technology Systems General Internal Controls at Siemens Logistics and Assembly Systems Incorporated, Postal Automation
CA-CAR-06-017; 3/30/2006

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

Estimated Supply Chain Management Impact Associated with the Oracle Contract
CA-MA-06-002; 3/21/2006

Financial Risk Assessment of Ryder Logistics of Ann Arbor, Michigan
CA-CAR-06-004; 11/18/2005

Flash Report on Estimating Practices for Warranty Costs at Siemens Logistics and Assembly Systems Incorporated, Postal Automation
CA-CAR-06-001; 10/18/2005

New York Metro Area Contract for Labor Relations Issues
CA-AR-06-001; 12/15/2005

Post Award Audit of Contract 512593-00-Z-2804 at Siemens Energy and Automation, Incorporated, Postal Automation Division
CA-CAR-06-013; 3/7/2006

Post Award Audit of Cost or Pricing Data on Biohazard Detection System Fiscal Year 2006 Consumable Replenishment Under Contract Number 3BMHRD-03-Z-5541 at Northrop Grumman Electronic Systems Company
CA-CAR-06-014; 3/14/2006

TRANSPORTATION

Mail Transport Equipment Service Center Network - Highway Transportation Routes - Memphis, Tennessee
NL-AR-06-005; 3/28/2006

Mail Transport Equipment Service Center Network - Highway Transportation Routes - San Francisco, California
NL-AR-06-003; 3/23/2006

Surface Networks - Intermodal Rail and Highway Transportation Between the Great Lakes and Western Areas
NL-AR-06-002; 3/10/2006

Surface Transportation - Bulk Mail Center Surface Transportation Routes - Summary Report
NL-AR-06-004; 3/28/2006

Surface Transportation - Bulk Mail Center Highway Transportation Routes - Western Area
NL-AR-06-001; 2/14/2006

Appendix B

FINDINGS OF QUESTIONED COSTS

For the period October 1, 2005 — March 31, 2006

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

Office of Inspector General and U.S. Postal Inspection Service

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	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
Reports for which no management decision was made at the beginning of the reporting period	21	\$81,848,069	\$7,517,808
Reports requiring management decision that were issued during the reporting period	34	\$22,498,172	\$404,472
TOTAL	55	\$104,346,241	\$7,922,280
Reports for which a management decision was made during the reporting period (i+ii)	34	\$37,472,346	\$3,202,643
(i) Dollar value of disallowed cost		\$26,484,242	\$3,178,191
(ii) Dollar value of cost not disallowed		\$10,886,206	\$24,452
Reports for which no management decision was made by the end of the reporting period. Negotiations are ongoing.	21	\$66,873,895	\$4,719,637
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	3	\$5,039,354	—
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	5	\$53,618,586	\$4,718,940

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

Subject	Report Number	Report Date	Total Questioned Costs	Unsupported Costs Included in Questioned Costs
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	—
TOTAL			\$5,039,354	—

Appendix B

FINDINGS OF QUESTIONED COSTS

For the period October 1, 2005 — March 31, 2006

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

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

Subject	Report Number	Report Date	Total Questioned Costs	Unsupported Costs Included In Questioned Costs
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
TOTAL			\$53,618,586	\$4,718,940

Appendix C

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the period October 1, 2005 — March 31, 2006

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

As required by the IG Act, the following pages show the total number of audit reports and the total dollar value 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	9	\$90,081,108
Reports requiring management decision that were issued during the reporting period	12	\$150,951,892
TOTALS	21	\$241,033,000
Reports for which a management decision was made during the report period (I + II)	13	\$173,656,774
(i) Value of recommendations agreed to by management		\$145,715,030
(ii) Value of recommendations that management did not agree		\$27,941,744
Reports for which no management decision was made by the end of the reporting period. ¹	8	\$67,376,226
Reports for which no management decision was made within six months of issuance (See Note 1 for a list of individual reports)	2	\$8,497,639
Reports for which no management decision was made within one year of issuance (See Note 2 for a list of individual reports)	3	\$55,257,637

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
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
TOTAL			\$ 8,497,639

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	09/30/2004	\$7,300,150
Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005	09/30/2004	\$40,296,954
Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004	09/29/2004	\$7,660,533
TOTALS			\$55,257,637

¹ Included herein are amounts where management agreed to take the recommended corrective action but could not comment on some of the potential savings until analyses were completed. The majority of identified savings were agreed to and decisions were reflected in a prior reporting period.

Appendix D

REPORTS WITH SIGNIFICANT RECOMMENDATIONS PENDING CORRECTIVE ACTIONS

For the period through March 31, 2006

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

Office of Inspector General

Issue Date	Number of Recommendations	Report Title	Report Number
2/22/2002	3	Review of the Facilities Management Systems for Windows	IS-AR-02-003
3/29/2002	1	Review of Contracts Associated With Biohazard Threat	CQ-MA-02-002
7/9/2002	3	Review of eBusiness Agreements	EM-AR-02-012
9/26/2002	1	Utility Payments to Commonwealth Edison	FT-AR-02-015
9/27/2002	3	Effectiveness of the Postal Service's Asset Locator	FT-AR-02-017
9/30/2002	2	Associate Supervisor Program in the Great Lakes Area	LH-AR-02-005
1/30/2003	1	Fiscal Year 2002 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-03-008
6/13/2003	1	Postal Inspection Service Tracking of Investigative Workhours and Activity	SA-AR-03-003
8/21/2003	2	Propriety of Postal Service Utility Payments	FT-AR-03-011
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
9/29/2003	1	Enhanced Carrier Route Standard Mail Worksharing Discounts	AC-AR-03-006
9/30/2003	8	General Controls at the Engineering Research and Development Center	IS-AR-03-008
3/30/2004	2	Compliance with the Bank Secrecy Act	FF-AR-04-100
3/31/2004	1	Efficiency of the San Francisco International Service Center and the General Services Administration Facility	NO-AR-04-006
3/31/2004	1	Efficiency of the Oakland International Service Facility and the Regatta Facility	NO-AR-04-007
4/21/2004	1	Postal Inspection Service's Postal Police Officers	SA-AR-04-001
9/24/2004	1	Technology Acquisition Management	DA-AR-04-003
9/24/2004	1	Efficiency of the New York International Service Center	NO-AR-04-009
9/29/2004	3	Bulk Mail Center Highway Transportation Routes – Great Lakes Area	NL-AR-04-004
9/29/2004	2	Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006
9/30/2004	1	Advanced Facer Canceler System Improvements	DA-AR-04-004
9/30/2004	1	Postal Service's Business Partner Connectivity	IS-AR-04-014
9/30/2004	5	Vehicle Management – Delivery Vehicles – Buy versus Lease	NL-AR-04-005
10/25/2004	1	Reports Distribution	IS-AR-05-001
1/10/2005	2	Fiscal Year 2004 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center	FT-AR-05-005
1/25/2005	2	Mail Transport Equipment Service Center Network – Network Realignment – Pittsburgh, Detroit, Cleveland	NL-AR-05-001
3/15/2005	1	Fiscal Year 2004 Postal Service Financial Statements Audit – St. Louis Information Technology and Accounting Service Center	FT-AR-05-009
3/29/2005	1	Efficiency Review of the Akron, Ohio, Processing and Distribution Center	NO-AR-05-009

Issue Date	Number of Recommendations	Report Title	Report Number
4/18/2005	3	Security Controls in Voice Systems – Louisiana District	IS-AR-05-007
4/21/2005	2	Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations	NL-MA-05-001
6/3/2005	4	Security Assessment Summary Report	IS-AR-05-010
6/17/2005	1	Efficiency of the Los Angeles International Service Center	NO-AR-05-011
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
9/21/2005	1	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Pacific Area	NL-AR-05-012
9/23/2005	1	Fiscal Year 2005 Financial Installation Audit – Cardiss Collins Postal Store – Chicago, Illinois	FF-AR-05-228
9/28/2005	3	Commercial Air Network Operations	NL-AR-05-015
9/29/2005	1	Balloon Rate and Parcel Surcharges	DR-AR-05-017
9/29/2005	3	Delivery Vehicle Utilization – General Services Administration Leased Vehicles	DR-AR-05-018
9/30/2005	3	National Voice Services – Savings Opportunities	IS-AR-05-016
10/19/2005	3	Data Communications Software Controls at the Eagan, Minnesota and San Mateo, California Information Technology and Accounting Service Centers	IS-AR-06-001
12/22/2005	1	Intelligent Mail Data Acquisition System	DA-AR-06-001
12/23/2005	4	Security Over Sensitive Customer Data on Automated Postal Center Kiosks	IS-MA-06-001
12/30/2005	5	IMPAC Card Purchases – Chicago District	FF-AR-06-038
2/10/2006	2	Flat Remote Encoding System for Automated Flat Sorting Machine 100	DA-AR-06-003
2/10/2006	6	Security Vulnerability Assessment and Audit of Automated Postal Center Systems	IS-AR-06-003
2/14/2006	3	Surface Transportation – Bulk Mail Center Highway Transportation Routes – Western Area	NL-AR-06-001
2/22/2006	1	Efficiency Review of the Washington Bulk Mail Center	NO-AR-06-003
3/10/2006	1	Surface Networks – Intermodal Rail and Highway Transportation Between the Great Lakes and Western Areas	NL-AR-06-002
3/22/2006	1	J.T. Weeker (Chicago) International Service Center – Inbound International Mail	FT-AR-06-013
3/23/2006	3	Mail Transport Equipment Service Center Network – Highway Transportation Routes – San Francisco, California	NL-AR-06-003
3/28/2006	2	City Letter Carrier Operations – Greater Indiana District	DR-AR-06-003
3/28/2006	1	Mail Transport Equipment Service Center Network – Highway Transportation Routes – Memphis, Tennessee	NL-AR-06-005
3/30/2006	1	Data Input Validation for the Facilities Database	IS-AR-06-006
3/31/2006	1	Postal Service's Share of Health Insurance Premiums for Retired Employees	FT-AR-06-016

Appendix E

SIGNIFICANT MANAGEMENT DECISIONS IN AUDIT RESOLUTION

For the period October 1, 2005 — March 31, 2006

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

Office of Inspector General

The OIG has no significant management decisions in audit resolution as of March 31, 2006.

Appendix F

INVESTIGATIVE STATISTICS¹

For the period October 1, 2005 — March 31, 2006

	Misconduct Statistics	Employee Mail Theft Statistics ⁵
Investigations completed	249	1029
Arrests/Information/Indictments	100	439
Convictions/Pretrial diversions ²	57	275
Administrative actions	1,202	799
Cost avoidance	\$57,775,818	—
Fines, restitution, and recoveries ³	\$1,051,875,966	—
Amount to Postal Service ⁴	\$8,523,982	—

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

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

³ The majority of these recoveries (\$1,029,000,000) are the result of judgments in two False Claims Act investigations that were worked jointly with other federal agencies.

⁴ Amount included in Fines, Restitution and Recoveries.

⁵ Cases worked solely by the U.S. Postal Inspection Service.

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

For the period October 1, 2005 — March 31, 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	FROs	Cease & Desist Orders
Advance Fee	1	1	1	2
Contests/Sweepstakes			2	1
Coupon Fraud	1	1		1
False Billings	5	2	4	7
Internet Auction	4	4		4
Lotteries (Foreign and Domestic)	2	1		1
Medical	2		1	1
Merchandise:				
Failure to furnish	3	3		3
Failure to pay	1	1		1
Misrepresentation			1	1
Miscellaneous	3	3		3
Telemarketing	0	0	0	0
Work at Home	19	15	1	20
TOTAL	41	31	10	45

Investigative Expenses

Type	Dollar Amount
Personnel	\$163,755,718
Nonpersonnel	40,150,827
TOTAL	\$203,906,545
Capital Obligations	\$1,921,371

Subpoenas

Case #	Date Issued	Scheme
06-01	10/25/05	False Representation
06-02	10/25/05	False Representation
06-03	2/22/06	False Representation

Other Administrative Actions

Administrative Action Requests	51
Temporary Restraining Orders Requested	2
Temporary Restraining Orders Issued	2
Cases Using Direct Purchase Authority	1
Civil Penalties (Section 3012) Imposed	\$17,500
Test Purchases	\$20
Withholding Mail Orders Issued	9
Voluntary Discontinuances	15

CLOSED CONGRESSIONAL AND BOARD OF GOVERNORS INQUIRIES

For the period October 1, 2005 — March 31, 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.

Investigations

Requestor	Allegation/Concern	Our Major Findings	Closure Date
Representative, New York	Allegations of fraud, waste, and abuse and whistleblower retaliation.	The OIG conducted two investigations, finding a prima facie case of reprisal for whistleblowing and falsification of mail data reports.	10/24/2005
Senator, New York	Allegations of fraud, waste, and abuse and whistleblower retaliation.	The OIG conducted two investigations, finding a prima facie case of reprisal for whistleblowing and falsification of mail data reports.	10/24/2005
Governors	Status/response regarding OIG investigation into medical records and psychological evaluation of USPS employee.	The OIG closed investigation earlier and now directs further questions to the USPS.	3/23/2006

Audits

Requestor	Allegation/Concern	Our Findings	Closure Date
Representative, Kansas	Concerns regarding security of postal facilities.	The OIG audited USPS' Security Investigation Service Center and referred firearms question to USPS.	11/21/2005
Senator, Iowa	Concerns about security checks of temporary drivers and security of the mail.	The OIG audited USPS' Background Security Clearance Program; found progress on eliminating backlogs and other corrective actions.	12/8/2005
Representative, Maryland	Review of how the Postal Service may have contributed to a dispute between private parties involved in the Postal Service International Customized Mail (ICM) program.	The OIG, based on audit of the International Customized Mail Agreements program and allegations, found no material issues of fact to cause us to recommend a reversal of a Postal Service action.	10/27/2005
Representative, Maryland	Review of how the Postal Service may have contributed to a dispute between private parties involved in the Postal Service International Customized Mail (ICM) program.	The OIG, based on audit of the International Customized Mail Agreements program and allegations, found no material issues of fact to cause us to recommend a reversal of the Postal Service action.	10/27/2005
Representative, Maryland	Review of how the Postal Service may have contributed to a dispute between private parties involved in the Postal Service International Customized Mail (ICM) program.	The OIG, based on audit of the International Customized Mail Agreements program and allegations, found no material issues of fact to cause us to recommend a reversal of Postal Service action.	10/27/2005
Senator, Mississippi	Alleged disparate treatment of craft and management employees in Mississippi during Hurricane Katrina.	The OIG addressed as part of Management Advisory – Postal Service's Emergency Purchasing in Response to Hurricanes Katrina and Rita & Audit Report – Postal Service Actions to Safeguard Employees from Hurricane Katrina.	3/22/2006

Mission Support

Requestor	Allegation/Concern	Our Findings	Closure Date
Representative, Virginia	Allegation that USPS OIG mishandled vacancy announcement.	The USPS OIG cancelled vacancy announcement due to a hiring freeze. The announcement was not reactivated.	3/23/2006

General Counsel

Requestor	Allegation/Concern	Our Findings	Closure Date
Representative, Virginia	Allegations of hostile work environment and whistleblower retaliation.	We reviewed climate indicators and determined management will be addressing issues, which we will follow. We did not substantiate whistleblower and intimidation allegations.	11/1/2005
Senator, Maryland	Allegations of intimidation and humiliation by management.	We found no basis of wrongdoing on the part of management in alerting the OIG to fraudulent Voyager charges and possible falsification of leave documentation.	11/18/2005
Governors	Alleged mistreatment of casual employees and unfair firing at the White River Junction, Vermont, P&DC.	We found management had already identified this as a troubled site. Management agreed to improve its overtime assignment process.	12/22/2005
Representative, California	Dissatisfied with the way the Postal Service handled claim.	The OIG evaluated and added complaint to database.	10/4/2005
Representative, Florida	Allegations of discriminatory practices by a supervisor at the Tampa Suncoast District Post Office.	Concluded there was a need for a review of the workplace climate and management agreed.	2/3/2006
Representative, Texas	OIG employee reassignment.	Advised the constituent is appealing through the Merit Systems Protection Board.	10/20/2005
Representative, Virginia	Texas employee concerned about safety while carrying out postal duties.	We requested additional information, added the complaint to our database.	11/8/2005
Representative, Virginia	Texas employee alleged safety rules for operating vehicles create an unsafe or unhealthy condition for drivers in hot climates.	We found Postal Service management correctly applied safety and security policies in the instances cited.	2/14/2006
Representative, Arizona	A sender alleged Postal Service failed to deliver a package sent via registered mail.	We confirmed the package was delivered and signed for by an employee of the recipient.	11/23/2005
Representative, Georgia	Sender alleged valuable registered mail was signed for by letter carrier and left on doorstep.	We found the letter carrier and recipient had an oral agreement to sign for and leave packages at the door.	12/12/2005
Senator, Massachusetts	Target of subpoena sought information on nature of our investigation.	Status as an open investigation prevents us from providing information outside of the established legal channels.	1/6/2006
Senator, Texas	Alleged misuse of Postal Service e-mail system by employee.	Insufficient information; added complaint to our database.	1/30/2006
Representative, Texas	Worker alleges unfair and prejudiced treatment at the Waco P&DC.	Officials in the Postal Service are handling this complaint.	3/16/2006

Referrals

Requestor	Allegation/Concern	Referred To	Closure Date
Representative, Virginia	Allegations of a hostile work environment and request for investigation into workplace climate and new AM SOP procedures for letter carriers.	Postal Service Government Relations Office	10/4/2005
Representative, Kentucky	Concerns regarding hiring practices.	Postal Service Eastern Area Human Resources	10/25/2005
Representative, California	Problems with holding mail at the Barrington Post Office.	Postal Service Government Relations Office	10/18/2005
Representative, Alabama	Allegations of mail and identity theft.	Postal Inspection Service	10/31/2005
Senator, Tennessee	Issues concerning the Medina, Tennessee, ZIP Code.	Postal Service Government Relations Office	11/17/2005
County Board of Supervisors, Mississippi	Requesting reconstruction of several post offices to pre-Hurricane Katrina condition and to make them permanent postal facilities.	Postal Service Government Relations Office	12/13/2005
Senator, Mississippi	Alleged discrimination in contract award.	Postal Service Government Relations Office	1/6/2006
Senator, Virginia	Requesting assistance with pay issues.	Postal Service Government Relations Office	3/7/2006

SUPPLEMENTAL INFORMATION

INVESTIGATIVE CASE HIGHLIGHTS

For the period October 1, 2005 — March 31, 2006

Retired Postmaster Faces Criminal Prosecution in Connection with Stamp Stock Shortages

A New Jersey postmaster was placed on administrative leave after the South Jersey District Internal Control Working Group discovered \$147,000 in stamp stock shortages. During an interview with South Jersey District management on August 4, 2005, the postmaster denied embezzling any of the missing funds but opted to retire as part of a settlement agreement with the USPS. He also agreed to repay the total shortage. According to a former co-worker, the postmaster blamed the shortages on mismanagement.

A review of vending deposits and requisitions disclosed excessive inventory balances, as well as reports of sales and stamp stock replenishment for a vending machine that turned out to be non-functioning. An audit of one vending machine revealed a shortage of \$61,000 that the postmaster had not reported. Furthermore, the postmaster underreported a window clerk's vending revenue, possibly to avoid drawing attention to the reduced revenues he was reporting for the vending machines he was servicing.

OIG agents learned that the postmaster and his wife had filed for bankruptcy in 1996, as did one of his daughters. One of the liabilities the daughter listed when she filed for bankruptcy was a bank loan for which her father, the postmaster, had co-signed. According to the postmaster, he had also taken out loans against his Thrift Savings Plan to finance his and his youngest daughter's college expenses.

On August 9, 2005, the U.S. Attorney accepted this case for criminal prosecution. As per the settlement agreement that he signed in August 2005, the postmaster retired effective November 2005. Additionally, the Office of Personnel Management will deduct funds from his monthly annuity until the \$147,000 is repaid.

Technician Suspected of Embezzlement Fatally Shoots Self

A Texas Self Service Postal Center (SSPC) technician committed suicide after the OIG opened an investigation into embezzlement of postal funds.

On September 30, 2005, a Customer Service Operations Manager (CSOM) notified the OIG that the SSPC technician claimed to have transferred stamp stock in the amount of \$457,420 to the district Stamp Distribution Office (SDO) on July 25, 2005. The SDO reported the stock shipment was never received.

On October 3, 2005, the technician informed the CSOM he had sent an additional \$165,000 in stamp stock from his office to the SDO. However, investigative attention revealed the registered article he sent to the SDO did not contain any stock.

On October 4, 2005, an OIG forensic examiner and a postal manager began counting the technician's accountability. The technician failed to report for work the morning of October 5, 2005. When OIG agents arrived at his home later

that morning, they found him dead in his vehicle from of a self-inflicted gunshot wound.

On October 6, 2005, the forensic examiner and postal manager concluded their count of the technician's accountability. It revealed a shortage of \$219,010 in stamp stock and cash.

The total loss is \$676,430, which is equal to the falsified \$457,420 stock shipment plus \$219,010 in missing stamp stock and cash.

Letter Carrier and Cohort Misuse Voyager Cards, Plead Guilty to Conspiracy

A letter carrier and his girlfriend (not a postal employee) used stolen Voyager cards and personal identification numbers to purchase fuel for their personal vehicles. They also allegedly used the cards to purchase fuel for, and accept cash from, convenience store customers. Together they were responsible for \$9,561 of unauthorized charges. A federal grand jury indicted the carrier and his girlfriend on August 25, 2005. Both pleaded guilty to one count of conspiracy to commit fraud and related activity in connection with access devices. On March 16, 2006, the letter carrier was sentenced to two years probation, \$5,019 restitution, and a \$100 special assessment fee. His girlfriend was scheduled for sentencing on March 30, 2006.

A third individual (also a letter carrier and a relative of one of the suspects) was indicted on the same charges, although the other two suspects claimed she was not involved with them in the illegal use of the cards. During a consent search of her personal vehicle, agents seized undelivered mail. On January 12, 2006, she entered into an Agreement for Pretrial Diversion (APD) with the U.S. Attorney's Office in Dallas. According to the APD, this individual willfully and unlawfully delayed or destroyed U.S. Mail entrusted to her as a Postal Service employee.

Trucking Contractor Suspended for Overcharging USPS, Underreporting Earnings

On April 6, 2005, a federal grand jury indicted the owner of two trucking companies for making false statements, embezzlement, and theft. While managing these companies, which supported postal trucking highway contract routes (HCRs), the defendant failed to pass fuel rebates on to the Postal Service, as required by his contract. The discounts exceeded \$902,000. He also cashed more than \$170,000 in HCR payments to which he was not entitled (since he did not operate the contract).

On September 16, 2005, the Postal Service terminated the HCR contract of one company. On September 30, 2005, the U.S. Attorney filed a civil complaint in U.S. District Court against the owner and one of the trucking companies, citing damages and penalties in the amount of \$4.2 million.

On January 12, 2006, the owner of the trucking companies pleaded guilty to knowingly and willfully making a false, fictitious, and fraudulent material statement. (He failed to

incorporate a fuel discount, thereby failing to reflect the actual cost of fuel.) He also pleaded guilty to filing a false income tax return for the tax year 1998. (He knowingly and willfully failed to report approximately \$199,800 received through rebate checks.)

On January 25, 2006, the Postal Service sent the owner a letter notifying him of the immediate suspension and proposed debarment of three individuals and both companies.

Customer Service Manager Ordered to Pay \$162,533 for Stolen Cash and Money Orders

From May 2001 to July 2004, the manager of customer services at a postal station in Kansas City embezzled approximately \$135,405 in postal funds by issuing money orders to himself in the amount of fictitious refunds to customers. He also took \$27,128 in cash that was intended for deposit.

On August 10, 2004, the day after he admitted to taking the money, the manager resigned from the Postal Service. He had worked for the agency for approximately 29 years.

On June 20, 2005, the manager pleaded guilty to a criminal information charging him with one count of "Money Orders." He was sentenced on October 24, 2005, to 18 months incarceration and 36 months probation. He was also ordered to pay restitution, as well as a \$100 special assessment.

Post Office Supervisor Admits to Impersonating Officer and Creating False Documents

A main post office supervisor in California was cited for driving under the influence and arrested following an accident in a Postal Service-owned Ford Explorer. He falsely claimed that he worked for the Postal Service OIG and that the OIG had assigned the vehicle to him. The investigation revealed that the supervisor had submitted a false statement to the Vehicle Maintenance Facility manager in order to get a Postal Service vehicle with take-home privileges.

In October 2005, the supervisor told OIG agents that he had responded to an intrusion alarm at a post office station and was returning home in the postal vehicle when someone in a sport utility vehicle forced his car to swerve and flip onto its side. He denied being under the influence of alcohol, as cited by the police. Later that day, agents learned that no alarm had been activated at the post office where he claimed to have gone.

A postmaster, employees with the Van Nuys District Labor Relations Office, and impound lot managers said the supervisor had portrayed himself as a Postal Service law enforcement officer. Investigators found a number of law enforcement items in the supervisor's vehicle, including a protective vest, an installed emergency light set, a scanner, a video camera, forced-entry devices, and an Inspection Service cap and jacket. During a consent search of his residence, agents and police officers found an unregistered .38 caliber handgun.

On October 31, 2005, the supervisor admitted to impersonating an OIG special agent and a postal inspector. He admitted to creating fraudulent OIG and USPS documents, and to making false statements, letters, and memorandums

using forged and altered letterheads. He also confessed to possessing a firearm while on Postal Service property.

The supervisor resigned from the Postal Service effective November 26, 2005, with criminal charges pending. The Postal Service placed a \$48,000 hold on his retirement funds as payment for fuel charged toward the Postal Service vehicles the supervisor fraudulently acquired and drove. The Assistant U.S. Attorney declined prosecutorial action due to the lack of "bad acts" on the part of the supervisor; however, this case is closed pending a prosecution decision by the Los Angeles County district attorney's office.

Postal Service Collects \$5 Million from Drug Manufacturer that Overbilled the Federal Employee Health Benefit Program

A drug manufacturer pleaded guilty to two criminal counts of conspiracy and was ordered to pay \$704 million to resolve criminal charges and civil liabilities in connection with several illegal schemes to promote, market, and sell its drug, Serostim. Serostim is a drug that was conditionally approved to combat wasting and metabolic problems in HIV-positive and / or AIDS patients.

A *qui tam* lawsuit filed against the manufacturer alleged that the company made multiple false claims, including overbilling the U.S. government, falsifying drug approval documentation, and offering inducements for improper billing. As a result of its fraudulent drug promotion and marketing misconduct, the company caused the Federal Employee Health Benefit Program – to which the Postal Service is the second largest contributor – to sustain substantial civil damages.

In April 2005, five former executives of the manufacturing company were indicted on eight counts, including conspiracy, offering payments and remunerations to physicians, and aiding and abetting. On December 15, 2005, a U.S. District Court sentenced the company consistent with the terms of a global settlement agreement, in which the drug manufacturer agreed to plead guilty to two counts of conspiracy. It also agreed to pay a criminal fine of \$136,935,000 and a total of \$567,065,000 to settle its federal and state civil liabilities in this case.

On January 9, 2006, the OIG received a \$5 million check from the U.S. District Court in Boston, payable to the Postal Service. This \$5 million check represented a portion of the \$136,935,000 criminal fine imposed on the company in December 2005 and was awarded to the Postal Service because of its role in the investigation.

Postal Center Technician Admits He Stole from Vending Machines

A customer service operations manager (CSOM) in Texas contacted the OIG when the Dallas District Stamp Distribution Office (SDO) failed to receive a \$484,500 stamp stock shipment a SSPC technician claimed to have sent. The SDO ordered the technician to return \$484,500 in stock to the SDO. The technician claimed to have sent the stamp stock shipment to the SDO via registered mail.

The technician did not meet with the CSOM, as arranged, to produce paperwork verifying the stock shipment.

Additionally, the technician failed to meet with the OIG agent investigating the case. On September 23, 2006, the Postal Service placed the technician on emergency suspension.

A count completed on September 30, 2005, found \$95,863.83 missing from the technician's accountability.

On December 22, 2005, the technician pleaded guilty to a one-count information charging him with misappropriation of postal funds totaling \$580,363.83. The technician admitted to stealing money from vending machines on his route over a 13-year period. He hid the theft by underreporting his accountability of on-hand stamp stock and cash. The total loss figure of \$580,363.83 is equal to the falsified \$484,500 stock shipment plus the \$95,863.83 in missing stamp and cash.

The technician remains on emergency suspension with his removal from the Postal Service pending. He is scheduled to be sentenced on April 20, 2006.

Clerk Deprives Postal Service of Revenue, Is Indicted for Theft of Property

A bulk mail entry unit (BMEU) clerk in Alaska admitted to not charging customers for bulk mailings in order to deprive the Postal Service of revenue. He said he did it to "get back" at postal management for treating him poorly. During a search of his residence, agents found a document which listed \$449,265 in postal mailings that he did not appropriately enter into the system. Through an audit of postal and customer records, the OIG confirmed that the clerk cost the Postal Service \$418,189 in lost revenue.

As the owner of a firearms dealership, the clerk also used the BMEU computer and fax machine to conduct non-postal business. The fax number on his company business cards was actually the BMEU fax number.

According to witnesses, the clerk had implied that he would shoot his co-workers if he was ever fired. Indeed, agents found 65 firearms and 11 silencers at his residence. However, the clerk was a licensed firearms dealer and owned all these items legally. The Bureau of Alcohol, Tobacco, Firearms and Explosives is currently investigating his firearms activities because of indications that he failed to file required paperwork and failed to pay required taxes – both of which are criminal offenses. A psychological evaluation determined that he had no violent tendencies and that his threats were made in jest. Therefore, the clerk was released from jail under a number of restrictions. These included the requirements that he be electronically monitored until the case was resolved and that he keep a curfew of 9 p.m.

On December 15, 2005, the clerk was indicted on one count of Theft of Public Property and seven counts of Theft of Property used by the Postal Service. On December 19, he was put removed from duty pending the conclusion of this investigation. On January 25, 2006, he resigned from the Postal Service. Trial is set for May 1, 2006.

Letter Carrier Who Moonlighted as Pimp Used Money Orders to Pay Creditors

A letter carrier in Atlantic City, New Jersey, organized a prostitution enterprise that operated in at least four states.

The letter carrier and his co-conspirators (none of them postal employees) used postal money orders to pay the letter carrier's creditors and to pay for the expenses of the enterprise.

Agents identified four window clerks and two carriers at a Manhattan Post Office who appear to be involved in selling postal money orders to the letter carrier or helping him launder money. To date, the OIG has identified approximately \$290,000 in money orders attributable to the letter carrier and his criminal enterprise.

On December 12, 2005, the letter carrier and five others were arrested. All were indicted on December 14, 2005. On December 21, 2005, the letter carrier and his co-conspirators were indicted with new charges. The indictment addressed potential forfeiture of any property or proceeds connected to the prostitution and money laundering. To date, this property includes five residences.

On January 5, 2006, the letter carrier and four other defendants were arraigned and pleaded not guilty. All were denied bail and remain incarcerated. Postal management is in the process of removing the letter carrier.

The trial for the subjects is scheduled for June 5, 2006.

Mail Carrier Illegally Sold Access to Satellite Television

The Direct TV Fraud Department notified the Postal Service that a mail carrier was illegally selling Direct TV satellite cable receivers and access cards to employees at a post office in the Miami area. Direct TV advised that the mail carrier currently has 28 Direct TV satellite receivers assigned to his residence. According to Direct TV, the mail carrier caused the company to lose approximately \$23,600.

A search of the mail carrier's residence found a variety of evidence supporting the allegations, including 12 Direct TV satellite boxes; 16 activation cards; and one "boot loader" (an illegal activation card-cloning and reactivation tool). The mail carrier confessed to pirating Direct TV satellite boxes and activation cards to earn extra money and provided interviewing agents with a list of postal employees who had purchased the pirated equipment. According to the mail carrier, they rented the receivers and access cards from him for approximately \$30 per month.

Excluding the mail carrier, we identified a total of 11 postal employees who were involved in the Direct TV fraud scheme. They were arrested in December 2005 on state charges of Racketeering, Conspiracy to Commit Racketeering, and Theft of Communications Services. The Postal Service issued a letter of termination to the mail carrier and issued a letter of 14-day suspension, without pay, to each Postal Service craft employee. One of the Postal Service managers was downgraded from an EAS-22 position to an EAS-17 position, and one of the Postal Service supervisors was downgraded from an EAS-23 position to an EAS-20 position. Another Postal Service manager was given a 14-day suspension without pay, and yet another supervisor was given a 30-day suspension without pay.

FREEDOM OF INFORMATION ACT

Activities

For the period October 1, 2005 — March 31, 2006

Requests	Number of Requests
Carryover from prior period	13
Received during period	138
Total on hand during the period	151

OIG actions	Number of Requests
Processed during the period	144
Request released in full	9
Request partially granted	39
Request not granted	33
Request referred to another agency	33
No records	18
Not a proper FOIA request	10
Withdrawn	2

Balance	Number of Requests
Balance at the end of the period (pending)	7

Processing Days	Number of Days
Median processing days to respond to a FOIA request	9

WORKPLACE ENVIRONMENT

For the period October 1, 2005 – March 31, 2006

The OIG's Workplace Environment Team receives referrals involving workplace environment issues from multiple sources, which include the OIG Hotline, Congress, the Board of Governors (BOG), and management. These referrals include complaints of sexual harassment, discrimination, harassment and intimidation, nepotism and workplace safety issues. Working with management, the team reviewed and addressed complaints to ensure issues did not continue to adversely affect the work environments of postal employees.

Activities

For the period October 1, 2005 – March 31, 2006

Referrals	Total
Carryover from prior period	58
Complaints received from OIG Hotline	209
Congressional/BOG/Postal Service Management	6
Total on hand during this period	273
Workplace Environment Actions	Total
Complaints Closed During the Period	216
Referred to Postal Service management	68
Referred to OIG Office of Investigations	6
Referred to OIG Office of Audit	5
Summary of findings reported to Congress/BOG/Postal Service Management	6
Conducted limited inquiry into allegations/issues and referred to database	30
Referred to database for statistical analysis and possible systemic reviews	101
Referrals pending at the end of the period	57

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.

AMSOP – Early morning standard operating procedures that assist the managers and postmasters in making better business decisions for city delivery operations.

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.

ATO – Air Transfer Office only supports core airport operations such as tender and receipt of mail and ramp activities.

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 bar code sorter machine designed specifically for decentralized processing in associate offices (AOs). It has a throughput of about 19,000 pieces per workhour.

Click-N-Ship – Click-N-Ship is an online, self-service mailing application that allows customers to enter a delivery address and weight, choose a service shipping option, method of payment, and then print out postage-paid shipping labels.

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.

Delivery Point Sequencing (DPS) – Delivery point sequencing, sometimes referred to as carrier walk sequence, describes mail that is sorted in carrier delivery order, thereby eliminating the need for the carrier to further sort this mail.

DOIS – Delivery Operations Information System (DOIS), deployed in 2002, provides delivery supervisors and managers with data (such as workload status reports and carrier performance information) to improve daily delivery operational performance.

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.

ETOs – Extraterritorial Offices of Exchange (ETOs) are commercial businesses affiliated with foreign postal administrations that compete in the international shipping and delivery market with the Postal Service and commercial shippers not affiliated with foreign posts.

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 health care 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.

FWC Forum – Federal Workers' Compensation (FWC) Forum consists of more than 18 IG offices that work together to reduce costs and combat fraud related to the Federal Employee's Compensation Act (FECA) across the federal government.

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

ICM – International Customized Mail agreements are contracts between the Postal Service and mailers for a period of one to two years. These agreements represent individually negotiated discounts with mailers within certain categories of outbound international mail in exchange for meeting prescribed annual minimum revenue or volume commitments.

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.

LK – A lobby kiosk (LK) can perform all post office transactions — purchasing stamps, mailing parcels, renting post office boxes, initiating retail sales transactions — 24 hours-a-day, 7 days-a-week with payment by debit, credit, cash cards, and cash.

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.

MERLIN – Mail Evaluation, Readability, and Lookup Instrument determines whether individual mailings qualify for the discounts claimed by the mailer.

Negotiated Service Agreement (NSA) – A contractual agreement between the Postal Service and customers that gives pricing incentives in exchange for a shift in customer behavior that benefits the Postal Service.

NGK – Next Generation Kiosk (NGK) that could be designed to leverage the success of the APC. The NGK

could sell stamps printed on demand, allow payment by cash, and enhance revenue-reporting capabilities for management.

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

PARS – Postal Automated Redirection System.

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.

POS ONE – Point of Service (POS) ONE is an electronic system that records sales and payment transactions at retail facilities.

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.

SDO – SDO is a Stamp Distribution Office. It receives and ships stamps, Postal Service stationery, philatelic

products, money orders; and provides stamps and stamp products for all post offices, branches, and stations within their service area.

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.

The following are among the many trademarks owned by the United States Postal Service: United States Postal Service®, U.S. Postal Service®, USPS®, First Class Mail®, USPS.com®, Click-N-Ship®, Automated Postal Center®, APC®, Express Mail®, Priority Mail®, Standard Mail®, Parcel Post®, The Postal Store®, Media Mail®, Customized Market Mail®, United States Postal Service Office of Inspector General®, Post Office™, Postal Service™, Signature Confirmation™, Certified Mail™, Delivery Confirmation™, Registered Mail™, Post Office Box™, ZIP Code™, Carrier Pickup™ and Postmaster General™. The Sonic Eagle Logo, and the Mail Truck Design are also registered trademarks belonging to the U.S. Postal Service.

NOTES

OFFICE OF INSPECTOR GENERAL

Report Fraud, Waste, and Misconduct in the Postal Service

CONTACT THE HOTLINE AT:

1.888.USPS.OIG

1.888.877.7644

Fax: 1.866.756.6741

or www.uspsoig.gov

TTY (HEARING IMPAIRED)

1.866.OIG.TEXT

1.866.644.8398



**UNITED STATES
POSTAL SERVICE**



U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL

1735 N. Lynn Street, Arlington, VA 22209-2020

703.248.2100 Fax: 703.248.2291 Internet: www.uspsoig.gov