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U.S. POSTAL
SERVICE

New Delivery
Performance
Measures Could
Enhance Managers'
Pay for Performance
Program





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Accountability Integrity Reliability

Highlights

Highlights of [GAO-08-996](#), a report to congressional requesters

Why GAO Did This Study

The U.S. Postal Service (USPS) pay for performance (PFP) program for managers includes quantitative performance indicators. PFP ratings are the basis for salary increases and lump sum awards for nearly 750 Postal Career Executive Service (PCES) executives and about 71,700 other participants, mostly Executive and Administrative Schedule (EAS) employees. GAO was requested to provide information about USPS's PFP system. This report (1) describes the key features of USPS's PFP system, (2) provides information on the weight of its performance indicators in determining PFP ratings, and (3) identifies opportunities for USPS to incorporate delivery performance indicators into its PFP system. GAO obtained USPS documents and data, interviewed USPS officials, and primarily based its assessment on laws related to timely delivery and interviews with senior USPS officials.

What GAO Recommends

The Postmaster General should incorporate new delivery performance indicators into its PFP program—such as indicators that cover Standard Mail and bulk First-Class Mail—once the necessary measurement systems are successfully implemented, including the actions that mailers must take to permit meaningful performance measurement. USPS agreed with the recommendation and stated that it is committed to incorporating new delivery performance measures into PFP.

To view the full product, including the scope and methodology, click on [GAO-08-996](#). For more information, contact Phillip R. Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

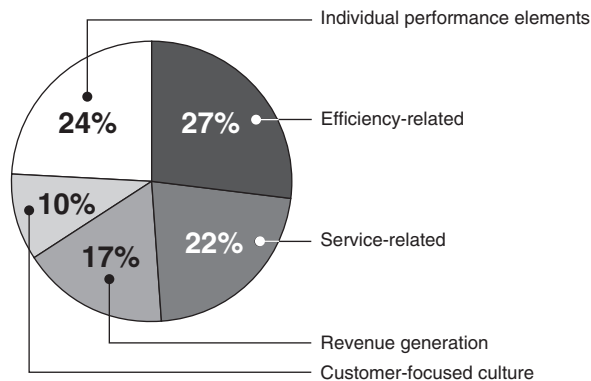
New Delivery Performance Measures Could Enhance Managers' Pay for Performance Program

What GAO Found

Key features of the PFP program are quantitative corporate and unit indicators of performance and individual performance elements that are used to rate participants and provide the basis for awards. Quantitative performance targets are established for corporate and unit indicators. Corporate indicators apply to all participants and include measures of timely delivery, productivity, revenue, and net income, among others. Unit indicators apply to selected groups of participants and vary according to the groups' responsibilities and span of control. Individual performance elements are tailored to the participant group and, within some groups, to individuals. Individual performance elements may be defined by narrative standards or may be quantitative indicators defined with specific target performance levels. The overall PFP rating is based on results of corporate and unit indicators and individual performance elements and is used to determine the salary adjustment and any lump sum award.

PFP indicators related to three USPS strategic goals—increasing efficiency, improving service, and generating revenues—collectively account for two-thirds of the average participant's rating (see fig.). However, indicator weights vary considerably by participant group, based on the responsibilities and span of control of various positions.

Percentage of Overall PFP Rating, by Type of Indicator: Average for All PFP Participants, Fiscal Year 2008



Source: USPS.

As USPS implements requirements of the postal reform law for measuring delivery performance, it will have opportunities to incorporate new indicators into its PFP program, notably for timely delivery of Standard Mail (49 percent of mail volume in fiscal year 2007) and bulk First-Class Mail (25 percent of volume). Once new delivery performance measurement systems are fully implemented and mailers' participation is sufficient to generate representative data, USPS will be able to incorporate new delivery performance indicators into its PFP program. These new indicators would create a more "balanced scorecard" that uses service performance metrics for the mail that is measured to support personal and unit accountability.

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Abbreviations

EAS	Executive and Administrative Schedule
EEO	equal employment opportunity
EXFC	External First-Class Measurement System
PCES	Postal Career Executive Service
PFP	pay for performance
USPS	U.S. Postal Service

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United States Government Accountability Office
Washington, DC 20548

September 10, 2008

The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Carper
Chairman
Subcommittee on Federal Financial Management,
Government Information, Federal Services,
and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

To help accomplish its mission of providing prompt, reliable, and efficient universal service, the U.S. Postal Service (USPS) has adopted a pay for performance (PFP) program for managers that includes a number of quantitative performance indicators. PFP ratings are the basis for USPS's annual salary increases and lump sum awards for nearly 750 Postal Career Executive Service (PCES) executives and about 71,700 other participants, most of whom are members on the Executive and Administrative Schedule (EAS), which includes postmasters, supervisors, managers, as well as others who are ineligible for membership in a postal labor union.¹ USPS implemented its current PFP program for PCES executives in fiscal year 2003 and for EAS employees in fiscal year 2004.² Participants rely on the PFP program for their annual salary increase, since they do not receive cost-of-living adjustments, step increases, or other automatic increases to their salaries. PFP participants also do not receive locality pay. (See app. I for data on the number of USPS PFP participants by employee type.)

According to USPS, the foundation of the PFP program is a "balanced scorecard" of independently verifiable performance indicators in several

¹PCES includes postal officers and other USPS executives. EAS includes most USPS managerial and administrative employees.

²USPS's former PFP program included an Economic Value Added Variable Pay Program for lump sum payments (fiscal years 1996 through 2002) and a Merit Pay Program for salary increases (fiscal years 1996 through 2003).

areas—such as service, revenue generation, and efficiency—to align compensation with individual performance and organizational results. USPS uses this approach to help balance the need to keep postal rates affordable, address increasing financial pressure, and maintain quality delivery service for different types of mail. Specifically, according to USPS, the PFP program is a mechanism to help manage the organization and its employees; align organizational, unit, and individual objectives; link individual contributions to organizational success; compare individual performance with established targets; recognize and reward individual successes; and ensure accountability at all levels of the organization. You requested that we provide information about USPS’s PFP program. Accordingly, this report (1) describes the key features of USPS’s PFP program, (2) provides information on the weight of the PFP program’s performance indicators in determining participants’ ratings, and (3) identifies opportunities for USPS to incorporate new indicators of delivery performance into its PFP program.

To address these objectives, we obtained USPS documentation for the PFP program and interviewed officials responsible for the PFP program. We also obtained data and information on PFP indicators, including their weight. We primarily based our assessment of opportunities for USPS to incorporate new delivery performance indicators into its PFP program on statutes related to timely mail delivery and interviews with senior USPS officials. We conducted a data reliability assessment of USPS’s PFP information and determined that the information was sufficiently reliable for the purposes of our report. More details on our objectives, scope, and methodology appear in appendix II. We conducted this performance audit from October 2007 to September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Key features of the PFP program are quantitative corporate and unit indicators of performance and individual performance elements, which are used to rate participants and provide the basis for awards. Quantitative performance targets are established for the corporate and unit indicators, and the individual performance elements are tailored to the participant group and, within some groups, to individuals. Corporate indicators apply to all participants and include measures of timely delivery, productivity,

revenue, and net income, among others. The unit indicators apply to selected groups of participants, such as postmasters and managers at various mail processing facilities and vary according to the groups' responsibilities and spans of control. Some unit indicators apply to most participants, such as the indicator of the unit's total operating expenses, while others apply to relatively few participants, such as indicators of international mail delivery, which apply exclusively to managers at USPS's International Service Centers. Individual performance elements, such as leadership and communication, may have target performance levels defined by narrative standards. Alternatively, the individual performance elements may be selected from a predefined list, such as a list of indicators of operational effectiveness, and then defined more specifically with target performance levels, based on a discussion that involves the participant and the participant's rater. USPS then calculates the overall PFP rating for each participant based on the results of corporate and unit indicators and ratings for individual performance elements; this rating is used to determine adjustments to the participant's salary and any lump sum award.

Corporate and unit indicators related to three strategic goals in USPS's updated Strategic Transformation Plan³—increasing efficiency, improving service, and generating revenues—collectively account for two-thirds of the average participant's rating. More specifically, results for efficiency-related indicators, such as USPS's overall productivity and unit expenses, account for 27 percent of the average participant's PFP rating; results for service-related indicators, such as the timeliness of delivery for certain types of mail, represent 22 percent of the average rating; and results for revenue-generation indicators, such as national and unit revenues, account for 17 percent of the average rating. However, the weight of PFP indicators varies considerably by participant group, based on the responsibilities and spans of control of various managerial and executive positions.

As USPS implements the postal reform law's requirements to measure and report to the Postal Regulatory Commission delivery performance for all market-dominant products, which collectively represent 99 percent of mail volume, USPS will have opportunities to incorporate new indicators into its PFP program. These new indicators would create a more "balanced scorecard" that uses service performance metrics for the mail that is

³USPS, *Strategic Transformation Plan 2006-2010: 2007 Update* (Washington, D.C., December 2007).

measured to support personal and unit accountability. Currently, PFP indicators of timely delivery apply to less than one-fifth of mail volume. USPS is in the process of implementing required measurement of delivery performance for market-dominant mail, including new delivery performance measurement systems for mail that is not being measured—such as Standard Mail, bulk First-Class Mail, and Periodicals.⁴ Together, these three mail types constitute 78 percent of mail volume, including 49 percent for Standard Mail, 25 percent for bulk First-Class Mail, and 4 percent for Periodicals. USPS has recognized that the successful implementation of these new measurement systems will depend, in part, on actions by mailers. USPS expects these actions—including barcoding mail and containers, as well as providing electronic information on mailings—to become more widespread over the next several years. Once the new delivery performance measurement systems are fully implemented and mailers’ participation is sufficient to generate representative data, USPS will have the opportunity to incorporate new delivery performance indicators into its PFP program. Such action would be consistent with USPS’s actions in the past to implement delivery performance measurement systems for Parcel Select and some types of International Mail, establish targets, identify opportunities to improve service, and to incorporate the measurement data into the PFP program to hold managers accountable for results. These actions have been credited with improving timely delivery performance for these types of mail, both of which operate in a highly competitive marketplace. Accordingly, we are recommending that the Postmaster General incorporate new delivery performance indicators into the PFP program—such as indicators that cover Standard Mail and bulk First-Class Mail—once the necessary measurement systems are successfully implemented, including the actions that mailers must take to permit meaningful performance measurement. In its comments on our draft report, USPS concurred with the recommendation and said it was committed to incorporating new delivery performance measures into its PFP program.

Background

Delivering more than 210 billion pieces of mail each year, USPS has a mission vital to the nation’s communications and commerce. To meet its statutory universal service obligation, which requires it to “serve as nearly as practicable the entire population of the United States,” USPS must

⁴The Postal Accountability and Enhancement Act, Pub. L. No. 109-435, §3652, 120 Stat. 3212 (Dec. 20, 2006).

“provide prompt, reliable, and efficient services to patrons in all areas” and “render postal services to all communities.”⁵ In selecting modes of transportation, USPS is required to “give highest consideration to the prompt and economical delivery of all mail.”⁶ Although USPS is authorized by law to receive appropriations for reimbursement of public service costs incurred by it in providing a maximum degree of effective and regular postal service nationwide, in communities where post offices may not be deemed self-sustaining, USPS has neither requested nor received such appropriations since 1982.⁷ USPS receives only minimal appropriations for reimbursement for providing free mail for the blind and overseas voting, which USPS refers to as “revenue foregone,” that, in fiscal year 2007, represented less than 0.2 percent of its total revenues.⁸ USPS generated 99.8 percent of its total revenues from products and services, with mail revenues accounting for the vast majority (94.8 percent of total revenues).

However, USPS faces an increasingly competitive environment. As some communications and payments have migrated to electronic alternatives, including the Internet, First-Class Mail, which historically has covered most overhead costs, has declined in volume, and more declines are expected. According to USPS, “The projected decline of First-Class Mail impacts the Postal Service’s ability to continue to finance the growing universal service network. This is the single greatest challenge facing the Postal Service.”⁹ Although Standard Mail (primarily advertising) is USPS’s largest class of mail and key growth product, it is more price sensitive. Standard Mail volume has recently declined in the wake of postal rate increases and the economic downturn, and its future prospects are unclear as advertising expenditures continue to shift to the Internet. In this regard, a joint USPS-mailer work group recently reported that “Standard Mail must be delivered in a timely and consistent manner to the end customer according to published standards, in order to remain a viable growth product for its users and the Postal Service, and to remain competitive

⁵39 U.S.C. §§101(a), 403(a).

⁶39 U.S.C. §101(f).

⁷39 U.S.C. §2401(b)(1).

⁸39 U.S.C. §2401(c). For fiscal year 2008, Congress appropriated \$118 million to USPS for these purposes.

⁹USPS, *Strategic Transformation Plan 2006-2010*, p. 7.

with alternative advertising media.”¹⁰ Standard Mail growth will be critical to offset rising costs, primarily rising compensation and benefits costs that have consistently represented nearly 80 percent of USPS’s expenses.

USPS has restrained cost growth in recent years, in part through automation and other productivity initiatives that helped reduce the number of career employees from a peak of nearly 800,000 in September 1999 to fewer than 670,000 in September 2007. However, as USPS has recognized, continued productivity gains are needed in the face of the changing mail mix, sustained and evolving competition, and a challenging economic environment. USPS has recognized that given its workforce costs, continued work hour reductions are necessary to achieve productivity gains.

The 2006 postal reform act generally limits rate increases for most mail to an inflationary price cap.¹¹ The reform act also abolished the statutory mandate to break even financially over time.¹² As a result, USPS generally cannot address financial losses with above-inflation rate increases, which underscores the need to remain financially viable by sufficiently growing revenues, restraining costs, or both. However, USPS recently reported that fiscal year 2008 revenues have not been covering costs, which have grown faster than the price cap.

¹⁰Mailers Technical Advisory Committee Workgroup #114, Establish Service Standards and Measurement, *Final Recommendations Report* (Washington, D.C., Sept. 20, 2007), http://postcom.org/public/WG114/WG114_Final_Report_Sept_20.pdf, p. 34.

¹¹Pub. L. No. 109-435.

¹²Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service. Pub. L. No. 91-375, 84 Stat. 760 (Aug. 12, 1970). The 2006 postal reform law eliminated this provision. Pub. L. No. 109-435, §201(a).

Key Features of USPS's PFP Program Include Quantitative Performance Indicators and Individual Performance Elements

The PFP program includes quantitative corporate and unit indicators of performance and individual performance elements, both of which are used to rate PFP participants. According to USPS, the PFP program places emphasis on performance indicators that are objective and measurable. To this end, target levels of performance, expressed in quantitative terms, are established for the corporate and unit indicators, and PFP participants receive higher ratings as higher targets are achieved. In fiscal year 2008, 12 corporate indicators apply to all PFP participants,¹³ including measures of timely mail delivery, productivity, revenue, and net income, among other things. A total of 53 unit indicators apply to selected groups of participants, such as groups of postmasters and managers at various mail processing facilities, depending on their responsibilities and spans of control. Some unit indicators apply to most participants, such as the indicator of total operating expenses. Other indicators apply to relatively few participants, such as indicators of international mail delivery, which apply exclusively to managers at USPS International Service Centers.

Besides being rated on results for corporate and unit indicators, each PFP participant is rated on individual performance elements that vary depending on the participant group and, within some groups, are tailored to each participant. Some individual performance elements have target levels of performance defined by narrative standards that are centrally established by USPS. For example, EAS postmasters have two individual performance elements that are defined by narrative standards: (1) fiscal management and (2) leadership and communication. Alternatively, other individual performance elements may be selected from a predefined list and then defined more specifically with target performance levels, based on a discussion that involves the participant and the participant's rater. For example, some individual performance elements for a field operations manager must be selected from a list, which includes, among other things, operational productivity, the rate of scanning barcodes on mail pieces, and overtime usage. If an individual performance element involving operational productivity is selected, it is then defined with target performance levels for specific mail processing, delivery, maintenance, and customer service operations, depending on the responsibilities of the field operations manager.

¹³National results on the corporate indicators serve as a controlling factor for determining ratings for headquarters employees.

Corporate and Unit Indicators

Corporate and unit indicators are weighted to reflect organizational priorities. More heavily weighted indicators play a larger role in determining the overall PFP rating, while less heavily weighted indicators play a smaller role. To the extent that indicator weights vary—which can be substantial, depending on the indicator and the participant’s position—the indicator makes a different contribution to the overall PFP rating and the resulting salary adjustments and any lump sum awards.

USPS establishes 15 target performance levels for each corporate and unit indicator. As more challenging targets (i.e., higher levels of performance) are reached, the indicator increases the overall PFP rating and the associated PFP award. Thus, indicator targets create incentives for PFP participants to maximize results for each indicator.

Targets for some indicators are based on actual results achieved for the current fiscal year (e.g., the percentage of a specified type of mail delivered on time), while others are based on year-to-year improvement (e.g., the reduction in formal equal employment opportunity complaints). In some cases, targets are based on the USPS budget. For example, unit indicator targets are defined for total operating expenses relative to the final budget. To the extent that operating expenses are reduced below the budgeted level, higher target levels are achieved. These targets can be adjusted by various levels of management throughout the fiscal year, depending on numerous factors, such as changes in USPS’s overall financial condition, increases in fuel prices, changes in local mailing volumes, and unexpected local expenses, among other things.

Corporate and unit indicators are measured against targets at various levels of geographic aggregation, depending on the indicator and the participant’s group. For example, some corporate indicators are measured at the national level, such as indicators of productivity, revenue, and net income. Other indicators are measured at different geographic levels. For example, for a postmaster of a small post office, the unit’s total operating expense indicator is defined as the total expenses of that post office. For a district executive, the unit operating expense indicator is defined as the total expenses of the entire district.

In some instances, USPS permits “mitigation” adjustments to the data used to measure achievement against targets. Some individual mitigation adjustments are intended to take into account events that are outside the control of the participant, such as a fire that results in the temporary suspension of a post office’s operations. Other mitigation adjustments are processed in batches for multiple units and participants, such as

adjustments that were made after postal operations were disrupted by Hurricane Katrina.

Administration of the PFP Program

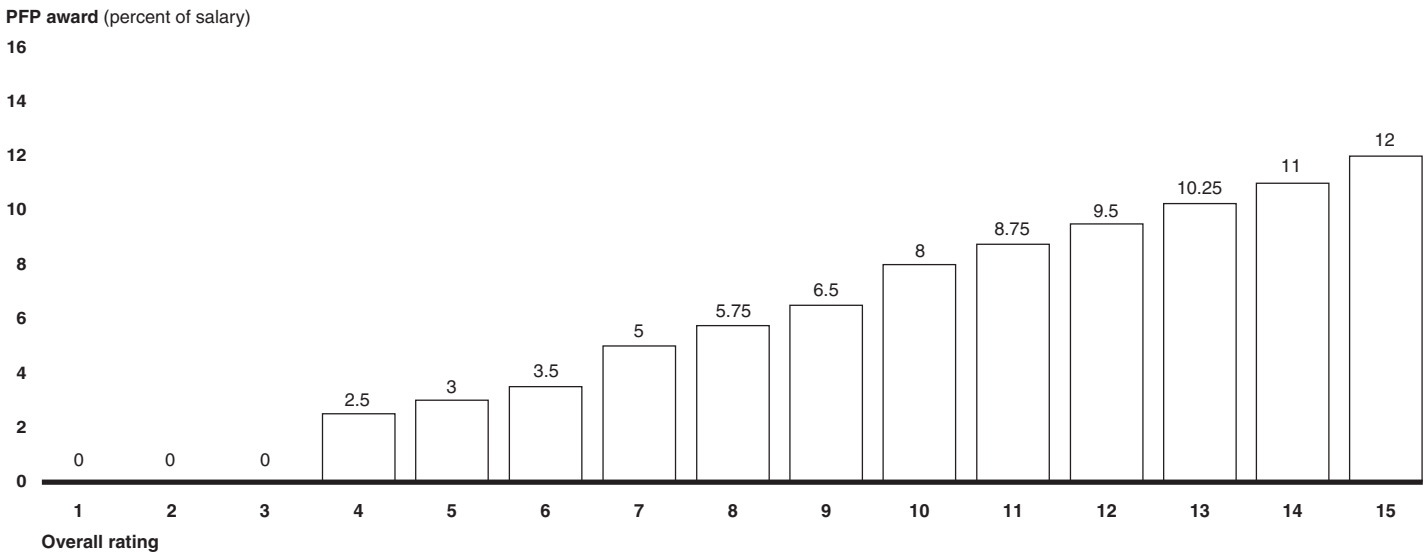
USPS has established a structured process for administering the PFP program. Each participant is assigned a rater, who is generally the participant's immediate supervisor. At the beginning of the fiscal year, the rater is required to discuss PFP indicators and targets with the participant, including goals for corporate and unit indicators and individual performance elements. During the year, a midyear PFP review is used for the participant to record accomplishments to date, and the rater meets with the participant to review progress toward PFP targets. At the end of the year, the participant records accomplishments, and the rater meets with the participant and rates the participant on individual performance elements. USPS then calculates the overall PFP rating for each participant based on the results of corporate and unit indicators and ratings for individual performance elements; this rating is used to determine adjustments to the participant's salary and any lump sum award.

PFP Awards

The overall PFP rating is used to determine salary increases and any lump sum awards based on separate schedules that apply to EAS and PCES participants. First, for each participant, an overall rating is calculated based on the weighted outcomes for corporate and unit indicators and individual performance elements. Since each indicator and individual performance element produces an outcome ranging from 1 to 15, the overall rating also ranges from 1 to 15. The rating is rounded to the nearest whole number for the purpose of determining the PFP award.

For EAS participants, all PFP awards are in the form of percentage increases to their salaries. For fiscal year 2008, the PFP award can range from 0 to 12 percent of the EAS participant's salary, as shown in figure 1.

Figure 1: Percentage Increase in Salary for EAS Participants Based on Overall PFP Rating, Fiscal Year 2008



Source: USPS.

Note: If an EAS participant is paid at or above the top of the salary structure, the amount of the salary increase over the maximum in the salary structure is converted into a PFP lump sum award. Similarly, if a participant's salary increase would exceed the top of the salary structure, the salary is increased to the maximum at that level, and the remaining award is converted into a lump sum award. EAS participants do not receive any other PFP lump sum awards.

For PCES executives, PFP awards take the form of salary increases and lump sum awards. Salary increases depend on the overall PFP rating, as well as each executive's current salary relative to the maximum of his or her salary range, as shown in table 1. However, no salary increases are converted to lump sum awards, as they may be for EAS participants.

Table 1: Percentage Increase in Salary for PCES Executives Based on Overall PFP Rating and Current Salary, Fiscal Year 2008

Overall rating	Current salary				
	30.0% or more below maximum	20.0% to 29.9% below maximum	10.0% to 19.9% below maximum	0.1% to 9.9% below maximum	At maximum
1-3	No increase	No increase	No increase	No increase	No increase
4-6	Up to 7% increase	Up to 5% increase	Up to 3% increase	Up to 3% increase	Up to new salary maximum
7-9	Up to 10% increase	Up to 8% increase	Up to 6% increase	Up to 4% increase	Up to new salary maximum
10-12	Up to 12% increase	Up to 10% increase	Up to 8% increase	Up to 6% increase	Up to new salary maximum
13-15	14% increase	12% increase	10% increase	Up to 8% increase	Up to new salary maximum

Source: USPS.

In addition to a salary increase, a PCES executive may receive a PFP lump sum award that is based on his or her overall rating. This lump sum award is paid as a percentage of the executive's salary, as shown in table 2, for individuals with an overall rating of 4 and above, which is considered to be a minimum threshold for a lump sum award.

Table 2: PCES Executive PFP Lump Sum Awards Based on Overall PFP Rating, Fiscal Year 2008

PFP rating	Salary increase (in percent)
1	0
2	0
3	0
4	1
5	2
6	3
7	4
8	5
9	6
10	8
11	9
12	10
13	12
14	13
15	14-15

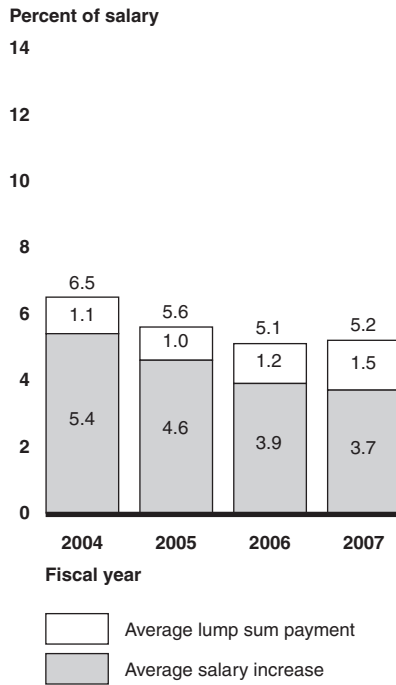
Source: USPS.

Note: PCES participants may receive lump sum awards in addition to the salary increases shown in table 1. However, no PCES salary increases are converted to lump sum awards, as they may be for EAS participants.

Average PFP awards as a percentage of salary for EAS and other non-PCES participants¹⁴ are shown in figure 2, from fiscal year 2004—the first year of the current PFP program for EAS participants—through fiscal year 2007.

¹⁴Other participants include attorneys and other headquarters employees not in PCES or EAS.

Figure 2: Average PFP Awards for EAS and Other Non-PCES Participants, Fiscal Years 2004 through 2007

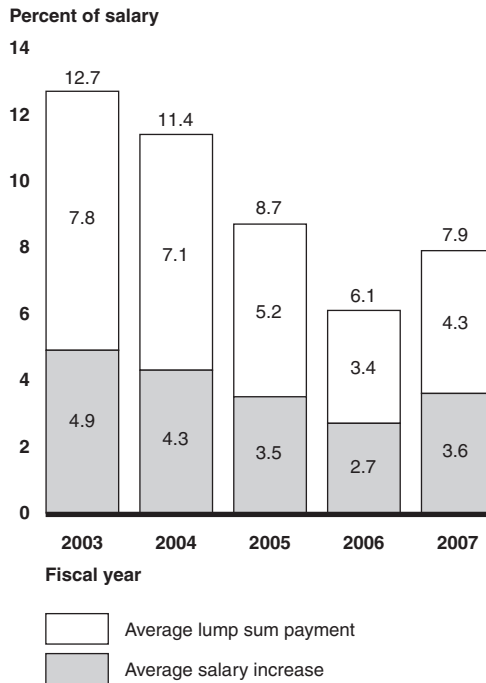


Source: USPS.

Note: Other participants include attorneys and other headquarters employees not in the PCES or EAS.

Average PFP awards for PCES participants are shown in figure 3, from fiscal year 2003—the first year of the current PFP program for PCES participants—through fiscal year 2007.

Figure 3: Average PFP Awards for PCES Participants, Fiscal Years 2003 through 2007



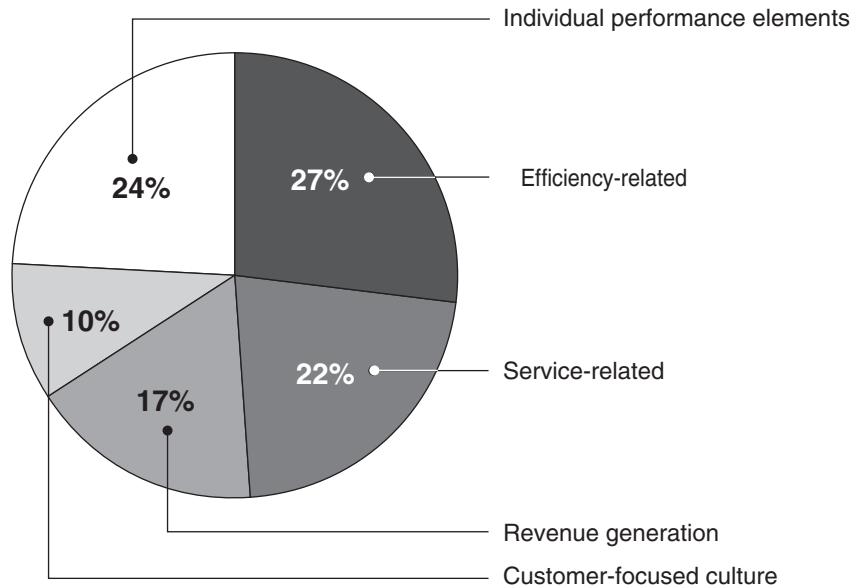
Source: USPS.

Note: Data are for participants in PCES level I. A separate PFP program applies to PCES level II, which consists of USPS officers.

Overall PFP Ratings Primarily Depend on Results for Indicators Related to Efficiency, Service, and Revenues

Overall PFP ratings primarily depend on results for corporate and unit indicators related to USPS's strategic goals of increasing efficiency, improving service, and generating revenue. Collectively, these indicators are weighted so that they account for two-thirds (66 percent) of the PFP rating for the average PFP participant in fiscal year 2008 (see fig. 4).

Figure 4: Percentage of Overall PFP Rating, by Type of Performance Indicator: Average of All PFP Participants, Fiscal Year 2008



Source: USPS.

Note: Results are rounded to the nearest percent.

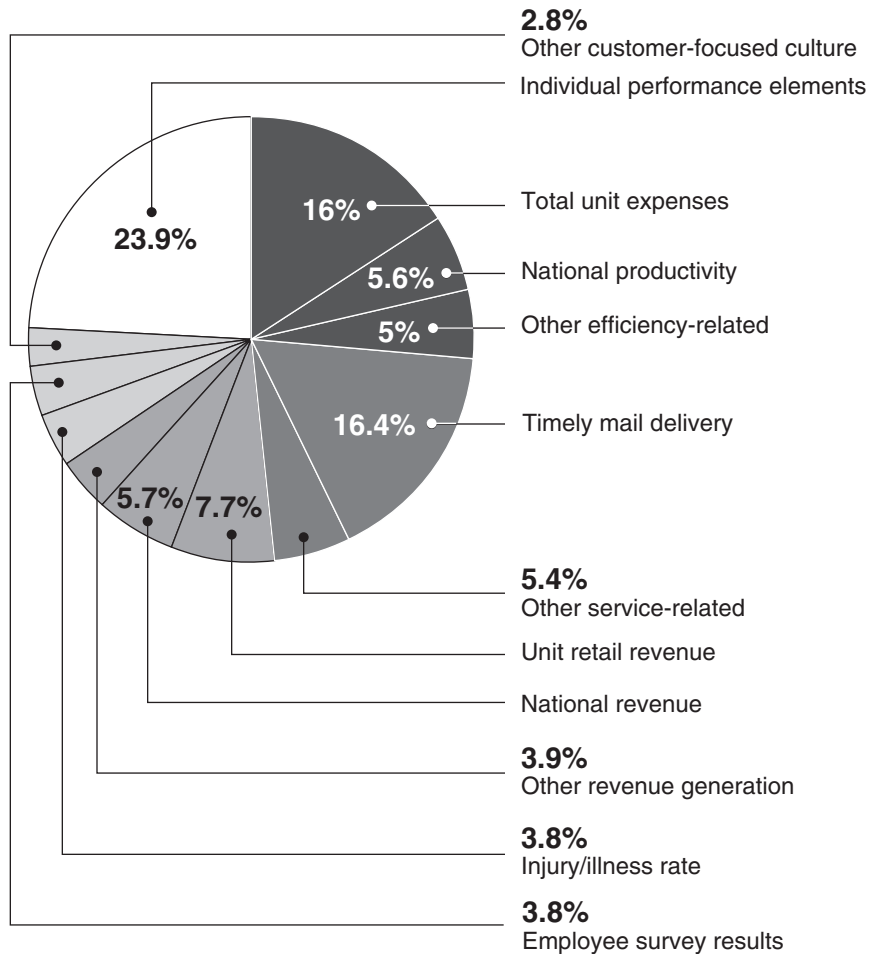
Figure 4 shows that for fiscal year 2008, results for efficiency-related indicators, which are corporate and unit indicators, such as USPS's overall productivity and total unit expenses, make up 27 percent of the PFP rating for the average participant. Results for service-related indicators, such as corporate and unit indicators for timely delivery of different types of mail, represent 22 percent of the average rating. Results for corporate and unit revenue-generation indicators, such as national and unit revenues, account for 17 percent of the average rating. An additional 10 percent of the rating consists of results for corporate and unit indicators related to USPS's strategic goal of creating a more customer-focused culture.¹⁵ The remaining 24 percent of the rating reflects the results for individual performance elements, such as oral communication and other quantitative indicators, some of which were tailored to the individual.

¹⁵No corporate and unit indicators for fiscal year 2008 were classified as primarily related to USPS's goal of enhancing sustainability, which USPS added to its list of strategic goals after the fiscal year began (i.e., when USPS issued its updated *Strategic Transformation Plan* in December 2007).

USPS officials have stated that indicators are weighted to reflect their relative importance to accomplishing USPS's strategic goals, as well as their applicability to individual positions based on the individual's responsibilities and span of control. According to USPS, the PFP program thereby recognizes and rewards individual performance that improves corporate and unit performance, particularly in high-priority areas.

Consistent with this approach, some indicators are more heavily weighted than others. Among efficiency-related indicators, two indicators make the largest contribution to the overall PFP rating: total unit expenses (16 percent of the overall rating) and national productivity (5.6 percent of the rating) (see fig. 5). The 22 other efficiency-related indicators account for 5 percent of the overall rating, in part because some of these indicators measure results for specific USPS operations and, thus, are applicable to relatively few PFP participants. However, these indicators can have a significant weight for the participants they apply to. Among service-related indicators, the 13 indicators measuring timely delivery of the various mail types account for 16.4 percent of the overall rating. The 10 other service-related indicators account for 5.4 percent of the rating. Among revenue-generation indicators, the two most heavily weighted indicators are unit retail revenue (e.g., revenue from individual pieces of mail deposited at a post office), which represents 7.7 percent of the overall rating, and national revenue, which represents 5.7 percent of the rating. Five other revenue-generation indicators account for 3.9 percent of the overall rating.

Figure 5: Percentage of Overall PFP Rating, by Performance Indicator: Average of All PFP Participants, Fiscal Year 2008



Source: USPS.

Note: Efficiency-related indicators include total unit expenses (a unit indicator), national productivity (a corporate indicator), and other efficiency-related indicators that are unit indicators. Service-related indicators include corporate and unit indicators for timely mail delivery and other corporate and unit service-related indicators. Revenue-generation indicators include unit retail revenue (a unit indicator), national revenue (a corporate indicator), and other corporate and unit revenue-generation indicators. Customer-focused culture indicators include the injury/illness rate and employee survey results (both corporate indicators) and other corporate and unit customer-focused culture indicators. Results are rounded to the nearest 0.1 percent and add to 100 percent.

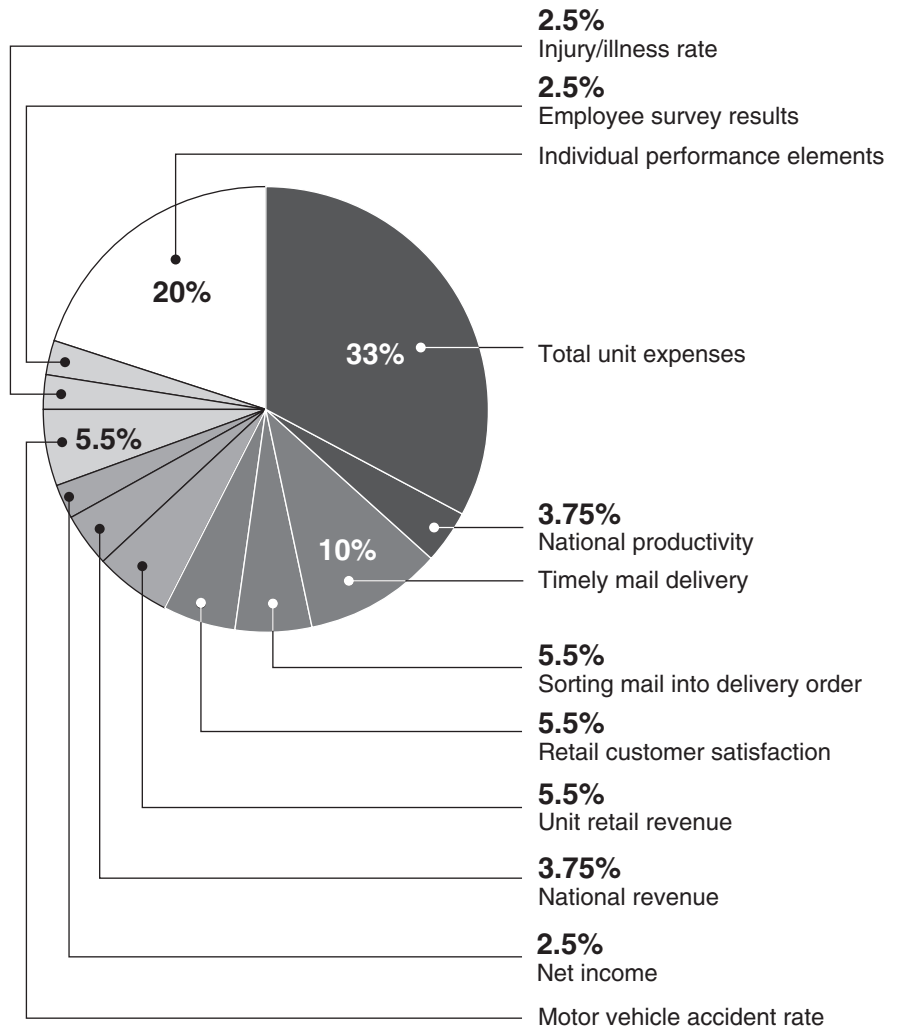
The Weight of PFP Indicators Varies Considerably by Participant Group

The weight of PFP indicators varies considerably by participant group, based on the responsibilities and spans of control of various managerial and executive positions. For example, for the 14,754 full-time postmasters in EAS levels 11 through 16, who generally head small post offices,¹⁶ 33 percent of the overall PFP rating is based on the total unit expenses indicator (see fig. 6). In contrast, this indicator accounts for 12 percent of the rating for the 2,365 postmasters in EAS levels 21 through 26 (see fig. 7), who generally head larger post offices.¹⁷ The overall rating of postmasters in EAS levels 21 through 26 is more dependent on a variety of other indicators related to efficiency, timely mail delivery, and revenue generation.

¹⁶Post offices headed by EAS postmasters in EAS levels 11 through 16 generally have annual revenues between \$30,000 and \$300,000. EAS levels are assigned to postmasters based on a combination of their responsibilities, the number of their employees, the size of the post office facility, and various operations performed by the post office.

¹⁷Post offices headed by EAS postmasters in levels 21 through 26 generally have annual revenues between \$5 million and \$150 million.

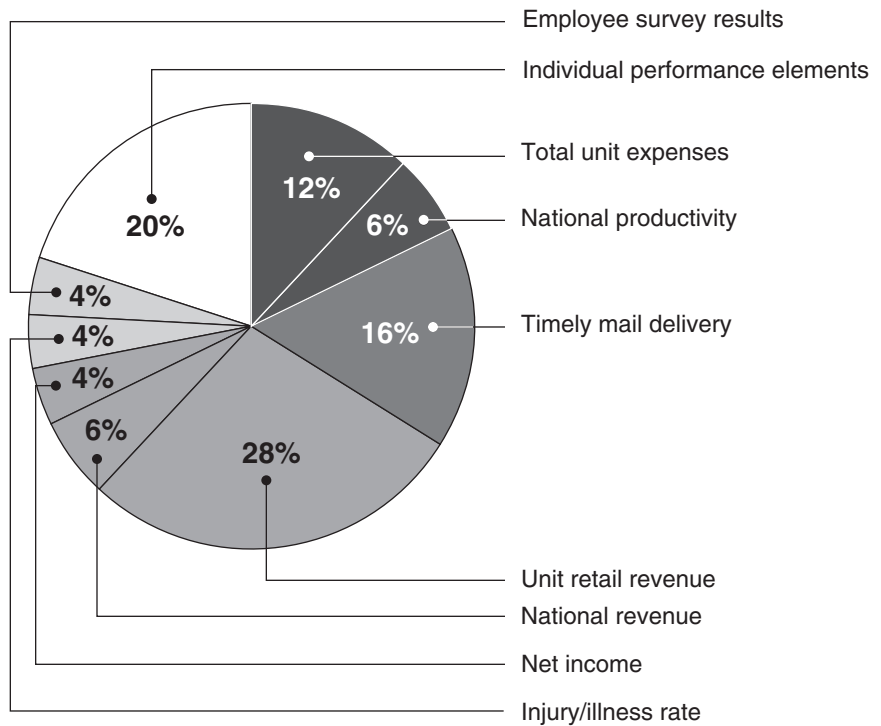
Figure 6: Percentage of Overall PFP Rating, by Type of Performance Indicator: Full-Time Postmasters in EAS Levels 11 through 16, Fiscal Year 2008



Source: USPS.

Note: Post offices headed by EAS postmasters in EAS levels 11 through 16 generally have annual revenues between \$30,000 and \$300,000. EAS levels are assigned to postmasters based on a combination of their responsibilities, the number of their employees, the size of the post office facility, and various operations performed by the post office. Efficiency-related indicators include total unit expenses (a unit indicator) and national productivity (a corporate indicator). Service-related indicators include corporate indicators for timely mail delivery and other corporate and unit service-related indicators. Revenue-generation indicators include corporate indicators for national revenue and net income. Customer-focused culture indicators include the injury/illness rate and employee survey results (both corporate indicators) and other corporate and unit customer-focused culture indicators. Results are not rounded and add to 100 percent.

Figure 7: Percentage of Overall PFP Rating, by Type of Performance Indicator: Postmasters in EAS Levels 21 through 26, Fiscal Year 2008



Source: USPS.

Note: Post offices headed by EAS postmasters in levels 21 through 26 generally have annual revenues between \$5 million and \$150 million. EAS levels are assigned to postmasters based on a combination of their responsibilities, the number of their employees, the size of the post office facility, and various operations performed by the post office. Efficiency-related indicators include total unit expenses (a unit indicator) and national productivity (a corporate indicator). Service-related indicators include corporate indicators for timely mail delivery. Revenue-generation indicators include corporate indicators for national revenue and net income. Customer-focused culture indicators include corporate indicators for the injury/illness rate and employee survey results. Results are not rounded and add to 100 percent.

Additional examples of how indicator weights vary for participants in different positions include the following:

- The retail revenues indicator is most heavily weighted for upper-level EAS postmasters. This indicator accounts for 35 percent of the overall PFP rating for the 6,853 postmasters in EAS levels 18 through 20 and 28 percent of the rating for the 2,365 postmasters in EAS levels 21 through 26; it makes up 5.5 percent of the rating for the 14,754 postmasters in EAS levels 11 through 16 and does not factor into the overall PFP rating for the 1,126 part-time EAS postmasters of small post offices (i.e., Cost Ascertainment

Grouping levels A through E). To put the use of this indicator into context, USPS is looking to generate revenues through postmaster and other employee outreach to households and small businesses and has multiple programs for outreach to small business customers to promote the convenience and value of postal services.

- Three indicators related to equal employment opportunity (EEO) account for 35 percent of the overall PFP rating for the 167 managers with responsibilities in this area. These indicators measure outcomes of EEO complaints, including the percentage of informal complaints that become formal complaints, the number of formal complaints, and the processing time for complaints that are mediated. These indicators support USPS's emphasis on improving EEO processes and processing EEO complaints in a timely manner, and USPS classified these indicators as related to its strategic goal of creating a more customer-focused culture. USPS has provided training to supervisors and managers on the importance of EEO, open communication, and the benefits of resolving complaints at the lowest possible level.
- Various unit indicators apply to the 13,458 EAS field managers who work in the mail processing area, such as indicators of the efficient use and maintenance of mail processing equipment. These indicators support USPS's efforts to improve efficiency and service, and for some field managers, represent 21 percent of their rating. Other mail processing indicators measure the scanning of barcodes on mail containers and equipment used in mail processing operations—an activity that is critical to USPS's efforts to track mail, thereby improving service and efficiency.

Opportunities to Incorporate New Delivery Performance Indicators into USPS's PFP Program Will Follow Implementation of Delivery Measurement Systems

As USPS implements the postal reform law's requirements for measuring and reporting its delivery performance for all market-dominant products, which collectively make up nearly 99 percent of mail volume, USPS will have opportunities to incorporate new indicators into its PFP program, notably for Standard Mail and bulk First-Class Mail.

PFP indicators of timely delivery apply to only some types of mail¹⁸ because, as we reported in July 2006, USPS measures timely delivery for less than one-fifth of mail volume, with no representative measures for Standard Mail (48.8 percent of volume), bulk First-Class Mail (25.3 percent of volume), Periodicals (4.1 percent of volume), and most types of Package Services (0.5 percent of volume).¹⁹ However, in December 2006, Congress enacted postal reform legislation that requires USPS to measure and report to the Postal Regulatory Commission on the delivery performance of market-dominant products, which include mail such as Standard Mail, bulk and single-piece First-Class Mail, and Periodicals.

USPS is in the process of implementing new delivery performance measurement systems for market-dominant mail types that are not currently being measured—such as Standard Mail, bulk First-Class Mail, and Periodicals. Together, these three mail types constitute 78 percent of mail volume, including 49 percent for Standard Mail, 25 percent for bulk First-Class Mail, and 4 percent for Periodicals. USPS has recognized that the successful implementation of these new measurement systems will depend, in part, on mailers' barcoding mail and containers, as well as providing electronic information on mailings. USPS expects these activities to become more widespread over the next several years. Once such systems are fully implemented and mailers' participation is sufficient to generate representative data, USPS will have the opportunity to incorporate new delivery performance indicators into its PFP program. Such action would be consistent with the approach USPS has taken in

¹⁸The fiscal year 2008 PFP program uses several indicators of timely delivery for the mail types that are currently measured, which include single-piece First-Class Mail, Priority Mail, Express Mail, some Package Services Mail, and some International Mail. These indicators are weighted to collectively make up 16.4 percent of the average PFP rating, including single-piece First-Class Mail (7.6 percent of the average rating), Priority Mail (5.9 percent), Express Mail (1.9 percent), Package Services (0.9 percent), and International Mail (0.1 percent). The International Mail indicators are a very small percentage of the average PFP rating because they are only factored into the PFP ratings of managers who work in International Mail Centers.

¹⁹GAO, *U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement*, [GAO-06-733](#) (Washington, D.C.: July 27, 2006).

recent years to incorporate new performance indicators into its PFP program.

In addition, the External First-Class Measurement System (EXFC), which is incorporated into the PFP program to measure the timely delivery of single-piece First-Class Mail, has not been a systemwide indicator for this type of mail, in part because EXFC has measured delivery performance for mail deposited in collection boxes only in selected areas of the country.²⁰ USPS is expanding EXFC coverage to include nearly all geographic areas. According to a senior USPS official, as EXFC coverage is expanded in fiscal year 2008, the additional data are being incorporated into the fiscal year 2008 indicators for single-piece First-Class Mail. This development is consistent with USPS's actions in the past to implement delivery performance measurement systems for Parcel Select and some types of International Mail, establish targets, identify opportunities to improve service, and to incorporate the measurement data into the PFP program to hold managers accountable for results. These actions have been credited with improving timely delivery performance for these types of mail, both of which operate in a highly competitive marketplace.

To put these developments into context, in 2006, USPS said that its goal of improving service—which continues to be one of its primary goals—is supported by a “balanced scorecard” that uses service performance metrics for the mail that is measured to support personal and unit accountability. USPS noted that goals for these metrics—which include delivery performance indicators, as well as operational indicators that USPS said are critical to on-time service performance—were incorporated into the PFP program. We have agreed with USPS's focus on improving service and holding its managers accountable for results but noted in 2006 that USPS has not yet achieved its aim of a “balanced scorecard” for delivery performance because its delivery performance indicators cover less than one-fifth of mail volume, and these indicators do not cover Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services mail. We observed that this gap in coverage has impeded USPS's potential for holding its managers accountable for the delivery

²⁰EXFC, administered by a contractor, measures when test mail pieces are deposited in collection boxes and received at various addresses. In recent years, EXFC has covered 463 three-digit ZIP Code areas (i.e., ZIP Codes with the same first three digits) judgmentally selected based on geographic and volume density. It does not cover remittance mail (i.e., bill payments) that companies pick up at USPS facilities.

performance of all types of mail and for balancing increasing financial pressures with the need to maintain quality delivery service.²¹

In 2007, the Chairman of the USPS Board of Governors noted in congressional testimony, “To improve service, we need better metrics on performance. As George Mason University President Alan Merten says, ‘What gets measured gets better.’”²² The delivery performance indicators that USPS has implemented and incorporated into PFP incentives have been credited with stimulating improved service. For example, USPS created delivery standards and indicators for Parcel Select service in 1999, which it then incorporated into PFP incentives. In September 2007, the Deputy Postmaster General cited USPS’s delivery performance for Parcel Select as an example of substantial improvement resulting from measuring and building results into its PFP program, thereby holding managers accountable.

Conclusions

To fulfill its mission of providing universal postal service, USPS is required to provide prompt mail delivery throughout the nation. USPS can help improve delivery service by incorporating new delivery performance indicators for market-dominant products that represent most mail volume into its PFP program. Incorporating new delivery indicators would hold postal managers accountable for results. We recognize that incorporating such indicators would depend on successful implementation of the new measurement systems—which will depend not only on USPS but also on mailers, who must barcode the mail and provide necessary information in electronic format, among other things. It will take time to implement new delivery performance measurement systems at a level that permits meaningful performance measurement and incorporation into the PFP program. Thus, over time, USPS will have an opportunity to incorporate new delivery performance indicators into its PFP program—such as indicators of timely delivery for Standard Mail and bulk First-Class Mail—to produce a more balanced scorecard of PFP indicators. As USPS has recognized, what gets measured gets better, and PFP indicators help drive performance improvement.

²¹ [GAO-06-733](#).

²² Prepared statement of James C. Miller III, Chairman, Board of Governors, U.S. Postal Service, before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, U.S. House of Representatives (Washington, D.C.: Apr. 17, 2007).

Recommendation for Executive Action

We are making one recommendation that the Postmaster General incorporate new delivery performance indicators into the PFP program—such as indicators that cover Standard Mail and bulk First-Class Mail—once the necessary measurement systems are successfully implemented, including the actions that mailers must take to permit meaningful performance measurement.

Agency Comments and Our Evaluation

USPS provided written comments on a draft of this report in a letter dated August 4, 2008, from the Senior Vice President of Operations and the Vice President of Employee Resource Management. USPS's comments are summarized below and the letter is reproduced in appendix III. In separate correspondence, USPS also provided technical comments, which we incorporated, as appropriate.

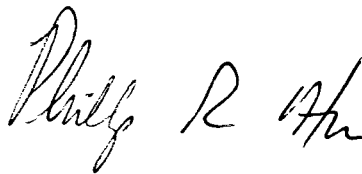
USPS concurred with our recommendation and said it was committed to incorporating new delivery performance measures into its PFP program. USPS noted that in its June 2008 response to Congress regarding the Postal Accountability and Enhancement Act,²³ USPS identified implementing expanded measurement systems for single-piece First-Class Mail, new systems for bulk First-Class Mail, Standard Mail, Periodicals, and bulk Package Services mail and stated that implementation of these systems will continue through fiscal year 2009. USPS agreed with our draft report that successful implementation of new measurement systems will depend, in part, on mailers barcoding mail and containers, as well as providing electronic information on mailings. USPS said that in addition to expanding measurement systems for its market-dominant products during fiscal year 2009, it will also develop historical data to assist with the creation of future performance targets. USPS also provided comments on its PFP program, stating that the program's approach has been responsible for substantial performance improvements and is consistent with past efforts to ensure the proper balance of performance indicators.

We are sending copies of this report to the Chairman of the Senate Committee on Homeland Security and Governmental Affairs; the Ranking Minority Member of the Subcommittee on Federal Financial Management,

²³USPS, *Postal Accountability and Enhancement Act §302 Network Plan* (Washington, D.C., June 2008), required by the Postal Accountability and Enhancement Act (Pub. L. No. 109-435, §302).

Government Information, Federal Services, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the Chairman and Ranking Minority Member of the House Committee on Oversight and Government Reform; the Chairman and Ranking Minority Member of the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, House Committee on Oversight and Government Reform; the Chairman of the USPS Board of Governors; the Postmaster General; the USPS Inspector General; and other interested parties. We also will provide copies to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at herrp@gao.gov or (202) 512-2834. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Phillip R. Herr". The signature is written in a cursive style with a large initial "P".

Phillip R. Herr
Director, Physical Infrastructure Issues

Appendix I: Number of U.S. Postal Service Pay for Performance Participants, by Employee Type, as of December 5, 2007

U.S. Postal Service (USPS) employee type	Number of participants
Executive and Administrative Schedule (EAS) and other non-EAS participants	
• EAS Postmasters	
Postmasters, level 21-26	2,365
Postmasters, level 18-20	6,853
Postmasters, level 11-16	14,754
Postmasters, level A-E	1,126
Subtotal	25,098
• Other field EAS employees (including district and facility EAS)	
• Field customer service EAS	
• Manager of Customer Service Operations at a post office	447
• EAS at Postal Career Executive Service (PCES) post office	1,307
• EAS at grade 21-26 post office	8,258
• EAS at grade 18-20 post office	2,525
• EAS level 21 and below at a station or branch	2,766
• EAS level 22 and above at a station or branch	1,822
Subtotal	17,125
• Field mail processing EAS	
• PCES plant	765
• EAS plant	2,139
• Distribution Operations: Processing and Distribution Center, Processing and Distribution Facility, Customer Service Network Processing Facility	3,999
• In-Plant Support: Processing and Distribution Center, Processing and Distribution Facility, Customer Service Network Processing Facility	1,224
• Maintenance: Processing and Distribution Center, Processing and Distribution Facility, Customer Service Network Processing Facility	2,203
• Transportation: Processing and Distribution Center, Processing and Distribution Facility, Customer Service Network Processing Facility	810
• Air Mail Center or Air Mail Facility	291
• Bulk Mail Center or Bulk Mail Facility	1,429
• Priority Mail Processing Center or Logistics and Distribution Center	222
• Remote Encoding Center	127
• Surface Transportation Center or Hub-and-Spoke Program	64
• International Service Center	185
Subtotal	13,458
• District EAS	
• Business Mail Entry Unit	420
• Business Service Network	218

**Appendix I: Number of U.S. Postal Service Pay
for Performance Participants, by Employee
Type, as of December 5, 2007**

U.S. Postal Service (USPS) employee type	Number of participants
• Consumer Advocate	53
• Finance	1,062
• Human Relations	2,951
• Marketing	727
• District Manager's Office	580
• Manager of Operations Program Support	2,205
• Manager of Post Office Operations	461
• Retail	184
• Stamp distribution	57
• Statistical programs	117
• Time and Attendance Collection System	75
Subtotal	9,110
• Area EAS	
• Business Service Network	58
• Distribution Networks Operations	373
• Delivery Point Sequencing	78
• Finance	124
• Human Resources	302
• Maintenance	56
• Marketing	91
• Methods Improvement Program	99
• Management Operations Support	79
• Retail	14
• Small Business and Mail Acceptance Unit	7
• Area Vice President's Office	16
Subtotal	1,297
• Equal employment opportunity field operations EAS	
• Capital Metro Area	13
• Eastern Area	13
• Great Lakes Area	24
• New York Metro Area	17
• Northeast Area	12
• Pacific Area	18
• Southeast Area	23
• Southwest Area	26
• Western Area	21
Subtotal	167

**Appendix I: Number of U.S. Postal Service Pay
for Performance Participants, by Employee
Type, as of December 5, 2007**

U.S. Postal Service (USPS) employee type	Number of participants
• Postal Police	126
• Headquarters (HQ) and HQ-related EAS employees	
• Attorneys on the Attorney Compensation Schedule	183
• Sales EAS	667
• Other HQ and HQ-related EAS	4,471
Subtotal	5,321
Total	71,702
Postal Career Executive Service (PCES)	
• PCES field executives (including PCES Postmasters)	
• Air Mail Center or Air Mail Facility	1
• Area Distribution Networks Operations	9
• Area Delivery Point Sequencing	10
• Area Finance	9
• Area Human Resources	10
• Area Maintenance	9
• Area Marketing	11
• Area Methods Improvement Program	11
• Area Manager of Operations Support	10
• Area Vice President's Office	4
• Bulk Mail Center or Bulk Mail Facility	16
• District Leadership	116
• International Service Center	1
• PCES plant	88
• PCES post office	37
Subtotal	342
• HQ and HQ-related PCES executives	405
Total: PCES	747
Grand total	72,449

Source: USPS.

Note: According to USPS, on December 5, 2007, an additional 221 individuals appeared to be PFP participants but had not confirmed their employee profile information in the PFP program. As a result, USPS was unable to categorize these employees and they were not included in this table.

Appendix II: Objectives, Scope, and Methodology

Our objectives were to (1) describe the key features of the U.S. Postal Service's (USPS) pay for performance (PFP) program, (2) provide information on the weight of the PFP program's performance indicators in determining participants' ratings, and (3) assess opportunities for USPS to incorporate new indicators of delivery performance into its PFP program. To address these objectives, we obtained documentation from USPS on its PFP program and interviewed USPS officials responsible for the program. To assess opportunities for USPS to incorporate new delivery performance indicators into its PFP program, we also obtained documentation on USPS's plans to implement new delivery performance measurement systems. We primarily based our assessment on applicable laws—such as laws related to USPS's statutory mission of providing prompt, reliable, and efficient postal services to patrons in all areas at reasonable rates and statutory reporting requirements related to USPS's delivery performance—as well as on interviews with senior USPS officials. We also developed assessment criteria from our past work on other agencies' PFP programs and best practices used by high-performing organizations. We conducted a data reliability assessment of USPS's PFP information and determined that the information was sufficiently reliable for the purposes of our report. Our assessment was based on a review of the documentation and data provided, comparing the consistency of information provided by multiple sources and in multiple data files; interviews with USPS officials to discuss the documentation; and data, including how the data were developed; and follow-up questions to obtain further information.

We conducted this performance audit from October 2007 to September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix III: Comments from the U.S. Postal Service



August 4, 2008

Mr. Phillip R. Herr
Director, Physical Infrastructure Issues
United States Government Accountability Office
Washington, DC 20548-0001

Dear Mr. Herr:

Thank you for providing the U.S. Postal Service with the opportunity to review and comment on the draft report titled U.S. Postal Service: New Delivery Performance Measures Could Enhance Managers' Pay for Performance Program (GAO-08-996).

Given the shift to pay-for-performance (PFP) by many agencies—including the GAO—we had hoped the report would offer a brief opinion on the Postal Service's PFP program itself. We provided extensive information on the program's history, design, and its evolution to its current phase. This information included a history of performance results under PFP and its predecessor programs, specific design features of over twelve years of postal pay-for-performance programs, a history of pay consultations with the management associations, examples of employee communications and training, and independent assessments of our pay-for-performance programs. The Postal Service's program has been cited by an independent entity as a model for other agencies to emulate as it links individual contributions to organizational success through objective, measurable performance indicators which are aligned at the corporate, functional, and individual levels.

The complexity of managing an organization the size of the Postal Service requires senior managers be able to view performance in several areas simultaneously. The National Performance Assessment (NPA) program is a "balance scorecard" approach utilized by the Postal Service that translates the organization's strategy and mission into specific goals and measures, providing managers the ability to evaluate service, corporate culture, internal efficiencies and financial performance at a glance.

In response to the GAO's recommendation that the Postal Service "incorporate new delivery performance indicators into the [Pay for Performance] PFP program," the Postal Service concurs and is committed to accomplishing that goal.

In the June 2008 response to Congress regarding the Postal Accountability and Enhancement Act (PAEA) § 302 Network Plan, the Postal Service identified "implementing expanded measurement systems for Single-Piece First-Class Mail; new systems for Presort First-Class Mail, Standard Mail, Periodicals and Presort Package Services...Implementation of these systems will continue through fiscal year (FY) 2009."

Furthermore, as stated in the GAO report, "successful implementation of new measurement systems will depend, in part, on mailers' barcoding mail and containers, as well as providing electronic information on mailings." This is also identified in the Network Plan.

In addition to expanding measurement systems for its Market-Dominant products during FY 2009, the Postal Service will also develop historical data to assist with the creation of future performance targets.

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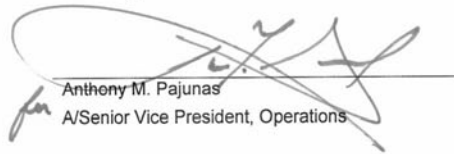
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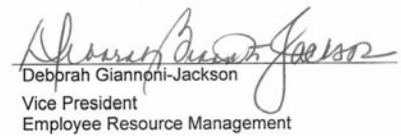
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The performance goal of the Postal Service is one of continuous improvement. The NPA program incorporates continuous improvement into each and every indicator. This approach has been responsible for substantial performance improvements for the Postal Service and is consistent with past efforts to ensure the proper balance of NPA indicators.

If you or your staff wish to discuss any of these comments further, we are available at your convenience.

Sincerely,


Anthony M. Pajunas
A/Senior Vice President, Operations


Debrah Giannoni-Jackson
Vice President
Employee Resource Management

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Phillip R. Herr (202) 512-2834 or herrp@gao.gov

Staff Acknowledgments

In addition to the above individuals, Gerald P. Barnes (Assistant Director), Elizabeth Eisenstadt, Brandon Haller, David Hooper, Kenneth E. John, Belva Martin, Laura Shumway, and Crystal Wesco made key contributions to this report.

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