

Speech to the National League of Postmasters

Thursday, July 22, 2010 (20 minutes)

San Diego, CA

Tammy: President of the League is Charley Mapa. He will be introducing you. Charley's term as president is ending with this convention. He will be returning to California.

Thank you, Charley, for the opportunity to talk to you today. Normally, Inspector General Dave Williams would be here speaking to you, but he is on vacation this week, so I was the lucky one to get to come to San Diego. Thank you for getting me out of the 105 degree heat, with the 95% humidity that we have in Washington, DC! Actually, thank you for getting me out of Washington, period.

The OIG and League have built an excellent partnership over the years, thanks to the efforts of Charley and your leadership team. Wally Olihovik of our office told me of the excellent working relationship he has with the League leadership team, sharing information, audit findings and suggestions. Charley, on behalf of the entire OIG, I thank you for your service to your members, to the mailing community and to the Postal Service, and I wish you well as you return to California at the end of your term. We look forward to continuing this working relationship with your new leadership team.

The Changing World

Pick up any newspaper and you'll read about how we are living in the new Digital Age or the Cyber Age. The traditional ways of doing business are being replaced by transactions that occur at the speed of light. These changes are having a strong impact on the Postal Service, and not

necessarily a positive one. But the Postal Service is adapting and changing to keep pace in this new age. They are evaluating the “way we’ve always done things” to see how we can do them differently, more efficiently.

We in the OIG are also looking at the “way the Postal Service has always done things.” We’ve found there are some things the Postal Service has been forced to do that are just unfair; we’ve found some other things that the Postal Service could do better; and we’ve also looked at things the Postal Service is considering *not doing*. I want to talk to you this morning about some of these issues.

The Overfunding of the CSRS Pension Fund

The first one falls under the “unfairness” category. I’m sure you’ve heard plenty about this issue already. It’s a topic that has the postal community buzzing. I’m talking about the **overcharging** of the Postal Service for its Civil Service Retirement System (CSRS) obligations. **Overcharging to the tune of \$75 billion.** We’ve discovered how the current method of determining the Postal Service’s CSRS pension responsibility is inequitable. It’s another one of what I like to call, those “disadvantageous entanglements between the Postal Service and the federal government” – which always seem to favor the government at the Postal Service’s expense.

This \$75 billion is a staggering amount. It is equivalent to the amount of business the Postal Service does in one year! We have developed a roadmap for putting this \$75 billion to good use:

- The Postal Service could pay off the Treasury debt of \$10 billion.
- The Postal Service could also pay off the \$10 billion pension fund liability accumulated in recent years.
- This leaves \$55 billion. Adding this to the \$35 billion currently in the health care fund, brings that total to \$90 billion, paying off the current \$87 billion liability in the fund.
- The \$90 billion fund would earn about \$4.5 billion annually in interest, which would nearly pay the \$5 billion in annual premiums for retirees and current employees.

The “Fix”

Over the period of time from 1972 through 2009, we estimated that OPM’s methodology for calculating the Postal Services contribution *disadvantaged* us in several different ways, resulting in the \$75 billion amount. If I got into the details this morning, I would still be talking through lunch, so let me just go right to the “fix.”

There are a few relatively simple fixes to be made:

- First, change the methodology to years-of-service.
- Second, stop the PAEA-required \$5 billion annual payments, since the fund would now contain a surplus.

Just stop and think about that last statement for a moment. As it stands now, the Postal Service starts the year off with a \$5 billion bill facing it. Before we even sell a stamp, we are \$5 billion in the hole for our assessed portion of the health care premiums. Our proposal for distributing the \$75 billion would eliminate that!

Our report and proposal have received a great deal of support from the postal community and from both unions and management associations like yours. Recently, the PRC undertook a similar study and came up with an overfunding amount of between \$50 and \$55 billion. Whether it's \$50, \$55 or \$75 billion, it's money that belongs to the Postal Service and to you -- postal employees. It's a situation that needs to be fixed and members of Congress play a critical role in fixing the funding issue. We are working with the oversight committees on the needed legislation and are encouraged by their interest and desire to help the Postal Service. Just let me take a minute here to recognize and thank your Legislative Counsel, BOB BRINKMANN, for his strong advocacy in working to get this injustice corrected.

Retail Network

Another project we took on was to look at the Postal Service's retail network. We tried to come up with answers to this question:

Is it time for a new objective approach for locating Post Offices that improves access, service, and convenience?

The Postal Service has a vast legacy retail network that includes 36,000 Post Offices, stations, branches, and contract facilities. That's more facilities than McDonalds, Starbucks, and Wal-Mart combined. Yet the current network may not necessarily meet the needs of the way people live and work now. The Postal Service's current retail network reflects a time when practically all retail revenue was generated through window transactions at "brick and mortar" Postal Service facilities, mail volume was robust, and there was less alternate access to postal services.

We had well-known real estate economist, Dr. Anthony Yezer, take an objective look at this issue to create a model of how the Postal Service's retail network would look if it were optimally reorganized.

Dr. Yezer's model shows that, overall, the Postal Service's network has too many retail facilities located too closely together. In the larger cities, the number and size of retail facilities seems to be just about right. But, interestingly, in some high-density downtown areas, there may be too few facilities. In smaller towns and rural areas, the misalignment is more acute. The model suggests there are too many facilities and they are too close together. The findings suggest that fewer larger facilities that are better staffed and are open longer hours could better serve the public while reducing cost.

Recent reports by the Postal Service and the Government Accountability Office have also raised the issue of rethinking the provision of retail services. Now, keep in mind that this is a model to consider. *It is not a recommendation for the Postal Service to do wholesale closing of your Post Offices.*

Stations and Branches

Part of the retail network includes stations and branches, which we are looking at in an audit we are doing right now. Specifically, we are looking at the expedited process the Postal Service uses to close classified stations and branches. Since there are no federal laws and postal

policies that need to be followed as with the closing of a Post Office, we are checking the process to make sure the Postal Service is managing it properly.

In still another audit, we assessed the overall efficiency of plants and the processing and distribution network. This is an audit that is of particular interest to you because it deals with the way you receive your mail at your Post Office. I'm happy to report that there were significant reductions in workhours at the plants that were not as productive as others – and at the same time, an increase in operational efficiency. Our recommendations should save the Postal Service over \$743 million next year and we plan to conduct this type of analysis annually.

Congress recognized in the Postal Accountability and Enhancement Act of 2006 that the Postal Service has more facilities than it needs and strongly encouraged streamlining the network. These factors, combined with its current financial challenges, have made it incumbent upon the Postal Service to review the number and location of stations and branches to determine whether or not there is excess capacity in the network. Our report will be released in a few weeks.

Worksharing

Let me switch gears and tell you about another area that we looked at – Worksharing. Some of you may be familiar with the concept of worksharing. It's a form of outsourcing where mailers perform activities for the U.S. Postal Service, such as processing or transportation, in exchange for price reductions. For more than 30 years, the Postal Service has offered workshare

discounts to mailers, but, we found that it has inspired strong views from both proponents and opponents.

To some, worksharing liberated the Postal Service's supply chain to the private sector, increasing efficiency, growing mail volume, and allowing the Postal Service to tailor pricing to its customers' needs. To others, worksharing exposed the Postal Service to revenue risks, provided subsidies to big mailers, and sacrificed postal jobs to unfair competition.

Our assessment found that in many ways worksharing has been a resounding success in the United States and a model for other posts in other countries to emulate. Yet, there are still problems to be addressed and opportunities to be explored. Some of the key findings are

- Worksharing has rapidly grown to dominate the Postal Service's business and today represents over 80 percent of mail volume.
- The Postal Service provided \$15 billion worth of discounts for work that saved \$14.8 billion in avoided costs in fiscal year 2008.
- The Postal Service's ability to retain earnings may create an incentive to set discounts to be less than the Postal Service's avoided costs, especially in areas where discounts greatly exceed mailer cost.
- The Postal Service's worksharing program is recognized as the largest, most sophisticated, and most transparent in the world

The time is right for the Postal Service, the Postal Regulatory Commission, and the stakeholder community to reexamine and reevaluate certain principles supporting worksharing in order to prepare it for the next 30 years.

6 Days to 5 Days of Delivery

Another concept being discussed that would have an impact on you, your office and your community is the Postal Service's plan to end Saturday delivery. The plan, which the Postal Service plans to implement in FY 2011, calls for 5 days of delivery to street addresses and 6 days of service at Post Offices and PO Boxes. On March 30, 2010, the Postal Service requested the Postal Regulatory Commission (PRC) to review its plans and issue an advisory opinion. As part of that process, the PRC is conducting 7 field hearings and is inviting public feedback on the proposal. This is one of the most significant changes the Postal Service has ever presented to the Commission. The Postal Service is required to ask the Commission for an Advisory Opinion on any change in nationwide service that it proposes.

Among key questions to be answered are:

- Will the savings the Postal Service anticipates be as significant as they estimate?
- Will mail volume decline more than the Postal Service anticipates?
- Will businesses and citizens have service that remains adequate to meet their needs?
- And will the national economic impact of service reductions offset or add to the savings that are proposed?

Implementation is also contingent on Congress not enacting legislation to prevent that change in service. You can be sure that Congress will, in some way, exercise its oversight authority and become involved in this. And they have. House Resolution 173 was introduced, expressing a sense of the House of Representatives that the United States Postal Service should take all appropriate measures to ensure the continuation of its 6-day mail delivery service. A resolution is not a bill and does not go to the president for signature, but it does carry weight. So far, this resolution has 230 co-sponsors.

Exigent Rate Increase

And just so you don't think all is quiet in Washington, the Postal Service recently filed for a rate increase averaging about 5.6 percent for market dominant products, to take effect on January 2, 2011. This is the first time the Postal Service has claimed that extraordinary or exceptional circumstances justify an increase that exceeds the cost of living under the Postal Accountability and Enhancement Act of 2006 (PAEA). It is now under consideration by the PRC.

The OIG and YOU

Now, let's move on to some topics that are "closer to home" for you – some of the shortcomings we see when we come out to audit your Post Offices and also what continues to get Postmasters in trouble.

I want to start with my area – Audit. Let's focus on you and your office.

Financial Field Audits of your Office

There are certain things that we look for when we are doing a field financial audit. In the past, the areas we examined during an audit weren't drastically different from year to year. But our audit program for FY2010 has changed from FY2009. As a result of PAEA, the Postal Service must now also comply with the Sarbanes-Oxley Act or SOX.

Of particular concern to you under SOX is the *Management Assessment of Internal Controls*.

Here are the key financial controls that our audit teams examine and what we do to evaluate them to make sure we are in compliance with SOX:

- 1. Accountability examinations:** We look at the two most recent counts.
- 2. Master trust:** We look for discrepancies in the Postal ONE! postings to the master account and also review other trust accounts for inactivity.
- 3. Employee items:** We don't generally find many employee items to review in your offices, which is a good thing since they are often mis-handled.
- 4. Financial differences:** This is the area I previously mentioned about controlling financial difference transactions, specifically Overages and Shortages.
- 5. Unit close-out:** Procedures to close-out and prepare bank deposits are looked at.
- 6. Payroll:** This includes determining whether employees "on-the-clock" are actually present and verification of higher-level assignments.
- 7. Voyager (eFleet):** PINs and ALL transactions are evaluated.
- 8. SmartPay purchase cards:** Reviewing transactions, as well as certifying the statements.
- 9. Contract Postal Unit (CPU) oversight:** If you have a CPU, we check to see that you are providing attention to what is going on at that location.

Last year we conducted **201 Field Financial Audits**, including **105 Post Offices and 96 BMEUs**.

Frequently Reported Findings

For the most part, your offices are in good order. The most ***Frequently Reported Findings*** have dropped from 10 two years ago to 6 last year. And this year, I'm happy to report it has dropped to **4**. This is excellent news because it shows, despite all the duties you have, you continue to improve in keeping your offices in compliance.

Here are the 4:

- 1. Post office did not verify that disbursement transactions were supported.** A good example of this is when our auditors look at your office and determine whether you are retaining documentation that supports refunds made to customers.
- 2. Unit did not monitor and resolve financial differences. When you don't perform this required task, you're just looking for trouble. And it usually will find you.** For example, we review unit procedures for controlling financial difference transactions, specifically Overages and Shortages. If your office is not controlling these differences, generally we are finding that you were not aware you even had differences; or, you were aware, but failed to research and clear the differences.
- 3. Unit did not update the master Personal Identification Number (PIN) list for the Voyager card.**
- 4. Postmaster or unit manager did not complete PS Form 1723 to support higher-level duty authorizations.**

We test transactions and controls related to stamp, cash and money order accountability; Post Office boxes; payroll and disbursements. If you're performing all these things, you should be in good shape. It's in your best interest to be making your scheduled checks and monitoring your financial activity. We've seen too many instances where lax bookkeeping left an office wide open to embezzlements by one of your employees.

- Like the Oregon SSA who embezzled \$156,000 because the scheduled checks were not being made. This employee went for prison for 18 months and had to make restitution.
- Or maybe not one of your employees, but one of your fellow Postmasters, such as the Texas Postmaster who embezzled \$28,000 in a money order scam,
- or the Missouri Postmaster who stole \$42,000 in another embezzlement. Both are in prison, both have to pay the money back – and both are out of jobs.

Crimes by Postmasters

Since the discussion about audits segued into it, I want to touch on an issue we would prefer to eliminate: **Crimes by Postmasters**. In my position as Assistant Inspector General for Audit, I don't get involved in investigating or arresting postal employees. I don't carry a badge or a gun; that's Wally's area. He has a badge. I know this because I saw him buying it last night in the gift shop!

But seriously, committing a crime is not a matter to joke about. As a Postmaster, you are the public face of the Postal Service in America. For most of us, engaging in criminal activity or misconduct, on or off the job, never enters our minds. Who of you out there would think of

stealing your customers' mail? Or "borrowing" money from your cash drawer? Most of you wouldn't even think about stealing a dime out of postal funds. Unfortunately, for some postal employees -- and some Postmasters -- this isn't always the case.

Despite all warnings, postal crimes are still committed by Postmasters. And we are noticing a very interesting trend. Three years ago, we opened **490** investigations on Postmasters and PMRs. In 2008, it dropped to **390** and last year it dropped to **310**. That's good news because it's a pretty significant drop from three years ago, but it's still about *six cases per week!*

But the really bad news is that arrests have gone up -- by a dramatic **30 percent** from **69** in 2008 to **90** last year. Why? What we are finding is that the crimes being committed are more serious. The thefts are larger. The schemes are more complex. These are not instances where the investigation is going to lead to a *Letter of Warning*. At the end of *these* investigations, we find a *former* Postmaster, with a criminal record, often with jail time and a hefty fine or restitution weighing around his or her neck.

Where are the problems? Well, it's in the area I just mentioned -- ***Financial Fraud – Embezzlements***. The number of investigations in this area jumped up to **204** last year from **160** in 2008.

Embezzlements make up two-thirds of our Postmaster investigations.

We are currently doing an investigation of a Postmaster who has been around for over 30 years – in the same office. Since 1995 he has embezzled over \$642,000 by failing to properly account for checks relating to permit mailings.

Why does it happen? Why would a Postmaster or any postal employee risk his or her career by stealing from the Postal Service? Our investigators ask that question of every employee arrested. Year in and year out, we hear the same excuses.

- “I am addicted to gambling”
- “I stole the money to buy drugs.”
- “I over-extended myself financially.”
- “A family member was sick and the medical bills were overwhelming.”
- “I had three kids in college.”
- “I was going through a rough time in my marriage and needed extra money.”

I would like to point out that none of these “excuses” have ever prevented a Postmaster from being prosecuted for a crime.

Campaigns, Joint Efforts – and Working Together

Because **embezzlements** are such a concern and cost the Postal Service untold millions of dollars, later this summer we are kicking off an awareness and crime prevention campaign directed to postal employees. You might remember our last two campaigns: Two years ago we did one on mail theft and last year, it was workers’ compensation fraud. Coming in a few

months will be a new poster for your Post Office bulletin board, plus all employees will be receiving a stuffer with their paycheck statements. Our message is clear:

It's not your money.

Don't take it.

Don't "borrow" it.

Do the right thing. Even if no one is looking.

Workers' Compensation Fraud

I mentioned the workers' comp fraud campaign of a year ago.

Let me show you this new 30 second "awareness commercial" that we have on our website. It features our avatar, Special Agent Dan Franklin. This is the same guy who narrates the e-Learning module on integrity and conduct, called "*From the Case Files of the OIG*" in the USPS e-Learning system.

Play CD: This is only about 30-45 seconds long...

Looking into workers' comp fraud is an on-going effort where you can play a major role with us to improve the Postal Service's bottom line. The workers' compensation program provides great benefits for employees who are injured on the job. But it's expensive. The Postal Service:

- Paid **\$1.1 billion** in costs last year.
- **Has over \$9 BILLION** in long-term liability as of the end of FY 2009.

The majority of postal employees who collect compensation benefits have legitimate claims due to on-the-job injuries and are truly unable to perform any postal jobs. However, a small

percentage of postal employees abuse the system, costing the Postal Service millions of dollars in fraudulent claims and enforcement costs.

Employees aren't the only ones who abuse the system. Sometimes, medical providers used by postal employees injured on the job, defraud and abuse the system. A few seek to take advantage of this program by submitting false bills, colluding with claimants to extend benefits, or falsifying claim documents. Earlier this summer, a surgeon in New Orleans pled guilty to fraud, admitting he claimed to have performed health care services after Hurricane Katrina when his office was not open. 47 of the claims involved the names of postal employees. The doctor made \$750,000 in restitution to the USPS. These scammers – employees and providers – are who we are interested in. Last year our investigative efforts saved the Postal Service over **\$185 million** in long-term compensation costs.

Inspection Service Partnership

This program is of such importance to the Postal Service that we have invited the Postal Inspectors to join us in workers' comp fraud work. Since January 1, and for the entire year, Postal Inspectors will be working with us on investigating workers' comp fraud. So don't be surprised if you get a call from an Inspector this year on one of these types of cases. We are anticipating even more successes with the additional investigative resources.

So how can you help? Here's how.

- Some scammers may be from your office and reside in your delivery area.

- Some may never have worked in your office, your area or even your state, but are now residing in your backyard.

Either way, their new life includes an income that is 75% tax-free because they cannot work. Or so they say. If you are aware of someone like this, or one of your employees knows of someone who is bragging about how they are “getting over on the system,” give us a call. Remember, if someone is cheating the program, then someone is cheating you.

Blog

A couple last things I want to mention before closing: we’re looking for ideas on how to improve the Postal Service. We’ve created a blog on our website. It’s called “*Pushing the Envelope*.” Check it out at www.uspsoig.gov . We’d love to read your comments or, better yet, send us topics and we’ll blog it.

Audit Project Pages

We have also opened up something called the Audit Project pages on our website. On this page, we announce audits as they are starting. And, get this, we invite you to comment and provide suggestions on that particular audit – *while it’s in progress!* As John McEnroe might say, “You CANNOT be Serious!”, but we are. This is a “first” here at the OIG and another effort to get you involved.

In closing, I just want to say that I understand that, like most people, you are uncomfortable with the thought of auditors or investigators validating the work you do. That is

understandable. The statistics I cited to you earlier concerning Postmasters in trouble may paint a gloomy picture for some of you. We at the OIG, however, are very aware of the bigger picture, and the bigger picture shows a group of hard working, dedicated professionals continuing to get the job done and serving customers in an excellent manner. You are doing this in many instances by working longer hours with fewer resources at your disposal. Thank you for your efforts. Because of you, the Postal Service remains the most trusted agency in the Federal government in the eyes of the American people.

And thanks again for the chance to speak to you. We look forward to continuing to work with you in 2010 and beyond.