

Statement of
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Federal Services of the Senate Committee on Governmental Affairs
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Chairman Akaka and Members of the Subcommittee, on behalf of the Office of Inspector General (OIG), United States Postal Service, I am pleased to submit this written statement. This statement highlights opportunities to capitalize on existing revenue, resources, and personnel while improving accountability and public trust.

Congress created the OIG in 1996, and the Postal Service Governors appointed me in 1997 as the first independent Inspector General. My office conducts independent audits, reviews, and investigations of postal programs and operations. In addition, the OIG has an express statutory responsibility to oversee all activities of the Inspection Service. The OIG is uniquely situated to bring to Congress an independent assessment of postal operations. Over the last two years alone, our audits and investigations have identified over \$500 million in savings; cost avoidance; and waste, fraud, and abuse in postal operations.

The Postal Service operates a basic and fundamental service to the American people, seeking to provide prompt, reliable, efficient, and universal service – to everyone, everywhere. This has been the mission since the first days of the republic and still is the mission in the 21st Century. Everyone benefits from the Postal Service's universal service mandate and its universal access. Customers have come to rely on the

Postal Service as a trusted third party, bringing safety, security, and privacy to the nation's personal and business communications. With over 38,000 facilities across the nation, it is the world's largest retailer. It has more employees than any other business except Wal-Mart, and if it were a private corporation, would rank in the top 10 of the *Fortune 500*.

The Postal Service, as a quasi-governmental entity, is required to act in a businesslike manner while struggling with its public role, as it develops new product lines, ventures into eCommerce, and other initiatives that compete with private industry and foreign posts. Being a quasi-governmental entity, the Postal Service must be accountable to the public. However, the Postal Service considers its business information proprietary and claims exemption from disclosure.

As a business entity, the Postal Service would be expected to generate a profit. Under current law, it must operate on its own revenue, on a breakeven basis, while providing

universal service, regardless of the expense. However, growth in service does not guarantee growth in revenue. Therefore, the Postal Service generally relies on postage rate increases to offset costs. The last rate increase occurred this year, and the Postal Service has recently announced it will be seeking another.

In our May 15, 2001, statement to the Senate Committee on Governmental Affairs, we reported the Postal Service should continue to address opportunities to improve critical management practices. Since May, we have continued to identify opportunities for the Postal Service to improve its strategic decision-making, financial management, contracting, labor management, and computer security and privacy. In addition, this testimony will address our oversight of the Inspection Service. These areas are vital to the success of the Postal Service. We also think the Postal Service would benefit greatly from any guidance that Congress can provide regarding what its mission currently is, and what it should be in the future.

Strategic Decision-Making: With the Postal Service reporting at least a \$1.65 billion dollar loss and increased costs, strategic decision-making to effectively allocate and manage resources is crucial to the success of its core business. The following examples illustrate the need for the Postal Service to improve in this area:

Since 1997, we have performed reviews of Postal Service automated mail processing and computerized retail equipment investments totaling over \$1.9 billion. These reviews concluded that the Postal Service sometimes did not achieve the anticipated return on investment, account for all costs, and properly track performance. When this occurs, anticipated gains may never be realized -- and may even result in losses.

Our review of seven projects, representing over \$800 million in postal expenditures, disclosed the Postal Service did not adequately validate test results, savings, and cost methodology before approval. After approval, the Postal Service did not provide adequate project information in order to reevaluate the investment decision. Therefore, the Postal Service could not be assured that sound investment decisions were made.

A recent audit revealed that stamp production would exceed demand by approximately 11 billion stamps for FY 2001 and 2002. As a result of our audit, postal management agreed to reduce overall stamp production in FY 2002 for an estimated savings of \$10.5 million.

We are currently reviewing Postal Service sponsorship programs. In one example, we identified almost \$20 million already spent for the U.S. Cycling Team sponsorship, with a commitment of an additional \$25 million over the next 3 years. We plan to determine to what extent these programs contribute to the core business strategy for growing new revenue.

Because the Postal Service does not always collect sufficient cost information, it cannot accurately measure the success of its programs. For example, our review of a lease/purchase decision on trailers indicated the Postal Service will spend millions of dollars more than necessary for trailer leases over a 12-year period. This occurred because postal management lacked sufficient and accurate cost data to make an effective decision on whether or not to lease or purchase the equipment. Postal management is currently preparing its response to this report.

Financial Management: The Postal Service needs to effectively manage costs and productivity in order to improve its financial condition. The following examples illustrate some of the financial management areas requiring attention.

The Postal Service is a \$65 billion business that does not provide its program managers the means to effectively track financial obligations. Without this information, it is difficult to develop, justify, and defend program budgets. The Postal Service tracks expenses when paid because it contends that its major expenses are salaries and benefits. This would be analogous to waiting until a personal check clears the bank before recording it and reducing your balance in your checkbook. Other government agencies and business entities track costs when obligated and incurred, providing all levels of management with the information needed for effective program management.

The Postal Service is unable to determine the cost of processing 126,000 grievance arbitration cases currently pending and does not track costs for resolving labor disputes. This information would help the Postal Service determine the financial magnitude of this problem and manage the associated costs more effectively.

The Postal Service paid a contractor \$5.2 million in commissions to develop new revenue sources. However, the Postal Service could not verify the amount of revenue claimed by the contractor. The Postal Service agreed to hold off on expanding this program until new management controls are put into place.

Contracting: The Postal Service administers over \$15 billion a year in contracts for goods and services. This makes it one of the largest contracting organizations in the federal government. However, the Postal Service has not always followed its own procurement policies or sound contracting principles. Over the last four years, our reviews have disclosed that such contracting practices have resulted in more than \$400 million in monetary findings including fraud, waste, abuse, mismanagement, and other recoveries. We have consistently reported on improvements needed in contracting procedures, as the following examples illustrate.

We found that, contrary to its own procurement practices, the Postal Service entered into a \$6.3 billion transportation agreement without first independently validating the financial data used to justify the decision. Not all of the financial

data was found to be accurate or adequately supported. As a result, the anticipated level of savings may not be realized.

As a result of one of our investigations, and with the cooperation of Postal Service management, the Postal Service recovered over \$12 million from a major telecommunications contractor and will be able to avoid an additional \$58 million in erroneous billings. While the Postal Service was concerned about billing discrepancies, it needed additional resources to research and resolve the issue. Working with management, we found the Postal Service was repeatedly billed for work that was substandard, or not performed at all, and had not been monitoring contractor performance. Postal Service management is now monitoring this contractor's performance and reviewing all future bills.

One of our audits revealed a situation where a contractor was involved in writing contract requirements. Under federal government contracting regulations, this conduct would be specifically prohibited as an organizational conflict of interest. However, according to postal policy, it is not prohibited. This contractor received a series of sole source contracts valued in excess of \$300 million. The contracts were awarded, in part, to compensate the contractor for preparing the statement of work used to award other competitive contracts. If these contracts had been competitively bid, the Postal Service could have saved \$53 million.

As a result of hearings held over 20 years ago by this Subcommittee, federal laws and executive orders were passed to ensure an effective and uniform government-wide debarment system to protect the government from contractors who engage in fraud. The Postal Service does not honor debarments by other federal agencies. As a result, contractors who have been convicted of defrauding other federal agencies, and have been debarred from contracting with those agencies, are free to contract with the Postal Service.

Although the Postal Service has its own debarment system, only three contractors are currently listed. We believe this is caused, in part, by the fact that the Postal Service requires a higher standard of evidence than is required anywhere else in the federal government to debar a contractor for fraud. We believe this standard is unnecessary and inhibits the Postal Service from protecting itself from fraudulent contractors. We identified these problems to postal management over two years ago; however, to date, no action has been taken to revise the current procedures.

Labor Management: Labor management relations can affect employee morale, productivity, and the Postal Service's public image. Our work focuses on systemic nationwide labor management issues, including succession planning, diversity, compensation and benefits, workplace environment, management of complaint processes, and use of labor resources.

Since our inception, we have worked with the Postal Service to prevent reprisal against postal employees who report waste, fraud, and abuse to the OIG. Employees at other federal agencies have been covered by the Whistleblower Protection Act for over 20 years. However, the Postal Service is not covered by this Act. We are pleased that the former Postmaster General took our advice and extended similar protection to all postal employees. However, it is important that the new Postmaster General formally implement this policy as soon as possible to avoid the necessity for legislative action.

Also, our current audit work demonstrates opportunities for further workplace enhancement and cost savings.

Our review of violence prevention and response programs at 25 Postal Service districts disclosed that none of the districts fully implemented the required controls designed to reduce the potential for violence. District officials either were not aware of the requirements, or believed the requirements were not mandatory or applicable in all situations. Workplace violence can subject the Postal Service to significant financial liability, diminished credibility, decreased productivity, and may lead to property damage.

The Postal Service's pay for performance program is based on a private sector model for financial performance. However, the Postal Service, unlike the private sector, pays incentive awards without regard to its overall financial condition. This occurs because of inflation indexing that has been added to the model. The pay for performance program could achieve more meaningful results if the financial condition of the Postal Service was a more significant measure for determining incentive awards.

In addition to pay for performance, the Postal Service offers other benefits to its senior executives that are more generous than those offered by other government agencies and private sector companies. For example, Postal Service officers automatically receive \$25,000 to cover miscellaneous relocation expenses, regardless of the amount incurred. In one case, we found that an executive received three \$25,000 payments over four years. In other federal agencies, the maximum amount that an employee can receive for these miscellaneous expenses is \$700. Further, we benchmarked 23 Fortune 500 companies and found their miscellaneous expense benefits ranged from \$0 to \$5,000. Postal Service management justifies these payments because unlike private corporations, it cannot give large pay increases when people are promoted.

The Postal Service also has a program intended to assist employees in purchasing homes in high-cost areas. In benchmarking this practice with 31 private and public sector organizations, we noted the Postal Service was the only organization that purchased employees' homes and operated as a lien holder. Management justified this practice saying that it is similar to what universities do

to attract qualified professors. These benefits fuel the perception that the Postal Service is not fiscally responsible, particularly in light of increasing rates and declining profits.

Although the Postal Service prohibits nepotism, our audit work has substantiated instances where this practice exists. For example, in three instances, two managers either directly decided or influenced personnel selections involving their relatives. We also noted that a total of 20 members of the same family were employed in a postal district, 10 of whom worked in offices that reported directly or indirectly to the postmaster to whom they were related.

Also, we have found the appearance of nepotism can be avoided if local procedures are formalized, well publicized, and followed. This can alleviate the negative impact in the workplace that occurs when employees question the fairness of the personnel selection process.

Computer Security: In order to ensure the continuity of delivery services and provide for a secure electronic commerce environment, the Postal Service must ensure the security of its computers and networks and the privacy of its customers' information. Virtually every piece of First-Class Mail is "touched" on numerous occasions by a variety of computer controlled mail processing equipment. A breach in computer security by terrorists or cyber criminals could significantly impact the Postal Service's mail and eCommerce operations, resulting in a loss of public trust and revenue.

We have identified security and privacy concerns in these areas and discussed opportunities for improvement with postal management. The Postal Service has appointed a chief privacy officer and chief information security officer who will focus Postal Service management's efforts in these areas.

Under the designation of investigative functions between the OIG and the Inspection Service, the OIG is responsible for investigating criminal and terrorist attacks against the postal computer network. To carry out these responsibilities, we work with other federal law enforcement agencies and postal officials to protect the postal network from cyber attacks.

The OIG represents the Postal Service on the FBI's National Infrastructure Protection Center, the primary coordination authority for the protection of the nation's computer networks. This is important because the Postal Service, like the rest of government and industry, is dependent on these computer networks. Being part of this task force allows the OIG to receive early notice of criminal and terrorist attacks on federal computer networks, which could affect the Postal Service. Following last week's terrorist attacks, we have provided additional agents and computer specialists to support this critical activity.

We identified a major Postal Service Internet site that did not have a comprehensive disaster recovery plan. The Postal Service could not ensure that

certain important applications, including eCommerce programs, would continue in the event of a failure or that recovery would be timely and complete.

The recent national attack of the Code Red computer worm, which was designed to disrupt computer operations, illustrated the damage Internet terrorists and hackers can inflict on the day-to-day operations of the Postal Service. Quick response by the Postal Service's computer incident response team, along with our computer intrusion team, minimized interruption of network service by halting the spread of the Code Red worm.

Given last week's tragic events at the World Trade Center and the Pentagon, all federal agencies are devoting heightened attention to protecting important federal transportation, communications, utilities, computer networks, and other critical operations and systems from terrorist and criminal attacks. In May 1998, the President issued Presidential Decision Directive 63, which sets forth requirements for all federal agencies to identify critical agency assets, and to develop strategies to protect these assets from terrorist or criminal attacks. Because the Postal Service's delivery network is a vital national asset, the Postal Service needs to take immediate action to fully comply with Presidential Decision Directive 63.

Last year, Congress passed the Government Information Security Reform Act to improve government computer security; however, the Act does not apply to the Postal Service. Our audit and investigative work has identified many computer security deficiencies that could have been prevented if the Postal Service had more aggressively implemented the best practices recommended by the Act.

We also have identified several security and privacy concerns, as follows:

Our telecommunications review at a major Postal Service data center identified myriad security vulnerabilities involving network servers. These security vulnerabilities, if exploited, could compromise the confidentiality, integrity, and availability of postal operations, and harm its reputation as a trusted business partner. The OIG provided detailed test results to postal officials who subsequently incorporated this information into an improved network security plan.

The Postal Service used computer code in three Internet websites to collect, track, and send data to third parties without the customers' knowledge. This could have created the perception that the Postal Service was profiling its website visitors. The Postal Service subsequently removed the code from these systems.

We identified eBusiness agreements that did not have sufficient security, privacy, and access language to protect the Postal Service and its commercial partners and customers. A breach in these areas could result in the theft of valuable information, loss of revenue, and interference with business and customer relationships.

Inspection Service Oversight: The OIG was established within the Postal Service with specific statutory authority to oversee all Inspection Service operations and programs. Recent Congressional concerns about the FBI and IRS have clearly emphasized the need for oversight over major federal law enforcement agencies. To address our statutory mission, we have devoted significant OIG resources to Inspection Service oversight.

One of our earlier audits of the Postal Inspection Service, performed at the request of Congress, disclosed that more than 10 percent of postal inspectors were not meeting their statutory work hour requirement for criminal investigative work because they were spending the majority of their time performing audits. Since then, the Inspection Service has taken steps to correct this deficiency.

However, in a recent review of service investigations, we noted the Inspection Service, while complying with the statutory work requirement for investigators, is continuing to utilize criminal investigators for mail processing reviews where a lower-paid, non-criminal investigator could perform the same work. The Inspection Service justifies this work by stating that it is important to ensure the accuracy and safety of the mail.

We found the Postal Service could put approximately \$2 million to better use over the next 5 years by using non-criminal investigators who do not receive 25 percent law enforcement availability pay. Management disagreed with our recommendations, stating customers want the Postal Service to use federal criminal investigators to conduct this work. However, we contacted a majority of the mailers identified by the Postal Service as wanting the Inspection Service to conduct these reviews, and only a handful were aware that the Inspection Service conducted this work. We are currently working to resolve this issue.

Our draft report of the Inspection Service's executive awards program noted that 100 percent of its 41 executives received awards, ranging from \$2,500 to \$20,000, for a total of \$444,000 in FY 2000. Despite the requirement of the Board of Governors that awards be based on individual accomplishments, the Inspection Service used identical justifications. These identical justifications did not identify individual accomplishments. We are awaiting management's official comments on this report.

Conclusion: The tragic events of last Tuesday have changed the world and the Postal Service, including our office. I am proud to say that our employees have risen to the occasion. Our employees were present at the World Trade Center at the time of the attack, and were among the first to alert tenants and local law enforcement agencies of the crash. Agents from our New York office are still participating in rescue efforts. In Washington, our employees assisted as paramedics at the Pentagon. Since these attacks, over 10 percent of our investigative staff is working to support a variety of federal law enforcement efforts to identify and apprehend the terrorists. We have

provided agents and computer specialists to participate in an elite federal cyber-terrorist task force. We have provided agents to serve as Sky Marshals and to work with FBI command centers in coordinating federal investigative efforts. We are also working with the Inspector General community to provide a pool of investigative resources to support the national effort. We believe that this is the single most important criminal investigation in the nation today, and we are prepared to support it throughout this crisis while continuing to perform our statutory mission regarding the Postal Service.

Finally, the competing obligations of public service and commercial enterprise present unique challenges for the Postal Service, particularly as the communications and delivery industries have become more competitive. Our evaluation of the Postal Service to date suggests that it could benefit from strategic direction about its role in the 21st Century. That direction can only come from the Congress, as it did in the Postal Reorganization Act of 1970. In order to provide guidance, Congress may want to consider certain fundamental questions. For example, should the Postal Service of the 21st Century:

- Be a quasi-governmental entity or private corporation?
- Maintain universal service in the age of the Internet?
- Have a monopoly or shared access to local mailboxes?
- Have a rate making process or market-based pricing?
- Have limited product lines or more product flexibility?
- Have limited investment options or greater freedom to invest?
- Have binding arbitration or unfettered labor negotiations?
- Have limited markets or global competition?

Regardless of the outcome of postal reform, we believe postal management has many opportunities to improve its accountability and public trust. The independent oversight provided by Congress and the OIG will continue to assist the Postal Service as it makes decisions in these challenging times. In our view, in order to ensure the success of future Postal Service operations, Congress and Postal Service management need to address these issues.