

January 1999

**Major Management
Challenges and Program
Risks**

U.S. Postal Service





**United States
General Accounting Office
Washington, D.C. 20548**

**Comptroller General
of the United States**

January 1999

The President of the Senate

The Speaker of the House of Representatives

This report describes the major performance and management challenges that need to be addressed if the U.S. Postal Service is to sustain performance and remain competitive into the 21st century, including (1) long-standing challenges in labor-management relations, (2) the continuing challenge of containing postal costs and protecting revenues, (3) the need to implement reliable indicators of postal performance, and (4) risks to the Postal Service from Year 2000 computer problems. It also addresses corrective actions that the Postal Service has taken or initiated on these challenges and further actions that are needed. Although the Postal Service has taken steps to improve its financial position and delivery performance, it expects that increasing competition will lead to declines in its core business in the coming years. This outlook has heightened the need for the Postal Service to resolve long-standing issues in labor-management relations, better control costs and protect postal revenues, implement reliable indicators of postal performance, and ensure that its systems are Year 2000 compliant.

The Postal Service has made progress in addressing these challenges and is continuing to make significant changes. The Postmaster General and his management team have assigned a high priority to addressing these challenges;

this top management attention is critical and must be sustained in order to achieve real and lasting progress. Given the nature and extent of the challenges facing the Postal Service, it will take time to implement and assess the impact of major initiatives intended to address them. While a number of initiatives are well under way, others are under development or in the early stages of implementation.

This report is part of a special series entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. The series contains separate reports on 20 agencies—one on each of the cabinet departments and on most major independent agencies as well as the U. S. Postal Service. The series also includes a governmentwide report that draws from the agency-specific reports to identify the performance and management challenges requiring attention across the federal government. As a companion volume to this series, GAO is issuing an update to those government operations and programs that its work has identified as “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. High-risk government operations are also identified and discussed in detail in the appropriate performance and accountability series agency reports.

The performance and accountability series was done at the request of the Majority Leader of the House of Representatives, Dick Armey; the Chairman of the House Government Reform Committee, Dan Burton; the

Chairman of the House Budget Committee, John Kasich; the Chairman of the Senate Committee on Governmental Affairs, Fred Thompson; the Chairman of the Senate Budget Committee, Pete Domenici; and Senator Larry Craig. The series was subsequently cosponsored by the Ranking Minority Member of the House Government Reform Committee, Henry A. Waxman; the Ranking Minority Member, Subcommittee on Government Management, Information and Technology, House Government Reform Committee, Dennis J. Kucinich; Senator Joseph I. Lieberman; and Senator Carl Levin.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, the Postmaster General, and the heads of other major departments and agencies.

A handwritten signature in black ink, appearing to read "D.M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General of
the United States

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Overview

The U.S. Postal Service employs nearly one-third of the federal civilian workforce, provides delivery services for 630 million pieces of mail a day to over 130 million households and businesses, and earned \$60 billion in operating revenue in fiscal year 1998. Both the Congress and the public expect the Service to fulfill its primary mission of providing universal postal service at reasonable rates while remaining self-supporting from postal revenues. In fiscal year 1998, the Postal Service ended another year of encouraging financial performance, sustaining 4 years of net income that exceeded a total of \$5 billion. With net income of \$550 million in fiscal year 1998 and increasing on-time delivery scores, such as for First-Class Mail, the Service has shown that it can maintain a high income level while providing its customers with improved services. The Postal Service is facing growing competition from private delivery companies and electronic communication alternatives such as the Internet. In recent years, we have reported on several long-standing performance and management challenges that we believe need to be addressed if the Postal Service is to sustain its positive performance and remain competitive into the 21st century.

The Challenges

Long-Standing Challenges in Labor-Management Relations

The Postal Service has been hampered by long-standing challenges in labor-management relations that, in many instances, resulted from autocratic management styles; adversarial attitudes of employees, unions, and management; and an inappropriate and inadequate performance management system. Labor-management relations have been exemplified by numerous unresolved employee grievances, disagreements that have impaired initiatives to improve the efficiency of postal operations such as disagreements over implementation of postal automation between the Service and the labor union that represents city letter carriers, and frequent reliance upon third-party arbitration to settle contract negotiations. In 1994, we recommended that the parties establish a framework agreement that would outline common goals and strategies to set the stage for improving the postal work environment. However, such an agreement has not been reached. Although achieving consensus does not come quickly or easily, we believe that continued labor-management problems may lead to escalating workplace difficulties and hamper efforts to achieve desired improvements.

The Continuing
Challenge of
Containing Postal
Costs and Protecting
Revenues

The Postal Service's continued success will depend heavily on its ability to control operating costs, strengthen internal controls, and ensure the integrity of its services. The Service has recognized that it needs aggressive cost management and strong and effective internal operating controls to avoid unwarranted costs. However, in recent years, we have reported on the need to control costs and protect postal revenues in several areas, such as its automation program to improve the efficiency of letter carriers; its program to receive postage due from bulk business mail, which accounted for almost one-half of the Service's annual revenue; and prevention and detection of fraudulent use of mechanical postage meters. In addition, we have reported that the Service has experienced cost overruns on a number of major capital projects and failed to realize some opportunities to achieve savings. This situation has been exacerbated by weak internal controls. Finally, as competition grows and places billions of dollars of postal revenues at risk, the Postal Service has said that it will be challenged to find new revenue sources. Recent efforts by the Postal Service to introduce new products and services have frequently met opposition and caused controversy as competitors and others have

questioned whether it is appropriate for the Service, a government entity with monopoly protection, to provide nontraditional products and services, such as retail merchandise and new electronic initiatives, in competition with the private sector.

The Need to
Implement Reliable
Indicators of Postal
Performance

Major mailers and the public remain concerned about obtaining quality service at reasonable prices. The Postal Service has committed to developing reliable indicators of postal performance corresponding to each of its performance goals so that it can track progress and meet the requirements of the Government Performance and Results Act of 1993 (the Results Act). Recently, the Service has reported improvements in delivery service, including record on-time delivery of overnight First-Class Mail, which improved from 82 percent in fiscal year 1994 to 93 percent in fiscal year 1998. However, we have reported on concerns that past achievements in overnight mail delivery came at the expense of other mail service, such as 2-day and 3-day letter mail, advertising mail, and periodicals. In addition, the Service has acknowledged that some employees sought to undermine the integrity of performance data on overnight mail delivery.

Postal Service at
Risk of Year 2000
Problems

The Postal Service faces a major challenge in updating its computer systems to correctly identify dates beginning in the year 2000 and thus avoid malfunctions that could disrupt mail delivery. The Postal Service has a special responsibility to correct its computers to avoid Year 2000 problems because a number of private sector and government groups may need to use the Postal Service as a backup delivery system if their computers malfunction. For this reason, the Postal Service is concerned about the prospect of a mail surge in January 2000. An early assessment by the Postal Service's Office of Inspector General showed that the Service was slow to recognize the scope of the challenge and take necessary actions to ensure that its computer systems were Year 2000 compliant. The Service has estimated that the total cost of fixing its Year 2000 problem could be as much as \$500 million to \$700 million.

Progress and
Next Steps

The Postal Service has made progress in addressing postal labor-management relations. For example, the Postmaster General has emphasized labor-management relations by Service and union initiatives to reduce employee grievances. In addition, the

Service recently sponsored a national commission to study violence in the postal workplace. Further, the Service recently negotiated wage agreements in contract talks with some of its major labor unions. Such agreements, when ratified, avoid binding arbitration, which has been used since 1978 to resolve contract disputes between the Service and most of its major labor unions. However, the Service has yet to reach a framework agreement of common goals and approaches with its major postal labor unions and management associations, settle most outstanding grievances, and resolve issues that impair both postal efficiency and the quality of life for the postal workforce.

In addition, we have reported that the Service has made progress in implementing automation designed to improve the efficiency of letter carriers, and the Service has also reported taking steps to tighten internal controls over postal revenues and expenditures. Nevertheless, the Service will need to further strengthen controls over costs and revenues in order to operate in a businesslike manner. Furthermore, recently introduced postal reform legislation in the Congress includes proposals that would more clearly define how the Postal Service

would be allowed to compete in nonpostal-related markets.

In the area of providing quality service, the Service has reported taking steps to improve mail service for several classes of mail, develop a more complete set of performance measures, and safeguard the integrity of performance data. As the Service proceeds with its implementation of the Results Act, it will need to fulfill its commitment to implement reliable indicators of postal performance, including measures covering major classes of mail.

Finally, the Service has stated that it is assigning a high priority to addressing the Year 2000 problem. The Postal Service quarterly report to the Office of Management and Budget in November 1998 on the state of Year 2000 efforts indicated progress in meeting this challenge. The Service's remaining challenges include completing the adjustment of its computers so that they are Year 2000 complaint, fully testing computer systems, and preparing contingency plans to help ensure continuity of core business operations.

Overview

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Major Performance and Management Issues

The Postal Service, the single largest federal civilian agency, has a mission vital to the nation's communication and commerce. As an independent establishment of the executive branch, the Postal Service is charged with providing postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. The Service has an 11-member Board of Governors, and the Governors, by law, are to be chosen to represent the public interest. The Service has a statutory monopoly that restricts the private delivery of letters to enable the Service to fulfill its mandates to provide fair and reasonable rates, uniform rates for at least one class of letter mail, ready access to postal retail services, and delivery of letter mail to patrons in all communities.

To carry out its mission, the Postal Service has nearly 900,000 employees and maintains a national network of over 38,000 post offices and postal facilities. The Service funds its operations largely through postal revenues. In fiscal year 1998, the Service's operating revenue was \$60 billion, and its net income was \$550 million. Since fiscal year 1995, the Service's net income has exceeded \$5 billion. However, the Service still has nearly \$4 billion in accumulated losses from

deficits in past years. Overall, postal labor costs accounted for about 80 percent of the Service's expenses in fiscal year 1997, and growth in postal productivity lagged behind the private sector in fiscal years 1994 through 1997. In meeting its requirement to break even, the Service operates much like a business in that it provides products and services in an increasingly competitive communications environment. In its 1997 annual report, the Service noted that its revenues have exceeded the revenues of all but nine U.S. companies.

When the Postal Service was created out of the U.S. Post Office Department by the 1970 Postal Reorganization Act, it faced little direct competition. Today, in contrast, the Service faces growing competition from private delivery firms and electronic communication alternatives that have placed much of the Service's letter mail revenue at risk. Despite improvements in the Service's financial position, the Service expects its core business to decline in the coming years. This outlook has heightened the need for the Postal Service to resolve long-standing issues in labor-management relations, better control costs and protect postal revenues, implement reliable indicators of postal performance, and ensure that its systems are

Year 2000 compliant. This report summarizes our recent findings in these areas, including the Service's progress and how the Service has begun to implement the Results Act.

**Long-Standing
Challenges in
Labor-
Management
Relations**

Our work has shown that the poor state of labor-management relations within the Postal Service represents one of its most significant internal operational and managerial challenges. We have reported that relationships between postal management and national and local union leadership have generally been characterized by (1) a continued reliance by three of the four major unions on arbitration to settle their contract negotiation impasses with the Service and (2) a significant rise not only in the number of grievances appealed to higher levels, but also in the number of grievances awaiting arbitration. We have identified multiple causes of the Service's poor labor-management relations, including autocratic management styles; adversarial employee, union, and management attitudes; and an inappropriate and inadequate performance management system. Poor labor-management relations have been exemplified by numerous unresolved grievances that totaled almost 90,000 in fiscal year 1996 and by persistent

disagreements that have adversely affected initiatives to improve the efficiency of postal operations. We have reported that the effects of such problems are multiple and include poor work life quality for postal employees and higher mail processing and delivery costs for the Service.

We reported in October 1997 that progress had been made in improving the long-standing labor-management relations problems. Various postal, union, and management association officials whom we interviewed said that the leaders of these organizations have been unable to agree on common approaches to addressing labor-management issues. As a result, our 1994 recommendations for establishing a national framework agreement of common goals and approaches have not been implemented. Further, in April 1998, we reported that the Postal Service had not realized the full benefits of ongoing efforts to improve the efficiency of letter carriers, in part because of disagreements over program implementation between the Service and the labor union that represents city letter carriers.

In June 1998, we testified that there had been progress made in the parties' efforts to

address labor-management relations problems. The Postal Service, its unions, and management associations attended summit meetings starting in late October 1997 to try to address labor-management problems. While the parties have not yet been able to reach a framework agreement that would outline common goals and approaches to set the stage for improving the postal work environment, the new Postmaster General has made improving labor-management relations a high priority, particularly with respect to negotiating contracts with major labor unions. The Service recently negotiated wage agreements in contract talks with some of its major labor unions. Such agreements, when ratified, avoid binding arbitration, which has been used since 1978 to resolve contract disputes between the Service and most of its major labor unions. The Service also has reported reaching individual agreements with major labor unions that focus on reducing conflict in the workplace, identifying and eliminating root causes of labor disputes, and improving the effectiveness of grievance arbitration procedures. Further, the Service has reported to the Congress that it has made progress in reducing the number of unresolved grievances appealed to higher

levels. Moreover, the Service has established a national commission to study the problem of violence in the postal workplace.

Despite recent progress, improving labor-management relations at the Postal Service continues to be an enormous challenge and a major concern for the Service and its unions and management associations. With the significant future challenges it faces to compete in a dynamic communications marketplace, the Service can ill afford to be burdened with long-standing labor-management relations issues. We continue to believe that, in order for any improvement efforts to achieve their maximum intended benefits, it is important for the affected parties to agree on common approaches for addressing labor-management relations problems. Although progress in this area may be difficult to come by, the Postal Service and its unions and management associations need to work together to resolve their differences and thereby achieve tangible results in improving the postal work environment.

**The Continuing
Challenge of
Containing Postal
Costs and
Protecting
Revenues**

The Postal Service's continued success in both operational and financial performance will depend heavily on its ability to control operating costs, strengthen internal controls, and ensure the integrity of its services. The Service's strategic plan stated that significant revenue growth must be matched by aggressive cost management to guarantee the success of the Service in mitigating historic cost trends that drive price increases. Further, the Service has recognized that it must have strong and effective internal operating controls to avoid unwarranted costs. However, in recent years, we have reported on the need to control costs and protect postal revenues in several areas. For example, the Service has experienced substantial cost overruns on major capital projects, failed to realize some opportunities to achieve savings, and had difficulty in protecting postal revenues. We have reported that a number of these situations were exacerbated by weak internal controls, which the Service has taken action to remedy or plans to address. The following are examples of the types of performance and management challenges we have reported on.

In April 1998, we reported that the Postal Service did not achieve all of the savings in

carrier work hours that it had originally projected from its automation program to improve the efficiency of letter carriers. The Service reported that this program saved 22.5 million carrier work hours during fiscal years 1994 through 1997 out of the originally projected savings of 27.2 million work hours. We reported that operational and labor-management relations issues had affected the Service's ability to maximize program savings.

In January 1998, we reported that the Service estimated that it could save about \$13 million to \$17 million annually through centralized uniform procurement but had delayed plans to implement the program pending further discussions with the affected unions. Postal officials told us that they did not anticipate any movement toward implementation before 1999 at the earliest.

We reported in October 1997 on \$133 million in cost overruns that occurred in the construction of the new Chicago Main Post Office and that appeared to be due primarily to inadequate planning. In response, the Service implemented procedures aimed at reducing the likelihood of similar cost overruns in the future.

In 1996, we reported that weaknesses in the Postal Service's controls for accepting bulk business mail prevented the Service from having reasonable assurance that all significant amounts of postage due were received when mailers claimed presort or barcode discounts. Our report noted that bulk mail accounted for almost one-half of the Service's annual revenue. In response to our recommendations, the Service reported taking steps to prevent revenue losses in bulk mailings, including strengthening internal controls and bulk mail acceptance procedures, as well as improving employee training. In addition, in November 1998, the Service reported to the Congress that it is continuing to develop controls that will ensure a risk-based verification process.

Another area of concern has been the overall integrity of the Postal Service's acquisitions. In 1996, we reported that the Postal Service had expended about \$89 million on penalties to compensate injured parties and to pay for unusable and marginally usable property because of poor judgment and decisions to circumvent existing internal controls to meet perceived operational exigencies. We found that the Postal Service could improve its purchasing organization and methods to help safeguard against similar losses in the future.

The Service said that, to avoid a recurrence of these problems, it has improved its management of major acquisitions and strengthened internal controls.

Finally, we reported in 1994 that the Postal Service had an ineffective system of controls for preventing and identifying the fraudulent use of mechanical postage meters. Weak controls, combined with the vulnerability of mechanical meters, thus exposed the Service to widespread meter fraud. The Postal Service has reported that it has developed centralized data management systems for the postage meter program and is in the process of phasing out mechanical meters, which are being replaced with electronic meters. The Service also has developed standards for new markings to be placed on envelopes, in order to remedy the Service's inability to detect counterfeit postage meter imprints. However, systems for postage that incorporate these new envelope markings are still in the testing phase, and the Postal Service anticipates that it will need to refine system specifications as it gains experience.

As the foregoing examples illustrate, the Postal Service has not always had effective controls to protect its revenue or control its costs. The Service's Five-Year Strategic Plan

for fiscal years 1998 through 2002 stated that the Service is aggressively pursuing a variety of programs to improve the efficiency of its revenue assurance and internal control processes to ensure that the Service collects all the revenues that it should be paid. Although the Service has recently instituted actions to improve its controls in several areas, we have not evaluated these recent actions and are not in a position to report on their effectiveness. Not only is it important for the Service to ensure that its recent improvements are effective, but it is also vital that the Service ensure that controls are adequate in new programs and initiatives it undertakes in the future. With respect to the Service's automation program, we have reported that the Service has made progress in implementing automation designed to improve the efficiency of letter carriers. Given the Service's plans to spend billions of dollars on automation projects over the next few years, the Service will need to ensure that it is prepared to meet the critical challenges of implementing automation projects, obtaining the planned savings on schedule, and improving overall productivity.

As competition grows, thus placing billions of dollars of postal revenues at risk, the

Postal Service has said it will need to find new revenue sources in order to remain self-supporting. In its strategic plan, the Service reported that the growth rate for First-Class Mail for fiscal years 1991 through 1996 was about 1.5 percent annually and that First-Class Mail revenues of about \$6 billion are at risk from electronic diversion. The Service reported that its share of the correspondence and transactions communications market, a growing market that is the Service's largest business segment, decreased from 77 percent in 1988 to about 59 percent in 1996.

Currently, the statutory and regulatory authorities governing the Postal Service provide the Service broad latitude to develop and market a wide variety of new products, including both postal and nonpostal products. Some private sector companies and some Members of Congress have raised concerns that the Postal Service could use its governmental status and monopoly protection to an unfair advantage when introducing nonpostal products that compete with those of private sector companies. Legislation has been proposed that would restrict the Service's introduction of new, nonpostal products. In response to these and other concerns, the Service has

discontinued or restricted several new nonpostal products. Although a recent legislative postal reform proposal would provide the Service with broader latitude to test market experimental postal products for limited periods of time, it would also require that new nonpostal products be introduced through a separate for-profit corporation created and owned by the Postal Service.

We recently issued a report that provides information on new products that the Postal Service marketed or had under development during fiscal years 1995 through 1997. It also discussed the potential impact that the recently proposed reform legislation would have on the Service's ability to introduce new products. The Service reported total revenues and expenses for these new products, from inception through fiscal year 1997, as \$148.8 million and \$233.5 million, respectively. In this regard, we reported that it may not be reasonable to expect all new products to become profitable in their early years, because new products generally take several years to become established and recover their start-up costs. In order to develop new sources of revenue, the Postal Service will need to work with the Congress and other postal stakeholders to address questions concerning what types of new

nonpostal products would be appropriate for the Service to provide.

**The Need to
Implement
Reliable
Indicators of
Postal
Performance**

The Postal Service is required by law to provide prompt, reliable, and efficient services to patrons in all areas. Major mailers and the public remain concerned about obtaining quality service at reasonable prices. The Service's measures of mail delivery are key to its efforts to improve and sustain service performance. However, questions have been raised concerning the integrity of data used to measure the timeliness of overnight First-Class Mail delivery. In addition, the Service has not yet implemented quantifiable, results-oriented measures for all of its performance goals established to meet the requirements of the Results Act. The Service will need such measures to be able to fully assess progress toward meeting its goals.

Concerns about the Postal Service's ability to deliver the mail in a timely and consistent manner have prompted close scrutiny of postal performance by the Congress, mailers, and customers. Although the Service recently reported improvements in the delivery of overnight First-Class Mail in 1997, the delivery scores of 2-day and 3-day

mail for fiscal year 1997 declined from levels previously reported for fiscal years 1995 and 1996. We testified that such declines may have reinforced concerns previously expressed by some postal customers that the Service's emphasis on overnight mail delivery has been at the expense of 2-day and 3-day mail delivery efforts. However, the Service recently reported achieving improvements in delivery of both overnight mail and 2-day and 3-day mail. The Service reported that on-time delivery of overnight mail reached a record level of 93 percent in fiscal year 1998, up from 92 percent in fiscal year 1997 and 89 percent in fiscal year 1996. On-time delivery of 2-day mail improved to a record level of 83 percent in fiscal year 1998, compared with 76 percent in fiscal year 1997 and 79 percent in fiscal year 1996. In addition, on-time delivery of 3-day mail reached a record level of 81 percent in fiscal year 1998, compared with 77 percent in fiscal year 1997 and 80 percent in fiscal year 1996.

In addition to these concerns, mailers and postal customers have also expressed concern regarding the delivery service for advertising mail and periodicals. Under the new Postmaster General, the Service has acknowledged that it has experienced problems in delivering these types of mail

and said it would do a better job of delivering catalogs and other advertising mail during the 1998 holiday season. In addition, the Service has said that it is taking several actions to improve the delivery of periodicals and stressed that senior postal management will continue to place emphasis on the timely delivery of periodicals. The Service has also committed to developing performance measures for additional classes of mail, such as advertising mail and periodicals.

The Service has also responded to the concerns of external stakeholders regarding the credibility of performance data. The Postal Service Inspector General identified several weaknesses that had the potential to compromise the validity of the Service's reporting system. The Service has acknowledged that some of its employees attempted to undermine the integrity of the Service's data on the timeliness of overnight First-Class Mail. In response, the Service reported that it has made changes to prevent manipulation of the data.

As the Service proceeds with its implementation of the Results Act, it will be important for it to develop results-oriented measures for its critical functions and

program areas. The Service will also need to take steps to ensure that it uses reliable data to report on its performance, as required by the Results Act. Specifically, the Service has not yet implemented (1) indicators related to improving labor-management relations, (2) indicators related to improving the consistency and accuracy of mail delivery, and (3) four of seven indicators meant to measure employee proficiency. The Service has said that it intends to use a phased approach to develop performance measures for all of its products and services as soon as possible.

**Postal Service at
Risk of Year 2000
Problems**

Like other federal agencies, the Postal Service is at risk of experiencing Year 2000 computer problems that, if uncorrected, could disrupt postal operations. Because of the way computers have recorded and computed dates, on January 1, 2000, computer systems worldwide could malfunction or produce inaccurate information. Software and systems experts nationwide are concerned that, unless corrected, the Year 2000 problem could cause computer systems to malfunction in unforeseen ways, or to fail completely. The Service has a special responsibility to correct its computers to avoid Year 2000

problems because a number of private sector and government groups may need to use the Service as a backup delivery system if their computers malfunction. For this reason, the Service is concerned about the prospect of a mail surge in January 2000. With respect to its own computer systems, the Service has been making necessary corrections so that the Year 2000 problem will not affect its ability to deliver the mail. In this regard, a March 1998 report by the Service's Inspector General found that correcting the Year 2000 problem would be a challenge because the Service was slow to recognize the extent of the problem and did not have sufficient planning and corporatewide involvement to allow for the most effective approach to solving the problem. The Service concurred with this assessment and agreed to take corrective actions.

The Postal Service has numerous computer systems that it must assess, correct, and verify to ensure Year 2000 compliance. As of October 1998, the Service had identified about 150 business applications that were rated as mission-critical, about 350 as important but not mission-critical, and about 50 systems that were to be retired. Overall, the Service has estimated that it has over 100,000 pieces of hardware and software to

assess and correct when necessary, including mainframe computers, personal computers, networks, and operating systems. For example, the Service has identified 50 different components used in mail processing equipment, 41 of which were classified as mission-critical. Of the remainder, three were classified as important but not critical, and six were to be retired or replaced. The Service reported having almost 1,300 people assigned to work on the Year 2000 problem in October 1998, of which about one-third were Postal Service staff and two-thirds were contract personnel. The Service has estimated that the total cost of fixing its Year 2000 problem could be as much as \$500 million to \$700 million.

In addition to correcting its own computer systems, the Postal Service has said that it is heavily dependent on suppliers and therefore needs to ensure that key supplier systems are Year 2000 compliant. The Service has identified about 15,000 suppliers, although it reported that only a few hundred are considered critical to its mission. The mission-critical suppliers include companies such as the airlines, information technology companies, financial institutions, and manufacturers of postal meters. Furthermore, the Service also exchanges

data with numerous suppliers and customers. The Service has said that it is engaged in a dialogue with critical interface partners regarding actions that will be necessary to ensure that data exchanges are not interrupted by the Year 2000 problem.

In preparing for the year 2000, the Postal Service has experienced difficulties in managing and correcting the Year 2000 problem, according to reports by the Service's Inspector General and by us. Examples of such difficulties include the following.

On September 29, 1998, the Service's Inspector General reported that the Postal Service could not provide reasonable assurance that all computer applications classified as mission-critical would be independently verified as corrected before the year 2000. The report noted that the Service was not using a timely and efficient process to verify applications and included recommendations intended to help the Service identify application systems problems before a serious date-related failure occurred. The report also found that few postal applications had been verified as corrected as of July 1998. The Postal Service concurred with the report's findings and

recommendations, and the Service's Inspector General agreed that planned corrective actions, when fully implemented, should be an adequate response.

In October 1998, we reported that, according to the Postal Service, in its efforts to address the Year 2000 problem, retaining skilled in-house personnel resources needed for remediation and testing has been a challenge exacerbated by a limited labor pool. In addition, the Service reported that retaining skilled contractor staff continues to be a challenge.

The Postal Service reported that it is giving high priority to addressing the Year 2000 problem and said that it has made progress in overcoming early difficulties. In October 1998, the Deputy Postmaster General said that "the Year 2000 Initiative is a most critical project for the Postal Service and will require continuous senior management engagement" The Service also reported at that time that it was generally on schedule to fix its computer systems. The Service's remaining challenges include completing fixing its computers so that they are Year 2000 compliant, fully testing computer systems, and preparing contingency plans to help ensure continuity

**Major Performance and Management
Issues**

of core business operations. Given the importance of the Postal Service's mission, close oversight will be needed to ensure that its Year 2000 program stays on track. We are working with the Inspector General to assess and monitor the Service's progress.

Related GAO Products

Labor- Management Relations

U.S. Postal Service: Performance Progress Has Been Made, but Continued Attention to Challenges Is Needed ([GAO/T-GGD-98-142](#), June 10, 1998).

U.S. Postal Service: Little Progress Made in Addressing Persistent Labor-Management Problems ([GAO/GGD-98-1](#), Oct. 1, 1997).

U.S. Postal Service: Challenges in Improving Performance and Meeting Competition ([GAO/T-GGD-96-90](#), Mar. 13, 1996).

D.C. Area Mail Delivery Service: Resolving Labor-Relations and Operational Problems Key to Service Improvement ([GAO/GGD-95-77](#), Feb. 23, 1995).

U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor ([GAO/GGD-94-201A/B](#), Sept. 29, 1994).

Controlling Costs and Protecting Revenues

U.S. Postal Service: Progress Made in Implementing Automated Letter Sequencing, but Some Issues Remain ([GAO/GGD-98-73](#), Apr. 17, 1998).

U.S. Postal Service: Information on Centralized Procurement of Uniforms ([GAO/GGD-98-58R](#), Jan. 28, 1998).

Related GAO Products

U.S. Postal Service: Chicago Main Post Office Cost Overruns and Graceland Station Mail Service ([GAO/GGD-98-11](#), Oct. 31, 1997).

Postal Service Controls Over Postage Meters ([GAO/GGD-96-194R](#), Sept. 26, 1996).

U.S. Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses ([GAO/GGD-96-126](#), June 25, 1996).

Postal Service: Conditions Leading to Problems in Some Major Purchases ([GAO/GGD-96-59](#), Jan. 18, 1996).

Postal Service: Automation Is Taking Longer and Producing Less Than Expected ([GAO/GGD-95-89BR](#), Feb. 22, 1995).

Postage Meters: Risk of Significant Financial Loss but Controls Are Being Strengthened ([GAO/GGD-94-148](#), May 26, 1994).

Operating in a
Competitive
Environment

U.S. Postal Service: Development and Inventory of New Products ([GAO/GGD-99-15](#), Nov. 24, 1998).

Related GAO Products

U.S. Postal Service: Competitive Concerns About Global Package Link Service ([GAO/GGD-98-104](#), June 5, 1998).

U.S. Postal Service: Continued Challenges to Maintaining Improved Performance ([GAO/T-GGD-97-88](#), Apr. 24, 1997).

U.S. Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery ([GAO/GGD-96-129A/B](#), Sept. 12, 1996).

U.S. Postal Service: Unresolved Issues in the International Mail Market ([GAO/GGD-96-51](#), Mar. 11, 1996).

**Indicators of
Postal
Performance**

The Results Act: Observations on the Postal Service's Preliminary Annual Performance Plan ([GAO/GGD-98-144](#), July 10, 1998).

The Results Act: Observations on the Postal Service's June 1997 Draft Strategic Plan ([GAO/GGD-97-163R](#), July 31, 1997).

U.S. Postal Service: New Focus on Improving Service Quality and Customer Satisfaction ([GAO/GGD-96-30](#), Dec. 20, 1995).

Year 2000 Issues

Year 2000 Computing Crisis: Status of Efforts to Deal With Personnel Issues
([GAO/AIMD/GGD-99-14](#), Oct. 22, 1998).

Year 2000 Computing Crisis: Actions Needed on Electronic Data Exchanges
([GAO/AIMD-98-124](#), July 1, 1998).

Year 2000 Computing Crisis: Actions Must Be Taken Now to Address Slow Pace of Federal Progress ([GAO/T-AIMD-98-205](#), June 10, 1998).

Performance and Accountability Series

Major Management Challenges and Program Risks: A Governmentwide Perspective
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