U.S. POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL

AUDIT PLAN
Fiscal Year 2004

TABLE OF CONTENTS

EXECUTIVE OVERVIEW

An independent entity of the federal government, the Postal Service is directed by law to provide universal mail service to all persons residing in the United States. Today, with annual revenues over $66 billion, it is the eighth largest organization in the country. It has a career workforce of 750,000 career employees, which makes it one of the largest employers in the nation.

Throughout its 227-year history, the Postal Service has endured many challenges. The most recent challenges, including decreasing mail volumes and bioterrorist attacks against the mail system, have impacted the Postal Service's financial position and workforce. The Postal Service also faces public scrutiny on whether it will be able to exist under its current structure.

In April 2002, the Postal Service issued a comprehensive Transformation Plan to address its financial, operational, and human capital challenges. As the Postal Service proceeded with transformation, the President and Congress placed increased emphasis on the Postal Service because of the significant challenges it is facing. In January 2003, the President appointed a commission to recommend legislative and administrative steps necessary to enact reform needed to ensure the viability of postal services. In July 2003, the Commission issued its report articulating a vision for the future of the United States Postal Service and stating that they were "decidedly optimistic about the future of this unique and venerable institution."

The Postal Service Office of Inspector General (OIG) is also optimistic about the future of the Postal Service and is working towards helping the Postal Service reduce its costs and stabilize its bottom line. The OIG's Fiscal Year (FY) 2004 Audit Plan communicates our audit priorities to the Postal Service, the Board of Governors, Congress, and other interested parties. Our work will examine and evaluate critical Postal Service operations and programs to enhance the Postal Service's ability to meet customer requirements, maintain market value, and fulfill employee needs.

The FY 2004 Audit Plan presents our work in three broad areas of impact: Financial Management, Operations and Human Capital, and Technology, Marketing, and Oversight. The plan includes audits that address major management issues facing the Postal Service and those required by statute. Our work provides timely information to postal management for decision-making, as well as keeping the Board of Governors and Congress fully informed of significant issues.

MISSION AND ORGANIZATION

The OIG's mission is to conduct and supervise objective and independent audits, reviews and investigations relating to Postal Service programs and operations. These activities promote economy, efficiency, effectiveness, and integrity, and prevent and detect, fraud, waste, abuse, and mismanagement.

The OIG was created by Congress in 1996 and is an independent agency within the Postal Service under the general supervision of nine presidentially appointed Postal Service Governors. We investigate and evaluate programs and operations that help maintain America's confidence in the Postal Service, while improving its bottom line. In addition, we have statutory responsibility for overseeing activities of the Postal Inspection Service.

OIG audits, inspections and reviews are designed to protect assets and revenue, ensure efficient and economical mail delivery, and safeguard the integrity of the postal system. These audits and related engagements are performed in compliance with the standards published by the Comptroller General of the United States, the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and the President's Council on Integrity and Efficiency.

Under the leadership of the Inspector General, the Assistant Inspector General for Audit (AIGA) is responsible for the Office of Audit. Three Deputy Assistant Inspectors General for Audit (DAIG), who are aligned with Postal Service operations, report to the AIGA. The three DAIGs cover Financial Management, Operations and Human Capital, and Technology, Marketing and Oversight.

The DAIGs advise the AIGA on the major risks facing the Postal Service in their program areas and annually propose audits based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. The DAIGs also maintain working contact with Postal Service executives to ensure full coverage of issues and challenges facing the Postal Service.

PLANNING PROCESS

The OIG used the following process to develop its FY 2004 audit plan. This process started with identifying a universe of Postal Service projects with input from OIG staff and various external sources.

SOURCES OF PROJECT UNIVERSE
- **Postal Governors**
- **Postal Unions**
- **Postal managers**
- **Congressional requests**
- **Hotline complaints**
- **IG community**
- **Legislative actions**
- **Technology changes**
- **Emerging trends**
- **Results of prior audits and reviews**

To determine the projects included in this plan, we first estimated the staff days required to complete each project in the universe and then determined their priority using standardized risk factors. We assessed each project for its impact on Postal Service-wide operations and goals, with greater impact equated to higher risk. Projects were then evaluated according to their perceived sensitivity and visibility to media and legal impact. Projects that were more sensitive or visible were designated as higher risk.

RISK FACTORS

- **Impact on Postal Service-wide**
  - **Operations**
  - **Goals**
- **Sensitivity and Visibility**
- **Legal Impact**

After determining the priority of projects in the universe, we created our audit plan, consisting of:

- Audits – Formalized, in-depth studies that follow established government auditing standards.
- Reviews – Studies that are smaller in scope than audits and follow quality standards for inspection established by the President's Council on Integrity and Efficiency.
- Fact-findings - Inquiries other than audits and reviews conducted to independently identify and document a course of events, condition, or occurrence.
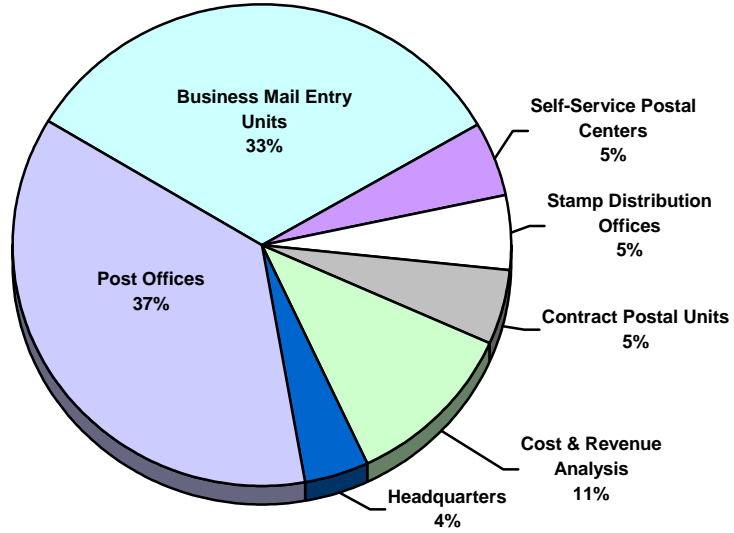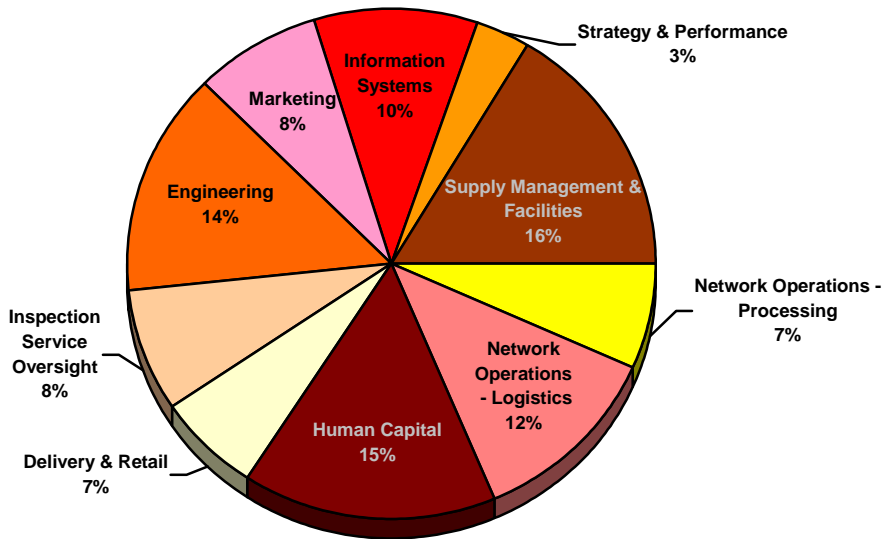
The projects selected for this plan are presented by financial and performance area. The chart below shows the percentage of projects scheduled by each

area. Because of contingencies and unexpected events during the year, we may adjust our plan to accomplish our mission and meet the challenges facing the Postal Service.

Percentage of Projects by Financial Area

- Business Mail Entry Units 33%
- Self-Service Postal Centers 5%
- Stamp Distribution Offices 5%
- Post Offices 37%
- Contract Postal Units 5%
- Cost & Revenue Analysis 11%
- Headquarters 4%

Percentage of Projects by Performance Area

- Information Systems 10%
- Strategy & Performance 3%
- Marketing 8%
- Supply Management & Facilities 16%
- Engineering 14%
- Network Operations - Processing 7%
- Inspection Service Oversight 8%
- Network Operations - Logistics 12%
- Delivery & Retail 7%
- Human Capital 15%

AUDIT PROGRAM AREAS

The FY 2004 Audit Workload Plan presents our scheduled audit projects in three major areas of impact: Financial Management, Operations and Human Capital, and Technology, Marketing and Oversight. The following narrative briefly describes each area.

FINANCIAL MANAGEMENT

In its April 2002 Transformation Plan, the Postal Service stated that its goal was to take $5 billion in costs out of the system by the end of 2006. The actions taken by the Postal Service in FY 2002 laid a foundation for savings in 2003 and beyond, setting the stage for achievement of the Transformation Plan goal. As evidence, the Postal Service's projected net income of about $600 million in FY 2003 will be exceeded, largely because of the Postal Civil Service Retirement System Funding Reform Act of 2003. The Postal Service relies on strong financial management controls to maximize revenue and minimize costs. Our audit work in this area will add value to the Postal Service by identifying opportunities for cost savings and improving financial management, contracting, and facilities practices and detecting and deterring fraud, waste, abuse and mismanagement.

Financial Statements / Field Operations
The Postal Reorganization Act of 1970 requires an annual audit of the Postal Service's financial statements. The OIG conducts audits in support of the Board of Governors' independent public accountant's overall opinion on those statements. These audits assess the integrity and reliability of the financial information in the Postal Service financial statements. The Postal Service's Information Technology and Accounting Service Centers oversee the collection of over $66 billion in revenue and the recording of a similar amount of expenses each year.

Supply Chain Management and Facilities
The Postal Service manages contracts with commitment values totaling nearly $19.5 billion annually for its goods, non-transportation services, and facilities-related reviews. This makes the Postal Service one of the largest civilian contracting agencies in government. The Postal Service is also one of America's largest owners, developers, and managers of real estate. The OIG is responsible for contract audits designed to assist Postal Service contracting officers in determining fair and reasonable contract prices as well as providing them with reviews of contractors' financial systems.

To deliver world-class service, businesses and government agencies must excel in performing their core business processes. For the Postal Service, these core business processes and systems encompass accepting, processing, transporting, and delivering the mail. Additionally, with more than 750,000 career employees working at nearly 38,000 facilities nationwide, the Postal Service must foster an inclusive, welcoming, and productive workplace consistent with its values of fairness, opportunity, safety, and security.

Network Operations Processing
The Postal Service accepts more than 200 billion pieces of mail per year in a variety of ways, including mail collected from more than 295,000 collection points, as well as residential and business collection mailboxes. Express Mail, First-Class Mail, Priority Mail, periodicals, and standard mail are sorted at more than 440 processing facilities. Our efforts help the Postal Service ensure timely and accurate delivery of mail and explore ways to enhance the accepting and processing of mail through innovative automation.

Network Operations Logistics
Transportation of mail is a vital part of the Postal Service's mission of binding the nation together by providing prompt, reliable, efficient, and universal mail delivery at affordable rates. The Postal Service spends over $30 billion annually to transport and deliver mail to 38,000 facilities. To transport the mail, the Postal Service uses contractors and a fleet of over 208,000 owned vehicles and employs a combination of air, surface, rail, and water modes. In addition, the Postal Service has an agreement with Federal Express to transport Express, Priority, and First-Class Mail. Our work will assist the Postal Service's challenge of increasing efficiency in transportation.

Delivery and Retail
Delivery and Retail are critical components in helping the Postal Service fulfill its mission of universal mail delivery and efficient service to patrons in all communities. In 2002, the Postal Service bound the nation together through delivery of personal and business correspondence (letters and packages) to over 141 million business and household addresses nationwide, using over 294,000 city and rural carriers and delivery support systems. The Postal Service also provided customers with access to services through an extensive network of retail facilities at more than 38,000 post offices, stations and branches. Our work will assist the Postal Service in its challenge of decreasing costs by $5 billion by 2006 as it strives to provide universal delivery and increase retail and customer service productivity. The Postal Service must cut costs despite an increasing delivery network and potentially declining mail volumes, and must develop more retail alternatives for customers.

Human Capital
The Postal Service has characterized improving labor management relations as one of the most important challenges in achieving its mission in the 21st century.

The Postal Service realizes that to operate effectively in a rapidly changing environment, it needs to give employee issues a higher priority and enhance each employee's contribution to organizational performance. In addition, controlling workers' compensation costs is vital to the Postal Service's financial well-being because the Postal Service is self-insured and makes payments out of operating funds, which directly affect the Postal Service's net income. The OIG will continue to support the Postal Service in its overall goal of developing a motivated and productive workforce.

TECHNOLOGY, MARKETING AND OVERSIGHT

The Postal Service recognizes that technology is a key to productivity and affordability. Through technology, the Postal Service handles more than 660 million pieces of mail every day and maintains its network nearly 38,000 post offices and facilities. The Postal Service vision includes a technologically sound infrastructure, providing the most current services available that are driven by customer needs. Technology investments need to be scrutinized to minimize the risk of compromise and ensure that the Postal Service makes sound business decisions.

Engineering
The Postal Service develops business systems and mail processing equipment to improve performance, enhance service, and reduce operating costs. The typical development process begins with the identification of a business need. After the business need has been identified, a solution is developed, followed by the proof of concept and first article tests and final deployment. The OIG understands the importance of reviewing these systems as they are developed.

Information Systems
The Postal Service relies on a complex computer infrastructure to accomplish and streamline operations, manage one of the largest civilian workforces in the world, and move billions of pieces of mail each year. The Postal Service has initiated several information technology projects to enhance efficiency and increase revenue. The Postal Service must continue to ensure that computer security is maintained and improved to reduce the risk of fraud, inappropriate disclosure of sensitive data, unauthorized disclosure of customer information, and disruption of critical operations and services.

Marketing
The Postal Service operates in a globally competitive environment, and its ability to maintain or increase its market share of the $900 billion mailing industry is essential to providing universal service at affordable rates. Therefore, the Postal Service designs its marketing products and services to build customer awareness and loyalty. The Postal Service also wants to ensure that its services are available at places where customers choose to do business.

Inspection Service Oversight

A primary reason the OIG was established within the Postal Service was to oversee all Inspection Service activities. The Inspector General Act gives the OIG specific "oversight responsibility for all activities of the Inspection Service, including any internal investigations performed by the Inspection Service." This additional authority means that any and all activities of the Inspection Service are subject to the OIG's scrutiny and review. The OIG provides independent and objective information and analyses to the Governors, Congress, and Postal Service management regarding Inspection Service operations.

Strategy and Performance

One of the major management issues facing the Postal Service is identifying long-term strategies to better balance its statutory mandate of providing universal service with its need to remain a viable business enterprise. This process began with the Postal Service's Transformation Plan and planned actions to address recommendations from the Presidential Commission's report. Our work will independently assess the efficiency and effectiveness of the strategies and measures the Postal Service put in place to support its strategic goals.

PLANNED AUDITS FOR FINANCIAL MANAGEMENT:

SUPPLY MANAGEMENT AND FACILITIES

Plans and directs audits and reviews of purchasing, contracting and supply management activities, as well as all aspects of postal facility repair, renovation, and new construction. In addition, oversees Defense Contract Audit Agency audits.

PROJECT	DESCRIPTION
Reverse Auctions	Determine whether reverse auctions are effectively achieving customer satisfaction and cost reductions in the supply chain. Management.
Contracting Authority	Determine whether adequate controls are in place over contracting authority for the commitment of operational funds.
Realty Asset Management	Determine whether excess facilities and vacant space are properly identified, reported, and managed.
Preferred Portfolio Providers	Assessment of internal controls to determine whether the program is achieving its stated objective.
Enforcement of Lessor Maintenance Responsibility	Review procedures and actual recoveries, including administrative costs, when the Postal Service performs maintenance on leased buildings and the lessor has maintenance responsibility.
Controlling Costs in Cost-Plus Contracts	Review of internal controls for developmental cost-plus contracts – evaluate the processes and controls for oversight and administration and for making contract payments.
Major Program Acquisitions	Review of major acquisition through all stages of development and procurement processes (Automated Postal Centers).
Validation of FY 2003 Supply Chain Management Savings	Determine whether the Postal Service is appropriately assessing impact on the supply chain management; validate the methodology used to calculate and review cost savings, cost reductions, and cost avoidances resulting from supply chain initiatives.
Repair and Alterations	Determine whether the Postal Service is effectively managing repairs and alterations for its owned buildings and leased facilities.
Tax Assessment Contract	Review of the national tax appeal program that identifies and conducts appeals over assessed properties.
Facilities Program Management	Monitor and review the newly-negotiated Parsons Contract. Suggest areas of use and ensure adequate communication.
Financial Opportunities for Underutilized Land	Identify potentially underutilized land and recommend disposal options, as appropriate.
Contract Management for Cleanup and Modification of the Curseen-Morris Facility	Determine the adequacy of contract management for cleanup and modification of the Curseen-Morris Processing and Distribution Center in Washington, D.C.
GSA Interagency Lease Agreements	Ensure that the Postal Service's interests are protected through the correct and consistent application of terms and conditions of occupancy agreements.

Administration of Defense Contact Audit Agency (DCAA) Audits	Assist contracting officials in managing contracts by overseeing contract audits (proposals, incurred costs, post awards, terminations, claims and financial capability) conducted by DCAA .

FIELD OPERATIONS and FINANCIAL STATEMENTS

Plan and direct work in support of the independent public accounting firm's annual financial audit opinion and conduct other financial-related audits to identify areas for improvement.

Field Operations

PROJECT	DESCRIPTION
FY 2004 Financial Installation Audit	In support of the opinion on the Postal Service financial statements currently provided by Ernst & Young LLP, determine whether financial transactions of field operations were reasonably and fairly represented in the accounting records and whether internal controls were in place and effective.
FY 2004 Cost and Revenue Analysis	In support of the accuracy of the Postal Service Cost and Revenue Analysis currently provided by Ernst & Young LLP, determine whether statistical tests conducted to collect cost, revenue, and volume data were performed in accordance with policies and procedures established by the Postal Service.
Stamp Accountability at Minnesota Diversified Industries, Inc.	Determine whether the Postal Service accurately recorded transactions related to stock in financial records and implemented effective internal controls over transaction recording and physical security of stamp stock at the contractor facility.
American Bank Note	Conduct an accountability audit and review of internal controls of the stamps on a consignment contract with American Bank Note.

Financial Statements

PROJECT	DESCRIPTION
Financial Statements Annual Audit (San Mateo, St. Louis, Eagan)	In support of the opinion on the Postal Service financial statements currently provided by Ernst & Young LLP, determine whether financial accounting policies and procedures provided for an adequate internal control structure, whether the Postal Service complied with material laws and regulations, and whether general ledger account balances were consistent and fairly stated in the national consolidated trial balance in accordance with generally accepted accounting principles.
Financial Statements Headquarters Audit	In support of the opinion on the Postal Service financial statements currently provided by Ernst & Young LLP, determine whether financial accounting policies and procedures provided for an adequate internal control structure, whether the Postal Service complied with material laws and regulations, and whether general ledger account balances were consistent and fairly stated in the national consolidated trial balance in accordance with generally accepted accounting principles.
Governors' Travel and Expense Audit	Determine whether the travel and miscellaneous expenses incurred by the Office of the Board of Governors were properly supported and complied with Postal Service policies and procedures and the Board of Governors' guidelines.
Officers' Travel Audit	Determine whether travel and representation expenses claimed

	by Postal Service officers were properly supported and complied with Postal Service policies and procedures.
Review of Meter Vendor Procedures	Verify whether Meter Vendors properly processed customer transactions and whether meter refunds were properly paid, adequately controlled and timely reconciled.
Potential Improper or Erroneous Payments	Determine whether improper and erroneous payments were made and whether payment practices were beneficial to the Postal Service.
Collection of Advances to U.S. International Air Carriers	Determine whether individual advances to domestic air carriers were outstanding for extended periods of time and ensure that the Postal Service did not exceed the $5 million limit on this revolving account.
Terminated Contract Stations	Determine whether Postal Service contract stations receiving payments actually existed and provided service to the Postal Service.
Internal Controls Over the Recording and Reporting of Inbound Mail from Canada	Verify the accuracy of the mail volumes for inbound Canadian mail, as recorded in the international accounting data files.
Rate Case Development Process	Document the Postal Service's process for internal rate case development.
Review of Anthrax-Related Expenditures	Determine whether anthrax-related appropriations are being spent for purposes approved by Congress and set forth in the Postal Service's Emergency Preparedness Plan.

PLANNED AUDITS FOR OPERATIONS AND HUMAN CAPITAL:

NETWORK OPERATIONS PROCESSING

Plans and directs audits and reviews focusing on the economy, efficiency and effectiveness of mail acceptance, collection and processing operations, as well as logistics activities supporting these operations.

PROJECT	DESCRIPTION
Express Mail	Assess the effectiveness of service issues and the scanning process.
Business Mail Entry Units and Detached Mail Units - Efficiency Reviews	Assess controls on revenue assurance and the efficiency of work performed by business mail entry clerks.
Plant Utilization - International Service Centers and Bulk Mail Centers	Determine the efficiency of work performed by employees at International Service Centers and Bulk Mail Centers and assess the utilization of the facilities.
Network Integration and Alignment Initiative	Assess the Postal Service initiative to reduce costs, increase operational efficiency, and improve service.
Review of Military Mail during Operation Iraqi Freedom	Determine whether the Postal Service delayed military mail and assigned a lower priority to free military mail than other types of mail, and assess the Postal Service's processing of military mail during Operation Iraqi Freedom.
MERLIN - Mailing, Evaluation, Readability, and Lookup Instrument	Assess the operational efficiency and utilization of the equipment to protect revenue.

NETWORK OPERATIONS LOGISTICS

Plans and directs audits and reviews of delivery and domestic and international transportation operations, specifically addressing the economy, efficiency and effectiveness of Postal Service fleet operations and contracts for air, highway and rail services.

PROJECT	DESCRIPTION
Vehicle Maintenance Facilities	Determine whether Vehicle Maintenance Facility operations are effective and identify opportunities for cost savings.
Highway Network Scheduling	Evaluate the effectiveness of scheduled highway contract routes and identify opportunities for cost savings.
Trailer Requirements	Determine whether management of the Postal Service trailer fleet is effective and identify opportunities for cost savings.
Air Networks	Determine whether the new commercial air operation contracts are effective and whether opportunities exist for cost savings.
Purchased Vehicles Versus Leased Vehicles	Evaluate the number of vehicles the Postal Service could buy rather than lease in order to save money.
Mail Transport Equipment Service Center Networks	Determine whether management of the Postal Service Mail Transport Equipment Service Center is effective and identify opportunities for cost savings.
Fuel Procurement	Determine the cost-effectiveness of the Postal Service's acquisition strategy for delivery vehicle fuel and identify opportunities for savings.
Bulk Mail Center Route Scheduling	Identify opportunities to eliminate routes and save money.
Voyager Card	Determine whether controls over use of the Voyager Card are adequate.
City Carrier Productivity	Assess potentially hazardous conditions at the Patterson Station in Baltimore, Maryland.
Vehicle Storage - Robert F. Kennedy (RFK) Stadium	Assess potential threats to public safety and the security of vehicles and equipment stored at RFK Stadium.

Delivery and Retail

Plans and directs audits and reviews that examine how the Postal Service is improving its retail services to its customers and address the economy, efficiency and effectiveness of Delivery operations.

PROJECT	DESCRIPTION
Carrier Operations	Evaluate the effectiveness of city carrier supervision and identify opportunities for cost savings.
Review of Function 4 Customer Service Operations	Determine whether the amount of Function 4, or clerical time, is appropriate given increased automation and possible decreases in the need for this function at post offices.
Optimization of Retail Networks	Examine the reasonableness of the criteria used and the adequacy of controls to support the decision-making model for retail optimization, including post office closures.
Registered Mail Improvement Program	Assess the adequacy of processes and internal controls for the handling at postal facilities of registered pouches containing significant money deposits to banks.
Portable Data Terminals	Determine whether the Postal Service has taken steps to ensure that its portable data terminal scanners are being used in the most cost-effective manner.
Self-Service Vending Machines	Determine whether financial controls over stamp stock and revenue from self-service vending machines are adequate and whether Decision Analysis Report (DAR) objectives were achieved.

HUMAN CAPITAL

Plans and directs audits and reviews focusing on labor relations, labor management, and health care issues within the Postal Service to assist in maintaining a healthy and safe organizational climate for employees and improving operational economy, efficiency and effectiveness.

PROJECT	DESCRIPTION
Overtime Budget Process	Determine whether the Postal Service is effectively managing overtime costs through properly developed budgets.
Review of Office of Workers" Compensation (OWCP) Bill Payment Process and Medical Provider Billings (Joint Effort with Department of Labor)	Determine whether the contract awarded for the bill payment process meets the needs of the Department of Labor and its customers and whether the new bill payment process will affect the Postal Service's arrangement with its contracted preferred provider organization (PPO), and assess whether the Postal Service is paying duplicate bills as a result of the contract terms and conditions. Also, determine whether the Postal Service's workers' compensation medical costs have increased as a result of fraudulent or improper billings from medical providers.
Review of Schedule Awards - Great Lakes Area	Evaluate the process the Postal Service uses to identify compensation errors; determine whether a Postal Service employee received a scheduled award payment as the result of an error; and determine the amount and cause of the errors and whether the Postal Service received a refund or credit.
Review of Medical Costs and Chargeback Process (SW and Pacific Areas)	Identify which medical costs are increasing; determine whether the Postal Service is reviewing the chargeback report to identify areas of increasing medical costs; assess the actions taken by the Postal Service to control medical increases; and determine whether the Postal Service tracks trends in cost increases.
Review of Health Benefits Refunds	Determine the amounts the Postal Service has refunded (via Form 202, Health Benefits Refund Payment Authorization) to employees on the OWCP rolls because the Postal Service has allowed the employees to remain active and on the OWCP rolls for 5 to 10 years instead of separating the employees from the Postal Service's rolls; and determine the extent to which the Postal Service allowed employees who have been injured on the job and on the OWCP periodic roll to remain in a leave without pay status beyond the allowed time periods, and the reasons why.
Review of OWCP's Administrative Fee Charged to the USPS	Determine how the OWCP calculates and supports the administrative fees it charges to USPS.
Postal Service Efforts to Prevent Accidents, Injuries and Illnesses	Determine whether the Postal Service is reducing the number of accidents, injuries and illnesses through prevention methods and whether best practices existed to improve the Postal Service's accident prevention program.
Nature of Grievances	Determine the type and number of grievances filed against the Postal Service and whether trends indicate systemic issues. Also, determine whether the Postal Service has implemented effective strategies to reduce the number of grievances. (White Paper)

Review of Arrangement with First-Health PPO - Cost Savings Initiative	Determine whether the Postal Service has achieved cost savings by reducing amounts paid on medical claims.
Pay for Performance Program	Review the appropriateness of the Postal Service's pay for performance program. Determine whether the program is effective in achieving performance objectives
Review of OWCP's Federal Fee Schedule	Assess the national financial impact on the Postal Service of blocked and non-fee schedule payments.
Equal Employment Opportunity (EEO) Process	Assess the adequacy of the Postal Service's EEO settlement policy, monetary settlement process, and organizational structure.
Comparison of Retirement Benefits to Workers' Compensation Benefits for Employees on the Periodic Roll	Perform a comparative cost analysis of retirement benefits to workers' compensation benefits.
Review of Death Benefits – Phase II	Determine whether the Postal Service is effectively managing death benefit claims by identifying changes to and terminations of survivors' benefit entitlements and notifying the Office of Workers' Compensation Programs.
Postal Service's Rehabilitation Program	Determine whether the Long Beach, Los Angeles, and San Diego Performance Clusters were placing injured employees, who were medically approved to return to work, in modified work assignments.

PLANNED AUDITS FOR TECHNOLOGY/MARKETING/OVERSIGHT:

ENGINEERING

Plans and directs audits and reviews of new or redesigned Postal Service systems, programs, and operations that are under development.

PROJECT	DESCRIPTION
Postal Automated Redirect System (PARS) First Article Testing	Review PARS first article test to determine whether performance and savings goals are attainable.
Advanced Facer Canceler System (AFCS)	Assess whether AFCS improvements enhance equipment performance and protect revenue.
Automated Package Processing System APPS First Article Testing	Review APPS first article test to determine whether performance and savings goals are attainable.
Emergency Preparedness Planning	Determine whether the Postal Service's Emergency Preparedness Program is adequate to prepare for, respond to, and recover from terrorist attacks, major disasters, and other emergencies.
Automatic Tray Handling System for Automated Flat Sorting Machine AFSM 100's	Review performance, cost, and return on investment for Automatic Tray Handling System.
Technical Acquisition Management	Determine the effectiveness of Technical Acquisition Management's oversight of capital projects.
Decision Analysis Report Phase 2	Follow-up on previous report on the adequacy of the Decision Analysis Report process.
Optical Character Reader Enhancement for Letter Automation	Review the performance and costs of the Postal Service's planned replacement of multi-line optical character readers.
Human Capital Enterprise-Shared Services Human Resources	Determine whether the supplier of the system will provide and implement an integrated and more efficient human resources solution.
Flat ID Coding System	Determine whether Flats ID Coding System will meet performance and cost goals.
Self Service Platform	Evaluate the functional capabilities of the Self Service Platform.
Labor Scheduler	Determine whether the Labor Scheduler was effectively developed and deployed to achieve its intended benefits, outcomes, and return on investment.
Documenting, Tracking, and Reporting on Major Project Performance	Determine whether new processes for accurate, timely, and measurable performance results have been implemented to address major project performance as reported in prior audits.

INFORMATION SYSTEMS

Plans and directs audits and reviews of major Postal Service information systems to determine whether general and application controls are properly established and systems are designed to be secure and provide accurate data to management.

PROJECT	DESCRIPTION
Disaster Recovery Center	Evaluate the Postal Service's ability to sustain high-priority systems in the event of a disaster.
Advanced Computing Environment Project	Phase I will provide a baseline of standard Advanced Computing Environment (ACE) configurations to be used for selected comparative testing of ACE computers. Phase II will compare the baseline configurations to computers and workstations at selected Postal Service field locations.
Network Security Follow-Up	Determine whether the Postal Service corrected vulnerabilities and weaknesses related to: • Securing public and private networks and files from unauthorized access. • Strengthening controls over accounts. • Completing the hardening of all production servers. • Configuring baseline requirements for load balancing.
Review of Postal Service's Incident Response Capability (CIRT)	Determine whether the Postal Service can detect and adequately respond to network intrusions.
Information Systems General Controls	Determine whether general controls over information systems and infrastructure at Postal Service Information Technology and Accounting Service Centers are in place and operating as intended. This audit supports the FY 2004 annual financial statement audit of the Postal Service.
Change Management Software Implementation	Determine whether the new change management software tool provides the appropriate internal controls to safeguard the integrity of the change management process.
Application Controls Review	Determine whether selected applications are processing as intended to ensure the security, integrity, and reliability of critical data.
Security Vulnerability Assessments	Assess the security of selected servers and environments and verify the adequacy of security controls over third-party connectivity to Postal Service systems.
Reports Distribution	Determine whether costs associated with generating and distributing mainframe outputs can be reduced.

MARKETING

Plans and directs audits and reviews that examine how the Postal Service's activities, organization, and policies relate to its strategic vision and mission. Reviews focus on a variety of areas, including the Transformation Plan, Marketing, and International Business.

PROJECT	DESCRIPTION
International Program/International Customized Mail Agreements	Determine the return on investment of international mail products and the effectiveness of the International Marketing Program in increasing revenues. Evaluate the Postal Service's alliances for penetrating the international mail market.
Terminal Dues From and Paid to Canada	Determine whether the implementation and utilization of the Receipt Verification System will properly account for Canadian mail volume and whether the Postal Service is receiving accurate revenue amounts for Canadian mail volumes.
Marketing Complements	Determine the reasonableness of staff and resources devoted to marketing in the face of declining mail volumes and revenues.
Mailing Tolerances	Determine whether mailing tolerances allowed by the Postal Service are reasonable and support revenue generation; evaluate the amount of lost revenue from these mailing tolerances; and determine whether Postal Service policies for mailing tolerances are effective in managing revenue.
New Product Development	Determine whether the Product Portfolio is affordable and reliable and allows customers to accomplish their objectives. Determine whether the use of limited resources for product enhancement and new development meets customers' needs for better price and revenue management.
Marketing Alignment	Determine whether Postal Service marketing functions are properly aligned for privatization.
Postal Service Negotiated Service Agreements	Ensure that Postal Service negotiated service agreements are aligned with Postal Service policies and procedures and the Transformation Plan.

INSPECTION SERVICE OVERSIGHT

Plans and directs audits and reviews of Inspection Service functions and operations.

PROJECT	DESCRIPTION
Inspection Service's Emergency Preparedness Planning	Determine the adequacy of emergency preparedness planning by the Postal Inspection Service.
Control Over Firearms	Assess the effectiveness of the Inspection Service's internal controls over firearms.
Inspection Service Laboratories	Determine whether forensic laboratories effectively and efficiently support the mission of the Inspection Service.
Law Enforcement Vehicles	Determine whether the Inspection Service is managing its vehicles efficiently.
Inspection Service's Postal Police Officers	Evaluate the Inspection Service's utilization of the Postal Police Officers. In addition, based on a Congressional request, an interim report will be issued to determine the validity of the security assessment survey that eliminated Postal Police Officers at six facilities.
Asset Forfeiture	Determine whether the Inspection Service's Asset Forfeiture Program was adequately managed.
Service Centers	Determine whether the service centers effectively and efficiently support the mission of the Inspection Service.

STRATEGY AND PERFORMANCE

Plans and directs audits and reviews of the efficiency and effectiveness of the strategies and measures the Postal Service put in place to support its strategic goals.

PROJECT	DESCRIPTION
Evaluation of Area and District Office Consolidations	Determine the efficiency and effectiveness of the processes used for the recent consolidation of the five districts and make recommendations for future consolidations. Review communication, customer impact, employee relocation, grievances filed, and the impact on operations.
Compendium of Postal Service Performance Measures	Review the Postal Service's performance measures to determine whether a system is in place to provide data to support the measures and whether those measures are reasonable and linked to the Postal Service's strategic goals.
Transformation Plan	Determine whether the Presidential Commission's findings and recommendations were effectively addressed in revisions to the Transformation Plan. In addition, determine whether any changes made to the Transformation Plan were consistent with the Postal Service's long-term strategies.

APPENDIX I: MAJOR MANAGEMENT ISSUES FACING THE POSTAL SERVICE

As the Postal Service precedes with implementation of its April 2002 Transformation Plan, it will continue to face significant challenges, including financial concerns, security threats, and labor management issues. The Postmaster General testified before Congress that the Postal Service's current financial situation is improving and would improve further with the passage of the Postal Civil Service Retirement System Funding Reform Act of 2003. This Act was signed into law. However, the OIG believes that the current and long-term financial prospects facing the Postal Service are a critical issue that must be addressed.

The Congress is placing increased emphasis on the Postal Service due to the significant challenges it is facing. Postal Service oversight in the current Congress has been raised to the full committee level in the House and the Senate. In the House, a bipartisan Special Panel on Postal Reform and Oversight has been established. The Postal Service and its stakeholders should be encouraged by the support of the President and Congress in addressing the future of the mail.

In January 2003, U.S. President George Bush appointed a commission to recommend the legislative and administrative steps necessary to enact the reforms needed to ensure the viability of postal services. In July 2003, the Commission prepared a report articulating a vision for the future of the United States Postal Service. The Postal Service is considering which recommendations to implement. To assist Congress, the Governors, and postal management, the OIG has independently identified the following major management issues:

- ♦ Growing revenue, controlling costs, and assuring accountability
- ♦ Maintaining customer confidence
- ♦ Ensuring physical security and safeguarding the mail
- ♦ Managing acquisitions and contracts
- ♦ Controlling workers' compensation costs
- ♦ Leveraging technology
- ♦ Improving the quality of information for making decision and safeguarding the integrity and availability of information
- ♦ Resolving workforce and workplace issues
- ♦ Balancing public service and commercial enterprise

Growing Revenue, Controlling Costs, and Assuring Accountability

Unlike most federal agencies, the Postal Service relies primarily on its revenues, not appropriations, to fund its operations. Without adequate revenues, the Postal Service would have to reduce services, raise rates, or seek taxpayer subsidies. Thus, the Postal Service needs to meet the challenge of increasing its revenue each year to cover increasing costs.

Financial data reviewed in FY 2003 indicates that the Postal Service's current financial situation is improving. Increasing productivity and controlling costs have helped the Postal Service's financial position. Congress has provided additional financial support by reducing Postal Service payments to the Civil Service Retirement System by about $6 billion over the next 2 years. The legislation requires the Postal Service to use the savings to liquidate outstanding debt and hold postage rates steady until FY 2006. It is crucial, however, that the Postal Service's efforts to increase productivity and control costs continue, and, more importantly, prove sustainable in the long term.

Maintaining Customer Confidence

The Postal Service views its access to the American household as a unique asset it can leverage as it faces increasing competition. To remain competitive, the Postal Service must be customer-focused and deliver the mail in a timely manner and at affordable rates. Moreover, the Postal Service needs to adapt its services to address changing customer needs and a changing mailing public. In today's marketplace, customers have more choices about how they conduct postal transactions, transmit messages, and deliver merchandise. Increasing customer confidence will be the key to growing new business.

Ensuring Physical Security and Safeguarding the Mail

With nearly 38,000 facilities and approximately 202 billion pieces of mail delivered each year, the Postal Service faces the enormous challenge of moving the mail efficiently and economically while effectively safeguarding postal employees, customers, and the mail. Historically, the Postal Service has dealt with numerous disasters, both natural and man-made, which have interfered with mail delivery. To assist with this challenge, the OIG is assessing how the Postal Service ensures physical security and safety of the mail and new methods to detect biohazardous materials and sanitize the mail.

Managing Acquisitions and Contracts

The Postal Service manages contracts with commitment values totaling nearly $19.5 billion annually for its goods, non-transportation services, and facilities-related services. The Postal Service's challenge in this area is to balance efficient contracting practices with effective controls to prevent fraud, waste, and abuse. Over the past several years, the Postal Service has progressed towards adopting purchasing practices consistent with best commercial practices. It has implemented the supply chain management philosophy to further its business and competitive objectives in the purchasing process by consolidating

procurements. While this practice allows for certain efficiencies and cost savings, adequate controls must be established and enforced to decrease the risk of loss in the procurement area. The Postal Service must ensure that its supply chain management contracting practices are consistent with applicable laws and regulations, and increase its efforts to ensure that postal contracts are written to allow it to take action against contractors as necessary.

Also, the Postal Service will be outsourcing more contracting functions, and will likely have less oversight of these functions than in the past; thus, the risk of fraud, waste and abuse may increase.

Controlling Workers' Compensation Costs
The Postal Service was the largest participant in the Federal Workers' Compensation Program and recorded approximately $1.5 billion in workers' compensation costs for FY 2003. This is a considerable cost for an agency that pays this amount out of operating revenues.

Leveraging Technology
The Postal Service depends greatly on technology to help process the mail in the most productive manner. Further, as the Postal Service addresses biohazard threats, it is identifying and deploying technology that best fits its operational requirements, is compatible with existing systems, and improves the security and safety of its processing operations.

The Postal Service is working to leverage technology to improve its service, productivity, and profitability. While it depends on technology to deliver more than 660 million pieces of mail daily to over 141 million addresses, the Postal Service must continue to adapt quickly to each new wave of technology to maintain its competitive position in the market. To address changing customer needs, the Postal Service has committed resources to help ensure better data management, track mail-piece information, and improve communication between the Postal Service and its customers. The large size and diversity of the Postal Service's customer base presents technological challenges and demands solutions that are simple, easy to use, and competitive.

Improving the Quality of Information for Decision-Making and Safeguarding the Integrity and Availability of Information

Accurate measurement of mail delivery is key to improving and sustaining service performance. Reliable data are also keys to effective decision-making. Data justifying the need for major capital expenditures must be reliable so that postal management can decide whether to invest in the project. Furthermore, reliable data are needed to assess whether the project's estimated and actual return on investment is reasonable and has been realized. Changes in technology and the business environment emphasize the need for providing timely, accessible, relevant, and accurate data to Postal Service decision-makers.

Computers and electronic data are vital to the critical operations of the Postal Service. The same factors that benefit operations—speed and accessibility— also allow individuals and organizations to interfere with or eavesdrop on operations, possibly for purposes of fraud or sabotage. For example, terrorist organizations could use computer networks to attack the federal infrastructure. Attacks that have already occurred on both government and private industry websites reveal the damage a computer security breach can inflict on brand integrity and an organization's revenue stream.

Resolving Workforce and Workplace Issues
The Postal Service has more than 700,000 career employees with personnel compensation and benefits costs totaling over $50.4 billion for FY 2003. This accounts for more than three-quarters of the Postal Service's total operating expenses. Consequently, improving the work environment and labor relations is key to maximizing the Postal Service's operational and financial performance. In an increasingly competitive environment, improving labor relations is essential if the Postal Service is to provide universal service at reasonable rates.

Balancing Public Service and Commercial Enterprise
The 1970 Postal Reorganization Act requires the Postal Service to operate in a businesslike manner supported by its own revenues. As a public agency, it is charged with binding the nation together with universal mail service at affordable rates. Its government status carries certain advantages, such as a monopoly on letter mail, exclusive access to customers' mailboxes, and a tax-free status. The universal service obligation requires a significant, costly infrastructure to deliver services, but unlike private corporations, the Postal Service is bound by statutory constraints that limit its ability to quickly adjust rates to respond to changing costs, negotiate with customers and employees, develop and price new products, close unprofitable outlets, and generate and invest profits. The Postal Service performs a wide range of significant law enforcement duties for the protection of the public, even in cases that have no direct impact on the Postal Service. To survive, it needs to articulate how it will balance providing public service with its goal of operating like a private, commercial enterprise in implementing strategies to meet future service and delivery challenges.