GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON THE POSTAL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

WEDNESDAY, MARCH 13, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 311, Cannon House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Sanford, Owens, and Meek.

Ex officio present: Representative Clinger.

Staff present: Dan Blair, staff director; Jane Hatcherson, Robert Taub, Heea Vazirani-Fales, and Steve Williams, professional staff members; Jennifer Tracey, clerk; Denise Wilson, and Kim Williams, minority professional staff members; and Jean Gosa, minority staff assistant.

Mr. MCHUGH. Good morning. We are waiting for the arrival of a number of the minority members, but we have received their agreement to begin the proceedings. Given the length and probable depth of this hearing, we wanted to start as closely on time as possible.

I want to thank our witnesses for joining us here today as the subcommittee commences its general oversight hearings for the U.S. Postal Service for 1996. Today's hearing is intended to provide the subcommittee with a general overview of the operations of the Postal Service. Postal Service and Rate Commission witnesses in the first two panels will have the opportunity to explain their current activities and programs, as well as discuss issues and challenges confronting our postal system.

The final panel will be comprised of witnesses from the Inspection Service and the GAO. Both of these organizations play critical watchdog roles over postal operations, and, as such, they have comprehensive knowledge of the agency's strengths and weaknesses. The subcommittee looks forward to both witnesses providing insights into the operational, financial, and security problems of the Postal Service.

I want to extend the subcommittee's welcome to our first panel of witnesses: Postal Service Board of Governors, Dr. Tirso del Junco, and also, of course, Postmaster General Marvin Runyon. This is Dr. del Junco's first appearance before the subcommittee in his current role, and I congratulate him on his recent election as chairman last month. Mr. Runyon, of course, is a seasoned witness before this panel as well as its predecessor committee, and may the

record show he will be accompanied by Deputy Postmaster General Michael Coughlin.

I would like to congratulate you gentlemen for the financial performance and service record achieved by the Postal Service in fiscal year 1995. The Postal Service, as you well know, suffered some serious setbacks in 1994, and, consequently, your success in the ensuing year appears all the more remarkable. Despite this progress, however, the subcommittee questions whether this positive trend can be sustained.

I note Mr. Runyon's public statements these past few weeks regarding what some might describe as dark clouds on the postal horizon. I hope today we can explore the basis for these forecasts to determine what the Postal Service and the Congress might be able to do in order to avoid the realization of such predictions.

Our second panel is made up of Chairman Ed Gleiman of the Postal Rate Commission. Chairman Gleiman and his fellow commissioners have had a busy year. A year ago, the Commission had recently completed its omnibus rate case in record time, and I note that it was the Commission's early completion of that rate case that counted significantly to this year's record Postal Service financial performance.

On the heels of that rate case, the Commission next heard the Postal Service's proposed reclassification case, and this decision impacts on the Postal Service to an equal if not greater degree than the 1994 rate case. I note that the recommended decision in this case was accepted, with two adjustments, by the Board of Governors at last week's meeting.

Next, the Commission must address a series of rulemaking proposals set forth by the Postal Service, and the subcommittee is most interested in hearing the status of those proposals and the timing for issuing of this rulemaking.

Finally, the third panel is comprised of representatives of the Office of the Postal Service Inspector General and the General Accounting Office. I want to welcome Mr. Hunter in his second appearance before the subcommittee and acknowledge for the record the attendance of Mr. Ken Weaver, deputy chief inspector for audit, and Mr. Jeff Dupilka, deputy chief inspector of criminal investigations.

Representing the General Accounting Office in their repeat appearance before the subcommittee will be Mr. Mike Motley, associate director for government business operations issues, accompanied by Mr. Jim Campbell.

As these witnesses have learned, over the past year the subcommittee has relied on the Inspector General's Office and the GAO to review a wide range of postal operations. It is imperative that the Inspector General's Office operate with independence, and the subcommittee looks forward to its review of a number of sensitive Postal Service procurement and management operations. As has been past practiced, the subcommittee looks forward to GAO to provide an invaluable watchdog role in ensuring integrity and efficiency in the operations of the Postal Service.

It was more than a year ago that I assumed this chair, thanks to the gentleman seated at my far left, Representative William Clinger, the chairman of the full committee, and also the leader-

ship. At that time, I promised a thorough review of all postal operations. Twelve hearings, nine GAO reports, numerous briefings, several dinners and breakfasts, and two subcommittee reports later, the subcommittee is now poised to begin to introduce its legislative reform efforts.

I want to urge all members of the postal community, those here today and those who have been following our activities, to actively participate in this critical public policy debate in a constructive and positive manner. I believe we all share the desire to see a viable and fiscally solvent Postal Service well into the next century, as such sentiments are in the furtherance of the public interest.

Starting from this simple premise, I believe we can build a consensus in moving forward. Should legislative reform efforts fail, however, I feel that the Postal Service will find itself limping into the 21st century.

It is somewhat ironic that one of the successes of the 1970 Reorganization Act, that of weaning the Postal Service away from the subsidizations of taxpayer dollars, may be jeopardized due to the shortsightedness of some in this community. Failure to implement needed market flexibilities may relegate the Postal Service to a future of declining revenues. In turn, infusions of taxpayer dollars ultimately would be needed in order to support a postal infrastructure which is statutorily retarded in its ability to respond to market pressures.

I ask all those here today to join me in future efforts to preserve a viable and fiscally responsible Postal Service.

With that, I would like to welcome a number of distinguished members of the subcommittee, and particularly, as I noted earlier, the chairman of the full committee, the gentleman from Pennsylvania, Mr. Clinger.

Bill, any comments you might wish to make?

Mr. CLINGER. Thank you very much, Mr. Chairman. I just wanted to come by as you kick off 1996 with this first very important hearing, basically to commend you for the diligence and the thoroughness, I think, with which you have explored the issues confronting the Postal Service and preparing to address those issues in legislation which will take us into the next century.

Obviously, there are problems that face the Postal Service. I think that progress has been made. As you indicated, last year was a very good year, and I think that will be evidenced in the testimony today, but there are problems that exist. I think that this is really the first Congress in which this committee has had jurisdiction over this area. I just really commend you and all the members of the committee for the speed with which you have gotten on top of the issues and the concerns, and really the outreaches you have had to the entire community to get all the points of view that may be involved.

So I think that this is a particularly auspicious hearing. It is one that is going to kick us off and, as you indicated, lead us toward developing a responsible and responsive legislative initiative to address these issues.

I also want to welcome Mr. Runyon and Dr. del Junco, who have played very strong leadership roles in this effort and will continue to be very important as we move toward reform and upgrading the

system. It is a competitive world out there, and it is obvious that that is impacting upon the Service, and we have to find ways in which to address how we maintain a viable Postal Service in an age of increasing competition.

So, again, my congratulations to you and to the members of the committee for undertaking this very, very important mission. I apologize that I am going to have to leave shortly, because I have some other pressing things, but I did want to be here for your kick-off.

Mr. MCHUGH. Well, thank you very much. Let me, in turn, thank you, on behalf of the subcommittee, for the leadership that you have provided and your role as our full committee chairman, and for the support that you have provided us with in this effort. We are deeply indebted to you.

I would also like to recognize the gentlelady from Florida, Mrs. Carrie Meek, for any comments she would like to make at this time.

Mrs. MEEK. Thank you, Chairman McHugh.

I am pleased to be here for your kickoff of this new year and our new talks and hearings with the Postal Service and the industry itself. I am glad to see some of the same people we saw when you had the hearings last year. I, too, feel that your diligence in following up on all the issues that were revealed through the other hearings is commendable. We are continuing on this journey to try to discover as much as we can about the Postal Service.

I want to say to the chairman and the members of the committee, I will limit my comments and ask unanimous consent to submit my opening statement for the record. I would also like to say that I would like to see the Postal Service really be able to become competitive in the marketplace. I have sat here and I have listened to a lot of the discourse from members of this industry, and it seems to me that unless we can level the playing field for them, it will be very hard for them to compete in the marketplace.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Carrie P. Meek follows:]

Hon. Carrie P. Meek

Opening Statement

I thank the chairman for holding this hearing today, as we continue on our journey of discovery looking at the performance and potential of our United States Postal Service.

I look forward to hearing the testimony from the managers of the postal service; the chairman of the Board of Governors, the Postmaster General & the Deputy Postmaster.

I also look forward to the testimony of the Postal Services' Inspector General, Postal Inspectors, and that of the GAO.

I am pleased to know that we will hear from a cross-section of the postal services' management, and those charged with some oversight responsibilities. I must note, however, that representatives of postal service employee groups are noticeably absent and I do hope that we will have an opportunity to hear from them at some future date.

I further note that as the Postal Service reevaluates and further examines its role in the increasingly competitive environment that it finds itself in, I am hopeful that both labor and management will find a way to work together to rise to the many challenges it will face as it seeks to embrace its historic mission and its future viability.

I am also hopeful that this committee will soon begin to examine ways to provide the Postal Service with some of the freedoms that it needs to become increasingly competitive. Mr. Chairman, I know that under your leadership we will. Again, I thank you for holding this important hearing.

Mr. MCHUGH. We thank the gentlelady and appreciate her support and efforts over the past year, and we are looking forward to working with her. Her full statement, without objection, will be entered in its entirety for the record.

I also, at this time, would offer a statement for the record as presented by the gentleman from New Jersey, Congressman Bill Martini. Without objection, that statement will be entered, as well.

[The prepared statements of Hon. William J. Martini, Hon. Barbara Rose Collins, and Hon. Cardiss Collins follow:]

Bill Martini

Statement by
Congressman Bill Martini
Subcommittee on Postal Service
"General Oversight of the United States Post Office"
March 13, 1995

Mr. Chairman, it is my understanding that David Grossman, a constituent of mine, has been in contact with the subcommittee staff concerning security in U.S. Postal facilities.

On March 21, 1995, in the early evening, a man walked into the Montclair, New Jersey Postal Substation and summarily killed two postal employees and two postal customers.

Another victim, David Grossman, fortunately survived, despite two gunshot wounds.

Accordingly, Mr. Grossman has become very concerned about public safety and security at Post Office facilities.

Mr. Chairman, I would like to request that the documents provided to this Subcommittee by Mr. Grossman be included in the record of this hearing.

I also urge this subcommittee to conduct hearings on the issue of safety and security within the U.S. Postal system.

Mr. Grossman has indicated a willingness to testify before this Subcommittee. I believe the American people should hear David's story.

The Montclair Postal shootings have left a permanent scare on the residents of Northern, New Jersey.

It is imperative that Congress examine this issue so that we can prevent future tragedies like the Montclair incident.

Mr. Chairman, I am committed to working with you on this important issue and I now yield back the balance of my time.

U.S. Department of Justice

United States Attorney
District of New Jersey

Federal Building - Room 502
970 Broad Street
Newark, New Jersey 07102

201/645-2700

April 27, 1995

Honorable Marvin T. Runyon
Postmaster General & Chief Executive Officer
United States Postal Service
475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-0001

Dear Postmaster General Runyon:

On March 21, 1995 a gunman murdered four people and gravely injured a fifth at the Montclair Post Office, Substation A, in Montclair, New Jersey. The recent tragic events of that day will not soon be forgotten by anyone in Montclair, the State of New Jersey, or our nation. The event will never be forgotten by the families and friends of the victims: U.S. Postal Service employees Ernest Spruill and Scott Walensky, and postal customers Robert Leslie, George Lomaga, and David Grossman.

In connection with the prosecution of this case by my office, I have met with the families of these men during the last few weeks. During these meetings, family members have raised very significant concerns about security at postal facilities which I agree with completely. I am writing at this time to urge your immediate attention to those concerns. On behalf of the community at large, and quite especially on behalf of the families and friends of the victims of the tragedy in Montclair, I urge you to install effective security measures at postal facilities immediately.

As the chief law enforcement official in New Jersey, I am well aware of the many legitimate concerns that compete for priority in an organization the size of the Postal Service. Nevertheless we must acknowledge and respond to the following commonly known facts:

* Substantial amounts of cash are available in every post office, in every town in New Jersey, everyday.

* Postal employees are not armed and have no protection against assailants and robbers.

* Tragically, the lure of easy money and lack of security have contributed to twenty-four murders in postal facilities in this country since 1986. This figure does not include the four men killed last month in Montclair.

On March 21, 1995, when a gunman murdered four men and gravely injured a fifth at the Montclair Post Office, Substation A, there was absolutely no security system in place. The only security installed was a burglar alarm intended for use during hours the facility was closed. That alarm system did not include a "panic button" for employee use during working hours.

Preconceptions and misconceptions about safety and what constitutes a "safe neighborhood" must be put aside. The fact is that not one of the murders that have occurred in postal facilities took place in any of our nation's major cities. This loss of precious life has occurred primarily in suburban areas. Postal employees and customers have been allowed to remain vulnerable, and too often they have been victimized by those who know all too well the deficits of any security system in place at a particular facility: the former postal employee.

We cannot reasonably expect that every postal facility will be made impenetrable by evil. But we must create reasonable and adequate safeguards for employees and customers at each facility, including bullet proof partitions that separate window clerks from customer areas, and alarm systems with panic alert buttons. In addition, postal employees are entitled to understand how resources for security are allocated, how security needs are prioritized, and what factors are considered to reach decisions about appropriate security measures.

Postal employees are on the front line. and I know that their input is very important to you. Their safety, and the safety of postal customers and the American public, is of the utmost importance.

I urge you to take immediate action to address the very real need for security at each postal facility and to communicate to the postal community how decisions that affect their jobs and very lives are being made.

Please contact me if you would like to discuss this issue. I look forward to your response.

Very truly yours,

FAITH S. HOCHBERG
United States Attorney

cc: Blanche Spruill
Cathy Ann Walensky
Mrs. Lomaga
Kathy Leslie
Karin Abarbanel ✓

One year ago - on March 21, 1995 - two Postal Service employees and three customers were shot during the armed robbery of a post office in Montclair, New Jersey. Both of the postal clerks and two of the customers died. I was the third customer. I was shot twice in the head and left for dead. After lying for more than an hour on the floor of the backroom of the post office, I was rescued by the Montclair Police and evacuated by helicopter to University Hospital in Newark.

Trauma surgeons said that if my rescue had been delayed thirty minutes, I too would have died from loss of blood and obstruction of my breathing passage. I was in intensive care for two weeks and was hospitalized for a total of four weeks.

When the murderer was sentenced to two life terms in U.S. District Court in Camden, New Jersey, on September 22 last year, I read a statement to the court. It began:

> Shortly before four o'clock in the afternoon of March 21st, I stepped into the Fairfield Street Post Office in Montclair to send a letter by certified mail. A few minutes later, I lay on the floor in the back room, unconscious, near death from two bullets fired into my head. On the floor beside me, four men lay dead.
>
> Christopher Green thought he had killed all the witnesses to his robbery of the Post Office, but I survived. The bullets he fired narrowly missed my brain, just missed vital arteries and nearly severed my spinal cord.
>
> After regaining consciousness, I lay on the floor for an hour, unable to move, struggling for each breath, feeling the blood gurgling in my throat. The room seemed dark and I could not raise my head, but when I called out and there was silence, I knew the others were dead.

Although bullet-proof barriers had been installed at the Main Post Office in Montclair just weeks before the shootings, the station where the "Montclair Massacre" took place had no physical security other than a burglar alarm system - not even a simple silent alarm The Postal Service told *The Montclair Times* (Feb. 23, 1995, page A4) that "no changes" were planned at Station A. Had there been some form of security there on March 21, I believe that Ernie Spruill, Scott Walensky, Bob Leslie, and George Lomaga would be alive today and I would not have been wounded.

In a letter to Postmaster General Marvin Runyon dated April 27, 1995, Faith Hochberg, the U.S. Attorney for New Jersey, wrote that "When a gunman murdered four men and gravely injured a fifth at the Montclair Post Office, Substation A, there was absolutely no security system in place."

U.S. Attorney Hochberg noted that "Substantial amounts of cash are available in every post office, in every town in New Jersey, every day" and that "postal employees are not armed and have no protection against assailants and robbers." She observed that the "lure of easy money and lack of security" contribute to criminal attacks against post offices.

She said "Postal employees and customers have been allowed to remain vulnerable..."

The transcript of the proceedings on June 8, 1995, in which Christopher Green pleaded guilty to the post office shootings, includes the following questions and answers:

The Court: Did you know that the Post Office had minimal security measures in place to protect employees against robberies and attacks?

The defendant: Yes.

The court: Did you know that the Post Office usually had thousands of dollars in cash on hand at the end of each day?

The defendant: Yes.

In fact, Green stole $5,100 from the post office.

In a Congressional hearing on violence in the Postal Service held on September 15, 1992, Moe Biller, president of the American Postal Workers Union, said:

> The guaranteed security of all employees and the public is part of the trust that we have enjoyed for over 200 years.

And in a later hearing, held in October 1993, James Christie, president of the Postal Police Officers, remarked:

> Violence has become an unfortunate fact of life for many Americans. However, most of us assume that when the routine of our lives takes us into federal buildings such as postal facilities, something is being done to provide sufficient security for us to carry out our business. Unfortunately... the Postal Service...has failed to provide security sufficient to afford protection for its employees and customers...

The hearings in 1992 and 1993 were prompted by the killing of four supervisors at the post office in Royal Oak, Michigan in November 1991 by a former postal worker. Those hearings focused on internal violence committed by postal employees against other postal employees.

When members of the public have been targets of criminal attack in a postal facility - as happened in Montclair last year - I believe there is even a more urgent need for Congress to examine the steps the Postal Service has taken - or failed to take - to protect postal customers from injury or death.

In her letter to Postmaster Runyon, U.S. Attorney Hochberg said:

> ...we must create reasonable and adequate safeguards for employees at each facility, including bullet proof partitions that separate window clerks from customer areas, and alarm systems with panic alert buttons. In addition, postal employees are entitled to understand how resources for security are allocated, how security needs are prioritized, and what factors are considered to reach decisions about appropriate security measures.

According to *The Star Ledger* (March 24, 1995, page 18), Essex County Sheriff Armando Fontoura "compared post offices to banks but noted that they have few of the security safeguards that protect bank tellers from similar attacks."

Postal union leaders also compared Station A and similar postal facilities to banks. According to Jerry Monzillo, president of the New Jersey State Postal Workers Union:

> You should treat it like a bank. For one thing, there should be bullet-proof glass. For another, there should be security cameras...It's the same as in a local bank... (*The Montclair Times*, March 23, 1995, pages A1 and A14)

> Treat it like a bank. There are funds being transferred over the counter. (*New York Post*, March 23, 1995, page 5)

Hank Rauer, president of the Midstate Area Local, said, "I want the same security as if I was a bank teller." (*Star Ledger*, March 23, 1995, page 26)

In the aftermath of the Montclair shootings, Postal Service officials asserted that Station A was in a low-risk area. John Kelly, New York metropolitan vice president of the Postal Service, told *The Montclair Times* (March 23, 1995, page A14) that "from what I'm told, the post office branch in Montclair was real low risk, handling less than $1,000 a day."

Kelly said, "When we do a security analysis at our post offices, we take three factors into account: (1) the amount of money taken in during the day, (2) the hours the location is open, and (3) whether or not it is a high-crime area."

If a security analysis of the Main Post Office in Montclair showed the need for bullet-proof partitions, one must conclude that Postal Inspectors thought the facility was at a high risk of robbery.

Yet Station A, where the shootings occurred, was in Watchung Plaza, a shopping center of some 60 stores only one mile north of the Main Post Office. How could the risk of robbery at Station A have been minimal while, at a Post Office just minutes away, the risk of robbery was deemed to be high?

Watchung Plaza itself has seen violent crime in recent years. A liquor store was held up and a shot was fired at the owner, grazing his ear; a man wielding a shotgun robbed a florist shop; a jewelry store was robbed by two men brandishing handguns; a gas station was robbed.

In March, 1994, a police substation was opened in a commuter train station at Watchung Plaza, some one hundred yards from Station A, in response to merchants' concerns about security.

Watchung Plaza is only a few miles from Newark. In his testimony before a Congressional committee in September 1992, Willie Brock, president of the Federation of Postal Police Officers, said postal police were deployed in 28 cities where the Postal Inspection Service had determined there was a high probability of postal crimes being committed. He said Newark, New Jersey, was one of those cities.

In a series of semi-annual and annual reports issued from 1987 through the first half of fiscal 1995, the Postal Inspection Service declared its commitment to deterring robberies and to protecting postal employees and customers.

In 1987, the Postal Inspection Service said "...the most serious consequence of robbery is its potential for violence to postal employees and customers...we continue efforts to prevent employee exposure to these crimes through various prevention initiatives, such as employee education about what to do during a robbery, the installation of bullet-proof screenlines, hold-up cameras, and warning signs in high-risk offices."

In 1990, the Service claimed "inspectors have succeeded in making postal facilities less vulnerable and less attractive to attackers....the presence of sophisticated detection equipment has played an important role in maintaining this trend."

In 1992, robberies were an "issue of concern." The Postal Inspection Service said "armed robberies are a concern because they present a serious threat to the safety of postal employees as well as postal assets. Although the number of robberies experienced by the Postal Service is relatively small, the number has recently increased."

In 1993, the Postal Inspection Service began to express more concern:

> Armed robberies of Postal employees are of great concern to the Postal Inspection Service since these violent acts represent both a serious safety threat to postal employees and customers and a direct attack on the financial integrity of the Postal Service. The Postal Service has experienced a continual increase in the number of armed robberies over the past five years. In order to combat these attacks, the Postal Inspection Service and Postal management have initiated a multifaceted response. After Postal Inspectors conduct facility surveys and identify deficiencies, postal management initiates corrective action. This has included the installation of bullet-resistant screenlines in selected high-risk post office lobbies.

By 1994, the Postal Inspection Service had placed "robberies among our highest organizational priorities." It said "prevention tactics are now receiving significant attention in an effort to deter and minimize the impact of robberies and burglaries. Inspectors are conducting security surveys and providing employee training to help prevent such incidents and minimize injuries when they do occur."

In 1995, the report says:

> the Postal Inspection Service developed and maintains an integrated robbery and burglary countermeasures program designed to protect employees, assets, and property. Postal Inspectors perform an evaluation and risk analysis of conditions in a postal facility to determine what equipment is needed to properly secure the facility. Alarms and cameras are installed at facilities where value, risk, and prior history dictate their need.

The Postal Inspection reports show that there were 105 robberies of post offices in fiscal 1993, 120 in fiscal 1994, and 60 in the first half of 1995. For most years before 1993, only aggregate robbery statistics are provided; the totals include robberies of letter carriers and truck drivers as well as robberies of post offices. The annual number of robberies of facilities and employees increased from 126 in fiscal 1987 to 294 in fiscal 1994.

The reports also give statistics on assaults against on-duty postal employees, but they do not indicate how many occurred during the commission of a robbery or how many resulted in death. There are no statistics given for assaults against customers in postal facilities.

After the shootings in Monclair, Postmaster General Runyon claimed:

> The Postal Service is committed to doing everything it can to combat lawlessness...We want our post offices to be as safe as possible for our employees and customers.
> (*Star Ledger*, March 23, 1995, page 26)

Yet, as evidenced by the minutes of its meetings from April to November of last year, the Postal Service's Board of Governors seemed indifferent to the attack on customers and employees in Montclair. There is not a single reference to the Montclair shootings in the minutes of any of these meetings.

However, Chairman Sam Winters suggested in May that a review be made of security procedures at Postal Service headquarters in Washington. In June, the Board approved a resolution extending its "deepest sympathy to the families and friends of those who lost their lives or sustained injuries as a result of the bombing" of the Federal Building in Oklahoma City. In July, Chairman Winters read a statement expressing the Board's shock and sadness over the murder of a postal supervisor by another postal employee in Industry, California. In October, the Board adopted a resolution expressing its sadness at the death of a journalist who had covered the Postal Service for the Federal Times.

There was one expression of concern for customers' safety. The minutes of the September meeting state that:

> Mr. Dyhrkopp asked about plans to improve safety at postal facilities for postal employees and customers. Mr. Coughlin responded that an aggressive effort is underway to improve safety measures by 15 percent or better through the "Second to None" program.

The April minutes note that Mr. Runyon "commented on initiatives to combat violence in the workplace." This was apparently a reference to a forum on workplace violence in the Postal Service that was held in April 1995. However, as reported in *The Star Ledger*, (April 19, 1995, page 22) the violence prevention initiatives relate to internal violence directed against employees, not to the kind of external violence - such as the robbery and shootings that occurred in Montclair - that threatens customers with injury and death.

The lesson of Montclair is that the Postal Inspection Service's risk evaluation criteria are irrelevant for assessing the risk of harm to employees and customers. Criminals target post offices. Criminals are mobile. There is no good reason to believe that a criminal who had planned to rob a post office in a "high-risk" area but was deterred by bullet-proof partitions would not drive his car to a post office in a "low-risk" area that was just a few minutes away, lacked security, and still offered thousands of dollars in cash.

Postmaster General Runyon admitted last March that, "it's really very difficult to know where the next violent act is going to be committed" (*Star Ledger*, March 23, page 26). The implication is that the risk evaluations performed by the Postal Inspection Service do not and cannot predict where postal customers, in the absence of security measures, may be exposed to violence at the hands of criminals.

The Postal Inspection report for the first half of fiscal 1995 states that "value, risk, and prior history" are the factors considered by Inspectors when they decide whether to install alarms and cameras at a particular postal facility. For the Postal Inspection Service, the *probability of robbery* of a post office does not seem to be the most important criterion in conducting a security review. Rather, it is the *potential financial loss* - the "value" - that is uppermost. As the 1993 Inspection Service report puts it, robbery is "a direct attack on the financial integrity of the Postal Service." Yet the potential for violence committed against customers exists regardless of how much - or how little - money a criminal would seize in a post office robbery.

A postal official from New York City called the Montclair shootings an "isolated" incident. Yet only three weeks before the Montclair robbery, a postal station in Sayreville, New Jersey was robbed by two gunmen. In November, 1995, the North Center Station in Bloomfield - a short distance east of Montclair - was robbed by a man brandishng a semiautomatic pistol. In December, a robber hijacked a postal truck and driver from in front of the Brookdale Station in Bloomfield; the assailant knocked the driver unconscious with his gun before fleeing. Also in December, the Main Post Office in Plainfield, New Jersey was robbed.

Congress has made the Postal Service responsible for the protection of customers in post offices. Section 224.3 of Title 39 of the Federal Code of Regulations states "The Postal Inspection Service is responsible for ...protecting mail matter, postal facilities and other postal assets, employees and *people on postal premises.*"

The failure of the Postal Service to protect employees and customers in Montclair on March 21, 1995 should be investigated by Congress. In doing so, Congress should also address the broader issues of what is being done to assure the safety of customers from criminal assault in post offices across America - including small stations like the one in Watchung Plaza.

Postal Service Robberies 1984-1995

Fiscal Year	Period	All robberies		Carriers/drivers		Post offices	
1995	1st half	164		104		60	
	2nd half	NA		NA		NA	
	total for year						
1994	1st half	170		94		76	
	2nd half	124		80		44	
	total for year		294		174		120
1993	1st half	113		55		58	
	2nd half	129		82		47	
	total for year		242		137		105
1992	1st half	130		NA		NA	
	2nd half	106		63		43	
	total for year		236				
1991	1st half	76		NA		NA	
	2nd half	95		NA		NA	
	total for year		171				
1990	1st half	59		NA		NA	
	2nd half	125		NA		NA	
	total for year		184				
1989	1st half	58		27		31	
	2nd half	NA		NA		NA	
	total for year		NA				
1988	total for year		114				
1987	total for year		126				
1986	total for year		126				
1985	total for year		129				
1984	total for year		158				

Source: Postal Inspection Service
NA= not available

U.S. Department of Justice

United States Attorney
District of New Jersey

970 Broad Street, Room 502
Newark, New Jersey 07102

201/645-6053

September 27, 1995

David Grossman
39 Erwin Park Road
Montclair, New Jersey 07042

Re: United States v. Christopher Green
Criminal No. 95-224

Dear Mr. Grossman:

On behalf of the Department of Justice, I would like to thank you for your assistance in the investigation and prosecution in United States v. Christopher Green. As is widely known, you began cooperating with law enforcement officials in the first hours after the terrible crime committed at the Montclair Post Office. From your hospital bed, you assisted investigators by responding to questions under the most trying of circumstances. The information you provided in the early hours of the investigation proved helpful to officials in their pursuit of your assailant.

As your strength returned, you continued to assist investigators by describing what occurred during the robbery and shootings. This took place over the course of a number of meetings during and after your hospital stay. Without doubt, had you been called to testify at trial, you would have provided significant and poignant testimony to a jury. Indeed, just your written statement to the sentencing judge and public comments in court helped educate the judge on certain important issues.

Everyone who knows about your contributions in this case has great admiration for your courage and strength. Those qualities will serve you well as you continue on the long road of recovery. If we can be of any further assistance in the future, please feel free to contact me.

Very truly yours,

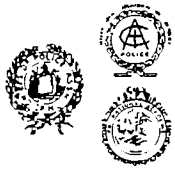
FAITH S. HOCHBERG
United States Attorney

By: STUART RABNER
Executive Assistant U.S. Attorney

DEPARTMENT OF POLICE

CHIEF'S OFFICE

647 Bloomfield Avenue
Montclair, New Jersey 07042-2887



September 18, 1995

Thomas J. Russo
Chief of Police

Telephone: 201 744-1234
Facsimile: 201-744-0240

Mr. David Grossman
39 Erwin Park Road
Montclair, N.J. 07042

Dear Mr. Grossman,

On behalf of the Montclair Police Department, I would like to extend my sincere gratitude and appreciation for the assistance you gave Law Enforcement Authorities, which helped solve the multiple shooting incident that occurred at the Watchung Post Office branch on March 21, 1995.

As you are aware this case will be coming to a conclusion, with the sentencing of Christopher Green, this coming Friday, September 22, 1995 in the Federal Court Building, Camden, New Jersey. The success of this case was contingent on a cooperative, detailed investigation involving federal, county and local agencies of which pertinent information supplied by you under very trying circumstances, played a helpful part.

Even though you laid mortally wounded in a hospital bed, you were able to supply investigators with important details, which proved helpful in determining the direction of the investigation of this horrific crime. It's been a long, hard pull for you, but you've made it. Believe me, we are full of admiration for your strength, courage and dignity, which you have displayed during this terrible ordeal.

With the holidays quickly approaching, I would like to take this opportunity to extend my best wishes to you and your family for a joyous holiday season and for continued good health and happiness in the ensuing years.

Very truly yours,

Thomas J. Russo

Thomas J. Russo
Chief of Police
Montclair Police Department

TJR/rc
cc. U.S. Attorney Faith Hochberg
Township Manager Terence J. Reidy
Mayor and Council

Township of Montclair
Department of Police
647 Bloomfield Avenue
Montclair, New Jersey 07424-2887

Errol Brudner
Lieutenant
Commander of the Detective Bureau

Telephone: 201-744-1234
Facsimile: 201-744-0919

October 23, 1995

Mr. David Grossman
39 Erwin Park Road
Montclair, New Jersey 07042

Dear Mr. Grossman:

Your request for this letter provided me the opportunity to thank you for your cooperation and assistance in solving the most heinous crime committed in the Township of Montclair during my eighteen years experience. Despite severe personal pain and suffering, you were able to provide Detectives from the Montclair Police Department with information which proved valuable to the investigation. From a command post set up next door to the Post Office, I dispatched, and was in constant contact with the Detectives who visited you in the hospital the night of March 21, 1995 and the morning of March 22, 1995. Your determination and perseverance in allowing yourself to be interviewed under such adverse conditions, and the information you provided, contributed to limiting the direction of the investigation regarding the suspect's motive.

I will forever remember the scene at the Post Office on March 21, 1995. However, I will also forever remember the strength of the victims' families on the day of sentencing and your personal strength that day, and during your interviews with Montclair Detectives at the hospital.

Please feel free to contact me for any future assistance you may need in this matter, or any others, of a mutual concern.

Sincerely,

Lt. Errol Brudner

STATEMENT OF
THE HONORABLE BARBARA-ROSE COLLINS

BEFORE THE
SUBCOMMITTEE ON THE POSTAL SERVICE
OVERSIGHT HEARING ON THE POSTAL SERVICE

WEDNESDAY, MARCH 13, 1996

Mr. Chairman, I join you in welcoming the witnesses to the third oversight hearing on the U.S. Postal Service.

During today's testimony, we will hear from our distinguished panel on current activities and challenges faced by the Postal system which include: operation, financial, and security problems.

Some say, the answer to these and other challenges faced by the Postal system is privatization. To that, I suggest that we not forget the reasons why Congress sought to enact the Postal Reorganization Act of 1970. This Act was established at a time when the Postal Service was plagued with many of the same problems as today. Operational, poor management and labor relations, increasing costs and a sky rocketing deficit were prevalent. Congressional appropriations accounted for 20% of the Postal Service's budget.

The 1970 Act was designed to improve postal service and delivery, and create a new postal service which could operate "like a business" without benefit of taxpayers funds.

Yes, I know that these measures were taken over 25 years ago. But, I believe that this act has achieved much of what it set out to do, and that is to oversee an entity whose operation effect the entire population.

According to the Postal Service, it has found itself more stable, earning a record $1.8 billion profit, increasing its on-line delivery performance throughout the country, and only increasing rates after four years of stability.

However, operating expenses are up and there are many unfavorable variances found in their recent budget. The specter of yet another rate increase looms over our heads. It is because of the Reorganization Act that we can monitor the Postal system and gage whether they are meeting the standards set forth by Congress in 1970.

There is still much room and need for improvement. I am well aware the market has changed since the 1970 Act. However, public perception has not. The question is whether or not postal customers benefit from the existing structure. With further hard work, more improvements will be made and consumers will receive full benefit from the Postal system. The bottom line is that the public's mandate for an efficient, universal mail service must be answered.

Mr. Chairman, I thank you for convening this most important hearing. I fully realize the need for careful consideration of this and other issues as we continue to look into the future of the Postal Service.

So to that, I look forward to hearing from each of you.

Thank you.

*****

Statement of the Honorable Cardiss Collins

Ranking Minority Member

before the Subcommittee on the Postal Service

March 13, 1996

Mr. Chairman, members of the Subcommittee, distinguished panelists, I welcome today's general oversight hearing on the postal service and look forward to the testimony of our witnesses.

It was almost a year ago this month that this Subcommittee first began its series of oversight hearings on the postal service. During those hearings we heard testimony regarding issues effecting the operation and structure of the postal system. Each of the witnesses present today expressed concerns regarding the financial viability, service and delivery, competition and labor-management relations of the United States Postal Service (USPS).

Indeed, a consistent theme relayed was the need to reexamine the Postal Reorganization Act of 1970 with an eye toward updating it and making it more relevant to the needs and objectives of the postal system.

Since last year we have been witness to an overall improvement in the delivery of overnight first-class mail and the beginnings of reform yet-to-be-seen in the area of regulatory relief.

We have also taken notice that the USPS currently employees more people now than when the Postmaster General took over, expenses are up, revenue is down and competition is no longer just "eating away at the postal service -- it is literally eating its lunch! The latest assault, ads promoting the latest computer software designed to aid consumers in paying bills and conducting other financial transactions on-line, effectively by-passing the mail system.

This is just one example of the many forms of competition being faced by the postal service.

And so, this hearing comes at a most opportune time. Specifically, I wish to learn just what programs the postal service has in operation that are designed to offset financial losses, as well as ground lost to competitive services. I want to know what new sources of revenue have been identified and just what will classification reform bring?

As always, I thank you for coming and look forward to your statements. Thank you.

Mr. MCHUGH. Certainly not least, but last, as far as Members are concerned, I am pleased to acknowledge the attendance and thank all the participation from the vice chairman of the committee, the gentleman from South Carolina, Mr. Sanford.

Mr. SANFORD. Thank you, Mr. Chairman.

I would simply commend you and your staff for putting together and organizing these hearings. I do have an opening statement; I would simply like to submit it for the record.

Mr. MCHUGH. Without objection.

[The prepared statement of Hon. Mark Sanford follows:]

OPENING STATEMENT
THE HONORABLE MARK SANFORD
13 MARCH 1996

Good Morning, Mr. Chairman. I appreciate this opportunity to be here at this oversight hearing of the Postal Service and to welcome our witnesses.

Mr. Chairman, I want to commend you for having this important hearing and for your forethought in consolidating what in the past has been a series of hearings. I believe that this format will give our witnesses an opportunity to hear each other's testimony and concerns, and the Subcommittee will benefit from receiving answers to common problems faced by each of the panels represented here. Furthermore, the model for this Postal Service oversight hearing makes for greater efficiency, time-wise, for our legislative schedules.

As we know -- but it bears telling again -- the Postal Service touches the life of each household in our country each day. Therefore, a well run Postal Service may not receive the kudos it deserves, but a poorly run Postal Service comes under the scrutiny of its millions of customers.

In an era when competition is the name of the game, customers have no qualms about switching from one bank to another or from one doctor to another, if they believe the service is not up to par. The Postal Service faces competition in some areas -- urgent mail and parcels -- however, it retains its monopoly in first class mail delivery. Is this a healthy situation? Would the Service perform better if it had real competition? Of course, there is a form of competition from E-mail, fax and telephone, but the real hard copy delivery of mail is still protected. Is the United States Postal Service in a position to be competitive or are antiquated laws and regulations impeding its ability to compete in the marketplace? These questions are not posed as a threat or to put the Postal Service on notice. They are asked because of stark reality.

Mr. Chairman, this Subcommittee had an informative joint hearing with our Senate counterpart regarding the international experience of privatization and corporatization. These are issues which must be faced in our nation as the whole world becomes more competitive and where there are only transparent boundaries.

Again, Mr. Chairman, I appreciate the time you have afforded me

to share some thoughts with you, and I welcome the witnesses to share their thoughts on the state of the United States Postal Service.

Mr. McHUGH. Well, with that, let us get down to business. As I said in my opening statement, the Postmaster General is a seasoned witness, so he understands, under the full committee rules, all of the people who are presenting testimony before the subcommittee must swear their testimony. So if you two gentlemen will rise and raise your right hands.

[Witnesses sworn.]

Mr. McHUGH. The record will show that both witnesses responded to the oath in the affirmative.

Again, gentlemen, welcome. Thank you so much for being here. We appreciate the opportunity to meet with you, and we all look forward to your comments. Now, I will turn the attention of the subcommittee to both of you; whoever would care to begin, we will stand by your choice.

Dr. DEL JUNCO. Let me start.

Mr. McHUGH. Dr. del Junco.

STATEMENTS OF TIRSO DEL JUNCO, M.D., CHAIRMAN, BOARD OF GOVERNORS, U.S. POSTAL SERVICE; AND MARVIN T. RUNYON, POSTMASTER GENERAL AND CEO, U.S. POSTAL SERVICE, ACCOMPANIED BY MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL; AND MARY ELCANO, GENERAL COUNSEL, U.S. POSTAL SERVICE

Dr. DEL JUNCO. Thank you, Mr. Chairman.

I am Tirso del Junco, chairman of the Postal Service's Board of Governors. I am from Los Angeles, CA, and have been a postal Governor since 1988, and was recently elected chairman by a vote of my fellow Governors.

As the governing body of the U.S. Postal Service, the Board is comparable to a board of directors of a private corporation. The nine Governors are appointed by the President and confirmed by the U.S. Senate. The Postmaster General and the Deputy Postmaster General also serve on the Board.

The current Governors bring a rich mix of business, politics, and professional background to the work of the Board. We come to these positions in a spirit of public service, and we believe our work is important in helping to guide and manage this vast and important businesslike public corporation. The Board directs the exercise of the powers within the Postal Service. That includes reviewing its practices, directing and controlling expenditures, conducting long-range planning, and setting policy on all postal matters.

Each Governor invests many hours each month on postal work. The Postal Service is a very complex organization, with a budget of $54 billion and more than 753,000 full-time employees. It requires systematic and sustained work to help to manage this organization. To accomplish our mission, the Board has refocused its efforts into four key committees: the audit committee; the compensation committee; the strategic planning committee; and the capital projects committee.

I can assure you, Mr. Chairman, the Governors are thorough and business-like in our oversight of the Postal Service. As you are well aware, Mr. Chairman, the Postal Service last year had one of its best performances ever, with a record net income of $1.8 billion. Service improved to a record 87 percent for mail targeted for local,

overnight delivery, and volume climbed to a record level of 181 billion pieces of mail.

But like the winner of baseball's triple crown, following up such a sparkling performance is getting a lot tougher. As the Postmaster General will outline, the challenges facing the organization just keep getting bigger and bigger. It is gratifying to report that we will be able to hold off filing a general rate case in 1996. The Postmaster General just this past week committed to the Board of Governors that he will keep postal rates stable through 1997 and as far beyond as possible.

To serve the American mailing public, we have programs and initiatives in place that will continue to move us forward this year and in the years beyond. The Governors believe postal management is moving in the right direction.

The Postal Service completed a review of its operations last year using the Malcolm Baldrige criteria, the "gold standard", for well-managed, private sector firms. From it we have fashioned our quality program called "CustomerPerfect!". It is an integrated system for building customer satisfaction and excellence into every process and procedure we have. It is hard work, but we expect it to yield results.

A key goal is to move the national average score for delivery of overnight mail up to 90 for this very year. The Governors applaud management for applying these standards of business excellence. Indeed, it is the kind of forward thinking that we believe all government should pursue.

The Governors recently completed the work of classification reform, a year-long effort to modernize and simplify mail practices. While the Postal Rate Commission recommendations fell somewhat short of our expectations, this is a very good first step. Clearly, more changes must follow, and this experience serves to reinforce the need for postal reform.

At this time, I want to emphasize that it is not possible for the Postal Service to compete in today's changing and fast-paced world while hobbled by restrictions that were written into law some 25 years ago. The Postal Service needs freedom in terms of pricing, products, and people; specifically, in the businesses that face competition.

The Governors applaud, Mr. Chairman, your interest and the interest of your committee, and all the efforts that are being made to change the laws and make this organization vital and more businesslike and effective for the American people.

Indeed, the Governors are committed to working with the committee, the Congress, the administration, postal management, and all the many stakeholders in the Postal Service to make postal reform a reality and turn the upcoming 25th anniversary of the Postal Reorganization Act into a springboard that carries this national institution into the 21st century.

Thank you, Mr. Chairman. That concludes my statement.

Mr. MCHUGH. Thank you, Dr. del Junco. Again, we appreciate your being here and your comments.

With that, we will turn our attention to the Postmaster General, Mr. Runyon.

[The questions and responses of the Board of Governors follow:]

QUESTIONS FOR THE CHAIRMAN OF THE BOARD OF GOVERNORS

1. Chairman del Junco, as you are aware the salary of the Board of Governors has not changed since the Act was adopted twenty-five years ago. It remains at $10,000 annually, however, there have been proposals to increase this amount. There is also in the Act a restriction on the number of meetings the Governors may have to "not more than 42 days of meetings." In Fiscal Year 1995 the Governors met a total of 26 days. Do you foresee a reason that there should be a limitation on the number of meeting days of the Governors?

ANSWER: The current 42-day meeting restriction has not caused any problems to-date. There have only been a few exceptions where the Governors needed to meet more than two days a month. Some examples of these are: special meetings to discuss rate case issues; some committee meetings; and last fall a special meeting to discuss strategic planning. The Governors take their duties very seriously and spend considerable time on postal affairs outside the Board meetings. However, it is reasonable to assume that 42 meeting days should be adequate for the Governors to carry out their oversight responsibilities

A. Similarly, the board is supporting the Postmaster General in his effort to make the Postal Service more competitive and to establish a vision of where it should be in the next Century. In light of that, is it more difficult, in a policy sense, to establish and maintain a long-range plan for the Postal Service when the Board is politically appointed to set term limits?

ANSWER: The fact that Governors are appointed for nine year-terms with no more than one Governor scheduled to leave the Board in any one year it is not a serious problem; in fact, it allows for a considerable amount of continuity. Quite obviously, during the times we carried more than one vacancy, it was a bit of a problem, but now that the Board is at full complement, it is no longer the case. The Board has a Strategic Planning Committee which meets in conjunction with the Board meetings and this demonstrates the importance the Board has placed on strategic planning. Also, last November the Board held a special meeting with the specific purpose of focusing on strategic planning in the Postal Service. The Governors have been involved and support the Postmaster General's efforts in the future direction of the Postal Service.

2. In the Postal Service's Comprehensive Statement on page 3 you mention that last February you disbanded the Capital Improvement Committee. Would you describe for the Subcommittee some of the discussion the Board had with regards to this decision and what has replaced this process for consideration of Capital Projects?

ANSWER: The decision to disband the Capital Improvement Committee was consistent with Board Resolution No. 93-5 that established the ad hoc committee at the March 1993, Board meeting. The committee was tasked with reviewing the process by which approval of projects progressed through the organization under the capital investment approval process. The committee conducted its review over nearly a two year period which culminated with a final report to the Board in February 1995. At the time of the report all but one of the committee's

recommendations had been implemented or were in the process of implementation. The above resolution called for the termination of the committee with the presentation of its report. It should be noted, that to further enhance the Board's oversight of the capital investment process, the Board approved Resolution 95-14, on December 5, 1995, establishing a Capital Projects Committee.

3. I note that on September 11-12, 1995, the Board of Governors (seven members being present) unanimously approved the FY 1996 Postal Service operating budget. How much of the operating budget is dedicated to the U.S. Postal Service Inspection Service?

ANSWER: In approving the 1996 Operating Budget, the Governors went through one of the most comprehensive reviews of the various line items that make up the budget of the Postal Service. The Inspection Service is a separate line item in the budget process and represented $406.4 million of the nearly $57 billion projected operating costs for the year.

A. Who presents the budget to the Board of Governors? Is the Inspection Service budget included as a line item in the overall budget?

ANSWER: The budget presentation was led by the Chief Financial Officer and the Controller and included several other officers where a closer look at specific line items required their participation. The Inspection Service is a separate line item.

B. Do you think that the Inspection Service is adequately funded? If you or the Board of Governors thought that the Inspection Service was not funded adequately, how could you rectify the situation?

ANSWER: At the present time we are satisfied that the Inspection Service is adequately funded. The Chief Inspector also knows that he has an open door to the Board if he feels his budget is not adequate to effectively meet the Inspection Service's responsibilities The Inspection Service has been quite successful in reassessing its priorities and related resource needs and as a result, funding has not been a problem in the past. The Board was very encouraged to know that 25 positions were being added to investigate workers compensation cases where the Postal Service continues to fund major expenses through the Department of Labor.

The Inspection Service follows the same submission and approval process as does every other operation in the Postal Service. If the Board felt that the Inspection Service was not adequately funded, and because the Inspection Service is a separate line item, I feel confident we would rectify that in our approval of the budget. As previously indicated, the Chief Inspector knows that he has direct access to the Board if necessary. However, it should also be noted that the Board is equally concerned about controlling costs and that all such requests would require sufficient support before additional funding would be approved.

5. Chairman Gleiman, on page 7 of his prepared text, testified that he was troubled by one of the exceptions taken by the Board of Governors to the Rate Commission's recommended decision in the reclassification case. Specifically, his testimony highlighted the Governors' decision to reject the Commission's recommendation of the creation of a shell classification

for Consumer Envelope Mail (CEM). According to Chairman Gleiman, such mail costs less to process and should be eligible for a discount. Interestingly, he cites a Postal Service press release from one year ago announcing that the Service would propose in its reclassification case that prebarcoded reply envelopes be included in a First-Class automation subclass. Chairman Gleiman said that the decision to reject this recommendation made no sense unless the Postal Service never really intended to let the general public share directly in the benefits of automated mail.

A. Given the Service's public support for such a rate, why did the Governors decide to reject this recommendation? Why was it not included in the original reclassification submission by the Postal Service? I understand part of the Governors' rationale to reject this recommendation was that such a shell classification would institute a two-tier price structure and "pose serious operational concerns for the Postal Service." Would you expand on what those concerns are.

ANSWER: While there may be some confusion regarding the intent of the press release cited by Chairman Gleiman, there can be no doubt about the position taken by the Postal Service on the record in Docket No. MC95-1 regarding the Office of the Consumer Advocate's proposed Courtesy Envelope Mail (CEM) rate category and discount. The Postal Service presented two pieces of sworn rebuttal testimony outlining the extensive concerns raised by the CEM proposal. The decision of the Governors voiced the exact same concerns as raised on the record by the Postal Service's rebuttal witnesses, which, in large measure, included the same concerns raised by the Governors in their decision on the closely related Public's Automation Rate (PAR) recommendation in Docket No. R90-1. There is absolutely no inconsistency between the positions taken by the Postal Service on the record, and the views stated by the Governors in support of their decision to reject.

The Commission's recommended decision must be based on material on the record, and cannot be based on material outside the record. During Docket No. MC95-1, the Commission never made any inquiries about the March press release, and neither the press release nor any information about the press release appears in the record. It is therefore unclear why Chairman Gleiman would suggest that his expectations were based on an extremely terse press release issued before the start of the hearings, rather than on the extensive record developed during hearings.

In fact, the press release was never intended to convey the impression that the Postal Service would support a CEM proposal of the type presented by the OCA and recommended by the Commission. There were two separate thoughts expressed in two separate sentences of the press release. One thought was that reply envelopes inserted into mail being sent out at automation rates should be required to be prebarcoded, as one of the conditions for automation eligibility of the outgoing piece. For example, if a company that mails out bills with enclosed reply envelopes wished to qualify its bill mailing for automation rates, it would be required to agree to prebarcode the payment envelopes being providing to its customers. The Postal Service has followed through on this thought, and that requirement is scheduled to take effect January 1, 1997.

The second thought was not clearly articulated in the press release, but it relates to the possibility that, at some point in the future, the Postal Service may explore options to allow payment of lower rates for prebarcoded reply mail. In fact, this exact same thought was also addressed in the rebuttal testimony of Postal Service witness Alexandrovich, who stated:

> If it could reliably be shown that the Postal Service faces the loss of a significant share of its market for the delivery of bill payments, and that the introduction of a lower rate for lower cost bill payments would potentially allow a substantial portion of such losses to be avoided, the Postal Service would in all likelihood be quite interested in exploring options along those lines. Even in that situation, however, it is probable that the Postal Service would maintain its preference to avoid the administration and enforcement problems associated with any proposal which requires household mailers routinely to choose between stamps of different denominations for their regular letter mail transactions. If and when a sound business case can be made that the Postal Service needs to de-average rates for household mail, I believe that an approach in which payment of a reduced rate is handled by means other than a direct application of a discount stamp by consumers would be preferable to the OCA's CEM proposal, with its intrinsic administration and enforcement problems.

Alexandrovich Rebuttal Testimony (USPS-RT-7) at 13-14. The most obvious way in which payment of a reduced rate could be handled by means other than direct application of a discount stamp by consumers would be if the envelope provider prepaid the postage. For example, a utility company could furnish a reply envelope with postage prepaid at the lower rate, and include the reduced postage charge as part of the billed amount. The savings from the lower rate could thus be passed on to the consumer, who otherwise would pay 32 cents (or whatever the current base rate for First-Class letters might be) for mail delivery of the bill payment.

As noted in the testimony of witness Alexandrovich, the Postal Service's preference for such a system relates to administration and enforcement problems inherent in a two-tier structure for stamps. These are the same problems which are also alluded to in the instant question. They were discussed in detail in the Postal Service's two pieces of rebuttal testimony. To understand those problems, however, it may be worthwhile to first review the status quo. Right now, in mailing a bill payment, consumers know that all they need is "a stamp." Whether they use their own envelope or one provided by the addressee, whether the address is typed or handwritten, whether the payment is going across town or across the county, or whether they drop it in the corner mailbox or take it to the post office, they know that the 32-cent stamp is all that is required. Every day, millions of citizens apply a 32-cent stamp, drop their payment in the mail, and, without any further thought, assume that it will be delivered. And the 32-cent stamp that they use for bill payments is the same one that they keep on hand to send birthday cards, "thank you" notes, or a funny newspaper clipping to a friend who shares their sense of humor. It's the 32-cent stamp that they can buy at the post office, from a vending machine, or at their local grocery store.

Under the CEM proposal, consumers would not just need "a stamp," but would have to keep an inventory of two kinds of stamps – regular and discounted. Consignment stamp sources, such as grocery stores, have already shown a reluctance to carry more than one denomination of stamps because it slows down transactions at the point of sale. So mailers would have to make more trips

to the post office, causing increased window service costs to the Postal Service. More importantly, however, mailers would be responsible for getting the right stamp on the right envelope. Inevitably, either intentionally or unintentionally, some mailers would put discount stamps on letters that do not qualify for the discount. The result would be an increase in short-paid mail – mail with some postage on it, but not enough.

An increase in short-paid mail would create a variety of problems. The Postal Service would have to implement new procedures, with associated costs, to detect and handle short-paid mail. The operational effects of short-paid mail are only one side of the picture, however. Consider the consumer who puts the wrong stamp on her mortgage payment. If that shortage is detected and the mail returned, it could cause the consumer to incur a late-payment charge from the mortgage company, perhaps amounting to hundreds of dollars. The relationship of trust between the Postal Service and its customers could be severely affected. People are much more likely to remember and be influenced by one costly instance of what they perceive as a service failure than a large number of transactions in which they saved a few cents postage.

Moreover, procedures to deal with short-paid mail could also harm the relationship that the Postal Service has with reply mail recipients. For example, a business may furnish reply envelopes to its customers, but the envelopes might not be prebarcoded, or otherwise might fail to conform to certification standards for the discount. If a CEM discount were implemented, and confused customers began mistakenly applying the discount stamp, the stream of payments could begin to include a large share of short-paid mail. If those pieces were returned to the mailing customers, the business that has been expecting payments suddenly finds that some of those payments are delayed. A remittance system that was working well starts to appear less reliable.

Even businesses which prebarcode their reply envelopes might have problems. For example, about one-third of reply envelopes have the barcode on an insert that shows through a window in the envelope. Strictly speaking, therefore, the barcode is not on the envelope, and the Postal Service is unlikely to be willing to certify that the blank envelope with a window is entitled to discounted postage. If it did, citizens might put some other address, perhaps a handwritten one, in the window, and still claim the discount. Yet remittance mailers have legitimate business reasons for distributing window insert envelopes, and would be justifiably distressed if informed that such a practice was no longer permissible.

The one-stamp system has been in place for a long time, and the mailing public is quite accustomed to using it properly. There are a number of types of letter mail that the Postal Service could identify as costing less to process, such as local mail versus transcontinental, typed mail versus handwritten, or mail deposited at postal facilities versus collection mail. The lower cost characteristics of these mail pieces, by themselves, have never been found to warrant discount treatment. The convenience of a one-stamp system is obtained at the cost of an undeniable amount of rate averaging. At this time, however, the benefits of implementing a CEM discount do not appear to exceed the costs.

B. Chairman del Junco, please characterize for the Subcommittee the nature of Governor David Fineman's dissenting views regarding this issue.

ANSWER: Governor Fineman did not dissent from our decision to reject the recommended shell classification for CEM, which was unanimous. At the public meeting he stated, "I would just like to say that I would like to congratulate the Postmaster General and everyone who worked so hard on this rate classification case. I personally at the meeting voted in favor of the resolution. But I did so, understanding that I thought that the PRC had a point to make, with regard to the CEMs. And it's my understanding that , I did so because of the work that the staff is doing in its effort, to make sure that citizens might have a different classification for some citizen stamp at a later time. And I look forward to hearing from the Postmaster General and from the staff on its work. I just wanted that to be known."

C. The Rate Commission recommended a "shell classification" in this instance with the authority left to the Postal Service to fill in the rates, as it saw fit. Given this flexibility, why did the Governors reject this proposal? Shouldn't consumers be allowed to take advantage of the worksharing rate discounts available to larger mailers on mail pieces that are suitable for automation, as most remittance envelopes are?

ANSWER: A "shell classification" may not operate in exactly the manner suggested by this question. The Postal Service is not free to fill in the rates as it sees fit. Instead, the primary consequence of accepting a "shell classification" is to become locked into acceptance of the concept, with no specific rate attached. Any potential discount rate would still have to be litigated before the Commission, which would recommend a discount based on its own evaluation of the record developed in a subsequent proceeding.

The inherent difficulty in this approach, however, is that it assumes that a concept, such as a CEM rate category, can be meaningfully evaluated and accepted or rejected outside the context of a specific discount rate. In many respects, however, the "concept" changes if one moves between, for example, the 2-cent discount recommended by the Commission in Docket No. R90-1, and the 12-cent discount proposed by the OCA in Docket No. R94-1. In policy terms, changes within a plausible range of discounts may be qualitative as well as quantitative.

As the Governors pointed out in Docket No. R87-1, in a passage quoted from their decision on the most recent case, because a shell classification will always require more litigation before any particular rate can be implemented, such a subsequent proceeding will also offer the opportunity to reevaluate the concept in a more concrete fashion. In other words, in most instances, there is little to be gained from implementation of the shell classification. Practical consequences must await further proceedings, and further proceedings may offer additional insight into the validity of the underlying concept, especially when viewed in the context of a specific rate recommendation.

To respond to the second part of this question, there are valid reasons to view consumers who mail prebarcoded reply envelopes differently than large bulk mailers who engage in worksharing. The most notable difference is that consumers who mail prebarcoded reply envelopes are essentially the passive recipients of worksharing done by someone else. The consumer most often is not even aware of whether the piece is prebarcoded or not, and certainly has no control over that situation.

Therefore, granting a discount to consumers in situations in which they are fortunate enough to deposit an envelope prebarcoded by the envelope provider creates no direct incentive mechanism to increase the proportion of prebarcoded reply envelopes. In contrast, the decision by a bulk mailer to engage in worksharing activities or not is directly affected by the presence or absence of a discount for that activity. Under these circumstances, consumer mailers of CEM stand in substantially different shoes than large bulk mailers.

Not only is a CEM discount unlikely to generate a substantial increase in the amount of prebarcoding, but it would have detrimental consequences. For example, even though consumer mailers would not have to change their behavior to qualify for a CEM discount, there would necessarily be a revenue loss associated with its implementation, and that revenue loss would have to be made up somewhere. Ironically, part of the revenue burden would quite likely fall on the very same bulk mailers who provide the prebarcoded reply pieces that allow consumers to claim the discount. The higher the number of prebarcoded reply pieces that are provide by businesses to consumers, the greater would be the revenue lost through a CEM discount, and the greater would be the potential effect on the rates of the business mailers to offset those losses. Business mailers have very legitimate reasons to question the logic behind a ratemaking structure that would impose new costs on those whose actions make possible the substantial benefits already being realized from their efforts.

D. Chairman Gleiman points out that this mail in question, remittance pieces, is the most likely candidate for future electronic payment and that establishment of such a rate might go a long way in keeping this mail in the postal stream. Do you agree?

ANSWER: Not necessarily. It is certainly true that remittance mail is a likely candidate for electronic diversion. Whether or not it is the "most likely" candidate need not be resolved. The crux of the matter is whether establishment of a CEM discount would have any substantial effect on avoiding such diversion.

Diversion from the mailstream at a 32-cent rate occurs because, given the alternatives, some customers find that mail delivery is not worth 32 cents to them. As the scope and availability of alternatives increase and the costs associated with the alternatives drop, the portion of customers who no longer find postal delivery worth 32 cents can be expected to grow. A CEM discount creates the potential of having those customers reevaluate the value to them of payment by mail at some rate less than 32 cents. There is no way to estimate how they would react to this opportunity without empirical research, and it is impossible to do empirical research without having at least a tentative alternative rate in mind.

In Docket No. MC95-1, the OCA proposed a 12-cent CEM discount. The OCA made no effort, however, to identify any mailers who claimed that while payment by mail was not worth 32 cents to them, it would be worth 20 cents (32 cents minus the 12-cent discount). What if most mailers who have converted their bill paying practices to other modes of delivery estimate their cost per payment at 10 or 15 cents apiece? A 12-cent discount would be a windfall to those consumers who pay by mail and intended to pay by mail anyway, but would do nothing to attract back mailers who see the rate to beat as 10 or 15 cents. As stated earlier, this is not a theoretical question, but an empirical one. Without empirical research on a specific discount level, it is, at the very least, premature to speculate how far a CEM rate might go toward avoiding electronic diversion.

There is another dimension which should not be ignored to the prospect of conversion by consumers to electronic bill payments. Consumers cannot unilaterally choose to pay a particular bill electronically. The entity to which they might wish to direct their electronic payment must have procedures in place to handle receipt of such a transaction. For those businesses dealing with large numbers of consumers, procedures to handle electronic payments would presumably have to be in addition to those for handling payments by mail, as few (if any) companies can assume that absolutely all of their consumer customers will be both willing and able to pay electronically anytime in the foreseeable future.

In choosing whether to offer electronic payment as an option to consumers, businesses are unlikely to be influenced by the presence or absence of a CEM discount. Such a discount offers no direct economic benefit to them and, in fact, if it pushes up the costs of mailing out their bills, can actually have a detrimental effect. Their attention is much more likely to be focused on cash flow concerns, and minimizing the total cost of their billing and collection operations. The Postal Service may best be able to minimize electronic diversion of bill payments by working directly with businesses to address their concerns and to make it as easy and as cost effective as possible for both them and their customers to utilize the postal system.

6. The Newspaper Association of America has been vocal in its criticism of the governors decision to accept the Rate Commission's recommended decision in the classification case. Specifically, the NAA has focused on the recommendations rewarding standard class mailers who provide mail compatible with automation procedures. Do you believe that there will be more unaddressed third class mail because of the acceptance of the PRC's recommendations?

ANSWER: Under both existing and new mailing standards, mailers are not permitted to submit *unaddressed* mail; thus, classification reform will not result in an increase in unaddressed third-class mail. To the extent that the question was intended to inquire about the effect of classification reform on the volume of occupant/resident *addressed* saturation mail, the Postal Service projects an increase in volume for that category since the corresponding rate for that category will decrease.

There is, however, no evidence to suggest that the new automation requirements that attend classification reform will cause mailers to switch from mailing at automation rates to saturation rates. This is because the level of density of distribution is driven by the needs of the advertiser rather than price of postage. For instance, if a mailer has a targeted advertisement to 20 percent of the addresses on a route, and decides that the new automation rules are too onerous, it is unlikely that the mailer would incur the additional printing and postage to send a saturation piece to 100 percent of the addresses. Rather, the mailer would either decide to barcode its mail in conformance with automation category standards, or mail at presort rates.

7. I understand that the Board has hired a new Secretary of the U.S. Postal Service Board of Governors. What are the staffing levels for the Governors? Considering you are the board of directors of a $54 billion industry, should the Governors have an independent staff on which they can turn for assistance? Some postal reform proposals would give the Board of Governors greater authority in ratemaking decisions and the overall governance of the Service. The five members of the Postal Rate Commission each have an assistant - should nine part-time governors have an independent staff on which they can base their management decisions?

ANSWER: The current staffing level of the Office of the Governors consists of the Board Secretary, Assistant Secretary (vacant), Special Assistant to the Secretary and a newly authorized Confidential Secretary position to be filled With the filling of the two positions, the Governors feel that the office will be adequately staffed to support the Board. Additionally, Governors receive support and assistance from field personnel as needed.

The Governors have previously discussed the need for an independent staff; however, they have chosen to stay with modest staffing in the office to support the Governors' oversight role. We recognize the potential for added responsibilities with the postal reform proposals and we established the additional committees to assist in that role, along with greater emphasis to management on process control. In the final analysis, because of the size and complexity of the Postal Service, the staff of the Board of Governors will have to rely on the existing research resources of the organization, otherwise the Board will need a significantly larger staff for that purpose. The Governors currently feel, and are very sensitive to the fact, that they have sufficient staff assistance to maintain their independence from postal management.

8. In your prepared text you mentioned that one of the four committees established by the Board is the capital projects committee. The GAO reported to this Subcommittee in January regarding the conditions leading to problems in some major Postal Service purchases. This included high level postal officials sidestepping internal controls and continuing problems with ethics violations involving conflict of interest. Although the GAO report highlighted the Service's administrative changes taken and planned to reduce these problems, what is the Board doing to address these reform initiatives?

ANSWER: When the Board established the ad hoc Capital Improvement Committee in March 1993, it was due in part to several of the projects cited in the subject GAO report. The Inspection Service had conducted internal investigations on the projects mentioned in the report and the Board had been briefed during and following many of the investigations. This, along with the growing number of funding requests, caused the Governors concern over the process and the controls in place to prevent similar future occurrences. Since the start of the committee's work and continuing with the establishment of the Capital Projects Committee, there has been ongoing attention by the Board regarding process control. As the former Chairman of the Audit Committee, I can assure you that this was a topic for discussion at nearly every committee meeting. I fully anticipate that this will continue to be an issue with the Audit Committee as well as the Capital Projects Committee. Our continued high level oversight should ensure that management controls are in place and are effective.

1. Could you outline in greater detail the specifics of "Customer Perfect"? What are the components of this program and cost of its implementation?

ANSWER: CustomerPerfect! is being constructed to emulate the Malcolm Baldrige management system model. This model has continually evolved since the inception of the award in 1987. Over time, it has gained renown and credibility as a national standard for business excellence. Literally hundreds of thousands of organizations have requested copies of the Baldrige criteria and many of these organizations are using it to self-assess their own management system against the model.

There are seven specific components of the model. They are:

1. Leadership (called the "Driver" within the Management System model)

The following elements comprise what is called the "System":
2. Information & Analysis
3. Strategic Planning
4. Human Resource Development and Management
5. Process Management

And the last two components address Results:
6. Business Results
7. Customer Focus and Satisfaction

Within these 7 major categories there are a total of 24 subelements. CustomerPerfect! is addressing a subset of these at present and as we have the resources to address them, others will be added until all elements are addressed.

Monies have been set aside for the development and implementation of CustomerPerfect! So far, our expenses for CustomerPerfect! activities amount to $2.3 million.

2. Will the postal service ever apply for the Malcolm Baldridge National Quality Award?

ANSWER: No. The Postal Service does not meet the eligibility requirements to compete for the Baldrige Award. Only commercial, for-profit enterprises in the Manufacturing, Service, and Small Business categories are eligible. The eligibility criteria excludes all government agencies at the local, state, and federal levels.

3. In prepared testimony submitted to this Subcommittee, PRC Commissioner William LeBlanc provides suggestions for changes in the area of postal rate making. Specifically, he urges that the Prior Years' Losses (PYL) component of the Postal Service's revenue requirement be phased out. He says unexpected losses should be provided for through the contingency account. Please comment.

ANSWER: There is no contingency "account." The provision for contingencies is a small percentage that is added to forecasts of future costs to take into account forecasting errors and unforeseen events which impose unexpected expenses upon postal operations, such as a natural disaster. The amount included in the last omnibus rate case for such expenses was 2.0 percent of total estimated costs in the test year. The amount is based on the sound business judgment of postal management.

The provision for recovery of prior years' losses (RPYL) has been added to the Postal Service revenue requirement for a completely different purpose. It is derived from the statute's requirement that the Postal Service break even. Because, over time, the Postal Service has not broken even, a provision for recovery of the cumulative net losses to enable the Postal Service to break even over time is added to the revenue requirement. The Commission has set this amount at one-ninth of cumulative net losses, which amounted to $936 million in the last omnibus rate case. In so doing, the Commission noted that "without the additional revenue infusion provided by the requested RPYL item, the Postal Service will lack any means to begin a restoration of its finances to a positive condition." PRC Op., R94-1, at II-22, ¶ 2068.

In response to concerns expressed by the Commission in making this recommendation, the Board of Governors, in Resolution No. 95-9 (July 10, 1995), reconfirmed its commitment to restoring the Postal Service's equity position, by having the Postal Service maintain an average annual surplus between rate cases equal to the amount recommended by the Commission for the test year. So far in this rate cycle, the Postal Service is exceeding that goal. Actually restoring the Postal Service's equity in this way is the best means of "phasing out" the provision for RPYL. Eliminating the provision without having restored the Postal Service's equity position would not be a sound policy decision. By maintaining its current financial course, the Postal Service will be in a position to request a significantly smaller RPYL provision in the next omnibus rate case, and thereafter fully restore its equity position and eliminate the need for a provision for recovery of prior years' losses as part of the revenue requirement.

4. Commissioner LeBlanc also believes that the PRC should have the final authority on rate and classification matters because the Board of Governors, with no independent and neutral staff to help, are not well-equipped to deliberate on PRC recommendations. Please comment.

ANSWER: The suggestion that the Commission be given final authority to establish rate and classification changes has been repeatedly made, usually by the Commission, since 1971. The Board of Governors believes strongly that amending the law to create such final authority would be unwise and extremely counter-productive. What is needed is more, rather than less, flexibility in ratemaking, and greater freedom from regulation that interferes with efficiency and the ability to act in accordance with sound business principles. As the courts have often recognized, rate and classification decisions have great potential to interfere with postal operations and other policy

objectives. Moreover, the Postal Service, not a bureaucracy disconnected from postal business and its customers, is in a better position to know and appreciate the Postal Service's financial requirements and the details of day-to-day operations. One of the main problems that postal reorganization was initially designed to solve, namely, that the postal system had no control over the various factors that influenced it, would be intensified, rather than alleviated by giving the Commission final ratemaking authority.

In light of these sound reasons for not shifting final authority away from the Governors, arguing that the Commission should be given final authority because the Board is not equipped to deal with Commission Recommended Decisions is not persuasive. Furthermore, the presumption on which the argument is based is wrong. The Governors are fully capable of understanding the choices they are asked to make in acting upon the Commission's Recommended Decision. Moreover, each Commission Recommended Decision is accompanied by a detailed opinion by the Commission, often consisting of hundreds of pages of discussion, describing the evidence and giving reasons for the recommendations.

The suggestion that the Governors are incapable of deliberating because they do not have a large staff to assist in the analysis is very misleading. As I testified during my appearance before the Subcommittee, the Governors have the full scope of the Postal Service's expertise and resources at their disposal to assist them in analyzing the Commission's opinion and the record, if necessary. Any attempt to establish a parallel body of expertise in a permanent staff would be unwise and unnecessary. Not only would it be difficult to match the expertise that already exists on the Postal Service's staff, but it would be extremely wasteful. That circumstance alone is one reason why it is not at all uncommon in government for agency heads who must make decisions based on recommendations or initial decisions by hearings examiners or triers of fact to rely on their agencies' resources to assist in the decision-making.

If Commissioner LeBlanc is suggesting that relying on Postal Service resources distorts or biases the Governors' decisions, that insinuation is wrong. The Governors insist upon and receive fair and objective assistance in analyzing Commission recommendations. The Governors, furthermore, are by statutory command chosen to represent the public interest generally, and they do so conscientiously. Moreover, to suggest that giving the Commission final authority would result in more reliable, unbiased decisions is very misleading. In fact, the Commission has repeatedly insisted that it is not merely an objective trier of fact, "an umpire only calling balls and strikes." Rather the Commission has taken the approach that it is an active participant in formulating, and advocating outcomes in the ratemaking process. Because only one institution is ultimately delegated the responsibility for making the policy choices that are inherent in final ratemaking authority, I respectfully suggest that, for the reasons expressed above, Congress's original judgment that the Governors of the Postal Service should make those decisions was, and is, the most appropriate result.

Mr. RUNYON. Good morning, Mr. Chairman, and other members of the subcommittee.

Mr. MCHUGH. Good morning.

Mr. RUNYON. I am pleased to join Chairman del Junco this morning.

As I look back on the 12 months since last year's oversight hearing, I am struck by the amount of change that has taken place on both sides of this table and throughout the mailing industry. A year ago, the Postal Service was rallying from a difficult period. We have turned the corner on service and laid the groundwork for what we hoped would be a good year financially.

Today, we look back on fiscal 1995 as a year of achievement. Postal employees have taken our performance to levels higher than ever before. The numbers speak for themselves: Volume, 181 billion pieces, up almost 3 billion; overnight first-class service, an all-time high of 87 percent, with new records set or tied in every quarter; net income, $1.8 billion, more than twice the previous high.

A year ago, I was welcoming many of you to the Postal Service. You expressed, at that time, a deep commitment toward the American people and their Postal Service. You indicated your intention to embark on a journey of discovery. One that would look at the Postal Service's potential as well as its performance. One that would apply the highest standards on both the public and private sectors; one that would examine the total competitive environment. One that would embrace the historic mission and the future viability of this enduring American enterprise.

Today, each of you can also look back on a year of unprecedented accomplishment. In the finest of postal traditions, you delivered 13 major hearings involving more than 80 witnesses from throughout the postal community and around the world. The most thorough review of this Nation's postal services in a quarter century. Mr. Chairman, you are to be congratulated for your leadership.

Truly, both sides of this table can look back with satisfaction. But when we look ahead, I think there is reason for concern. It is true, the Postal Service has continued to make headway. Our first quarter profit this year was the highest in history, at $1.2 billion. And service has continued to climb to 88 percent, a new record.

But a disturbing trend has developed. The indicators don't bode well for the future. Our most recent figures show volume is off 638 million pieces, and with it revenue is $251 million below budget forecast. Our decreasing volume is a matter of deep concern. Mail was off during our first quarter, traditionally our heaviest mailing period. And so far, it is down in the second quarter.

For a company that has doubled its volume every 20 years, this is bad news indeed. While the overall communications market is growing by double digits, the Postal Service is growing in only one of its six product lines. Worst of all, we are most vulnerable in the core of our business, correspondence and transactions, better known as first-class mail.

Some think of first-class mail as the shield of our so-called monopoly, but that armor was cracked years ago. The revolution in electronic commerce and information technology has put one-fourth of our mail volume and revenue at risk to electronic diversion. This threat is not new. For years, we have seen a growing trend by busi-

ness to move hard-copy communications into the electronic mail stream. But we have never seen it like it is today.

Citibank is a good example. They advertise electronic banking that requires "No checks, no stamps, no envelopes". What that says is, "No mail!" Or take Wal-Mart, which requires the companies they deal with to send them invoices and statements electronically rather than through the mail. The Treasury Department estimates that 55 percent of all payments by the Federal Government are now made electronically. Their goal is to see that grow to 100 percent within the next 10 years. That's all payments, totaling more than $1 trillion.

The changes are rapid and startling. A whole new breed of competition is growing. Banks, software, and phone services, even utility companies, are wooing new customers with anti-mail offers.

I am reminded of the singing star who lamented that it took 10 years to become an overnight sensation. In fact, great changes often take place just that way. They seem to stand still forever, and then erupt overnight. In the face of competition like that, the time to act is long before the turning point is reached. Afterwards it is too late. Last year, that day seemed far off. Today, we see its first light on the horizon.

What is clear, is that the Postal Service is in a race for tomorrow against the toughest, most agile competition in its history. Our future is on the line. And we are responding. Throughout the Postal Service, we are putting in place the most far-reaching changes in our history. First, there is CustomerPerfect!. When fully implemented, CustomerPerfect! will transform the way each and every employee in the Postal Service goes about our business. We have integrated it with our administrative processes. Now we are applying it to the mail.

We have introduced process management in Nashville and Washington, DC. Now we are adding 10 more sites around the country that will serve as launching pads for spreading these tools throughout our national mail system. We are confident that this will bring a new level of professionalism and precision to the mail system.

We are continuing to deploy more traditional tools, as well. This year, more than 3,600 additional pieces of automation will go on line, bringing overall deployment to more than 10,000 machines, an investment of more than $4.6 billion.

And we are modernizing more than just our methods and machinery. Last week, we took a historic first step in modernizing the mail itself. On March 4, Chairman del Junco and the Board of Governors approved the first revisions in our mail classification rules since postal reorganization. These changes encourage mailers to invest in automation and promote a more efficient mail system for the Nation. They will allow us to handle more mail at less cost.

In the months ahead, we will be approaching the Postal Rate Commission requesting further reforms for nonprofit mail, special services, parcels, and expedited services.

We are also working to build our business. We need to bring in an extra $1 billion each year through new products and better services. We are building new postal stores at the rate of one a day, and testing phone cards, Pack & Send services, and Fastnet local parcel delivery. We are developing a separate priority mail network

to expand and improve this highly competitive service, and we are taking it around the world as global priority mail.

We are also expanding our new international package consignment service to Japan and adding delivery to Great Britain and Canada. Through the first 4 months of this fiscal year, this service has delivered nearly 600,000 packages and brought in more than $10 million in new revenue. We are also moving forward with development of new financial services, electronic kiosks, and hybrid mail products that combine the best of electronics and hard copy.

Our cost reduction targets are equally aggressive. I would like to see us improve productivity at least 2 percent every year, saving $1 billion annually. We are applying new types of technology to reduce costs, from robotics for loading mail to a new, low-cost optical character reader. New computer scheduling systems will help lower overtime in our plants and make sure every transportation dollar is used effectively. Point of sale electronic will help match local office inventories with local customer needs.

However, technology cannot resolve all of our cost concerns. We must look hard at other ways to reduce unit labor costs, which have climbed 54 percent this decade. In some cases, that is going to mean contracting out some of our work to the private sector. Our core strength is delivering the mail. Everything else is on the table.

Some of these changes will be controversial. But all of them are necessary. Our goal is to enter the new century with new service at 95 percent and rates as close to where they are now as possible. It will take everything we can do to do that, and even more. But to do less would risk everything we are and hope to be.

To achieve our vision, we must have the ability to compete. We must have the freedom to run the Postal Service like a business. We need the ability to respond to the market at market speed and the flexibility to test products in the market as our competitors do. Finally, postal managers and employees need market-based pay and work practices that encourage excellence.

We need your help to deliver our vision for America's Postal Service. The future is now, and this subcommittee holds the key. There is no time to waste. With your help, we can face the competition on an even footing. I am confident that the men and women of the Postal Service can hold their own with the best the competition has to offer. But they need your vote of confidence to do it. With your help, they can deliver a Postal Service that is ready for the global challenge of the 21st century, a Postal Service that serves America tomorrow, as it does today—everyone, everywhere, every day.

Thank you, Mr. Chairman.

[The questions and responses of Mr. Runyon follow:]

QUESTIONS FOR THE POSTMASTER GENERAL

1. In Vice Chairman of the PRC Trey LeBlanc's statement for the record, he urges that the Prior Years' Losses (PYL) component of the Postal Service's revenue requirement be phased out. He says that "unexpected losses should be provided for through the contingency account. PYL has been used as a slush fund and permits and contributes to poor financial management." As the statutory leader of the Postal Service, how do you respond to his allegation and suggestion? Why should the PYL not be phased out?

ANSWER: There is no "contingency account." The provision for contingencies is a small percentage that is added to forecasts of future costs to take into account forecasting errors and unforeseen events which impose unexpected expenses upon postal operations, such as a natural disaster. The amount included in the last omnibus rate case for such expenses was 2 percent of total estimated costs in the test year. The amount is based on the business judgment of postal management.

The provision for recovery of prior years' losses (RPYL) has been added to the Postal Service revenue requirement for a completely different purpose. It is derived from the statute's requirement that the Postal Service break even. Because, in the past, the Postal Service has not broken even, a provision for recovery of the cumulative net losses to enable the Postal Service to break even over time is added to the revenue requirement. The Commission has set this amount at one-ninth of cumulative net losses, which amounted to $936 million in the last omnibus rate case. In so doing, the Commission noted that "without the additional revenue infusion provided by the requested RPYL item, the Postal Service will lack any means to begin a restoration of its finances to a positive condition." PRC Op., R94–1, at II–22, ¶ 2068. In response to concerns expressed by the Commission in making this recommendation, the Board of Governors, in Resolution No. 95–9 (July 10, 1995), reconfirmed its commitment to restoring the Postal Service's equity position, by having the Postal Service plan an average annual surplus between rate cases equal to the amount recommended by the Commission for the test year. So far in this rate cycle, the Postal Service is exceeding that goal.

Actually, restoring the Postal Service's equity in this way is the best means of "phasing out" the provision for RPYL. Eliminating the provision without having restored the Postal Service's equity position would not, in our opinion, be consistent with the break-even mandate of the Act. By maintaining its current financial course, the Postal Service will be in a position to base its next omnibus rate case request on a significantly smaller RPYL pool, and thereafter fully restore its equity position and eliminate the need for a provision for recovery of prior years' losses as part of the revenue requirement.

2. Vice Chair LeBlanc also states in arguing that no legislative change is needed, that total volume for all classes of mail has increased 11.8 percent since 1990. How would you respond to his contention that cries of despair from some members of the postal community are unfounded.

ANSWER: Though total volumes have been increasing, the rate of increase has slowed dramatically. From 1985 to 1990, volumes grew 19 percent, while from 1980 to 1985 the growth rate was 32 percent. However, the reason for concern on the part of postal managers

is not the volume growth over the last five years, but the growth over the next five. Thus far in fiscal year 1996, volume is slightly below last year's level; well below plan. Third-class volume is down 2.2 percent. This despite a relatively sound economy, stabilization of paper prices, and record service levels. Furthermore, our forecast growth for fiscal year 1997 is approximately 2 percent. To disregard this more recent trend would be irresponsible.

3. Title 39 states that "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people." How do such things as testing phone cards, Pack & Send services, new financial services, and electronic kiosks meet this statutory mandate?

ANSWER: Also written into law is the obligation of the Postal Service to provide universal service at a uniform postage rate. Implied, if not explicitly stated, that rate must be set at a level that places mail services within the reach of ordinary citizens, whatever their station and wherever they happen to reside. At the same time, the Postal Service is required under law to operate on a break-even basis over time.

Roughly 65 percent of USPS operating costs are directly attributable to specific classes of mail. The remaining 35 percent are of an institutional nature. Phone cards, Pack and Send services, new financial services and electronic kiosks among other revenue generating initiatives, have been designed to return contribution to institutional overhead well beyond their attributable costs. To the extent these endeavors produce incremental revenues, they reduce the burden placed on regular mail classes to cover the totality of USPS operating costs. Postage rates in turn can be maintained at levels that are more affordable and thereby more accessible to businesses of all sizes and the population at large.

4. Mr. Runyon, you have recently been discussing an idea which you are calling a "Price Right Agenda" that would continue your efforts on market-based pricing. What is your long-term vision for this pricing strategy and, specifically, how do you address the concern of many regarding possible monopoly class subsidization of these rates?

    A. How do you respond to those that would say you have to draw revenues from the monopoly stream to be in a position to price your other products competitively?

ANSWER: Simply stated, "Price Right" entails pricing the Postal Service product offerings to meet the needs of the modern marketplace. Currently, under "Price Right", we are reevaluating the pricing scheme for existing products and evaluating potential new products to determine what changes can be made that meet the needs of the marketplace. We intend to enhance the long-term financial stability of the Postal Service in order to require the smallest and most infrequent price increases practical. The end result of the evaluations may mean enhanced services and, in some instances, may indicate streamlined products. The review may indicate price reductions or increases for certain product offerings.

This evaluation includes not only the consideration of the cost of providing the service but pricing in light of the customer demand for the services. Although costs are important and we fully intend to price above costs, we cannot ignore the realities of the marketplace. Those realities may indicate that the price for one product should be reduced and that the price for another product can be increased. In any event, "Price Right" does not entail monopoly classes subsidizing other products and it is fully consistent with the current law that precludes such cross-subsidization. In fact, it includes pricing the products with more direct forms of competition in a manner so that, in the long term, these products can provide even more revenues to the Postal Service and reduce fixed or institutional costs burdens which are now placed on the so-called monopoly classifications.

In summary, "Price Right" would benefit the individual consumer by providing low, stable rates through the increased contributions to overhead from a variety of products.

B. The salaries of your executives are limited by law and you have stated previously they are not in line with the private sector. Have you had difficulty attracting qualified candidates for these positions? Similarly, please explain the criteria used to select those executives who received the recent bonus awards?

ANSWER: We have limited outside recruiting to certain executive positions and for some of our officer positions. We have been fortunate in attracting high caliber candidates. In general, they have accepted positions because of the challenge a position offered, not because of the attractiveness of the compensation. Many highly qualified candidates have withdrawn from consideration because the offered salary was not comparable to other options available to them. We have particular difficulty recruiting against private sector competition for executives in high demand fields and for high cost areas.

The Postal Service recently provided lump sum payments of up to 12 percent for executives based on the organizational success of the Postal Service in Fiscal Year 1995. The program was a group incentive plan, not unlike many gainsharing programs found in the private sector. The maximum award was 12 percent based on the Postal Service achieving net income of $1.8 billion. To receive the maximum award, organizational units needed to achieve both their financial and service goals. Financial performance was measured by net operating income – revenue minus expenses against a pre-established goal. Service was measured by performance of the External First-Class Measurement System against a pre established goal. All organizational units achieved their financial goals, and only seven performance clusters fell short of their service goals. If an organizational unit failed to achieve its service goal, the award was cut in half to 6 percent. A small percentage of executives had their awards reduced even further – some down to nothing – if they individually failed to contribute to the performance of their organizational unit.

5. The GAO Report on *Conditions Leading to Problems in some Major Purchases*, published in January 1996, outlines the additional costs incurred by the USPS as a result of postal officials not following procurement policies. In addition, ethics violations resulted in some of these problem purchases due "to employees circumventing internal controls to speed up the purchasing process." These problems raise questions regarding your desire for more flexibility to address an impeding lack of revenues when at the same time the institution has lost millions unnecessarily through poor decisions:

A. There are those that will argue that procurement and contracting are good examples of an area in which the Postal Service has had tremendous freedom to operate over the years. Further, acting under these flexibilities, the Postal Service has lost large sums of money through poor decisions in procurement regulations, employee selection, ethics matters or any number of reasons. Considering these examples, some are asking why the Subcommittee would consider granting more financial freedoms to this institution. How would you respond to these concerns?

ANSWER: Based on the purchases outlined in the January 1996 GAO report, we can understand the concerns of the Subcommittee. As the GAO report revealed, the problem purchases represented a small percentage of the total purchases and occurred over several years. The time frame for the seven purchases cited in the referenced GAO report range from August of 1986 to March of 1993. The judgment errors cited in these purchases did not occur because of any fundamental defect in Postal Purchasing policy, rather the process was compromised because a few officials chose to deviate from policies and procedures.

If the Postal Service discovers any future errors in judgment or flaws in its existing Purchasing policies and procedures, we will move quickly to correct and take measures to prevent recurrence. We have and will continue to review and improve our Purchasing policies and procedures so that the Postal Service can provide the American public with competitive, value-added mailing services. A few recent examples of our continuous improvements include:

- Consolidated authority and responsibility for all Postal Service purchasing with the Vice President, Purchasing and Materials.
- Implemented contracting officer qualification standards.
- Enhanced Purchasing and Materials training programs, as well as training for those outside of purchasing who are involved in the purchasing process.
- Renewed emphasis on ethical awareness requiring mandatory yearly training for our contracting personnel, and general training for all Postal employees.
- Established Vice Presidential review and approval procedures for high dollar purchases, and are in the process of implementing systems that will help monitor and assess the performance of the Purchasing organization.

B. How can you assure the Subcommittee that, if the Service is granted more freedom and authority, wasteful decisions such as these won't become common place?

ANSWER: From these examples, it is evident the Postal Service is taking appropriate measures to ensure that mistakes of the past are not repeated and our employees are prepared to make sound business decisions. Further, the processes followed on the purchases in question were much more typical of federal government procurement than commercial purchases. We have all seen that agencies following the federal acquisition regulations are, also, not immune from purchasing errors, some of which result from the complexity of the process.

We are now proceeding to implement more commercial purchasing processes which we believe will result in greater efficiency and more positive business results for the Postal Service. We believe that is what Congress and the public expect from us in purchasing and other areas of our operation. Due to the facts surrounding the audit and recent initiatives, the Subcommittee should feel confident that we have the corporate experience necessary to responsibly handle additional financial freedom while reducing the risk of these types of problems.

6. The Census Bureau announced that it would conduct a "fundamentally different" census in the year 2000. The plan is to use newer technologies, better address lists, etc. The Census Bureau had predicted that during the 1990 census, 70 percent of the household would return the forms, but only 63 percent did. The Bureau spent $2.6 billion for the 1990 Census and predicts that if they use the same methods, the cost would rise to $4.8 billion. The new plan would cost about $3.9 billion.

   A. What preparations is the Postal Service making in conjunction with the Census Bureau for Census 2000? What are your projections on cost to the Census Bureau?

ANSWER: One of the keys to conducting a cost efficient and effective Census is the accuracy of the mailing list used by the Census Bureau. In the past, Census has purchased mailing lists and acquired updating activities from a variety of sources. What's different for Census 2000 is the Postal Service is providing to Census addresses for the 128 million deliveries serviced by the Postal Service systemwide. The information will also contain additional data to assure that the Census materials can travel at the lowest possible postage rate eliminating the need for Census to purchase addresses from a variety of different sources. Through a unique partnership agreement, access to Postal Service maintained addresses has no direct cost to the Census Bureau. The only postal cost that the Bureau of the Census will incur will be postage for those items that it mails.

   B. Would the modified Census Bureau plan of perhaps using the telephone or the Internet for receiving information from the public effect Postal Service business and revenues?

ANSWER: The only impact on postal business and revenues would be loss of postage revenue for any items not mailed as a result of the Bureau of the Census using the telephone or the Internet to gather information.

7. The Postal Service has expressed interest in developing an electronic postmark. Traditional methods of business are being replaced by a paperless society but the law of contracts and commerce is still based on a paper system. With the widespread use of electronic technology, business practices have changed and there is a need to authenticate the origin of a "letter" and to secure the transaction sent electronically. It is apparent that business laws will change as well. For example, the Statue of Frauds and the Uniform Commercial Code require a writing for certain types of contracts which, additionally, must be signed. Until now, there has been no judicial decision regarding whether electronic communication satisfies the writing and signing requirements.

A. At what stage in research and development is the "electronic postmark?"

ANSWER: As of May 1, 1996, we have a prototype of a beta-test with pilot customers paying for a postmark within a proprietary network environment.

We are currently building a limited-scale (but capable of expanding for full service) production system. We will incorporate into this system all the components which our testing and customer interviews have shown to be needed by customers. This system could be ready for incremental customer use within six months, but we will only offer incremental services if customer demand warrants doing so.

B. Would there need to be redefinition of terms for the Postal Service to become the sole user of the electronic postmark? For instance, "What is a *letter*?"

ANSWER: The Postal Service will not become the sole provider of time and date stamps. In addition, the U.S. Postal Service will license others to use the USPS Electronic Postmark. The Postal Service will service mark its own name for its service, but otherwise we anticipate that no redefinition of terms will be required.

C. Will the postmarks be used to verify the date and time of sending the electronic mail or would it also verify the sender (like a signature, as required in some contracts)? If the postmark is only to authenticate the date of sending, is that limiting the scope and possible application of the technology which you are developing?

ANSWER: The U.S. Postal Service Electronic Postmark will verify the date and time of 'receiving' the electronic mail at a Postal (or Postal authorized) site. In the near future, we anticipate offering this service in connection with a public-private key pair (dual asymmetric irreversible algorithm) implementation that will allow the sender to be verified. In some cases, the customer may simply be seeking a postmark but has no need for extensive security protections. We envision offering this as a stand-along product as well. In these cases, customers will know that they are buying only the postmarking and nothing else.

i. It is apparent that for an electronic message to survive a challenge to its authenticity, the message must not be altered after dispatch. Will the postmark be capable of securing the message?

ANSWER: Yes.

ii. Would the electronic postmark ensure privacy and confidentiality?

ANSWER: An electronic postmark can be combined with encryption to safeguard and protect against invasion of privacy and confidentiality. Our current prototype system does not include that feature, although we intend to add it.

D. Has the European Union or other countries made efforts to develop an electronic postmark, and what is their experience?

ANSWER: We are not aware of any such efforts.

8. As requested by Vice Chairman Sanford, please provide for the record the percentage of fixed costs versus variable costs for the U.S. Postal Service, and how you define those terms. How would you respond to the rate commission Chairman's statement that virtually all "attributable" costs are volume variable costs?

ANSWER: The Postal Service identifies costs as attributable, specific-fixed, or institutional. Mail volume is the foundation for determining attributable costs. Attributable costs are identified by classes, subclasses and special services through careful examination of how costs are incurred in individual postal operations. These costs are attributable if it is determined to vary with changes in volume (volume-variable). Costs that arise solely from providing a single class or service are classified as specific-fixed and are attributed fully to the affected class or service Costs that are neither volume-variable nor specific-fixed are not attributable. These costs are classified as institutional. Thus, institutional costs are a residual consisting of the difference between total accrued costs and total attributable costs.

FY 1995 COSTS AND PERCENTAGE

	Attributable Costs			
Total Accrued Costs	Total	Total Volume-Variable	Specific Fixed	Institutional
$52,739,089	$33,689,356	$33,533,114	$156,242	$19,049,733
100.0%	63.9%	63.6%	0.3%	36.1%

9. As agreed in the hearing, please detail the instances, if any, where proprietary information of the Postal Service was made public in the course of a ratemaking case? Chairman Gleiman testified that business or other proprietary data becomes stale very fast and that data claimed as proprietary by the Postal Service is in many cases two or three years old. Is this assertion true? How long should such data remain proprietary? Do claims of proprietary incorporate an assumption that disclosure would result in competitive harm? In addition, please provide further feedback on the idea of establishing a "third party arbitrator" to address what data is of proprietary nature within the ratemaking process?

ANSWER: To support its rates and classification proposals under the Commission's rules, the Postal Service is required to make public, without any protective conditions, detailed information about its costs, revenues, volumes, market shares, business plans, and other information that no rational business would release publicly. The Postal Service is, therefore, at a competitive disadvantage *ab initio* even before controversies arise about specific data sought in the discovery period of a rate proceeding. It is important to put the matter in this perspective before focusing on the very few instances in a rate case that a party seeks information which the Postal Service seeks to protect from public disclosure due to the

commercial sensitivity of the information. The general legal standard does not impose the impossible requirement that a party claiming privilege prove that release of the data will result in harm; only that such harm is possible, given the nature of the information at issue.

When the Postal Service seeks to protect sensitive information, a number of interests may be at stake. With regard to services that are highly competitive, such as parcel services, the Postal Service seeks to protect its own competitive interests by not being compelled to release data that would provide a competitor with an advantage that could result in harm to the Postal Service. An example of such information might be Express Mail volumes between two specific cities. This information would be valuable to a competitor, while having no specific relevance to ratemaking.

The Postal Service also seeks to protect information provided by its customers. A simple example is information provided on mailing statements, which most mailers view as commercially sensitive. Customers also provide sensitive business information in the form of Postal Service-sponsored survey responses. This information can be so sensitive that, in order to collect reliable data, the contractors conducting the survey must promise not to provide disaggregated data to the Postal Service, let alone to the mailers' competitors, other intervenors in rate cases, etc. If confidentiality were not assured, the Postal Service and the ratemaking process would not be able to benefit from surveys conducted to determine current mailing practices, including volumes, and responses to changes in postal services and prices. Mailers should not have to fear that their own competitors will obtain detailed information about their business, their mailing practices, and their potential business plans, if the Postal Service is asked to provide such information during the course of a rate case.

10. During the recent reclassification case, it came to light through USPS data that parcels mailed third-class are often charged rates that are, on average, below cost; 600 million pieces are below costs, and another 200 million fourth-class parcels that barely cover their cost. As agreed in the hearing, please respond to the concerns that we have heard from others that with this kind of activity, how–given additional flexibility–would you ensure that your product recovered its attributable cost?

    A. Ms. Elcano responded to this question in the hearing by noting that at the end of a three-year cycle, the Postal Service can get below cost because costs go up during a three-year cycle. However, the Rate Commission Chairman pointed out that currently we're at the very beginning of that three- or four-year cycle. The costs on those third-class parcels that are currently below rate were raised, according to Mr. Gleiman, just last year in the R94 case. While he stated that the evidence was not available in that case that they were below cost, the evidence became available in the reclassification case. How do you respond?

ANSWER: Under the current classification schedule, third-class bulk mail is limited to mail weighing less than one pound. Both parcels and flats are in the same bulk third-class categories. The costs of bulk third-class flats and parcels are averaged together as the basis for a single set of rates that are paid by both flats and parcels. In the recent classification reform case there were some data on the record that showed that at each ounce increment, an average third-class bulk parcel costs more to process than an average third-class bulk flat.

Proposals were made on the record of the case (by United Parcel Service) that the Commission should de-average rates for parcels and flats. The associations representing the mailers of third-class parcels (most of whom also mail third-class flats) asked the Commission to adopt UPS's proposal, and provided evidence tending to show that some parcels may be less or no more expensive to handle than some flats and that distinctions among parcels may be more relevant than the general distinction between all parcels and all flats. They took the position that no change should be made until further studies were done. The Postal Service agreed. Contrary to the statement in the question, there was no evidence as to how many third-class parcels are higher-than-average costs, how many are average, and how many are below average. This lacuna was one basis for the Commission's agreement to defer recommending any changes. The Postal Service is currently considering the appropriate action to take on this matter.

If the Commission believed that a legal deficiency prevented having third-class flats and parcels pay the same rates, it could have relied upon the proposals and evidence presented on the record before it to recommend different rates. It declined do so, however. On balance, that was the most appropriate course of action in that case. The establishment of rate differentials, if that ultimately proves warranted and feasible, can be considered as part of a subsequent parcel reform case. In the meantime, however, the rates that the Commission recommended and the Postal Service adopted for non-letter size Standard Mail are designed to be, on average, compensatory.

Fourth-class parcels were not at issue in the reclassification case. Rates designed to cover costs were recommended by the Commission in Docket No. R94-1. There is no reason to believe that these rates are inadequate for this time in the rate cycle. Nevertheless, it is useful to keep in mind Ms. Elcano's general observation about the effect of rising cost levels, over time, on cost coverages generally. This circumstance results from the somewhat artificial nature of rate decisions that, perhaps necessarily, are based upon estimates for a fixed period of time. In fact, the cumbersome mechanism for making rate changes contributes to this situation. If the ratemaking process were easier, and if the Postal Service had more flexibility to adjust rates, rates and costs could be more easily kept in line.

Regarding such additional flexibility, the Postal Service agrees that any scheme that might be adopted should include some procedure to ensure that rates adopted cover their attributable costs and make an appropriate contribution to institutional costs.

11. Current Postal Service regulations, specifically 39 CFR 952.5, do not require the Postal Service to identify specific conduct or specific rules allegedly violated when the Service files administrative complaints for mail fraud and other violations. Other enforcement agencies, such as the Federal Trade Commission, require administrative complaints to give defendants notice of the misconduct charged or the specific rules allegedly violated. For example, FTC regulations require that a complaint include a "clear and concise factual statement sufficient to inform each respondent with reasonable definiteness of the type of practices alleged to be-in violation of the law." Further, those regulations require the FTC to cite the specific sections of laws, rules and regulations involved in each allegation. Shouldn't the Postal Service operate under similar rules of specificity when filing an administrative complaint against a defendant mailer?

ANSWER: The Postal Service's administrative authority to challenge alleged false representations or lotteries is codified under a single statute, 39 U.S C Section 3005. That statute contains a general prohibition against obtaining money or property through the mail by means of false representations, or conducting a lottery through the mail. The only other specific statute that can apply in Section 3005 cases is 39 U.S.C. Section 3001. That section declares "nonmailable" certain types of material, including solicitations in the guise of invoices and mailings which deceptively appear to come from a government entity. When subsections of Section 3001 are at issue in a 3005 case, those subsections are cited in the administrative complaint.

The Federal Trade Commission (FTC) enforces not only the broad deceptive trade practices statute, 15 U.S.C. Section 45, but an extensive range of trade regulations issued pursuant to that statute, codified in Title 16 of the Code of Federal Regulations (CFR) For example, the FTC enforces specific, detailed rules governing telemarketing sales, 900-number telemarketing, funeral industry practices, and advertising for specific products as varied as cigarettes, extension ladders, retail foods, and many others. Therefore, the FTC is in a position, in appropriate cases, to cite to specific sections of the CFR in its pleadings when alleging that those sections are being violated.

With respect to the specificity of complaints, 39 CFR Section 952.5 requires the General Counsel to state "the facts in a manner sufficient to enable the person named therein to make answer thereto." Pursuant to this rule, a typical complaint filed by the General Counsel:

- identifies the parties responsible for the alleged false representation scheme or lottery;
- identifies and attaches a copy of any printed solicitations at issue, or describes the oral representations typically made by the Respondent(s);
- alleges that by means of such solicitations or other materials the Respondent(s) represent particular facts, "directly or indirectly, in substance and effect, whether by affirmative statements, omission or implications";
- alleges that the above-described representations are materially false; and
- requests that the Postal Service Judicial Officer issue an appropriate false representation order and/or cease and desist order against the respondent(s).

The General Counsel is not required to state precisely which words, phrases or images in a solicitation are responsible for each alleged false representation. The pleadings must be sufficient to give the respondent(s) notice of what solicitations are at issue, and what false representations are alleged. The Postal Service Judicial Officer has explained the legal reasoning for this as follows:

In false representation proceedings, the impression conveyed by the total advertisement is at issue:

> Advertisements as a whole may be completely misleading although every sentence separately considered is literally true. This may be because things are omitted that should be said, or because advertisements are composed or purposefully printed in such a way as to mislead." [citing Donaldson v. Read Magazine, 333 U.S. 178, 188 (1948).]

Thus, while portions of an advertisement may be more explicit than others with respect to certain alleged representations, the whole advertisement is placed in issue under the Donaldson standard. Accordingly, the complaint need not identify particular language which is likely to mislead. Indeed, it may not be possible to do so where it is the total impression of the advertisement that creates the representation.

Delta Enterprises et al., P.S. docket Nos. 14/72-14/75 (Judicial Officer Decision July 3, 1984).

This level of specificity is consistent with the notice pleading required under Rule 8(a) of the federal Rules of Civil Procedure:

> (a) Claims for Relief. A pleading which sets forth a claim for relief, whether an original claim, counter-claim, cross-claim, or third-party claim, shall contain (1) a short and plain statement of the grounds upon which the court's jurisdiction depends. . ., (2) a short and plain statement of the claim showing that the pleader is entitled to relief, and (3) a demand for judgment for the relief the pleader seeks. . . .

With regard to the requirements for civil complaints, the Supreme Court has stated:

> [T]he federal Rules of Civil Procedure do not require a claimant to set out in detail the facts upon which he bases his claim. To the contrary, all the Rules require is 'a short and plain statement of the claim' that will give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests.

Leatherman v. Tarrant County Narcotics Intelligence and Coordination unit, 507 U.S. 163, 167 (1993), quoting, Conley v. Gibson, 355 U.S. 41, 78 (1957).

The Federal Trade Commission routinely proceeds against false advertising in district court rather than administrative proceedings, and in those cases is required only to file the "notice pleading" set out in Rule 8. Thus, as a practical matter the pleading standard for the FTC in many cases is the same as that for the USPS.

In addition, the content of Postal Service complaints substantially complies with the Rules governing complaints filed administratively by the FTC. The FTC Rules of Practice, 16 CFR Section 3.11(b)(2), require "A clear and concise factual statement sufficient to inform each respondent with reasonable definiteness of the type of acts or practices alleged to be in violation of the law." We do not read this prerequisite to mean that specific violative language

of solicitations or advertisements must always be included in FTC complaints. A complaint could inform the respondent of the "type of acts or practices alleged to be in violation of the law" in precisely the way that the Postal Service does in its complaints.

Moreover, there can be valid strategic reasons to draft complaints with a broad reference to an entire solicitation or advertisement. If every administrative complaint were required to list the specific words that allegedly conveyed a false representation, a respondent could make small or insignificant changes to his or her solicitations, removing the complained-of words, and then claim that s/he was no longer engaging in the complained-of activity.

12. Decisions rendered by Administrative Law Judges are subject to limited judicial review based upon the hearing record. Please provide the subcommittee a detailed statement of the Postal Service's rules and practices relating to the creation of a hearing record before an Administrative Law Judge. To what extent are these practices consistent with other enforcement agencies, such as the Federal Trade Commission? Are these practices more or less restrictive than other agencies' rules of practice?

ANSWER: The Postal Service's rules are contained in Part 952 of Title 39, Code of Federal Regulations, which sets out the Rules of Procedure in administrative proceedings under 39 U.S.C. Section 3005 These proceedings are conducted at the first level by an Administrative Law Judge and on appeal within the agency by the Postal Service Judicial Officer. The rules provide for the filing of an administrative complaint by the General Counsel, an answer within 15 days by the respondent(s), discovery (sometimes limited to requests for production of documents and requests for admissions, but sometimes also including depositions), an evidentiary hearing, the filing by both sides of proposed findings of fact and conclusions of law, and an initial decision by an Administrative Law Judge. Either side may file exceptions to the initial decision with the Judicial Officer. If such exceptions are filed, the Judicial Officer provides an opportunity for reply to the exception, and ultimately issues the Postal Service decision. A party may move for reconsideration of the Postal Service decision. The record created by this entire process is available to the District Court on appeal.

The Federal Trade Commission Rules of Procedure provide for the filing of a complaint by the Commission; an answer within 30 days by the respondent (or a motion for a more definite statement within 10 days); a statement by complaint counsel setting forth the theory of the case, the issues to be tried, and what complaint counsel expects their evidence to prove; a similar statement with 10 days by respondent; within 10 more days a scheduling conference; within 14 days after that a scheduling order; optional motions by either side for summary decision; discovery (including depositions, interrogatories, requests for documents and requests for admissions); subpoenas requiring the testimony of persons or the production of documents in discovery; subpoenas requiring the testimony of persons at the hearing; an evidentiary hearing before an Administrative Law Judge or by the Commission or a member of the Commission; filing of proposed findings and conclusions by each side; an initial decision within 30 days of the filing of the proposed findings; an appeal of the initial decision to the Commission with 30 days for reply and 7 days for rebuttal; the Commission's decision on appeal; and motions for reconsideration of the Commission's decision within 20 days. Commission decisions are appealed directly to the U.S. Court of Appeals.

It is difficult to say which agency's rules are more "restrictive." Clearly, the Postal Service rules are more streamlined, providing fewer pre-hearing procedures, less comprehensive discovery, and shorter time periods for filing many documents. Sources at the FTC have informed us that they are in the process of reviewing their rules of practice to determine whether some of those rules should be revised. Thus, any comparison of the agencies' rules might best occur after FTC has determined whether to revise its rules.

13. Postal inspectors enjoy sovereign immunity from suits by individuals alleging violation of their civil and constitutional rights. Please provide the Subcommittee a memorandum setting out the views of the Postal Service regarding what civil remedies, if any, exist for individuals who allege violations of their rights by postal inspectors. Please include the scope of such immunity as it protects individual postal inspectors and the Postal Service itself.

ANSWER: On November 18, 1988, the President signed into law the Federal Employees Liability Reform and Tort Compensation Act of 1988, Pub. L. No. 100-694. 102 Stat. 4563 (1988) (codified in part in various subsections of 28 U.S.C. §§ 2671; 2674; 2679). The "Westfall Act, " as it has come to be known, amended the Federal Tort Claims Act, 28 U.S C §§ 1346(b); 2671-2680 (1988). Its purpose was to protect Federal employees (including postal inspectors) from personal liability for common law torts committed within the scope of their employment. Congress intended to remedy the crisis created by Supreme Court cases from Bivens v. Six Unknown Named Agents of the Federal Bureau of Narcotics, 403 U.S. 388 (1971) through Westfall v. Erwin, 484 U.S. 292 (1988), when the Court concluded that absolute immunity was only available to federal officials whose conduct was sufficiently discretionary that the threat of personal damages suits could reasonably be expected to adversely affect the conduct of public administration. While the Court decided that "discretion" was an essential element of the absolute immunity defense, it provided little guidance as to the degree of discretion required and concluded its opinion with the observation that "Congress is in the best position to provide [such] guidance".

The Westfall Act replaced the Federal common law of absolute official immunity by making the Federal Tort Claims Act the exclusive remedy for persons injured by Federal employees' torts. The exclusive remedy provision §5, 28 U.S.C. § 2679(b) (1), and the certification and substitution provision, §6, 28 U.S.C. § 2679 (d) provide that Federal employees shall have absolute immunity from suits brought under state law, and that the United States shall be substituted for the employee at the earliest stages of the case. However, it should be noted that the immunity only applies to suits against Federal officials arising under state law. Congress expressly provided that the Act would not apply to suits against Federal officials for violations of the United States Constitution, nor does the Act apply to suits for damages arising from a Federal official's violation of a Federal statute.

The defense of qualified immunity can be asserted when a plaintiff alleges that inspectors violated a known constitutional or statutory right and seeks to hold the inspector personally liable. The defense of qualified immunity is the product of a series of Supreme Court decisions. It seeks to strike a balance between compensating those who have been injured by official conduct and protecting government's ability to perform its traditional functions. The immunity acts to protect the public at large, not to benefit individual inspectors. The focus then is not only on the applicable law, but on the applicable law relative to the situation or circumstances in which the defendant acted, viewed from the perspective of a "reasonable"

official placed in the shoes of the defendant. The inquiry becomes whether a reasonable official in the same circumstances and possessed of the same information as the defendant should have known that his conduct would violate the asserted right.

In summary, postal inspectors have the same immunity as other Federal law enforcement officers. Congress has enacted the Federal Tort Claims and Westfall Acts to immunize Federal employees from suits arising under state law and within the scope of their employment. Constitutional and Federal statutory claims are addressed by the Federal courts which, on a continuing basis, interpret the defense of qualified immunity. The process thus provides a reference for inspectors to guide their conduct and ensures that remedies exist for citizens who allege the misuse of government authority.

14. The Postal Service is generally required to use U.S. flag carriers to deliver its international mail overseas and to pay them in accordance with rates set by the Department of Transportation. For domestic mail delivery, however, the Postal Service can set its own rates it pays air carriers. What is the status of negotiations between the Postal Service and the Department of Transportation regarding legislative initiatives which would allow the Postal Service to negotiate directly with U.S. airlines for the carriage of international mail?

ANSWER: Postal officials have met with representatives of the Department of Transportation (DOT) on several occasions regarding their draft legislation to deregulate the international air transportation of mail. The Postal Service remains opposed to the draft legislation, principally the provision that would require the Postal Service to give absolute preference in the award of contracts to U.S. Flag Carriers. On March 21, the Postal Service met with all of its suppliers of domestic and international air transportation of mail to discuss a variety of service issues, including the international deregulation of mail. Although carriers were reluctant to state their company's firm position in an open forum, informal discussions with them during breaks revealed a position of opposition and concern.

The Postal Service is not subject to the provisions of the "Fly America Act"; however, it has voluntarily complied with the spirit of the provision for many years. This is since the current regulated rate-making environment, as administered by DOT, has provided the Postal Service with some measure of protection against monopolistic pricing and anti-competitive practices of U.S. Flag Carriers in markets where there is not adequate competition among U.S. Flag Carriers.

The Department of Transportation desires to discontinue its rate-making responsibilities through deregulation, and the Postal Service wishes to obtain the necessary legislative authority to competitively contract for this service. To this extent, DOT and the Postal Service are in agreement, however, the Postal Service would like to see the requirement for U.S. flag preference deleted from the DOT draft.

We believe that a properly worded deregulation act would be in the best interest of the Postal Service and the airlines as well. It would allow the Postal Service to clearly specify in a competitive solicitation its requirements for service in specific markets, and would provide the airlines the opportunity to offer a price reflecting each carrier's unique capabilities and efficiencies. For all the excellent reasons Congress decided to deregulate the domestic air

transportation of mail, those same reasons are equally applicable, it not more so, to the international air transportation of mail. As previously mentioned, the Postal Service is in a fiercely competitive market with international mail, and we are continuing to lose market share at an increasing rate.

If we are to compete effectively, we need the necessary tools that are now available to our competitors, including many foreign postal administrations. To elaborate on this last point, Royal Mail, United Kingdom's postal administration, like several other foreign postal administrations, has established offices in New York. They are seeking what is now our outbound business from the United States to London. Because Royal Mail has been granted complete authority by its government to contract for this service as it sees fit, they issue competitive solicitations for which all carriers, including U.S. Flag Carriers, are invited to submit proposals. Under the current legislation, the Postal Service is prohibited from issuing a similar solicitation to the same carriers for the same service. While U.S. carriers may offer Royal Mail market-based rates, the Postal Service must use the services of a U.S. Flag Carrier at rates established by DOT, based on antiquated costs formulas arrived at in a 1978 rate case. Further, the U.S. carrier may actually transport the product on a foreign carrier's flight which has a DOT approved code share agreement with the U.S. carrier. (A code share agreement is one in which the foreign carrier's flight is assigned a flight number and airline code of the U.S. carrier, and is treated the same as any other U.S. flight). In addition, the rates established by DOT are geographically based, i.e., the same for all of Europe, and are not based on the unique conditions in the USA-London market, as most certainly will be the case with proposals received by Royal Mail. This is an unfair advantage, and ultimately, will be a major contributor to the continued erosion of the Postal Service's international business.

To this end, the Postal Service is working through the auspices of the Air Transport Association to set-up a series of meetings with the U.S. Flag International Air Carriers to determine if there is a compromise position both the airlines and the Postal Service could agree to regarding the U.S. flag preference issue. We have advised DOT of this process, and they have indicated their willingness to consider modifying their draft language with any suggested changes with which both the airlines and the Postal Service agree. If our efforts with the U.S. airlines are unsuccessful, we will attempt to reach a compromise with DOT. Failing that, the Postal Service will be faced with the difficult task of obtaining its own legislation or losing its remaining international business.

15. You have testified that this year more than 3,600 additional pieces of automation will go on-line. Will this bring you to the target where you had intended to be at this time?

ANSWER: The original target set by the first Corporate Automation Plan in 1990 was that all letter mail automation equipment would be fully deployed and in operation by the end of fiscal year 1995. Beginning in fiscal year 1992, a thorough corporate review of automation was undertaken, resulting in an approximately two-year delay in the program, with full deployment/operation scheduled for the end of 1997.

We are on schedule for that goal since the resumption of the automation roll-out. Roughly 3,600 pieces of automation equipment are scheduled for deployment this fiscal year; in agreement with the schedules in our DARs and contracts.

16. How many postal stores do you have at the moment and how many do you intend to build in total? What service do these stores provide? Some private companies have criticized the Postal Service for providing these services in direct competition with private industry. For instance, the Postal Service's "pack and send" program competes directly with franchised packing services and other small business. Is the provision of this service consistent with the Postal Service mission? In what way?

ANSWER: There are 259 facilities in operation with open merchandising for customers to serve themselves. We are opening an average of 15 postal stores per month.

Package shipping is a core function of our business. As with all core functions, we focus on the needs of customers who choose us for service, including those customers who would like help in preparing their packages for mailing.

We recognize that a wide variety of other firms offer alternatives to virtually all of the services that we provide, and we appreciate the complementary role that private retailers play in package mailing, including offering a range of service providers for customers who want options. However, customers who choose to come to a post office for service should have fundamental mailing conveniences available to them, too. Conveniences such as package preparation services are intended to make Postal Service customers' lives a little easier and to make our mailing services more useful and viable. This is fully consistent with our basic mission.

17. In Mr. Runyon's prepared testimony, he notes that the Postal Service is expanding many international services, such as package consignment and Global Priority mail. The GAO reported to me in March in its evaluation of international mail that some service competitors have said that the Postal Service benefits unfairly from its status as a federal entity and its exclusive access to foreign postal administrations as the sole U.S. representatives to the Universal Postal Union. For example, it has been alleged that the Postal Service underprices some international postal services. Given such concerns, why shouldn't Congress authorize and require the Postal Rate Commission to oversee international postal rates?

ANSWER: The Postal Reorganization Act gave the USPS a degree of flexibility in the international area, subject to the requirement that prices be set to cover costs, make a contribution to overhead, and avoid any question of cross subsidy of domestic monopoly services. We take that responsibility seriously.

The international area is highly competitive. Competitors include domestic companies such as Federal Express and UPS, foreign companies such as TNT Mailfast (a company jointly owned by TNT Ltd. of Australia and the postal administrations of Canada, France, Germany, the Netherlands, and Sweden), SAS and KLM airlines, and the postal administrations of the United Kingdom, the Netherlands, Belgium, and Denmark. They have all the flexibility necessary. If we are to maintain a viable USPS presence, we must have the ability of our competitors to respond to market changes. To subject our international services to an unnecessarily cumbersome process would disadvantage

the Postal Service and equally importantly, place the competitors who made the charges in the GAO report at a distinct advantage. As the Court of Appeals for the Third Circuit said in upholding the Postal Service's flexibility to negotiate customized services and prices with it customers,

> In enacting the [Postal Reorganization Act], Congress repeatedly explained the fundamental reason for the dramatic changes mandated by the Act; it wanted the Postal Service to operate less like a bureaucratic agency and more like a business. The relevant committee reports repeat this principle again and again. See, e.g., H.R. No. 1104, 91st Cong., 2d Sess. (1970), reprinted in 1970 U.S.C.C.A.N. 3649, 3600 ("The Postal Service is a public service but there is no reason why it cannot be conducted in a businesslike way and every reason why it should be.")
>
> While Congress hoped to achieve efficiency in postal operations by enacting the PRA, it also sought innovation. As the House Report noted, the Act "envisions a national postal service that is forever searching for new markets and new ways by which the communications needs of the American people can be served." H.R. No. 1104, 91st Cong., 2d Sess., reprinted in 1970 U.S.C.C.A.N. at 3668-69.

UPS Worldwide Forwarding, Inc. v. U.S. Postal Service, 66 F.3d 621, 638 (3d Cir. 1995)(footnotes omitted).

In keeping with this direction, the Postal Service last year created an international business unit to better manage and promote its international business. This new unit, with new, customer-driven products such as International Package Consignment service and Global Priority Mail, will more effectively meet the international mailing needs of the American public. Indeed, we expect the IBU to help American businesses to "go global," with all the benefits of greater exports and increasing trade.

It should be noted that the controls exercised over services protected by the Private Express Statutes are more that adequate to assure that international services are not supported by protected services. In fact, the Postal Service believes there is a need to simplify controls in the latter area.

18. According to the Service's new Comprehensive Statement to Congress, the recent collective bargaining efforts with the American Postal Workers Union resulted in about 90 tentative agreements being reached during negotiations and that these were adopted and made part of the new agreement. This seems to be quite an extensive number of agreements; is it? What are the types of issues that you and the APWU were able to reach agreement on?

ANSWER: Yes, 90 agreements is an extensive number. However, the majority of the agreements are essentially cosmetic in nature. By the end of negotiations, management had submitted 18 main table and 12 craft table proposals, and the union had submitted 81 main table and 67 craft table proposals. The agreements which were cosmetic, involved language changes made necessary by the change from a contract covering two unions to a contract covering the American Postal Workers alone. However, a number of the agreements revised long existing language and processes that were confusing and cumbersome.

We reached agreement on several provisions that improved our grievance/arbitration procedures. With the recognition that the parties need to take more responsibility for their actions and decisions, and that we needed a structure that encourages problem solving at the level where a problem arises, we agreed to explore alternative dispute resolution procedures to streamline the process, facilitate resolution at the lowest possible steps and avoid constant repetition of the same complaints.

We expanded our local implementation period, a time for the local parties to discuss 22 specific items affecting the local parties. The expansion of the implementation period provides flexibility in scheduling, thereby allowing district labor relations offices to devote appropriate time and attention to the process.

We also reached agreement on application of seniority provisions which eliminates the confusion caused by different seniority provisions in each of the four crafts represented by the American Postal Workers Unions.

In our clerk craft article we were able to agree on an in-depth question and answer document that addressed more than 170 most frequently asked questions.

19. The new comprehensive statement declares that "due to the limit imposed on Executive Schedule I salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and some key executives fail to meet private sector comparability standards." Please explain this statement.

ANSWER: The current Executive Schedule I limit is an annual salary of $148,400. There are a variety of sources of private sector salary data that show this amount to be a fraction of the total compensation provided to private sector officers and executives. Typical private sector compensation for chief executive officers includes base salaries, cash incentives, and stock option arrangements that provide well over a million dollars a year.

The $148,400 limit compresses not only the top officers' pay, but that of our key executives' as well. For example, our 15 Large District Managers of Customer Services supervise 6,000 to 10,000 employees in the daily delivery to about two million locations, and generate about a billion dollars of revenue per year. A private sector company would pay these positions $160,000 to $200,000 a year in base salary, and an additional $40,000 in cash incentives, not to mention lucrative stock option plans. By comparison, our large District Managers average $105,000 a year, have received cash incentives of up to $12,000 only recently, and have no stock options.

Comparability data indicates that if we paid at the market average, about 125 of our 690 officer and executive positions would have annual base salaries over the $148,400 ceiling.

1. You indicate the Postal Service is growing in only one of its six product lines. What are those six, and which one is growing?

ANSWER: The six businesses we are referring to are: (1) Correspondence and Transactions; (2) Publications; (3) Advertising Mail; (4) Expedited Services; (5) Basic Package Delivery Services; and, (6) International Services.

Advertising Mail, as a share of the total advertising market, has been increasing, due to the effectiveness of the service in reaching targeted customer segments and generating responses for those establishments choosing the mail as their advertising channel.

2. You paint a dreary picture for the future of your First-Class mail business. If it is truly threatened, shouldn't you move to reduce prices for First-Class mail to meet the competition head on and perhaps improve your bottom line by making room for some of your more robust product lines such as advertising mail?

ANSWER: First-Class Mail is indeed truly threatened by alternative forms of communication, such as facsimile, e-mail, electronic data interchange, and electronic bill payment services. However, price is only one dimension of customer need. Focusing on price alone is a mistake. The value of our First-Class Mail service to our customers comes from a combination of affordability, timely delivery consistency, ease of use, and accuracy. Furthermore, since different customer segments use the mail for different reasons, not only do their interpretations of the common values differ, they may also have other unique needs we must address if we are to compete effectively.

Traditionally, many people have assumed that mail is an undifferentiated commodity service. However, the future market environment of the Postal Service indicates that we must manage a portfolio of very large and complex business segments. Each of those segments have different levels of importance, and varying degrees of threats and opportunities, and we will have to manage accordingly. The Postal Service is just beginning to design, position, price, and promote its products and services according to customer needs in competitive markets. Along with the threats, there are opportunities, if we are not constrained from responding to the threats and allowed the flexibility to meet customer needs.

3. The Postal Service provides mail collection, transportation, processing and delivery services. Your statement says everything except delivery is "on the table" for contracting out to reduce costs. The postal service has committed a multibillion dollar investment in automation mail processing equipment. How does such an investment square with plans to contract out your mail processing activities?

ANSWER: The Postal Service is committed to doing all it can to hold down costs and postage rates. Our customers deserve and expect postal management to aggressively pursue cost containment opportunities, and we take that responsibility very seriously. The Postal Service has invested a good deal in our automation program and it has paid off very well. Were it not for automation, postal costs and, thus, postage rates, would be substantially higher than they are today. We remain committed to automation and feel that we can continue to capture the savings it provides while, at the same time, look for savings through outsourcing.

4. Expenses are up and revenue is down. Specifically, in what areas have expenses increased over the past two years? What programs and initiatives have you put in place to reduce these expenses? Where are you losing revenue?

ANSWER: With respect to revenue loss, we have not lost revenue over the past two years. Total operating revenue has increased 10.0 percent or $4.9 billion dollars from fiscal year 1994 to fiscal year 1995.

Total expenses, including interest, grew 4.5 percent from fiscal year 1994 to fiscal year 1995. The largest growth in expenses has been in salaries and benefits. This growth amounts to $2.3 billion or 5.9 percent. Contractual and consultation pay increases account for $1.5 billion or 3.9 percent of this increase. Of the $1.5 billion, $800 million relates to an adjustment in 1994 which lowered our long-term liability estimate for workers' compensation and consequently lowered our fiscal year 1994 expense by this amount. The rest, $800 million or 2.0 percent, is caused by the increased usage of employee workhours. Offsetting this increase is a decrease in non-personnel and interest expense cost of $101 million.

A 1.3 percent increase in volume and a 1.5 percent increase in possible deliveries was the cause for the employee workhour increase. These two items constitute the majority of our workload.

In order to reduce future growth in workhours, several productivity programs have been implemented. These include additional automation equipment such as Delivery Bar Code Sorters and Customer Service Bar Code Sorters. Other programs include Integrated Mail Handling System, Flat Mail Sorter and the Remote Bar Coding System.

5. To what do you attribute the fact that we now have more postal employees than when you took over as Postmaster General? How is automation impacting the increase in postal employees.

ANSWER: From the time that I was appointed Postmaster General until now, we have had a significant increase in both mail volume and in the delivery points that we must service. Delivery workload growth associated with the increase in delivery points has required an increase of over 14,000 letter carriers. Workload related to mail volume increases has accounted for about 35,000 additional positions. In order to take full advantage of our automation equipment, we have set up Remote Encoding Sites. These sites place barcodes on mail that cannot be processed through our optical character readers. The work at these sites, which was previously contracted out, is now done by postal employees, most of whom are non-career employees. This has added an additional 20,000 employees. Also, the increasing amount of automation equipment has required an additional 2,100 maintenance positions during this period Our increased emphasis on service for our customers and the marketing of our products added another 5,400 window clerk positions. We continue to emphasize our rehabilitation program in an effort to remove previously injured employees from the workers' compensation rolls and return them to the rolls of the Postal Service in productive positions. This has accounted for more than 1,800 employees.

Concerning the impact of automation on employment, current estimates indicate that through 1995, automation enabled the Postal Service to avoid labor costs in directly affected operations totaling about $6.5 billion. These expenses would have been incurred without automation, relying only on manual and mechanized operations. On an average annual basis, a cost avoidance of this magnitude translates into over 18,000 workyears. That is, 18,000 additional workyears each year would have been required to process the volumes of mail handled during the last six years. Further, even including non-direct labor in the estimate, total avoided costs were over $3 billion through 1995, or about 10,000 workyears that the Postal Service did not need. Over the longer term, automation is anticipated to help us avoid over $15 billion in costs through 2005, as we complete deployment over the next several years and continue to reap the benefits.

6. In an effort reduce union labor costs, you plan to contract out certain operations to the private sector. How much money will you save and how many employees will be affected? Exactly which operations and or services are under consideration or slated to be contracted out?

ANSWER: The Postal Service is obligated to do all it can to hold down costs. In order to keep postage rates stable, we must explore every opportunity that can produce cost savings. We have no predetermined plans for outsourcing; rather, we will carefully examine individual opportunities in order to ensure that the best interests of our customers and employees are served. In the months to come, we expect to examine a number of different outsourcing possibilities. Each will be scrutinized closely in order to ensure that all relevant factors are considered before final decisions are made.

7. You have indicated your intent to hold the price of First-Class mail to 32 cents till the year 2000. If this is not a publicity stunt, just how do you--in the face of rising expenses and revenue being down realistically--expect to maintain the price of a First-Class stamp at 32 cents?

ANSWER: Though we have experienced a slowing of revenue growth, we have initiated a number of strategic initiatives intended to improve revenue growth and control costs.

- We are moving forward with *CustomerPerfect!*™, a process improvement strategy that will make the Postal Service more responsive to customer needs by better aligning our internal operations and measurement systems with customer expectations.
- Classification reform is underway. In addition to generating additional volumes, new incentives for customers to make mail more automatable will allow the Postal Service to handle larger volumes at lower costs.
- Our leadership team recently endorsed a number of specific cost containment and revenue generation initiatives that will produce a third consecutive fiscal year with positive net income in fiscal year 1997.
- I have challenged postal leadership to develop a comprehensive strategy to improve contribution through increased revenue, productivity improvements and overhead reductions.

These efforts represent steps taken thus far to insure continued financial success through the year 2000. As the markets in which we compete change, we will continue to develop strategies that capitalize on emergent opportunities, and to look for new ways to improve the efficiency of our operations.

8. Please provide for the record a description and amount of total monies expended on postal initiatives begun and abandoned since you took over as Postmaster General. Please provide for the record a description and amount of total monies expended on postal initiatives in operation or scheduled to begin operation since you took over as Postmaster General?

ANSWER: There has been only one initiative, Neighborhood Mail, that I started and subsequently decided not to pursue. We spent well under $300,000 on the project, primarily to study the feasibility of the concept.

The following table provides the requested information on the major initiatives started since I came on board:

POSTAL SERVICE INITIATIVES STARTED SINCE 1992		
Initiative	Description	Spending Since Project Start ($ in millions)
Associate Office Infrastructure	An R&D project to develop an information technology infrastructure for smaller postal facilities in support of retail, delivery and administrative processes.	$1.0
Corporate Call Management	An R&D project designed to use learning centers to aid in the identification of successful practices, as well as required system and software needed to establish a national service center network to process customer telephone inquiries.	$7.6
Credit/Debit Card Acceptance	A program to install a credit/debit card acceptance and processing system in post offices nationwide.	$16.6
CustomerPerfect!	A structured process for developing and implementing new ways of managing the Postal Service that are driven by and focused on the needs of customers.	$2.3
Fastnet	A multi-city pilot to test next-day delivery of 4th class parcels originating and designating within a local area.	$11.6

International Business Unit	A vice president-level unit established to provide a single point of focus and responsibility for developing and managing strategic business plans for service improvement and new product development in the international mail market.	$9.8
Pack and Send	A value-added service that allows customers to bring items to selected post offices and have them packaged and mailed.	$1.9
Phone Card	A joint project with American Express to market a stored value long distance telephone card.	$0.5
Priority Mail Redesign	Funding for ten pilot sites to test benefits of providing expedited processing to the Priority mailstream in dedicated facilities	$4.2
Technology Applications	A vice president-level unit established to evaluate the integration of technology based products and services to meet diverse customer needs. Currently more than two dozen applications are being explored, such as electronic commerce services (electronic postmark); kiosks that connect government agencies to their customers; and new products development (e.g. hybrid mail, reply card scanning).	$41 6
Track and Trace	A project to develop a system to track the progress and location of accountable mail pieces from origin to destination; to provide tracking information and proof of delivery to customers and to give operations personnel real-time processing and distribution information to manage mail flow.	$5.0

9. Under what conditions would you like to see "Courtesy Envelope Mail?

ANSWER: This question, in effect, was addressed by Postal Service witness Alexandrovich in Docket No. MC05-1, who stated the following in his rebuttal testimony regarding the OCA's CEM proposal:

> If it could reliably be shown that the Postal Service faces the loss of a significant share of its market for the delivery of bill payments, and that the introduction of a lower rate for lower cost bill payments would potentially allow a substantial portion of such losses to be avoided, the Postal Service would in all likelihood be quite interested in exploring options along those lines. Even in that situation, however, it is probable that the Postal Service would maintain its preference to avoid the administration and enforcement problems associated with any proposal which requires household mailers routinely to choose between stamps of different denominations for their regular letter mail transactions. If and when a sound business case can be made that the Postal Service needs to deaverage rates for household mail, I believe that an approach in which payment of a reduced rate is handled by means other than a direct application of a discount stamp by consumers would be preferable to the OCA's CEM proposal, with its intrinsic administration and enforcement problems.

Alexandrovich Rebuttal Testimony (USPS-RT-7) at 13-14. As demonstrated by witness Alexandrovich, no such sound business case has yet been presented before the Commission.

10. Please explain benefits consumers will reap from the mail classification restructuring?

ANSWER: First of all, classification reform is designed to make our service offerings more competitive, particularly in those areas where we expect to face the most intense competitive pressures in the future. If we are successful in achieving this goal, mail volume growth should be enhanced, and the additional revenues will allow us to postpone future rate increases for all users, including consumers.

Also, a longer-term consumer benefit was included in the recent Classification Reform proposal, and it will be implemented on January 1, 1997. Consumers often utilize enclosed reply envelopes or cards to pay bills, but not all of these reply pieces are prebarcoded by the bill mailer to allow the lowest cost processing and delivery. Under Classification Reform, First-Class mailers who enclose reply pieces in their automation rate bill mailings must properly prebarcode these pieces. This will reduce costs for the consumer mailstream, which should mitigate future rate increases for consumers.

11. Please provide a listing of the numbers and location of casual and temporary employees? Is this an increase or decrease since January 1995? If increase, why?

ANSWER:

NON-CAREER EMPLOYEES
(by location)
as of April 1996

REMOTE ENCODING SITES	
Non-Bargaining Temporary	1
Transitional	18,951
TOTAL	18,952
MAIL PROCESSING PLANTS	
Casual	16,577
Non-Bargaining Temporary	2
Transitional	10,362
TOTAL	26,941
HEADQUARTERS/AREA/DISTRICT OFFICES	
Casual	483
Non-Bargaining Temporary	26
Transitional	244
TOTAL	753
POST OFFICES	
Casual	9,152
Non-Bargaining Temporary	558
Rural Subs/RCA/RCR/Aux	51,106
PM Relief/Leave Replacement	12,770
Transitional	6,945
TOTAL	80,531
GRAND TOTAL	127,177

NON-CAREER EMPLOYEES
(by category)

Casual	26,212
Non-Bargaining Temporary	587
Rural Subs/RCA/RCR/Aux	51,106
PM Relief/Leave Replacement	12,770
Transitional - Non-REC Sites	17,551
Transitional - REC Sites	18,951
Total	127,177

Total non-career employees increased between January 1995 and April 1996 by 4,339. Non-career employees in Mail Processing Plants, Headquarters/Area/District Offices, and Post Offices reduced while Remote Encoding Sites increased. Remote Encoding Sites place barcodes on mail that cannot be processed through our optical character readers. The work at these sites, which was previously contracted out, is now done by postal employees, most of whom are non-career employees. As more sites are created, more employees will be required. These sites are a part of the automation plan to increase productivity.

12. Please provide for this committee copies of "On Site Surveys" prepared by the Diversity Department for 1994 and 1995. Please provide for this committee the report prepared by the Postal Service Legal department (Thomas Pigford in Tennessee) at the request of David Bakke, Southeast Area Vice President of Operations, which reviewed the "On Site Survey" report prepared by the Diversity Department on the Mississippi postal facility in 1995. Include all exhibits referred to in the report and copies of the correspondence referred to as the "Mississippi Burning Letters."

ANSWER: In accordance with previous action taken in response to requests for the release of these documents under the Freedom of Information Act, the Postal Service respectfully declines to provide them for the following reasons:

(1) these reports are internal agency documents that are predecisional and deliberative;

(2) they are communications between Postal Service attorney and postal management and thus are protected by attorney-client privilege;

(3) they may relate to pending or prospective litigation and thus are protected by attorney work product privilege; and

(4) release of these documents would violate the privacy interests of individuals involved and referred to in them.

13. The Postal Service has undertaken a major advertising campaign with regard to "Priority Mail." Provide the actual dollar amounts spent and allocated for this particular campaign. Provide the exact dollar amount spent and allocated for the 1996 U.S. Olympic sponsorship. Provide the exact dollar amount spent and allocated for the entire postal service advertising budget. Provide 1995 and 1996 figures. Provide the exact dollar amount spent and allocated for advertising with ethnic minority businesses–1994, 1995, and 1996 figures.

ANSWER:

- The allocation for the Priority Mail campaign is $31 million for Fiscal Year '96. To date $29.9 million has actually been committed to production and media expenses.

- The U.S. Postal Service is not a sponsor of the 1996 U.S. Olympics.

- The Postal Service's corporate advertising budget for Fiscal Year '95 was $95 million, the budget for Fiscal Year '96 is $143 million.

- During FY '94, the Postal Service allocated and spent $2.6 million in ethnic marketing. During FY '95, the Postal Service allocated and spent $1.6 million in ethnic marketing (predominantly Hispanic). In FY '96 the Postal Service has allocated $10 million towards Ethnic Marketing through the Corporate Advertising budget. Year-to-date we have spent $3.2 million.

Mr. MCHUGH. Thank you, General Runyon.

Let me just ask a couple of quick questions, and then we will go to the other subcommittee members, and then come back.

Taking, General Runyon, the last part of your testimony first, because it is obviously a topic that this subcommittee has been involved with, and that you have repeatedly discussed and explored—the issue of flexibility. During last year's oversight hearings there was some discussion before this subcommittee, particularly from Chairman Gleiman, that there may already exist a rather wide range of flexibility options that, for whatever reason, had not been exercised.

Last April, you filed with the PRC, a rulemaking regarding some procedural reforms in seven areas. I wonder if you could update the subcommittee as to what kinds of things you thought you could do within that context, administratively, and where the rulemaking may stand right now.

Mr. RUNYON. On those seven reforms, the PRC made some recommendations on market tests, provisional new services, minor changes in mail classification cases, and multiyear financial test periods. However, there were some problems in what we received. We felt they were incremental reforms and really didn't go as far as we needed to go. They still require a lot of detailed data from us. And the maximum limits on duration of some of the things that we asked for—we asked for 60 days and got 90; we asked for 90 and got 120.

There were three things they didn't recommend on that were really very important to us. One was rate bans for competitive services; another was negotiated service agreements, that's volume discounts with people; and limited scope rate cases, where we go in for a rate change on one particular item without opening up the whole thing.

So that's about where we stand on those seven now.

Mr. MCHUGH. When you say they didn't rule on those three, they are still outstanding? They are still under consideration, or they were rejected?

Mr. RUNYON. It is my understanding that they are still outstanding; yes, sir.

Mr. MCHUGH. OK. You mentioned CustomerPerfect!, and you talked about how that is your future administrative approach. How is that working with respect to its implementation amongst the work force? Has there been cooperation on the implementation of that?

Mr. RUNYON. Well, first, our CustomerPerfect! system is based on the Baldrige principles. There are 27 criteria, and we're trying to put all those criteria in. We are working that down through the management, and we're getting into the work force now. Part of that is some training programs, and we've had some reticence on the part of some of our unions to participate in those training programs. So I don't think it is working as well as it should be.

Mr. MCHUGH. Well, as an extension of that, last year we had a lot of discussion, including talks with the union leadership when they appeared before the subcommittee, regarding your proposal for a labor-management summit. The unions, or at least three of

them, I believe, declined your invitation because of the status of contract negotiations.

It is a year later. We talked 12 months ago about you reissuing that invitation. Where does that stand?

Mr. RUNYON. We have reissued that invitation. We have had acceptances from two of the three. The American Postal Workers Union and the Letter Carriers Union have now accepted and will come to that meeting. We would expect that the Mailhandlers would come, although they are still in arbitration, but we rather think that they will. We haven't received assurance of that. We're getting a person to facilitate those meetings for us, and we're in the process of setting a date and will have those meetings with all seven, hopefully, very shortly.

Mr. MCHUGH. Would it be reasonable to assume that your implementation of the Baldrige principles, your CustomerPerfect! program would be a topic of discussion in those meetings?

Mr. RUNYON. It certainly should be; yes, sir. Because that's the way we intend to manage the organization, and we need to work with our unions and associations to have buy-in on the way we are managing the business.

Mr. MCHUGH. Well, we do have a number, obviously, of other Members. As is the custom, we will rotate between sides. So I would yield to the gentlelady from Florida, Mrs. Meek.

Mrs. MEEK. Thank you, Mr. Chairman.

Mr. Runyon, it's good to see you again. You said in your overall comments that the overall communications market is going by double digits while the Postal Service is not a comparable kind of growth. Which of the six product lines that you mentioned in your testimony is not doing well? You mentioned that, of the six lines, I think, you mentioned that one of them isn't doing as well.

Mr. RUNYON. Well, actually, five are not doing well; one is doing well. The one that is doing well is the advertising segment of our market. It's doing well. Our correspondence and transactions, which is first-class mail, is down. Our expedited mail, which is express and priority mail, is down. Our packages are down. Our international is down. And our publications are down. So we have five out of the six that actually we are losing market share, and only one, in advertising mail, are we actually gaining share.

Mrs. MEEK. Well, are you examining that? Are you looking into how you can make up for that loss?

Mr. RUNYON. Yes, we certainly are. For example, in international, we have reorganized our international organization, totally. We have added people into that organization. We are getting very proactive in going after international business. There, though, we do have our hands tied somewhat in that the cost of air transportation for international is a lot more than our competition has to pay.

The cost of our payment to airlines—which, you know, all international mail, if it's going to be on a timely basis, goes by air—is determined by the Department of Transportation. They would rather not do it. As a matter of fact, the Secretary of Transportation has requested that they be taken out of that business. That has to happen legislatively, and we would like to see that happen. It would help us be more competitive.

But we are coming out with new products like worldwide priority mail and other things of that nature, to become more competitive, and I think we're going to see that turn around some. The product that we have for Japan now, in a joint operation with L.L. Bean, where people from Japan can order from L.L. Bean and we can ship that to Japan in 5 days, and clear through customs in that period of time, is a good service. We're now going to be looking at putting that in Canada and in Great Britain soon, and we're going to be looking to other countries to do that, too.

So that's a good business for us, and I think it will help us in the international area.

Mrs. MEEK. If I may go a little bit further, General Runyon, is my assumption correct that you are having more than, what I say, your share of problems with the work force and the unions? If so, why? And if so, what steps have you taken to bridge that gap with the workers?

Mr. RUNYON. Our grievances over the past 3 years have continued to increase. We are continuing to try to work with our unions. We signed an agreement with one of our unions that we would work together jointly and try to resolve these problems, but they haven't been resolved. We have asked for this meeting with all four of our unions and three organizations, which was delayed, as the chairman indicated, for some time, because we were in negotiations with the unions on the contract, at the end of the 4-year period.

That is now settled with three of our unions; one is still not settled. But we do expect that meeting to take place fairly soon, and we want to go to work on that and work on the kinds of problems that GAO said we should be working on. And we're going to do just that.

Mrs. MEEK. Thank you.

Mr. RUNYON. You're welcome.

Mr. MCHUGH. The gentleman from South Carolina, Mr. Sanford.

Mr. SANFORD. One more question for me, Mr. Chairman.

Mr. Runyon, if you were to break down the—I know it varies by different product lines—but, roughly, fixed costs versus variable costs, with your business, have you looked much at that? Would you have a rough ballpark?

Mr. RUNYON. I'm sorry. The sound system—I'm having a little problem.

Mr. SANFORD. I'm sorry. Fixed costs versus variable costs for the Postal Service.

Mr. RUNYON. You mean what percent is one and the other?

Mr. SANFORD. Yes. Rough. Ballpark.

Mr. RUNYON. Mike, I'd have to ask you to answer that.

We don't use normal accounting principles in the Postal Service, and it's not what I'm used to having.

Mr. SANFORD. Right.

Mr. COUGHLIN. I'm going to speculate a little here, because there are some terms of art within the ratemaking process, such as "fixed" and "variable" and "long-run variable", those types of things. My recollection is, between attributable and institutional, it runs about 65/35; 65 attributable to classes of mail, 35 to institutional costs, or overhead, is another phrase for it.

In terms of the direct versus indirect, it's a different kind of a ratio, but I just, frankly, don't remember it. And I would be reluctant to give you a number off the top of my head. It would be better if we provided it to you.

Mr. SANFORD. That would seem to make sense to me, in ballpark terms, 65/35. I might have even guessed it to be a little bit lower. It would seem that a lot of the fixed costs are paid for. A building is there, a piece of equipment is there, given, I guess, the way the accounting structure works with the post office.

Mr. COUGHLIN. Congressman, if I could.

Mr. SANFORD. Sure. Yes.

Mr. COUGHLIN. I want to be careful about that number. The 65/35 is not really fixed versus variable. That's attributable. These are costs that are attributable to a specific class of mail and those that aren't; 35 is the institutional or overhead costs. And there are differences between fixed and variable, and this institutional and attributable.

Mr. SANFORD. What I'm getting at, though, is, if it were 65, because—fixed versus variable—the ratio falls below the 50 percent mark, fall-off in volume really wouldn't affect you that much. Therefore, the concerns you had, in terms of volume, I was just wondering, if much of your cost factor is variable, a decrease in volume isn't going to affect business that much. Why is this as bad as—I mean, you were very concerned about the 638 million fewer pieces of mail, but if most of your cost is variable, it shouldn't really matter that much.

Mr. RUNYON. Well, most of our cost is not variable.

Mr. SANFORD. OK. So the 65 percent number is probably not right.

Mr. COUGHLIN. That's true. You have to remember, when volume falls off, we still have 200,000-some—actually, almost 300,000 delivery routes, between city and rural, they get paid for 8 hours a day whether they've got 10 pieces per delivery or 2 pieces per delivery. We've got roughly 40,000 retail units out there that operate every day, without regard to the volume of mail—in the short run—without regard to the volume of mail that goes through them. And there are other costs like that.

So when volume begins to stabilize or fall off for us, it does take us a considerable amount of time to adjust the system. There are some short-term things we can do, but we have a real problem with that.

Mr. SANFORD. What could be done, from a reform orientation, that would make the Postal Service more secure against competitive threats by making more of the costs variable? For instance, you mentioned route carriers, whether they deliver 1 piece of mail or 100 pieces of mail, are paid the same price. Are there things that could be done that, again, would make your costs more variable and therefore insulate you from that competition?

Mr. COUGHLIN. A lot of that requires work through the collective bargaining process, under the current statute. That's where most of that kind of work would have to be worked out and ironed out.

Mr. SANFORD. Thank you, sir.I21Mr. MCHUGH. Let me followup, in a way, with what Congressman Sanford was suggesting. Have you had an opportunity to look at this loss of market share, to the

extent that—how much of it is being lost to other hard mail competitors—theoretically, something you could get back—versus how much is being lost to electronic transmission, which, at least in the current structure, is something that's going to be lost forever?

Mr. RUNYON. Well, in the first-class mail, a lot of that is to e-mail, fax, and we're thinking the Web is going to come in and get some of that, too. So that's quite a large portion of that. Things like priority mail, we're looking at how we redesign that, and we are in the process of redesigning priority mail, to make us more competitive.

We have to have a good, solid, 2-day delivery capability, at a high 90's percentage rate, in order to be competitive. We're not competitive without that. So we're changing our system to make that more competitive. So that's one of the things that we can do there.

In the international area, we need one change, in the way we set rates, but then, outside of that, we just need to go do our business and get in the international mail, and go at it hammer and tong. What's happening now, we have people from overseas—there are four posts now that are in this country, that are taking our mail and delivering it overseas at about one-third to one-fourth the price that it costs us.

So we're not competitive there, but that can be overcome through legislation. And, as I say, the Secretary of Transportation would like to see that happen. So those are some things that we're looking at and we know that we can do.

Mr. MCHUGH. Well, let's focus on international mail for the moment. I think, if I were to play devil's advocate, or if I wanted to bring forward a number of people who may or may not be in this room, but I think we could get to them pretty quickly, they would say, if there is an area where you have a pretty good amount of flexibility right now, it's in the area of international mail. You don't have to go to the PRC, for example.

Mr. RUNYON. Right.

Mr. MCHUGH. And yet, by your own admission, you're being beaten competitively by others.

Mr. RUNYON. Right.

Mr. MCHUGH. How do you reconcile that statement with your competitive position?

Mr. RUNYON. We were not paying attention to the international mail. It's $1.2 billion a year, which is small in comparison to the total amount that we do, and we didn't pay good attention to it. We are now, and we're going to see that increase from $1.2 billion to $3 billion by the year 2000. So we're going after the business, using all the business principles and practices that we know how to do.

We're going to turn it around. We don't need anything, legislatively to turn that around. We just need to go do it.

Mr. MCHUGH. Flexibility. I spent the weekend reading testimony, including Chairman Gleiman's. The chairman took exception to the Board of Governors' rejection of two of the recommendations it made in the recent reclassification case.

The one on which he really focused was the refusal to accept their recommendation on CEM, courtesy envelope mail. And the argument, I think, that he was advancing, particularly, was that here

is something that, in prior advertisements taken out by the Postal Service, you promised you were going to give your customers. And here, in this reclassification case, they were giving you a shell, providing you with what I think you would say is a pretty significant amount of flexibility to fill that shell yourselves, and yet you wouldn't do it.

I think that's a pretty fair description of his concern. Can you explain to us why you didn't accept that particular recommendation on CEM? And how would you respond to the observation that this is a chance to exercise flexibility, provide greater options to your customers, and you failed to accept it?

Mr. RUNYON. Well, one of the things that is overlooked in that is that it does have bar codes on the envelopes, that's true, but our discounts are not only for bar codes but they are for the fact that we have to receive a certain amount of mail and we have to have it delivered at a certain location.

Now, with that mail, it's dropped in boxes everywhere. It's mixed with all other mails. It has to be sorted out of that. It is not the way that we want that sort of mail delivered to us. We still have work to do to that. When we have discounts, there's a lot more work done than would be for that piece of mail, because it's handled just like any other single piece of mail, and therefore it doesn't get the discount.

Mr. MCHUGH. Also, in Chairman Gleiman's testimony, he recounts his discussion with myself and other members of the subcommittee last year as to his feeling, at that time, that he didn't believe the PRC needed subpoena power to get data from the Postal Service, in various cases before the PRC. He has changed his opinion and this year suggests that perhaps that's something we should consider. In fact, he asks us to consider it.

How would you respond to that?

Mr. RUNYON. I think his former opinion was the right one. We supply all sorts of information. We've recently been working with the Postal Rate Commission to set up a means that we can do this over computers and not have to do it the way we've done it before, so it can move faster.

We think that we supply all the information that is really required. There is some question, I think, in the Commission's mind, about the amount of proprietary information that we would rather not give them. And we do have proprietary information that should remain that way if we're going to remain competitive. We can't be competitive and tell all of our competitors everything about our business.

So I would hate to see a subpoena power given to someone who could come in and get every bit of information that we've got and make it known to the world. It would cut our feet out from under us, from an operating standpoint.

Mr. MCHUGH. To your knowledge, has that ever happened? Has there ever been an instance, that you are aware of, where, in the course of a ratemaking case, proprietary information of the Postal Service was made public?

Mr. RUNYON. I've not asked that question, and it has not been pointed out to me that it has happened.

Mr. McHUGH. That's because we just thought of it. But it's not a bad one. We ought to look into that.

Mr. RUNYON. Yes, I will do that.

Mr. McHUGH. Which does followup—and we are also, for the record—and this is nothing you are unaware of—we are working with the GAO, the PRC, the USPS, this subcommittee, a number of other organizations in trying to develop a new structure for supplying these data in a way that could hopefully expedite whatever kinds of reviews and rate cases are afoot. But until that is successful, let me just pose a possibility to you.

When we had the heads of several other international posts before us, Canada, New Zealand, Sweden, and Great Britain, Canada informed us that they supply data to a central ministry, all data, and that central ministry has the responsibility of keeping the score on what is proprietary and what isn't. It's kind of a third-party arbitrator of those issues.

What kind of possibility would exist to create a structure whereby you would provide data to some organization, some body, some authority that would be required, under law, to keep proprietary information secret but would also be able to review a request and kind of judge, apart from your direct interest and the PRC, as to what is proprietary in nature and what is not?

I understand you like the way it is now, but how much of a problem would that kind of alternate structure provide you?

Mr. RUNYON. I've not thought of that before, but my immediate response would be that I'd have to know who the people were on that committee or commission and what their background and experience were in business, to really understand the nature of proprietary information, before it would be, to me, acceptable, I think.

Mr. McHUGH. Well, there again, it's a recent thought, and maybe we should explore that a little bit further.

Sixty Minutes did a piece on mail fraud in forwarding addresses. You and I discussed your decision not to participate at that time in the show, and I don't question that. I understand the concerns that you had. Would you like to share with the subcommittee any thoughts at this time as to what you plan or hope to be able to do in regard to that situation? Obviously, it's a troubling one.

Mr. RUNYON. I watched that program to find out, you know, what they were going to say. It's interesting to note that the people they targeted for that they got from a list somewhere. They picked affluent people. The woman that appeared there was a doctor, and they had gotten her name from somewhere. Then they filed a change of address for her only and not for the family, so that it would be not noticed as much or as quickly. She did notice it fairly quickly, and she is to be commended for that.

But a lot of people have said, "Well, you know, you're just going to have to do something about sending a notice to the people at their new address so that they will know if somebody has done that." Well, they won't know if somebody has done that, because they are not at the new address. So that won't work.

We have 42 million people that move every year, and they turn in changes of address. Now, the changes of address they turn in, I think about 85 percent of them do it 2 days before they move, so it's difficult to contact those people at the old address.

But I think that the whole bottom line thing of this is that the way this scam works is that it's people that are not moving, and they send a change of address in on them, because they are not moving. They don't bother the people who are moving, so those people don't enter into this equation.

I think that we're looking, right now, at three or four different ways to handle that. And what we're looking at is how do we go back to the people at their old address and send them a notice that says, "You just told us you moved; is this right?" If they haven't moved, they will get that notice, and they will come to us and say, "No, we haven't moved", at which time we can move in on that.

So that's the way we're looking at it. We're looking at what is the best way to get that back to them. Some people have suggested that maybe the carrier should do that. Maybe we should send a letter from our change of address central location, or maybe it should come from our headquarters. But we're looking at that, and we expect to resolve that very shortly.

Mr. MCHUGH. Speaking of television, I understand we read in the New York Post that, during the broadcast of the "Final Four", you're going to have an advertising campaign involving a professional biking team out of San Francisco. We get a lot of input about the activities of the Postal Service from citizens, but I think the one that we hear most about is whenever you have an advertising campaign. There were headlines about your $90-million campaign just recently.

People are hard-pressed to understand how, particularly in the area of letter mail monopoly, it's necessary for you to expend money on those kinds of activities that they see, ultimately, either leading to an increase in the price of a stamp or not allowing you to sustain the current price for a longer period.

For the record, how would you respond to those kinds of concerns, and why do you think it's necessary to spend that kind of money on advertising?

Mr. RUNYON. I will speak to the cycling thing first. On the cycling thing, that advertising is aimed at international markets. And cycling is one of the largest international sports, so it's going to get a lot of coverage. We expect that, for the advertising money that we're spending, we're going to recover at least $6 million in philatelic sales through that advertising.

So we mainly advertise to increase our sales. That's what advertising is all about. Everybody advertises who is in business, and we are in business. We have a competitive product, and we have competitors who advertise. Our percent of advertising to sales is about .11 percent. FedEx is .49, or nearly five times as much as ours. UPS is .37. We're competitors, and we have to advertise. AT&T is .95 percent, and IBM is .48. Those are some numbers. And we are at .11, which is very low.

But we do have to advertise to make sure people know that we have products to sell to them. Everybody doesn't know when we have a product that's changed, or a product that has been upgraded and we want them to understand what the upgrade is and what it's all about. So we spend money to make money, just like anybody in business does.

And, by the way, a lot of those people complain because we're using taxpayer dollars, and we're not using taxpayer dollars at all, in anything, because we don't get any.

Mr. MCHUGH. I've heard rumors to that effect.

There was recently an election out on the West Coast, in Oregon, where a senate race was conducted strictly by mail. Where is your vote-by-mail campaign right now? Are you actively pursuing that?

Mr. RUNYON. We are not actively pursuing that at the present time. We did point out that that was a way to do it. That result in Oregon turned out fairly high on the amount of votes that they got in. We're not trying to get into that. It is a use for the mail, if people want to use it, and that's really all we were trying to point out with our advertising.

Mr. MCHUGH. The GAO, in its comments, talks about the administrative failure of the Postal Service to integrate system-wide what otherwise are fairly isolated instances of success, to take some kind of good process that may be occurring in one postal area, one post office, and bring that success throughout the entire system, where it would be applicable. I also believe the IG has commented upon that as a shortcoming.

Are you attempting to address that situation, to integrate the things you do well in certain isolated cases throughout? If so, how are you going to go about that?

Mr. RUNYON. Yes, sir, we are. That's part of our CustomerPerfect! management system that we're putting in place. What we're trying to do is to set it up so that all of our processes, when we get the best process, that will go nationwide. That's what our CustomerPerfect! plan is all about. We recognize that as a very good criticism of what we have done, and we're trying to correct that.

Mr. MCHUGH. You're looking at outsourcing. You're looking at new ways to try to keep down your costs. Where are you on those kinds of efforts? How are you approaching that kind of problem at the moment?

Mr. RUNYON. Well, we're looking right now to put together all of the various candidates for such actions, and we will be deciding on what those would be fairly soon. We're looking at priority mail right now and looking at changing that from operating throughout the mail system to operating in 52 locations. We're going to start off with 10 locations along the East Coast, from Florida to the Northeast, and determine how best to handle that.

Of course, this gets involved with people like airlines and the train system and other transportation systems, what is the best way to do it. Because we do have to move it in 2 days, and we don't always get performance from the people that we're using at the present time. We have 25,000 flights a day that we put mail on, and they don't always get where they are going at the right time. So we're looking at how to overcome that, too.

We're looking at all of the things, as I said before, that we do, because we're not proficient at all of the things we do. Our business is mail, and we're better at delivering mail than, we think, anybody else is. But there are other items that we do that other people could probably do better than we do.

Mr. MCHUGH. Let me return, very briefly, to the question of data, as it relates to the recent reclassification case.

Mr. RUNYON. Of what?

Mr. MCHUGH. Data.

Mr. RUNYON. Data.

Mr. MCHUGH. We have been told—and it's probably a question appropriate for Chairman Gleiman, as well—that, during the recent reclassification, it came to light, through data that you supplied, that parcels mailed third-class are often charged rates that are, on average, below cost; 600 million pieces are below cost, and another 200 million fourth-class parcels that barely cover their cost.

How would you respond to the concerns that we have heard from others that, with this kind of activity, how, given additional flexibility, would you ensure that your product recovered its attributable cost? Because they say, on average, at least in this area, apparently they were not.

Mr. RUNYON. I would like to ask Mike Coughlin to help me answer that question.

Mr. MCHUGH. Sure.

Mr. COUGHLIN. Mary.

Mr. RUNYON. Mary. OK. Mary Elcano is our general counsel.

Mr. MCHUGH. Mary, I don't want you to take this personally, but I've been told that, if you're going to officially respond, you should rise and be sworn.

[Witness sworn.]

Ms. ELCANO. I'm not going to be able to give you a lot of information about your specific question on recovering the attributable costs.

Mr. MCHUGH. Is that because I swore you in? Would you have told me if I hadn't?

Ms. ELCANO. No, sir, it's not. [Laughter.]

If I were sitting back there, I'd have the same response.

Mr. MCHUGH. OK.

Ms. ELCANO. That happens, from time to time, between rate cases. If the rates are, in an omnibus case, changed in year 1, over the 3-year period of time, specific costs and rates sometimes don't match. That's why overall there's a break-even concept.

We can supply for the record something more specific about your more discrete question. We do have a parcel reform case underway to address different classification issues concerning parcels, and rates issues are involved. We hope to file that case later this year. So that would be addressed; and that would be more akin to my point. During the course of a 3-year break-even period for a rate case, that result is not unusual.

Mr. MCHUGH. OK. Well, we would appreciate that. Obviously, those kinds of questions go to the very heart of the argument about flexibility and data and the monopoly, and how do you keep it all separate? And how do you allow the Postal Service to compete while still treating those who are out there competing already, in the private sector, treating them fairly, as well. Obviously, we're going to have to address those kinds of concerns.

So you will submit something in writing?

Ms. ELCANO. On that specific question, yes.

Mr. MCHUGH. Yes.

Ms. ELCANO. If I could, while I'm here, on the data question.

Mr. MCHUGH. Sure.

Ms. ELCANO. On the data question, it's an interesting area that we're interested in working on with the Commission. If we were to wheel in here the amount of data that we filed in the 1994 rate case, I think it would stack up over 20 feet high. So there are data being given in rate cases. We are supplying data on revenue, volumes, costs, pricing, and rate design, both prospective and current data.

The question is, how do we narrow the issues, and how can we supply the data that are necessary? I think the Federal district courts provide an interesting model. I would just suggest we think about it in the course of our discussion on data, concerning what's relevant and how to narrow issues. The courts' whole approach has been to narrow discovery, to narrow questions, to narrow disputes within a case.

The rules of the Commission have not been revised to address some of those things. I think the Federal district court process, obviously deals with very complicated questions in rate matters and business decisions, and security transactions. If they can narrow questions, narrow issues, and resolve data questions, I think that might be a model for the rate process.

Mr. MCHUGH. Well, we're willing to go anywhere for any help we can get, so I appreciate your comments. As I said, we will supply a written question.

I just want to throw one last thing out. We have heard, and we have certainly discussed internally, the problem that I first encountered when I was in the State legislature. In the State of New York, the legislature sets the tuition for the State University of New York, and it always became a political goal and objective not to raise tuition.

What we found oftentimes happened was that we would forestall a tuition increase, not for the right reasons; not because there wasn't a justification, not because we probably needed the money, but rather because of the politics. And we'd do it for 1 year, and then the next, and then the next. And what would ultimately happen is that we'd end up hitting students in usually May or June with a 30 percent tuition increase effective September, and therefore providing them no time to plan for it and no real opportunity to find the money.

We always heard a lot from students who said, "You know, I would rather have a reasonable annual or semiannual tuition increase that I could plan for and that I knew was going to be there than to go through these feast and famine kinds of situations whereby we're bowled over at the last minute by a terrible increase."

I'm not accusing you of this, but I wonder if perhaps there isn't a similarity between that tuition rate and your first-class mail postage. And I've heard from some Postal Service customers that the thing that worries them most is the inability to plan, that, as business people, it is very important—I know you understand this, General Runyon—to be able to predict and to have a business plan you can adhere to.

What do you think about adopting a strategy that would at least provide for a certain amount of increase that would be predictable, based on a CPI or something of that nature, year after year? Perhaps you could have the option to implement it or not, but if you didn't implement it, you couldn't come back and get it, so your business partners, your customers, could plan on that.

Just to throw that out.

Mr. RUNYON. I think that's a long question, and I would like to kind of address all of it, but if you were saying that if we were allowed to set rates, and the CPI was the limit to which we could move them, I think that would be a good idea.

Now, to take the school situation in mind, our plan is not to lose money. If you don't lose money, you don't have any deficit to overcome and a need to raise rates. And if in 1995 we didn't lose money, if in 1996 we don't lose money, if in 1997 we don't lose money, we won't need increased rates for 1998. So our plan is to not lose money. So we don't have any big shortfall to make up, if we're not losing money.

Right now, what we're doing is not only not losing money but we're paying $936 million back. We have to make at least $936 million to take care of the losses that we've had in the past. So if we don't have a loss, we have no reason for a rate increase. We're not trying to buildup something for somebody else to have to take care of later on. That's not what we're talking about. What we're talking about is breaking even every year or making money, so that we don't have a reason for the rate increase.

Now, in the business we're in, it is just not good business for us to continue to raise rates. The more our rates go up, the less our volume will be. And when our volume starts down because competitors can come in and do a better job than we do, at a lower price, they are going to get the business. And then rates will start to go up the minute our volume starts really dropping because of price.

We saw that happen just recently. The 10.3 percent increase didn't really cause a lot of volume to drop, but it, coupled with the price of paper, which went up about 100 percent, did cause some drop-off of our volumes, and we're seeing that now. We have to watch that.

But I do agree with you that we should take—if we've got to have a rate increase, we ought to do it every year. I would have no problem with that. But that makes it rather difficult, under the present rules of how we deal with the Rate Commission, because that means you're going to have to prepare for a rate increase you don't know is even going to take place until it happens. So we need to shorten that process, if we were going to do that.

I thoroughly agree with you that we should have small, regular increases, if there are going to be any. But the best of all worlds is to not have any and be more competitive, and increase our market share. And the more we increase our market share, the more our revenues are going to increase. And if we can increase our revenues, then we won't have to have the rate increases.

Mr. MCHUGH. Well, I sure don't disagree with that as a business objective. Of course, it might be argued that, as much as you plan, there's nothing that will prevent you from experiencing a loss if something goes wrong.

Mr. RUNYON. Oh, absolutely.

Mr. MCHUGH. And you have the right to, in a future rate increase, go back for prior years' losses, which some people have a real problem with, as I know you understand. The model I was envisioning is that prior year losses and business plans gone awry would be your problem, and take it out of hide, don't go to rates. It's a model we're thinking about.

I would like to gratefully acknowledge the presence of the gentleman from New York, Major Owens. Are there are any questions or comments you would like to make at this time, because we're about ready to wrap up with this panel.

Mr. OWENS. Just two quick comments, and they run along the lines of remarks that I made before.

In your high-tech, state-of-the-art operation, which is high-tech, state-of-the-art in many respects, do you have a training program which is also so well done that it's uniform from one city to another, from one station to another? In other words, do you have a videotape or a computerized program which has the basics on it, so that any new employee coming in, who's going to be delivering mail, would be able to get the basics, and you won't leave that up to whether or not he can get an oral briefing?

Do you have it on tape so that you know he's going to get a basic which says, "This is a piece of franked mail. The signature of the Congressman is like a stamp", so they know that that is what it is? When you state, "John Jones or Current Resident", then you leave it there at that building, that apartment, because if John Jones is no longer there, then "Current Resident" means the current resident. So that we have no confusion among casuals or temporaries or anybody else about basics like that, out there on the route, delivering mail.

Do you have that kind of training program which is that standardized, and you know you're going to get that same kind of basic from one place to another, uniformly?

Mr. RUNYON. We do have training programs.

Mr. OWENS. Is it on videotape?

Mr. RUNYON. I can't answer that question. I will supply that to you for the record, but I really don't know.

Mr. OWENS. Do you have any training programs on videotape, anywhere?

Mr. RUNYON. Oh, yes. We have a lot of training programs on videotape, but I can't answer whether that specific one is on videotape. We have a lot of training programs that we do centrally. We send them to Norman, OK. The people who—these are not casuals, but people who are mechanics and do electronic work, and so forth.

Mr. OWENS. I'm talking about the basic guy delivering mail on the route.

Mr. RUNYON. Yes, sir, I understand that. And I really can't answer that question, but I will supply the answer for the record.

Mr. OWENS. The other question is, do you have some kind of system where, by this time, it shows the kind of automatic volume of mail at a given postal location, branch, whatever it is, the volume of mail sort of automatically dictates the staffing pattern, so that it's not a matter of tradition or habit or politics?

But if you have a station like the one that constituents have asked me to visit in my district, where there's a large number of people from the Caribbean, and they are always sending packages home, and on Saturday the lines form and they stretch out into the streets, and people get upset, and the clerks get upset. And the people have already told me, "We want you to come and let you see, there are not enough clerks there." They have taken the side of the clerks. "There are not enough people there. They just can't do the job. They need help."

Is there some system by which the volume and what's going on dictates the staffing patterns, so that we don't have to go in and negotiate something that really is a management problem?

Mr. RUNYON. We expect the management at that location to solve the problems that they have. Now, if they have a problem of heavier workload on Saturday than any other day, then they should take steps to facilitate that work being done, which might mean they would have to have more people on Saturday than any other day. I think that would be an exception, but, in that particular case you're talking about, it just might be that that should be what's done.

I would be glad to look at that particular case that you're talking about and get back to you.

Mr. OWENS. As a Congressman, is there something I can see which says, when I'm talking to supervisors or managers above the level of that particular station, that, according to this, you ought to have a certain number of people here; according to this, this branch ought to be relieved of the responsibility of trying to do all this work with so few people?

Mr. RUNYON. We do have standards that we set for various operations. And, yes, we have that.

Mr. OWENS. I can get a copy.

Mr. RUNYON. Excuse me?

Mr. OWENS. I can get a copy of the manning tables and that sort of stuff?

Mr. RUNYON. I will be glad to give you what we have on that. Yes, sir.

Mr. OWENS. Thank you. No further questions.

Mr. MCHUGH. We thank the gentleman.

Before we go, let me just ask the new chairman, last year, when your predecessor appeared before us, we discussed the role of the Board of Governors, and I think it's fair to say that it was his opinion that you were becoming a more active board. Certainly, from my experience, that's been true.

I don't want to guess as to what your vision for the board may be for the future, but the question last year to your predecessor, Mr. Winters, was, had the time arrived when the board might consider expanding its independent professional staff.

Your review of the recent reclassification case and the rejection of two points suggests that you are indeed becoming more active. Have you had a chance, in your relatively new role, to think about the staffing situation, or do you think you're still adequately served by what you have?

Dr. DEL JUNCO. First of all, let me say that we did expand our staff last year, adding an assistant to our secretary, who handles the day-to-day functions of the office of the board.

Let me also say that, when you talk about reclassifications, these are very complex issues, very technical issues, with great importance to many areas, and there is no way the board could staff to be able to deal with that. We have to look to the resources that the organization puts in place, from counsel, and business development, and so on, and also it would be just impossible for the board itself to hire a staff to be able to really drive this whole process.

This would become, in my opinion, a micromanagement operation, and that is not our role. Our role is a role of oversight. This is why we have now appointed these four committees that I expressed in my opening remarks, the audit, the capital, the compensation committee, and the strategic planning, which tries to look ahead as to where we are going and how we're going to deal with the present problems the U.S. Postal Service has.

I am very confident, having been on this board for 8 years, that you do have a board that is a lot more proactive, that takes its oversight functions very seriously. At the same time, I have to say that the Postmaster General and the senior staff have been extremely open and cooperative. We do not always agree. There have been differences of opinion, but there have been very, very extensive discussions on most of the items you have discussed here this morning.

We are proposing right now to add an additional person to our staff that can help our secretary. But everything that we do is aimed at the role of oversight. We have been told by your predecessor, some 4 or 5 years ago, of your concern of the board becoming involved in micromanagement. As a result of that, a whole bunch of committees were eliminated.

We have learned that we need committees if we are going to have proper oversight. We have learned that we can exercise the oversight without becoming involved in micromanagement, and that is the direction that the Board is taking right now.

Our biggest problem, since I'm speaking, is addressing this issue of the competitive and noncompetitive areas. We are out there in the marketplace with our hands tied behind us, in express mail, in all of these new initiatives. Right now, our government has entered into a contract with Federal Express that we have not even been able to compete on that contract.

I mean, our pricing structure is one—and you talk about flexibility, I think flexibility, in this case, has to be defined. As I define it, it's giving the U.S. Postal Service the ability to go out and compete in the marketplace with the price. I don't mind a retrospective review of what has been done. Perhaps the answer to this whole situation is to treat the noncompetitive areas different from the competitive areas.

But as long as we are being restricted in our ability to compete in the marketplace, it doesn't matter how extensive and how active and how specific we come with our new initiatives in these different markets, eventually, we are going to be put out of business. And this has been the case with express mail and others, which are shrinking because of our inability to compete.

I believe, certainly, Mr. Chairman, that this is a very, very major concern of the entire board.

Mr. MCHUGH. Well, we thank you for your comments.

Gentlemen, thank you both for being here this morning. This completes the requirement of our subcommittee to conduct this oversight hearing, but it certainly doesn't complete our efforts and our intent to go forward with trying to do what we can to reform the system. In that regard, we are looking forward to continuing to work with you, hopefully to the advancement and betterment of all.

So thank you again for being here.

Mr. RUNYON. Thank you very much.

Dr. DEL JUNCO. Thank you very much.

Mr. MCHUGH. Our next witness, as previously announced, is the chairman of the Postal Rate Commission, the Hon. Edward J. Gleiman. Why don't we swear you in now.

[Witness sworn.]

Mr. MCHUGH. The record will show that Chairman Gleiman responded in the affirmative.

We welcome you, sir, for round two. As I mentioned in my opening statement, it has truly been a remarkable year for you and for the entire Commission.

I know I speak on behalf of the entire subcommittee when we commend you for the enormous amount of work that you have put forward, and we thank you for not just those efforts but for the effort of your being here today. We look forward to your testimony.

With that, I would turn the microphone and our attention over to you, sir.

STATEMENT OF HON. EDWARD J. GLEIMAN, CHAIRMAN, POSTAL RATE COMMISSION, ACCOMPANIED BY TREY LE BLANC, VICE CHAIRMAN; H. EDWARD QUICK, JR., COMMISSIONER; AND GEORGE HALEY, COMMISSIONER

Mr. GLEIMAN. Thank you, Chairman McHugh and members of the subcommittee.

I appreciate your inviting me here to testify today. As I sat here earlier this morning, I got the feeling that perhaps this would be my last opportunity to testify, with all the talk about legislative reform in the postal area. But whatever happens, I will endeavor to give it my best shot, both here and at the Rate Commission.

I would ask that my prepared statement and those of my colleagues, Commissioners Quick and LeBlanc, be included in the record of this hearing. And I would also like to point out that I am accompanied by my colleagues, Vice Chairman LeBlanc, Commissioner Haley, and Commissioner Quick.

Commissioner Quick's statement, I would note, addresses some of the questions and exchanges that you had earlier this morning with the Postmaster General about the postal monopoly and operations of the Postal Service in a market economy, and also addresses the possibility of some abuses with the indexing of rates, or a capped rate approach, as it's known in the public utility setting.

Before I get to my testimony—I'm sorry that Mr. Sanford is not here—perhaps, to flesh out the record, I can offer you the answers to the questions that he asked the Postal Service. The terminology

that is used is "attributable" and "institutional" cost. Virtually all attributable costs are volume variable costs. On an overall basis, after the R94 rate case, 65.09 percent of costs were attributable and virtually all volume variable, and 34.91 percent were institutional.

We can break that down a little bit further, looking at processing, collection, and purchased transportation costs, where we have 86.84 percent being attributable and only 13.16 percent being institutional overhead. And then, flipping over to the remaining costs, you look at the street delivery cost, and it's somewhat of a mirror image. There you only have 35 and a fraction percent, 35.16 percent of the costs in that area, which are $9.1 billion, being attributable, and 64.84 percent, or $5.9 billion of the $9.1 billion, being overhead.

Also, before I get into my summary of my statement, I wanted to address a couple of issues. I'm looking around to see if the Postal Service staff people are here. I wish the Postmaster General had stayed.

Let me mention that, with respect to third-class parcels—and I don't know whether you will ask me a question about them or not—the question you asked was answered somewhat along the lines of, "Well, you know, at the end of a 3-year cycle, you can get below cost because costs go up during a 3-year cycle."

The point is, right now, that we're at the very beginning of that 3-year cycle, or 4-year cycle, or however many years' cycle there's going to be. The rates on those third-class parcels that are currently below costs were raised just last year in the R94 case. The evidence was not available in that case that they were below cost. It did become available in the reclassification case. So I think the response that you got from Postal Service counsel may be a little bit off target.

And with respect to the 20 feet of data in R94, I've seen a lot of that data. I've read almost all of that data, and I don't think it stacks up anywhere near 20 feet. But whether it stacks up 20 feet or not, let me say, in reference to the suggestion that the district courts are narrowing discovery and don't require nearly as much in the way of discovery and data, the district court cases are generally not de novo cases. They are looking at a record of evidence that has been established by an administrative proceeding or somewhere else.

I think that it is a somewhat apples and oranges comparison to say that an administrative proceeding that involves $55 billion or $60 billion, however much it's going to be in the future, can be compared to a case that, in many instances, is going to have far fewer ramifications, financially, than does a Postal Service case.

Someone told me once, "Don't stick your neck out unless it's a moral imperative." I'm getting the distinct impression that it may be a moral imperative to stick one's neck out at this point.

Since we last met, the Postal Rate Commission has been very busy. Last June, we issued our reconsideration decision in the R94 omnibus rate case, and the decision was adopted by the Governors. As you know, we've considered and recently completed action on the major reclassification case, Docket No. MC95–1. We've also made some significant progress, at least I think it's significant

progress, in the rulemaking Docket No. RM95–4, that is intended to further streamline procedures at the Rate Commission. And I'll have more to say about that in a few minutes.

Also, since last December 19, we have been considering the Postal Service's request for expedited consideration of an experimental case involving bar coded first-class mail and priority mail small parcels. Our longstanding and rarely tested rules provide for 150 days to consider such cases. As best I was able to determine, this case is only the second time in 15 years that the Postal Service has asked us to use those rules.

When the case was filed—and it was filed on the eve of the Christmas and New Year's holidays, very conveniently—the Postal Service requested that we complete action in 120 days. Well, I'm pleased to report to you today—and you may have noticed what I did when the PMG got up—that today, on day 85, we issued our recommended decision in Docket No. MC96–1, that experimental case, and we approved the Postal Service's proposal.

It can be done quickly, and it can be done expeditiously, when the Postal Service sends a narrow, well-thought-out case that does not impinge on the due process rights of many other parties, which was the case in point in MC96–1.

Last year we also modernized the Commission's computer system with a view toward facilitating data transmission and eventually electronic filing. I recently wrote the Postmaster General asking for his assistance to further simplify and perhaps speed up our proceedings by ensuring that all data filed by the Postal Service is presented in a standard format.

And, Mr. Chairman, in conjunction with our computer upgrade, later this morning—well, perhaps 10 minutes ago, I think, actually—the PRC unveiled its new home page on the World Wide Web. Those wishing to will be able to access the testimony that we submitted today, along with the decision in the experimental case, at our new address on the World Wide Web, www.prc.gov.

Mr. Chairman, as a result of your initiative, we are working with the subcommittee and the Postal Service and the General Accounting Office to study how information and data needs of the rate-setting process can be better served. I want to thank you for moving forcefully to address the concerns I expressed about this matter when I appeared here last year.

We have also, on several occasions during the past year, provided some technical assistance to the General Accounting Office, most recently in connection with its study on international mail, released earlier this week, and its work concerning the private express statutes. And in the midst of all this, we have also disposed of an unusually large number of small post office closing appeals.

And we have initiated another rulemaking, a proceeding to amend our rules of practice to provide that a post office appeal is timely filed if it was postmarked before the 30-day limit. Our existing rules require that the appeal be received by the Commission within the 30-day limit. The Postal Service has filed comments opposing this change, arguing that the Commission does not have the statutory authority to make such a change in its rules.

Mr. Chairman, I know you are familiar with this type of issue where practice under existing law sometimes appears inconsiderate

of overall equity and fairness. We are doing what we can to ensure a degree of fairness. For example, we issued an order just yesterday waiving our current rules and rejecting a post office motion to dismiss an appeal which was mailed 3 days before the 30-day time limit, but which took 9 days to make its way through the mail system to our offices.

We are holding our rulemaking in abeyance while there is further consideration of the legislation here on Capitol Hill, but ultimately we may need legislative relief in this area.

I am also pleased to report that we have accomplished all of the above despite the fact that we have fewer staff today than when I appeared here last March, and our budget, when adjusted for a one-time purchase of computer equipment, has grown not even by one penny.

Now, turning to the mail classification reform case, MC95–1 was a huge effort, not just for the Commission, but for the Postal Service and the many interested and affected parties. We're very pleased that the Governors, with two exceptions, accepted our recommended decision in the reclassification case.

One of the exceptions, the bulk parcel issue, is a very technical matter. We believe the position taken by the Governors is erroneous based on a misreading of past decisions. I'm providing a copy of a letter today that we have sent to the Governors concerning this matter.

The second exception, involving courtesy envelope mail, or CEM, troubles me deeply, and I'll touch on that in a few minutes, but first I'd like to give an overview of our decision. This was the first comprehensive look at mail classification since the 1970 enactment of the Postal Reorganization Act. The Postal Service and 71 parties advanced numerous classification theories, often competing or conflicting, to justify the mail classification change they proposed.

The case was completed in 10 months, as contemplated by law, plus 3 snow days. The Commission held 35 days of public hearings. The evidentiary record comprises more than 17,000 pages, but it doesn't stack up to 20 feet in this case either. Now, I know there are some who will say that the process is too long and too complicated, but I would ask you to consider that the mail affected by this case generates 80 percent of the Postal Service revenues, almost $44 billion.

A change in rates of a few tenths of 1 cent means millions, maybe even tens of millions, of dollars to a major mailer. And I suspect this is why many large mailers supported our recommended decision, even though it was not all that they had hoped for or pressed for when they were before the Commission.

Even changes that do not involve large amounts of postage, such as changes in mail eligibility requirements, like minimum piece requirements, having to have 500 or 200 pieces to mail at a discount rate, or requiring changes of address twice a year, can have a profound effect on mailers whose livelihood depends on access to the postal system.

The stakes are extremely high. It is critical that affected parties be permitted to participate in a meaningful manner, and, frankly, that requires that we take some time and a great deal of care. As one of our lawyers told me recently, "Oh, sure, we can speed up the

process. It's just a matter of whose due process rights you want to take away."

In the way of comparison, let me offer some indication of just how complex not only handling a reclassification case is but implementing a reclassification. I read in one of the trade journals, on Monday, that the Postal Service has announced it's going to hold 4,000 meetings across the Nation and have 40 sessions at the upcoming national postal forum, to familiarize mailers with what they need to do to comply with the provisions of reclassification.

Well, you know, if you assume that each one of those meetings takes half a day, that adds up to about 11 months' worth of meetings that will take place across this Nation. That's a month more than we took to get the case out, and we had to do a lot of analysis up front.

In our decision, the Commission recommended renaming and regrouping the existing mail classes, as the Postal Service requested. We endorsed the Postal Service goal of promoting automation by restructuring classifications and rates to reward work share mailers. We largely adopted the changes in mailing rules and procedures proposed by the Postal Service in the form of a new domestic mail classification schedule.

Probably the most controversial aspect of the Postal Service's proposal pertained to second-class mail. The Service's proposal would have meant an average increase of 17 percent for more than 11,000 small volume periodicals, to effect an average decrease of 14 percent in rates for some 800 densely circulated publications.

We rejected the Postal Service's subclass proposal for magazines and newspapers. We could find no basis, economic or otherwise, for drawing such an arbitrary line between large and small publications. We did, however, recognize additional work sharing discounts.

Finally, we endorsed the Postal Service proposal for a new, enhanced carrier route subclass in standard mail, and we've been harshly and understandably criticized by some for doing so. We wish we could please everyone, but, of course, we cannot. We have a law to follow, and we have to apply the facts presented in our proceedings consistent with that law.

I mentioned the Governors' rejection of the CEM recommendation. This is why their action troubles me so. First, what is CEM? CEM, as recommended by the Commission, is a shell classification with no rate assigned, limited to preprinted reply envelopes provided to consumers by, for example, credit card or utility companies.

This mail, although generally deposited one piece at a time by householders, can be sorted by automated equipment because it displays both a preprinted bar code and a facing identification mark or FIM. It also is frequently picked up at the post office by the addressee, avoiding the need for and cost related to delivery. Thus, like any other automation-compatible mail, it costs less for the Postal Service to handle.

The Governors' decision complains that the CEM recommendation was not based on a recommendation proposed by the Postal Service in this proceeding. And they are right. But the Commission's Office of the Consumer Advocate did propose the classifica-

tion. It also proposed a fairly deep discount. We accepted the classification proposal but not the discount. And CEM is important because it has the potential to touch each and every person in this country who pays a bill by mail and because it is supported by the record evidence in this case.

Over the years, the Governors have repeatedly said that they would address CEM or its first cousin, PAR, the public automation rate. As a matter of fact, exactly 1 year ago today, the Postal Service issues its press release No. 23, entitled, "Customers Get a First Look at the Reclassification case." If you will permit me, I'd like to read one short paragraph from that release, and I quote:

> The Postal Service will also propose that reply envelopes included in the first-class automation subclass be properly bar coded. The Postal Service plans to ask the Postal Rate Commission, at a later date, for a lower rate based on the lower cost of automating this mail. These savings would be passed on to the consumer.

Mr. Chairman, I guess I just have enough faith left in the Federal Government and the Postal Service that, when they tell me they are going to do something, I believe them. Maybe I shouldn't.

We recommended a shell classification. We left it to the Postal Service to fill the shell as they saw fit, as they have repeatedly said they would. And what did the Governors do? With great gusto and a number of, at very best, specious arguments about operational problems, problems that simply do not exist when you have a shell, they ground that shell into dust, and they threw away the framework that they, the Postal Service, needed to do what they told the public they were going to do a year ago today, in Press Release No. 23, what the Governors committed to doing, both in their R87 and R90 decisions.

Now, in recent weeks, the Postmaster General has been talking about threats to first-class mail volume from technologies, for example, the potential growth in electronic billpaying. And he mentioned his concern about lost transaction mail in his statement this morning. This is CEM mail. This is the very mail that would have benefited by those savings that were, according to Press Release No. 23, going to be passed on to the consumers. And perhaps fulfilling the commitment would help keep some of that mail in the system.

I hope that the current lone dissenting voice among the Governors on this CEM issue, that of Governor David Fineman, is enough to ensure that individual mailers will soon, or perhaps at some point, in any event, get the benefits directly that were promised to them a year ago.

But even if this should come to pass, I still will not understand why the Governors took the action they did in rejecting the shell. Their action makes absolutely no sense at all. While I am somewhat reluctant to suggest it, I think the Governors may have been misled by postal management, somewhat, on both the CEM and bulk parcel matters.

Moving on, last year when I appeared before the subcommittee, I suggested, partly in response to the PMG's call for more flexibility, that the Postal Service reexamine the recommendations of the 1992 task force. Shortly after that, I met with the Postmaster General, then Chairman Winters, and other members of the Board's Strategic Planning Committee, and urged them to pursue this

course of action. So I was pleased when, shortly thereafter, the Postal Service petitioned us to streamline the rules.

Last October, the Commission published proposed rules to implement a majority, but not all, of the procedural initiatives proposed by the Postal Service. The Commission explained that it was proceeding in this limited fashion for several reasons.

First, it was mindful of the current workload imposed on all those involved in the reclassification case. Second, there were potential legal impediments to implementing at least some of the proposals. And, finally, the four initiatives for which proposed rules were published appeared to hold the greatest promise for procedural reform in the near term. Frankly, we thought this was the most expeditious way to proceed. We would tackle the seemingly less controversial proposals first.

Well, as I'm sure you have learned during this past year, there is nothing involving the Postal Service that is noncontroversial. In the 17 sets of comments submitted in response to the proposed rules, the Commission was criticized for both what it proposed and what it did not propose. One party went so far as to assert that the Commission's failure to address immediately the negotiated service agreement or contract rate proposal was, "a disservice to the American public."

Well, the Commission has been accused of a lot of things over the years, somehow I doubt that individuals and small business mailers feel that they are disserved because the Commission chose to allow time for carefully evaluating the legal and economic ramifications of this particular proposal, a proposal that would allow large volume mailers to cut deals directly with the Postmaster General for special and undoubtedly lower rates.

On the other side of the spectrum, commenters raised important concerns about the proposals that we thought were less controversial. For example, one of them said, "If the Commission were to adopt its proposed rules, it would be faced with making decisions on a one-sided record submitted by the Postal Service. Opposing parties would have no valid opportunity to make an alternative case."

So, Mr. Chairman, we're continuing to consider the issues raised in the rulemaking, and we will be able to give them our full attention, at least for the next month or so, since we have completed work on the experimental case and the reclassification case. And judging from what the PMG said, we may have a small hiatus before we get our next reclassification piece.

Last year when I was here I also expressed some concerns about information and data used by the Postal Service to support requests filed with the Commission. During our recent reclassification reform case, the Service did provide a number of cost studies, which I'm happy to say were at least up to the standards of earlier Postal Service studies. However, I do want to bring to the committee's attention several potential problems with the data and information the Commission and parties normally use to evaluate the Postal Service proposals.

The first concern is with the timeliness of regular Postal Service data reports. The Postal Service does not always submit this information in a timely manner, and this can pose a significant dif-

ficulty to parties and the Commission. For example, the very basic CRA, or cost and revenue analysis report, for 1994 was not filed until late in May 1995, almost 2 months after the reclassification case was filed. In contrast, the 1993 version of that report was filed in March 1994.

The 2-month delay in the filing of the CRA, in connection with the consideration of a reclassification case, is unconscionable, especially when the Postal Service complains almost constantly about how long the process takes.

And let me note, Mr. Chairman, that apparently we're not the only people who get reports late. If I counted right on my fingers this morning, we're 5½ months past the end of fiscal year 1995, and unless you've got a copy hidden away somewhere up there, I don't think any of us have seen the annual report for fiscal year 1995. This may be the latest in its 25-year history that the Postal Service has ever issued an annual report.

The second issue I want to raise is the Postal Service's increasing tendency to withhold information or data it claims has some commercial value. Many private businesses appear before the Commission and voluntarily disclose what is clearly proprietary information. It seems to me that the Service should avoid withholding information as proprietary unless it is clearly evident that the disclosure would be likely to have a significantly harmful impact.

I mentioned two specific cases in my prepared statement, one dealing with CEM-related data and another dealing with a study of the competitive threats in the delivery of publications. So I won't go into those right now. But let me just say that I accept, here and now, without having to check the pedigree of the people who might wind up on any oversight commission, your offer that we have some type of an arbitration panel that could decide on the proprietary nature of data and whether it should be made available to the Commission and perhaps disclosed to the public.

I was taught in school that we have a nation of laws and not men. And if that is a good idea and it is put into law, it does not matter who the men are, or women. I don't need to check their pedigrees.

Finally, Mr. Chairman, we continue to encounter problems when the Postal Service chooses, for whatever reasons, simply to not do a study or provide data enabling us or others to better understand its operations as they relate to rates and reclassification. And this happens frequently.

One instance, during the course of both the R94 and MC95 cases, involved questions about studies that would look into the relationship between cost and weight. These studies have been promised for many years and not done. All of these problems affect the ability of parties to participate. They increase the cost of litigation at the Rate Commission, and they lengthen the process.

Partly because of these difficulties, I am reversing the position that I took last year. And the PMG may think that my position last year was correct, but I know when I've made a mistake, and I made one. Subpoena authority wouldn't be a panacea, but I think it would help. And I respectfully request, if and when the committee proceeds to consider postal reform legislation, that it give this issue some thought.

The Commission believes that there are many, many other legislative changes that would benefit the rate-setting process. As a general principle, I would note that the more flexibility a government monopoly has, it would seem to me that the more data they should be required to collect and maintain, and the closer scrutiny that should be given to all of that data.

But that is not the subject of this hearing, and we look forward to sharing our thoughts with you in the future and, of course, offering our services and assistance to the subcommittee as it proceeds.

That completes my statement, and I would be happy to answer any questions that you may have.

[Note.—The report entitled, "Review of Vendor and Contractor Payments" may be found in subcommittee files.]

[The prepared statements of Mr. Gleiman, Mr. LeBlanc, and Mr. Quick follow:]

Testimony of
The Honorable Edward J. Gleiman, Chairman
Postal Rate Commission

Chairman McHugh, Ranking Member Collins, and Members of the Subcommittee,

Thank you for inviting me to testify. I am accompanied by my colleagues Vice Chairman W. H. "Trey" LeBlanc, Commissioner George W. Haley, and Commissioner H. Edward Quick, Jr.

I have much to report. Since last we met, the Postal Rate Commission has been very, very busy. Last June, after a request from the Postal Service Governors, we issued our Opinion and Further Recommended Decision in Docket No. R94-1, the most recent omnibus rate case. That decision was adopted by the Governors. We have considered and completed a major mail classification reform case, Docket No. MC95-1. Since December 19, 1995, we have been considering the Postal Service's request for expedited consideration of an experimental case involving First Class and Priority small parcels. And, we have made significant progress in Docket No. RM95-4, a rulemaking proceeding intended to provide further streamlined procedures for certain types of cases. I will have more to say on that in a few minutes.

We have modernized the Commission's computer systems, with a view toward facilitating data transmission and, eventually, electronic filing. I want publicly to thank the Postal Service for its technical assistance in this regard. Recently I wrote the Postmaster General asking his assistance to simplify further our proceedings by ensuring that all data filed by the Postal Service is presented in a standard format. Also, in its reclassification decision, the Commission announced its intention to launch a rulemaking proceeding to reexamine its "computer evidence" rules.

As a result of your initiative, Mr. Chairman, we are working with the Subcommittee, the Postal Service, and the General Accounting Office (GAO) to study how the information and data needs of the ratesetting process can be better served. I

thank you for moving forcefully to address the concerns I expressed about this when I appeared here last year. We have also, on several occasions, provided technical assistance to the GAO, most recently in connection with its study on international mail, released this week, and its work concerning the Private Express Statutes.

Despite this progress, we continue to be concerned about the expense and effort required of parties who participate in major rate and classification cases. Now that the classification case is completed, we hope to open discussions with various parties to explore methods to reduce the effort and expense required to participate in rate and classification proceedings.

In the midst of all of this, we have disposed of an unusually large number of small post office appeals. We also, in February 1995, initiated a rulemaking proceeding to amend our rules of practice to provide that a post office appeal is timely if the appeal was *postmarked* before the 30-day time limit. Our existing rule requires the appeal to be *received* by the Commission within the 30-day time limit. On March 30, 1995, the Postal Service filed comments opposing the proposed change, arguing that the Commission does not have the statutory authority to make such a change in its rules. We have held this proceeding in abeyance while related legislation is being considered in the House, but a statutory change is probably desirable. Mr. Chairman, I know the Subcommittee is familiar with this type of issue, where practice under existing law sometimes appears inconsiderate of overall equity and fairness.

We have accomplished the above despite the fact we have fewer staff today then when I appeared here last March; and, our budget, when adjusted for the one-time purchase of computer equipment, has not grown by even one penny.

The mail classification reform case, MC95-1, was a huge effort, not just for the Commission, but for the Postal Service and the many interested and affected parties. The case affects 89 percent of all mail volume. Most rates for this mail will change because of the restructuring of the mail classification schedule.

We were very pleased the Governors, with two exceptions, accepted our recommended decision in the reclassification case. One of the exceptions, the "bulk parcel" issue, is a very technical matter, and we disagree with the position taken by the Governors.

The second exception, involving Courtesy Envelope Mail (CEM) deeply troubles me, and I will touch on that in a few minutes. First, an overview of the decision.

The case was completed in the ten months contemplated by the law (plus three snow days). More than 70 parties participated, and the Commission held 35 days of public hearings. The transcript comprises more than 17,000 pages. Now, I know there are some who say this process is too long and too complicated. But, please consider that the mail affected by this case generates 80 percent of postal revenues—that is $43.7 BILLION. A change in rates of a few tenths of one cent means millions, maybe even tens of millions, of dollars to a major mailer. Even changes that do not involve large amounts of postage, such as changes in mail eligibility requirements, can have a profound effect on mailers whose livelihood depends on access to the postal system. The stakes are extremely high. It is critical that affected parties be permitted to participate in a meaningful manner, and, frankly, that requires some time and great care. As one of our lawyers recently said to me, "sure, we can speed up this process. It's just a matter of whose due process rights you want to take away!"

This was the first comprehensive look at mail classification since the 1970 enactment of the Postal Reorganization Act. The Postal Service and the parties advanced numerous classification theories, often competing or conflicting, to justify mail classification changes they proposed. In the end, the Commission's Opinion sets forth clear guidance for applying the statutory classification and ratesetting criteria (39 U.S.C. 3622, 3623). It recognizes that the function of mail classification is to create groupings of mail *for the purpose of ratemaking*. Under the Postal Reorganization Act, and judicial and Commission precedents applying it, postal ratemaking involves two fundamental steps: (1) the attribution of direct and indirect costs required by 39 U.S.C. 3622(b), and (2) the assignment of institutional, or overhead, costs in accordance with the noncost criteria set forth in the statute. The attributable costs comprise 65 percent (more than $36 billion) and the overhead costs about 35 percent (about $20 billion) of total costs.

The Commission recommended the renaming and regrouping of existing mail classes as the Postal Service requested. Express Mail will become Expedited. First-Class Mail will be unchanged, but existing third and fourth class will be combined into a new Standard Mail class. Existing second class is renamed Periodicals class.

The Commission endorsed the Postal Service goal of promoting automation by restructuring classifications and rates to reward "workshare" mailers. These mailers prepare mail for processing on automated equipment and mail that otherwise bypasses postal operations, thereby reducing postal costs. Many of these mailers will see rate reductions which reflect their worksharing activities.

The Recommended Decision encourages automation-compatible mail.

The Commission largely adopted the changes in mailing rules and procedures proposed by the Postal Service in the form of a new Domestic Mail Classification Schedule, thereby permitting the Service to go forward with the 123 Federal Register pages of implementation rules it had developed in consultation with its customers.

Probably the most controversial aspect of the Postal Service's proposal pertained to second-class mail—mostly magazines and newspapers. The Postal Service proposed dividing the existing second-class regular subclass into two new subclasses with, essentially, one for large publications and another for small. Opponents of this proposal argued that it would lead to an unfair allocation of postal overhead costs, thereby harming many for the benefit of a relative few. The Postal Service's proposal would have meant an average 17 percent postage *increase* for more than 11,000 small volume periodicals to effect an average *decrease* of 14 percent in rates for some 800 densely-circulated publications.

The Commission rejected the Postal Service's subclass proposal for magazines and newspapers. It could find no basis, economic or otherwise, for drawing such an arbitrary line between large and small publications. It did, however, recommend rates that reflect the worksharing activities of publication mailers. Large, highly-presorted publications (the roughly 800 identified by the Postal Service) will experience an average rate decrease of 3.7 percent, not 14 percent. The average increase for others will be 3.5 percent. Improved Postal Service cost studies in this area could lead to further rate refinements.

The Commission endorsed a Postal Service proposal for a new Enhanced Carrier Route subclass in Standard Mail and has been harshly, but understandably, criticized by some competitors of the Postal Service for this action. While we wish we could please

everyone, we, of course, cannot. We have a law to follow and apply to the facts presented in our proceedings. As the Commission's decision explains, the evidence clearly supported dividing carrier route and noncarrier route mail into separate subclasses. The concern of competitors (primarily large daily newspapers) is understandable because the new subclass results in lower rates for mailers who compete with them for advertising dollars.

I mentioned the Governors' rejection of the CEM recommendation. This is why their action troubles me.

First, what is CEM? CEM, as recommended by the Commission, is limited to preprinted reply envelopes provided to consumers by entities expecting or hoping for remittance mail (for example, credit card or utility companies sending bills, catalog companies distributing mail order forms, or charitable organizations seeking donations). This mail, although generally deposited one piece at a time by householders, can be sorted directly by automated equipment because it displays both a preprinted barcode and a Facing Identification Mark (FIM). Also, it is frequently picked up at the post office, avoiding the need for delivery. Thus, it costs less to process and should be eligible for a discount.

The Governors' decision complains that the CEM recommendation was not based on a recommendation "proposed by the Postal Service in this proceeding." This is true. But, the Commission's Office of Consumer Advocate proposed this classification, and the Commission thought the evidence demonstrated the need for it. CEM is important because it has the potential to touch each and every person in this country who pays a bill by mail.

Exactly one year ago today, the U.S. Postal Service issued its Press Release No. 23, entitled "Customers Get First Look At Reclassification Case." Let me read you a short paragraph from the third page of that release:

> The Postal Service will also propose that reply envelopes included in the First-Class automation subclass be properly barcoded. The Postal Service plans to ask the Postal Rate Commission at a later date for a lower rate based on the lower costs of automating this mail. These savings would be passed on to the consumer.

Mr. Chairman, when the Postal Service makes such a public commitment, should not the public be able to take the Service at its word? Apparently not.

One of the Postal Service mottoes is "We Deliver for You." The Commission's decision gave the Service the opportunity to live up to that motto. We recommended a "shell classification" and left it to the Postal Service to fill the shell, as it saw fit—as one year ago it publicly said it would.

And, what did the Postal Service Governors do? With great gusto and a number of, at best, specious arguments about operational problems—problems that simply do not exist by virtue of establishing a shell classification, they ground the shell to dust. They threw out the framework needed to do what the Postal Service told the public, in its Press Release No. 23, it was committed to doing.

In recent weeks Postmaster General Runyon has been talking about threats to First Class mail volumes from technologies—for example, the potential growth in electronic bill paying by individuals. This mail is CEM or courtesy envelope mail. This

is the very mail that would have been the beneficiary of those savings that were, according to Press Release No. 23, going to be passed on to the consumer. Perhaps fulfilling the commitment made in Press Release No. 23 would help keep in the system the very mail about which the Postmaster General is worried.

I hope that the lone dissenting voice among the Governors on this CEM issue, that of Governor David Fineman, is enough to ensure that individual mailers will soon get the benefits promised a year ago. But even if this should come to pass, I still will not understand why the Governors took the action they did in rejecting the CEM shell. Their action makes no sense at all, unless they never really intended to let the general public share directly in the benefits of automated mail.

Last year, when I appeared before the Subcommittee, I suggested, partly in response to the Postmaster General's call for more flexibility in setting rates and introducing products, that the Postal Service reexamine the recommendations of the 1992 Joint Task Force on Postal Ratemaking. Shortly after that, I met with the Postmaster General, then Chairman Winters, and other Governors and urged this course of action. So, I was pleased when the Postal Service, shortly after our meeting, petitioned the Commission for rules based on the Task Force's recommendations. The Commission promptly initiated a rulemaking proceeding (Docket No. RM95-4), and has had two rounds of comments on various aspects of the Postal Service's proposal. The initial invitation for comments on the Postal Service's proposals drew diverse comments from 21 parties.

In response to these comments, last October the Commission published proposed rules to implement a majority, but not all, of the Postal Service's procedural initiatives.[1] The Commission explained it was proceeding in this limited fashion for several reasons. First, it was mindful of the current workload imposed on all those involved in Docket No. MC95-1 and mail classification reform generally. Second, there were potential legal impediments to implementing at least some of the rules held in abeyance. And, finally, the four initiatives for which proposed rules were published appeared "to hold the greatest promise for procedural reform in the near term."[2] The Commission promised, however, that it would "endeavor to pursue the remaining initiatives, which appear to present somewhat greater challenges under the Postal Reorganization Act as currently interpreted, in subsequent proceedings."[3] Frankly, we thought this was the most expeditious way to proceed. We would tackle the seemingly less controversial proposals first.

Well, when it comes to the Postal Service, as I am sure the Subcommittee has learned, very little is noncontroversial. In the 17 sets of comments submitted, the Commission was criticized both for what it proposed and what it did not propose. One party went so far as to assert that the Commission's failure to address immediately the negotiated service agreements or "contract rates" proposal was "a disservice to the American public." While the Commission has been accused of many things over the years, somehow, I doubt individual and small business mailers feel disserved because the Commission chose to allow time for carefully evaluating the legal and economic

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[1] On October 27, 1995, the Commission published proposed rules for conducting proceedings on Postal Service requests for market tests of new services, temporary establishment of provisional services, and minor changes in mail classification, all in 120 days or less. Rules that would allow proposed new services to break even financially over a multi-year period were also included. Other rules proposed by the Postal Service concerning "limited scope" rate cases, rate bands, and negotiated service agreements, were held in abeyance.
[2] 60 Fed. Reg. 54981 (October 27, 1995)
[3] Ibid.

ramifications of rules which could permit a few large volume mailers to cut deals directly with the Postmaster General for special, undoubtedly lower, rates.

Seriously, the commenters raised important concerns about the proposals we viewed as less controversial. For example:

> "If the Commission were to adopt its proposed rules, it would be faced with making its decisions on a one-sided record submitted by the Postal Service. Opposing parties would have no valid opportunity to make an alternate case. The result would be a Postal Rate Commission that could not possibly fulfill it statutory responsibilities." And,

> "Thus, any financial losses stemming from ill-advised or underpriced 'new' or 'provisional' services under rules such as those proposed in the *Notice* would shift from the users of these 'new' and 'competitive' services to monopoly mailers. This would constitute a cross-subsidy of such services by First Class mail, and, as such, would contravene the intent of Congress."

Even the Postal Service has expressed dissatisfaction with the Commission's version of the proposed rules, although for a very different reason than the above-quoted commenters. It wants even more flexibility than the proposed rules would allow.

So, we are continuing to consider the issues raised by this rulemaking and will be able to give them even more attention when the experimental small parcel case is completed, particularly now that the initial phase of the classification reform effort is in hand.

When I was here last year, I also expressed some concerns with the information and data used by the Postal Service to support requests filed with the Commission. During the recent classification reform case, the Postal Service provided a number of cost studies which, I am happy to say, were at least up to the standards of earlier Postal

Service cost studies. However, I do want to bring to the Committee's attention two potential problems with the data and information the Commission and the parties normally use to evaluate Postal Service proposals.

The first concern is with the timeliness of regular Postal Service data reports. The Commission rules, developed in conjunction with the Postal Service, provide for the regular submission of basic cost and volume data. It has been my experience that the Postal Service does not always submit this information in a timely manner, and this can pose significant difficulties to parties and the Commission when a case is proceeding. As an example, the basic Cost and Revenue Analysis report for 1994 was not filed until May 22, 1995, almost two months after the Postal Service classification reform request was submitted to the Commission. In contrast, the 1993 version of that report was filed in March 1994. Since parties must file their direct case within four months, a two month delay poses a serious hardship.

The other issue I want to raise is the Postal Service's increasing tendency to withhold information or data it claims has some commercial value. Many private businesses appear before the Commission and voluntarily disclose what is clearly proprietary information. The Postal Service is not a private enterprise, although it is expected to operate in a businesslike fashion. It seems to me that the Service should avoid withholding information as proprietary unless it is clearly evident that disclosure would be likely to have a significant harmful impact.

Early in the classification case, the Postal Service was asked to provide information on its customers' reaction to a reduced rate for courtesy reply mail. Initially, the Postal Service resisted providing any information. Then, when pressed, the Postal Service provided a relevant study with certain portions redacted. When the Commission

insisted that the Service explain why this information was withheld as proprietary, it became clear that there was little or no likelihood that this information would have harmed any Postal Service business interests.

Unfortunately, the process for obtaining data not willingly provided by the Service can extend for months. Thus, by interposing meritless objections, the Postal Service withheld information sufficiently to reduce its value to participants in the case. A similar controversy delayed participant access to a report highly relevant to Postal Service claims that alternative delivery of second-class publications was an economic threat. As I noted when we issued our decision on January 26: "[t]he record evidence indicated that there was no real competitive threat in this area—a conclusion supported by a summary of a Postal Service study which became available through discovery. Interestingly, the Postal Service witness in this area was not apprised of the existence of the study while preparing his expert testimony."

I recognize that there may be some proprietary business information which the Postal Service might need to withhold. But as long as the Postal Service remains the nation's provider of monopoly mail service, it should be willing to operate in the sunshine and allow the American people to understand both its successes and its failures.

Partly because of these difficulties, I am reversing a position I took last year. You may recall, I was asked whether I thought the Commission should have statutory authority to subpoena Postal Service records and documents. I said I was not ready to ask for that power Now I am, and as the Subcommittee proceeds to consider postal reform legislation, I urge you to give the Commission that authority.

The Commission believes there are other legislative changes which could benefit the ratesetting process. But that is not the subject of this hearing. We look forward to sharing our thoughts on this in the future, and, of course, we offer our services and assistance to the Subcommittee as it proceeds.

Testimony of the Honorable H. Edward Quick, Jr. Commissioner Postal Rate Commission

Trilogy Of Woes Demands A Reality Check

Mr. Chairman, Members of the Subcommittee:

I suggest a reality check as you look at the USPS and its future course. For more than a year in his speeches and public statements the following refrain has been heard from the Postmaster General (PMG): *"...We are hamstrung by laws, rules, and red tape...Our problems fall into three areas: people, prices, and products." (8/2/95)*

The hundreds of thousands of hard-working postal employees are the heart and sinews of the organization; getting the best from them is the task of managers, the job of the PMG and his subordinates. My knowledge of this area is limited, but I have observed a disjunction between reality and wish in the other two areas of the PMG's trilogy of woes.

PRICES

> *"...We need to free the price-setting process..." (2/23/95)*
>
> *"...Our price-setting process is out of sync with the speed and direction of future business. It takes too long. It costs too much. It's too inflexible. We can't offer volume discounts or create contract service arrangements with our domestic customers, steps our competitors can take. (8/2/95)*

"...We are trying to compete with one hand tied behind our back, in the worst of all worlds - tough private sector competition and burdensome government regulation." (2/28/96)

All of these statements by the PMG are based, I believe, on the mistaken assumption that the United States Postal Service (USPS) is an organization which should be allowed to operate as if it were a business, like any other business, in a free market. It isn't, and, I believe if it is to so operate, it should be freed of the "burdensome government regulation" of the Private Express and mailbox access statutes. In other words, if it is to have the *"hand tied behind its back"* loosened, it should be freed also from its monopoly base so it can compete as a business in a free market. I don't advocate this, but I think the logic is clear.

As long as the USPS has a monopoly -- and many patrons have no alternative to using its services -- *"freeing the rate-setting process"* can only mean that captive customers are at risk of having their rates increased in order to reduce the rates of customers who have the opportunity to use other means of communication. The continued existence of the Private Express and mail box access statutes, in the interest of fairness and justice, dictates an independent forum, mechanism, or process to allow review and modification of all postal price changes.

Businesses that can offer *"volume discounts or create contract service arrangements"* don't have to worry about shifting the burden of the costs of such to

captive customers: they operate in a free market, their customers have other choices, and they can fail. The USPS can't.

Ordinary businesses must set their prices to recover both direct and overhead costs. USPS often attempts to set prices on service categories it deems competitive so these categories contribute little to overhead, or common costs, while it seeks to recover an ever-increasing percentage of its overhead costs from monopoly categories. Competing businesses have no such opportunity. Advantage, USPS!

The notion that the USPS should be given the freedom to adjust rates without review if those rates do not exceed the rate of inflation is seen by some as a way to provide more flexibility in rate-setting. This is a particularly insidious idea, fraught with potential for abuse of captive mailers. It's conceivable, under a common variant of this proposal, that the First Class stamp could be increased a penny every year for the foreseeable future without any review. A billion dollars a year could be added to postal revenue, each year overhead costs could be reduced for non-First Class mail, and individuals, small and large businesses, and other free-market based competitors, would have no appeal and no recourse.

PRODUCTS

> *"...We need to free our products of bureaucratic restrictions and make them modern and customer oriented." (2/23/95)*

"We spend months revealing proprietary business information, only to have our competitors take our idea and run with it. You can bring a child into the world faster than we can price a new product and bring it to market." (3/8/95)

Making the services (a.k.a. products) of the USPS "*more modern and customer oriented*" is a worthy goal, but the problem in achieving it is not "*bureaucratic restrictions.*" The just completed reclassification case which will be implemented in July proves the procedures for changing services can work in a timely manner with safeguards for all affected users. The generally favorable acceptance of the decision testifies to the basic soundness of the process. The frame-work doesn't need to be changed, it needs to be used by postal managers willing to give time and effort to the details of managing.

Speed in developing new services is also desirable, but the existing procedures aren't the problem. The problem is that the managers of the USPS cannot get things done more quickly. Take the experimental case delivered today: it was approved by the Board of Governors on May 2, 1995; the Postal Rate Commission received it on December 19, 1995; and, it was returned for action to the USPS on March 13, 1996. Of the ten months since approval by the Board of Governors, seven were mysteriously taken up at USPS. We have taken less than three months to review it, and give interested parties the chance to comment. The USPS, if this relatively

simple matter is an indicator, can't act fast. That's a management problem, not a *"bureaucratic restrictions"* matter.

As for revealing *"proprietary business information,"* and having a competitor *"take our idea and run with it,"* I'm completely baffled. I don't know of one service *"idea"* that has been stolen from USPS. On February 2, the project manager for the new products group in the USPS Marketing Department - the person responsible for the identification and pursuit of new business opportunities - could not cite any specific business opportunities that the Postal Service lost because they were unable to take advantage of the opportunities in the last two years.

New products and price changes can be made faster than a human baby, but it requires knowledgeable, agile, and committed postal managers. We're ready to do our part, as evidenced by the experimental rate case delivered today and MC-95: the omnibus rate case that was concluded in less than nine months and resulted in an additional $400 million in revenue to postal coffers because of our expeditious action. (That extra revenue allowed the USPS to claim credit for their best year ever for revenue in FY 95.)

BUSINESS AND/OR PUBLIC SERVICE

"...I'm running the Postal Service as a business." (11/17/95)

"...We face the demands of a private sector company, yet we are hamstrung by federal restrictions that put a stranglehold on our programs." (6/28/95)

"...America's advertising dollar is now almost evenly split among television, newspapers and direct mail. Direct mail is gaining market share. It's our fastest growing business." (11/17/95)

The PMG wants to have his cake and eat it; he wants the authority to act as a business in a free market while retaining the monopoly foundation of the USPS and avoiding the hazards of a private business. Many of the largest users of the USPS agree with him; they support his notions of freedom to price and develop new products because they anticipate "volume discounts" and "service contracts." They are concerned primarily with their costs, not with the fairness of pricing postal services. They want a competitive advantage, and will use the USPS monopoly to gain it.

The crux of the PMG's attempt to have it both ways is found in his pride in the fact that expenditures for advertising dollars are *"almost evenly split among television, newspapers, and direct mail."* He crows that direct mail is *"our fastest growing business."* He doesn't say that he has a step up on his competitors, particularly newspapers, because the Private Express and letter box statutes protect him from a truly free market. Newspapers, television networks and stations,

telemarketers, and others have no monopolies to rely on. They can fail; the USPS can't.

The PMG attempts to obfuscate the reality of his situation: ignore the monopoly base and proclaim, "I'm running the Postal Service as a business." But it's like no other business, and, if he is *"hamstrung by federal restrictions,"* he also has many advantages because of the *"restrictions"* he laments.

Rather than pursue quixotic goals of making the USPS something it isn't, and rather than chortling about the demise of Publisher's Express - *"We ran them out of business by improving service and keeping costs low!" (2/20/96)* [and because of the mailbox access statute] - postal managers should concentrate on their core services. They should take a basically sound structure for pricing and developing products, and make it work.

Their success in these areas, and even more in the "people" area that I have not addressed, will determine the future of the USPS.

PREPARED TESTIMONY
OF
COMMISSIONER WILLIAM H. LEBLANC III
POSTAL RATE COMMISSION
BEFORE THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

March 13, 1996

1 Mr. Chairman, Members of the Committee:

2 I appreciate the opportunity to provide these remarks for the

3 record.

4 This is not an ordinary oversight hearing. The consensus is that

5 sometime this session legislation may be introduced to make changes to

6 title 39 which governs the operation of the United States Postal Service

7 and the Postal Rate Commission. Some changes may be needed and I

8 will suggest several relating to the rate setting process that you may not

9 have considered. Before I do so, I would like to make a general

10 statement regarding the United States mails.

11 Twenty five years ago, after lengthy deliberation, the Congress

12 passed the Postal Reorganization Act. The purpose of that legislation

13 was to rescue the Post Office from the chaos of the late sixties, to ensure

14 that the American people had universal mail service that reflected the

15 costs of various classes of mail, and to put the new Postal Service on a

16 business-like basis.

1 If one were to believe the cries of despair from some members of
2 the postal community, one would think that the Postal Service is on the
3 brink of disaster. It is not. Since 1990, total volume for all classes of
4 mail has increased 11.8 percent. The attached chart shows increases by
5 class.

6 Like all organizations as large and complex as the Postal Service,
7 change is necessary, but most of this change can be accomplished under
8 the current statute.

9 Despite what is said about the Postal Service today, few pieces of
10 legislation have been more successful in achieving their objectives than
11 has been the Postal Reorganization Act. Today, the United States has a
12 most sophisticated mail system which achieves the goals of dependable,
13 universal mail delivery at exceptionally reasonable rates. Recently, there
14 has been a comparison of the Postal Service with the mail services of
15 other countries. It has been interesting. Though I have some doubts
16 about how useful these comparisons are to your concerns. It is a bit like
17 comparing a chihuahua with a great dane. These foreign services are
18 truly boutique postal services in contrast to the U.S. Postal Service. For
19 the most part, they are no more efficient in providing their services than

1 is the U.S. Postal Service. The U.S. Postal Service has by far the highest
2 productivity of any Postal Service in the industrialized world.
3 We have come to this happy state of affairs over the past two
4 decades because of the constant interaction between the mailing
5 community, the Postal Service and the Postal Rate Commission
6 operating under a process established by the Congress. In 1970, no one
7 would have known what the Postal Service would look like today. I
8 suspect most who crafted this legislation would be pleased at what has
9 resulted.
10 I hope that you would keep this in mind during your deliberations.
11 I would also remind you of Senator Stevens' remarks at the conclusion of
12 the recent hearings on foreign postal services. Senator Stevens noted
13 that he was not inclined to fix that which was not broken.
14 I do have several suggestions for change in the area of postal rate
15 making.
16 First, I would urge that the Prior Years' Losses (PYL) component
17 of the Postal Service's revenue requirement be phased out. Unexpected
18 losses should be provided for through the contingency account. PYL has
19 been used as a slush fund and permits and contributes to poor financial
20 management.

1 Second, I believe that the Postal Rate Commission should have
2 final authority on rate and classification matters. The Postal Governors,
3 with no independent and neutral staff to assist them, are not well
4 equipped for deliberating on the recommendations of the Rate
5 Commission, and are not well served by postal management in those
6 deliberations. Under the present system, postal management gets "two
7 bites of the apple" in presenting its views on rate and classification
8 matters: once in litigating its case before the Commission, then again in
9 briefing the Governors prior to their decision. In my opinion, this is a
10 flawed and biased process. In addition, it only serves to delay the final
11 implementation of rate and mail classification changes. Final decision
12 authority for the Commission will improve the process and allow changes
13 to be made more expeditiously. If the Postal Service or intervenors
14 disagree with Commission decisions, they may then resort to the courts
15 as they can today. This is the common practice in other regulated
16 elements of the economy.
17 Lastly, I have serious concerns about our understanding of Postal
18 Service costs, and these concerns go well beyond any that relate to the
19 overall costing systems. We are told regularly that the postal markets
20 are becoming more and more competitive. As this occurs, as it has in

1 other industries, knowledge concerning costs becomes more and more
2 important. Yet there are key areas where the cost information we have
3 is somewhere between limited and nonexistent. For example, in the
4 recent classification case the Postal Service was unable to quantify the
5 costs associated with processing small parcels as opposed to processing
6 less expensive flat-shaped pieces. Similarly, we know very little about
7 the extent to which the per-piece cost of processing large mailings might
8 be lower than the cost of medium or small mailings.
9 Doing good studies along these lines takes time and effort. Doing
10 without them, however, will be even more costly. It will handicap the
11 Postal Service competitively and will prevent it from encouraging broad
12 usage of many of the capabilities it has. There needs to be a way to get
13 these studies done. We simply cannot depend on the unsupported data.
14 To address such complex issues outside the adversarial context of a
15 rate case, I suggest that the Congress establish a small joint studies and
16 analysis group comprised of staff elements from the Postal Service and
17 the Postal Rate Commission to study this and other questions as
18 determined by the Postal Service, the Postal Governors, and the Postal
19 Rate Commission.

1 I say again that you should remember in your considerations that
2 you are dealing with a healthy and most remarkable Postal System. If
3 you do nothing, it could remain that way.
4 Thank you.

Mail Volume Growth 1990 - 1995
(Percent Growth Rates by Class and Total Mail)

Fiscal Year	First Class	Priority Mail	Express Mail	Third Class *	Second Class	Fourth Class	Total Volume **	Growth Rate
1990-95	+12.2	+84.6	+6.3	+15.7	(-3.1)	+49.6		+11.8
1995	+1.0	+12.9	+0.9	+2.4	(-0.3)	+7.4	180.7	+1.5
1994	+3.4	+15.8	+7.3	+6.9	(-0.8)	+17.0	178.0	+4.0
1993	+1.5	+13.7	(-1.5)	+6.5	(-0.1)	(-2.7)	171.2	+2.9
1992	+0.5	+10.2	(-8.3)	+0.2	(-0.8)	+9.9	166.4	+0.4
1991	+1.1	+2.4	+2.4	(-2.4)	(-2.6)	+4.9	165.9	(-0.3)
1990	+4.0	+10.0	+9.9	+1.5	+1.5	+5.9	166.3	+2.9

* Bulk Rate Regular Volume
** In Billion of Pieces

Mr. McHugh. We thank you very much, Chairman Gleiman. Let me just say, in response to your final comment about the existence of many other legislative changes, we would certainly welcome the opportunity to review those, specifically, with you, and probably sooner rather than later because of our intent to proceed on this issue in an omnibus fashion sometime in early summer.

Mr. Gleiman. Mr. Chairman.

Mr. McHugh. Yes.

Mr. Gleiman. I'll leave with you my wish list.

Mr. McHugh. Terrific.

Mr. Gleiman. And if you want, we will provide legislative language in the near future.

Mr. McHugh. Well, we'll take the ideas first and worry about the language later. That's very helpful, and I do appreciate that.

Mr. Gleiman. We may have more.

Mr. McHugh. Thank you.

Let's return for a moment to CEM.

Mr. Gleiman. Yes, sir.

Mr. McHugh. First of all, you heard my question to the Postmaster General as to his opinion on why the Governors rejected the offer. You heard his response. Would you like to respond to his response, as a matter of fairness?

Mr. Gleiman. I don't want to personalize this any more than perhaps I already have, but, plain and simple, the PMG is wrong. Yes, CEM pieces get deposited one at a time or, in the case of those of us who have lots of bills, more than one at a time. And there is some clear evidence that there are costs avoided. The Postal Service knows this, and we know it. As I indicated, this mail also avoids other costs that the Postal Service would otherwise incur, if you and I just paid our bills by putting them in a plain business envelope and putting a 32-cent stamp on it, that is delivery cost.

But more importantly, sir, I didn't make the commitment in Press Release No. 23, and I was not on the Board of Governors when the R87 and R90 cases were handed down. I did not make the statements that are on the public record, three cases running. They made those statements. If they don't want to stand by their commitment, that's OK with me, but they ought to tell the American public, they ought to tell us, and they ought to tell you.

Mr. McHugh. I appreciate your interest in not personalizing it. I certainly don't want to do that either. But I think it's important that we try to flesh this out as much as we can, because I think it does raise an important point about flexibility and opportunities and opportunities hoped for.

You say that you believe the analysis that the PMG proffered is wrong. Do you think there was an underlying reason that we perhaps have not heard as to why they may have rejected that, something that would be known to you but not to me?

Mr. Gleiman. Well, first, just let me repeat, as I said in my statement, that the arguments that were made in the Governors' decision, that talk about operational problems, are specious. There are no operational problems, because there's no operations. You can't have operational problems if you don't have an operation.

But I guess my answer to your question would be that—well, maybe I ought to make reference to that. One fellow in the mailing

community, who doesn't always agree with the Postal Rate Commission, told me, when he found out that they had rejected CEM, he said to me, "Do you ever really expect that the Postal Service and the Board of Governors will accept something that the Rate Commission has done, flat out?"

Perhaps he was right. Perhaps they just needed to search around for something to reject for the sake of rejecting it. I don't know. But what they did makes no sense.

Mr. MCHUGH. Well, let's pursue that. One of the reasons they said was that the recommendation that you made was not part of their submission, that it came from your consumer advocate. Is there anything in your procedural rules or the law which oversees you that precludes you from using an idea that comes fresh to a case, either from your consumer advocate or from some outside source?

Mr. GLEIMAN. Well, I've read the law a couple of times and I've read our procedures, and the answer is simply no. As a matter of fact, if you look back over the years, you will find that, on a number of occasions, proposals have been made by parties, OCA and other parties, that have been incorporated into Commission recommendations. And some of them—I can't give you a rundown, but some of them I'm sure have been accepted by the Governors over the years.

Mr. MCHUGH. OK. Let's move from that. Data is obviously a very big concern, and it's covered in your testimony. When you were making your presentation a bit earlier, you talked about the figures on the third-class parcels that I mentioned.

Mr. GLEIMAN. Yes, sir.

Mr. MCHUGH. And you said, as I understood it, that the data in that respect, under the R94 case, did not become available until the reclassification case. What happened there?

Mr. GLEIMAN. Well, you may recall that the R94 case was a Postal Service proposal for an across-the-board increase of 10.3 percent, which we did not accept, flat out. We raised second-, third- and fourth-class rates a bit higher, on the order of 14 percent, and the average first-class rate only went up about 9 percent. But there was general agreement within the third-class community in the R94 case. As a consequence, during the litigation of that case, there was a great deal of information that was not thoroughly examined.

Mr. MCHUGH. Was it available?

Mr. GLEIMAN. Well, it may have been. It may have been in the underlying information, but it was not evident from looking at the case. Now, you're dealing with a whole bunch of issues. The Commission tries to analyze all the data. One of the beauties of the process that we have now is that the other parties engage in discovery, and in doing so they uncover data. There was little, if any, discovery in the third-class area in R94 because of the agreement that had been reached between the Postal Service and the third-class mailing community before that case was filed.

So, assuming the data was there, it didn't bubble to the top. However, when this case came up, the reclassification case came up, there was some examination of the Postal Service data in this area, and it was made quite clear that the Postal Service's data

showed that, on average, the 600 million third-class parcels were not covering their cost.

The problem we had, at least some of the commissioners had in this case, was that, while we knew that there was below-cost coverage on third-class parcels on average, we did not have enough information to know which types of those 600 million parcels were below cost and which were above cost. So, on a split decision, we chose not to try to surcharge or increase the price on those parcels.

But my point, when I responded to you earlier, was in response to Postal Service counsel. This is not a situation where, over a 3- or a 4-year period, the margin above cost has been eroded because costs have been increasing during that period. This is a situation where these rates are fresh rates; there haven't been cost increases.

We were in the test year. The test year for the R94 case was fiscal year 1995. We were in the test year, and, theoretically, you couldn't have cost erosion in the test year. Two or 3 years down the line, we would have increased cost and erosion of that margin that is built in.

Mr. MCHUGH. In terms of trying to look at the entire rate-setting process, what does that example you just described tell us? Are we not getting good data? Do we not have the opportunity to examine that data, or we in a lag here that just can't be caught?

Mr. GLEIMAN. We're getting data. We need a process that permits parties other than the Postal Service and parties other than those who have an interest in keeping those rates below cost to examine that data on the public record. We need a process, and we have a process that provides for that.

I mentioned in my testimony that sometimes the Postal Service doesn't do studies. Well, here's a perfect example. If the Postal Service knew—and it must have, because it was their data—that there were below-cost parcels in third class, they could have done a study. They are the people who have the data. They could have done a study and presented to the Commission and to the participants in the case some indication of which type of parcels in third class were below and which were above cost. They did not do that study.

One assumes, when we get parcel reclassification, that they will produce such a study. If they do not produce such a study, I think that they are going to have serious problems with the commissioners and probably with intervenors in parcel reclassification.

When people talk about short-circuiting the process and that there's too much paper and too much data and too much information required, well, if you want to operate out of your hip pocket, then that's absolutely right; there's too much. But if you want a sound system that looks at cost and makes sure that people who are using the system are paying their cost and making a contribution to overhead, then you have to have a process that allows discovery and that requires the Postal Service to come up with the data.

Mr. MCHUGH. Which gets us to the issue of what is proprietary and what is not. Do you have an estimate on the universe of data—if you had every possible piece of data that would be relevant, compared to what you are getting now and what is being withheld—

how much do you get? Do you get 80 percent of it and they withhold 20, or do they withhold 10 that's proprietary? Any idea at all?

Mr. GLEIMAN. I can't give you a percentage. The only time you know that they are withholding data is when you ask for it or when someone else asks for it, and they say no. That happened in a couple of instances in this case. It also happened in R94 with respect to international mail data. My guess is that, in the overall scheme of things, it's a small percentage, but because it's a small percentage does not mean that it's not a critical bit of information.

Quite frankly, what concerns me perhaps more than the experience that we've had at the Rate Commission over the last 2 years while I've been there is what might happen in the future. Postal officials, from the Postmaster General on down, have now taken the position that everything they do is in the competitive arena.

My guess is that it won't be long before it's not only international mail and questions about threats of competitive carriage of publications, and what have you, but sooner or later they will use the argument that everything is competitive on the table to withhold whatever they want to withhold.

I think we've got to draw the line. We've got to figure out where the line should be drawn, and we've got to draw the line before they creep over to the point where the Postal Service has got more, if you will, classified data than the Defense Department.

By the way, we are a government agency, just like the Postal Service. And I find it offensive that they assert against us Freedom of Information grounds for withholding information, grounds that, under the law, are permissive, not required, and are permissive with respect to the general public and not other government agencies or the Congress.

Mr. MCHUGH. You heard me ask the PMG about his possible knowledge of any time where there had been an exposure of proprietary information as a part of this process. He could not recall. Can you recall, either in your powerful days as a staff member on the Hill or your equally powerful days now, where that may have occurred?

Mr. GLEIMAN. I wish I had all the power that everybody thinks I have or had. Perhaps, then again, maybe I don't wish for that much power. I don't recall any sensitive business information getting out into the public unless—unless—you take an example, in the reclassification case, where the OCA requested a study or requested any studies that had been done in the CEM area, and the Postal Service said, "Oh, yes, there's been a study done," and they clamped the lid on a whole study, a whole 30-page study.

Much to their chagrin, I jumped in, and ultimately they coughed up 29½ pages of the 30-page study. Well, if their original assertion was right that this was proprietary information, sensitive business information, well, then, I guess you could say that 29½ pages of confidential business information got disclosed. But I think, if you looked at it, you would probably conclude that it shouldn't have been so characterized at the outset.

So my answer is, I'm not aware of any sensitive information that has been disclosed.

Mr. MCHUGH. You mention in your testimony that any number of intervenors have voluntarily provided you with information that,

in your judgment, was unquestionably proprietary in nature. Any problems? Have you ever been taken to task by them for having disclosed any proprietary information they may have provided you?

Mr. GLEIMAN. Not that I'm aware of. And just let me add that the issue is not the disclosure of what someone claims as proprietary data. The issue is whether the disclosure of the data is going to result in competitive harm to the entity who provided the data.

Business data is interesting data. It becomes stale very fast. You can look at the case law under the Freedom of Information Act, and you will see where it has been determined that over time data loses its business sensitivity. The Postal Service is talking about data that's 2 and 3 years old, in most cases. That data, in most cases, wouldn't result in competitive harm in any event. But the key is not that they think it's sensitive; the key is whether there's going to be competitive harm.

Mr. MCHUGH. What are the rules that govern you? If I represent Private Co. X, and I come to you during the process of a rate case and make some sort of submission, and I provide you, as an attempt to bolster my assertion, what I claim is proprietary information—let's assume that it unquestionably is—what is the status of that information? Does the USPS then have access to it because it is now part of the proceeding? And, conversely, if the Postal Service provides it, would their competitors, by course, have access to that data?

Mr. GLEIMAN. There have been numerous arrangements over the years. In the two cases that I'm aware of and I suspect before, where data that's considered to be sensitive, confidential, what have you, has been provided by a party to the Rate Commission, under seal, with agreements that opposing parties can look at it for certain purposes and that the data can't be shared beyond a certain point. To the best of my knowledge, those arrangements have worked reasonably well.

We usually wind up getting into a little bit of a discussion about the particulars of the seal agreement, if you will, but there are arrangements that can be made, and they have been made, and they have worked well.

Mr. MCHUGH. I appreciated your comments about what I will call the "Canada model", some repository of all data that would make a third-party judgment as to what was proprietary and what wasn't. But to return to your discussion of the subpoena power, how would you envision that be implemented? Would you also have subpoena power over intervenors?

Mr. GLEIMAN. I think I would envision it as subpoena authority with respect to—administrative subpoena authority with respect to the Postal Service, which is a government agency, and not private entities. I would also like to think that the mere threat of the subpoena might be enough, in most cases, to break loose information that was otherwise being withheld.

I'm a pragmatist, and I know that a subpoena is not a panacea. I've seen it over the years. I've seen administrative agencies, I've seen the GAO and how it uses its subpoena authority, or doesn't, and it's complicated, it's time-consuming. It's doesn't solve all the problems, but I think it helps, because you have a little bit of a hammer in your back pocket.

Mr. MCHUGH. You mentioned in your testimony, and the PMG referred to it in his, about your joint efforts to standardize submission of data and also, as I understand it, to do it electronically instead of mailing it.

Mr. GLEIMAN. Yes, sir. Well, I think we could probably move back and forth between the Postal Service electronically. I think we could put more material on our bulletin board and our Web page, now that we have one, so that intervenors and others could gain access to it. But there are really some rather simple changes that could be made if we could get the Postal Service and the parties, the usual parties, to agree.

For example, there are a lot of interrogatories that are submitted by one party to another, and these wind up being pages and pages of typed questions. Wouldn't it be nice, wouldn't it be simple if someone could just require that the interrogatories be transmitted on a diskette? Wouldn't it be so much easier, rather than having to retype all those questions and then your answers afterward, if you could simply pop a diskette in, have all that pretyped question there, and then just fill in your answer and send a diskette back? It would save time. It would save money. Just little things.

Mr. MCHUGH. How is that joint effort proceeding? Are you making progress, the two of you, meaning the PRC and the USPS?

Mr. GLEIMAN. Well, the Postal Service has been very helpful in working with us to upgrade our computer systems, and I think that they are amenable to greater standardization of the data that they submit. It's a question of what type of spreadsheet you use, and the like, in many cases. And we received some very thoughtful letters, one from counsel for DMA that comes to mind, that made a couple of other suggestions about how we could cut down on costs and the paper flowing back and forth.

Now that we've had a chance to catch our breath, after the reclass case and the issuance of the experimental case today, we hope to turn our attention more to that, along with the RM95–4 rulemaking.

Mr. MCHUGH. Let's talk about that rulemaking for a moment. You have, as I understand it, ruled or defined on four of the seven; is that correct?

Mr. GLEIMAN. Four of the seven is correct, sir.

Mr. MCHUGH. And three yet to be disposed of; yes?

Mr. GLEIMAN. Three which are much more difficult. There may be bigger legal issues, tougher legal issues yet to be addressed. Not disposed of, addressed. None of the issues have been disposed of yet. Let me make sure that we're all clear on this.

We put out a set of proposed rules with four of the seven proposals that were submitted following my meeting with the board's Strategic Planning Committee. And we have gotten comments back in. The comments came in shortly after the 1st of the year. We have to deal with those comments.

As I indicated in my prepared remarks, the comments are from one end of the spectrum to the other. I mean, we did everything wrong, we did nothing right, and everything in between that. So we have to sort out the comments, and when you're in a rulemaking, you have to respond to the comments on the record. So we will be doing that as we proceed in the next few weeks.

Mr. MCHUGH. I don't want anyone to get the impression that I'm impatient or I think you haven't done it quickly enough. That's not the intent of this question. It's simply to try to understand the timeframe. When do you expect that to be completed?

Mr. GLEIMAN. I would certainly hope that we can get final rules out by the end of April.

Mr. MCHUGH. End of April?

Mr. GLEIMAN. Yes. I will tell you that, as I said in my testimony, not everybody is going to be happy, and perhaps everybody will be unhappy. I don't know. But we'll have rules out there. Certainly, it's in our interest to get them out before the next phase of reclassification hits the beach.

Mr. MCHUGH. Yes. I understand. Our last panel will be comprised, in part, of representatives from the GAO, and they have discussed previously—in fact, last November, they repeated the suggestion that Congress re-examine the 1970 Reorganization Act to look at and, as I understand their intent, to have us clarify the extent that demand pricing should be considered in postal rate-making. I am aware that the Postal Service and your Commission have had somewhat differing views regarding the weight that should be assigned to those demand factors.

Using that narrower issue as a basis, but really taking into context all of the criteria set out in the 1970 Act, working on 26 years later, more than a quarter of a century, how important or how necessary do you think it is to have Congress revisit that very core issue of the 1970 Act, or do you think all of the criteria set out works still pretty well?

Mr. GLEIMAN. I would never suggest to Congress that they shouldn't examine something, being the child of the Congress myself. On the other hand, I think the criteria are reasonable as they stand. I guess, if one were going back to square one and redrafting, you might list them differently and split them out differently, since one of the criteria is a mandatory criteria and the other ones are—"cover cost and make a reasonable contribution" is mandatory, whereas the others provide the Commission some degree of latitude.

So you might redraft the statute a bit, but, substantively, I think it covers the waterfront. And I think that the case law and the administrative law in the intervening period have buttressed and explained further what those criteria are all about.

Mr. MCHUGH. Thank you. We are some 2½ hours into this hearing. The good news is, I'm the only one left. The bad news is, I could probably continue. But we have yet another panel to hear from.

Mr. GLEIMAN. I understand, and I'm not offended. I just hope it wasn't anything I did that drove all the other Members out of the room or kept them from coming.

Mr. MCHUGH. We're all intimidated by your tremendous knowledge. I have to be here because of the gavel.

Mr. GLEIMAN. I've got to remember not to drink coffee with caffeine on the mornings of the hearings.

If I could just make one final comment.

Mr. MCHUGH. Certainly.

Mr. GLEIMAN. Last year I used a term—I characterized the government as—the Postal Service as potentially a $55-billion government monopoly gorilla that could do great harm, without even intending to do so, to friend and foe alike. And I think there's some evidence during this past year that my remarks were a tad prescient, maybe, when you think of neighborhood mail and some of the other things the Postal Service has looked at.

But I am deeply troubled by this constant discussion of market share and that the Postal Service is losing market share. Save the last couple of quarters, where the Postal Service has seen some volumes go flat—and by the way, we've been saying for a couple of years that the volume trends were not healthy—but save this past quarter, there has been volume growth.

There's a question in my mind: Should a government agency be out there looking to increase market share vis-a-vis the private sector? I guess I listened to the State of the Union Address and I heard the President talk about the end of the era of big government. I've read some of what the Speaker has written and said over the years about the footprint of big government. And I just scratch my head sometimes.

I feel like the world is being stood on its head when the Postal Service, a government agency, makes believe it's a private business and says, "Get the government regulators off of my back so that I can compete." I thought we were all about trying to get the government off of the back of business so that it could do its job. When I hear this incessant talk about market share and the need to regain market share, I just scratch my head in wonderment about what this is all about.

Thank you for letting me ramble for a moment.

Mr. MCHUGH. That's what we're here for. I appreciate your comments. We just heard the bells ring, which means this is as sensible a time as any to take a short break. Before I recess the subcommittee, let me again thank you, Chairman Gleiman, for your efforts to be here. We will take, with a large measure of gratitude, your legislative wish list and look at it very carefully, and look forward to working with you.

You may have been prescient on one issue about the Postal Service. I don't know how prescient you were about your prediction this may be your last appearance. I don't know about that. But certainly we hope to work with you very carefully as we proceed, because this is a very important exercise and one in which, obviously, you and the PRC play an invaluable and a critical role. We recognize that and appreciate the work you do.

Mr. GLEIMAN. Thank you. It's not that I don't want to come back. I do appreciate the time and energy you have spent trying to understand this very complicated area. Thank you, sir.

Mr. MCHUGH. Thank you. Thank you all.

[The questions and responses of Mr. Gleiman follow:]

Responses of Edward J. Gleiman, Chairman
Postal Rate Commission
to the Questions Submitted by the
Subcommittee on the Postal Service
Committee on Government Reform and Oversight
U.S. House of Representatives

May 8, 1996

1. The Postmaster General has repeatedly discussed the need for a more market-based pricing system and, indeed, you saw evidence of it during the reclassification case. As the regulator for postal prices, do you feel it is possible to provide more market oriented rates to certain classes of mail while protecting the consumers of the monopoly classes from any additional financial burden that may be a by-product of such an effort?

Response

Market-based pricing is generally taken to mean that the sensitivity of demand to changes in price is recognized in setting rates. More particularly, products which are highly sensitive to changes in price are given low markups over cost and products which are less price sensitive are given higher markups. Setting rates in this way is often viewed as an appropriate way for a regulated firm to respond to competition.

Placing emphasis on demand is supported by economists who emphasize the importance of what is called allocative efficiency. However, these same economists also emphasize notions of technical efficiency which means, simply, that rates are designed to encourage the lowest cost provider to do the work. In a key piece of testimony in the reclassification case, the Postal Service's principal theory witness indicated that the concept of allocative efficiency should play a role that is secondary to that of technical efficiency.

Many of the rate-setting factors prescribed in the Postal Reorganization Act are related to concepts of demand. Accordingly, in line with the Act and with much of the economic testimony presented before the Commission, demand *is* given substantial attention in rate setting. This is true now and it has been true in every rate case since Reorganization. At the same time, attention is also given to interests in technical efficiency. For example, it would not be in the national interest to have mailers spending 6 cents to perform a function that the Postal Service could do for 4 cents.

It is true, as your question suggests that decreases in rates for some of the more competitive subclasses would cause increases in the rates for the monopoly subclasses. This is because no evidence has been presented in any case, and in fact there is evidence to the contrary, that the rates for any subclass could be reduced without requiring increases for other subclasses.

Nevertheless, classification changes have been made recently to allow more reliance on market factors in setting rates, and further changes are possible. Specifically in the reclassification case, bulk third-class mail that is sorted to the carrier route was separated from the rest of third-class mail and put into a new subclass (Enhanced Carrier Route). This was done primarily because of its lower costs and its higher sensitivity to price. Separating the old subclass into two new ones permits the Commission to consider the disparate price elasticities between the two when setting rates.

Since the Commission makes decisions based on the record presented by the Postal Service and intervening parties, it is difficult to predict what further changes might be made. It is clear, however, that postal markets are not well defined. And, it is also clear there is a great deal that we do not know about competition and about which categories of mail are the most vulnerable to diversion to other carriers and other means. The Commission made observations relating to these issues in the reclassification case.

Regardless of the emphasis placed on market factors, an essential element in protecting monopoly classes is independent oversight acting on adequate information. Such oversight can ensure that questions of cross-subsidization are addressed and that issues relating to fairness and equity are considered. The amendment set forth in Attachment I would require annual reporting by the Postal Service of pertinent information, and a biennial oversight report to the Congress by the Postal Rate Commission. The information required to be reported would facilitate both the ratesetting process and effective oversight to determine whether the Postal Service is complying with the mandates of the Postal Reorganization Act, including the mandate "that each class of mail or type of mail service bear the direct and indirect postal costs attributable to [it]." 39 U.S.C. § 3622(b)(3).

As discussed in response to question 5, to fully protect consumers of monopoly services, it is also necessary to ensure that nontraditional Postal Service commercial ventures, for example sales of T-shirts, mugs, and phone cards, or services such as electronic postmarks or Global eMail, cover their costs. The amendment set forth in Attachment I addresses this by requiring the Postal Service to report revenues and costs associated with international mail products and

services, and other products and services which are not subject to the ratesetting procedures of the Postal Reorganization Act.

2. What are your top three concerns when you hear the Postmaster General talk about wanting more freedom with products and prices and how would you recommend they be addressed?

Response

Assuming the universal service requirement and the statutory monopoly to support that requirement continue, "more freedom" to introduce products and set prices raises these three concerns: due process, fairness, and equity.

It is difficult to predict specific instances which might arise from a general grant of "more freedom." The preliminary question is "freedom to do what?" Currently, only the Postal Service can initiate rate adjustments, and it can propose any changes it desires knowing that the Commission will consider its requests with the utmost expedition consistent with procedural fairness.

Over the years, the Postal Service has made some proposals which were shown to be based on seriously flawed cost or volume estimates. Similarly, the Postal Service has made some proposals which would have had serious negative impact on important sectors of the mailing public. If the Postal Service wants the freedom to implement below cost rates or to act without allowing the public a reasonable opportunity to understand both the positive and negative results likely to flow from new products and prices, that would be a source of serious concern.

Since I have served as Chairman, the Postal Service has never offered a specific instance of how the lack of "freedom" has prevented it from offering whatever products or prices were in the public interest. I find it difficult to recommend a solution for a problem which does not appear to exist.

Philosophically, I do not find it surprising that the Postal Service would like more pricing freedom. Firms struggling to increase their profits and improve their market position are interested in full quivers, and pricing represents a powerful arrow. There are, however, fundamental differences between the Postal Service and profit-oriented firms.

Consider a firm that is typical of all those in the economic and business literature. This firm is a profit seeker and produces three products, A, B, and C. Under normal circumstances, this firm would price each of these products at a

price that maximizes its profits. This means that it cannot increase or decrease the price of product A and succeed in making more profit than it is now. Such a firm can use stockholder money (including profits) to launch as many new products as it wishes. It can also lose as much money as its fate requires. But it cannot make any more money from products A, B, and C to make up for any losses. This is the case because it is already making as much profit as is possible from each of the three products. Also, this firm cannot, because of a desire to increase market share, sacrifice profit on product C and make it up by increasing the profit on product A. Further, needless to say, losses can extract heavy tolls on the personal wealth and job prospects of key managers. For all these reasons, the firm engages in very careful analysis prior to product changes or rate changes.

The postal situation is quite different from the one just described. First, the Postal Service is protected from much of the competition faced by the firm just described. Second, according to the information used by the Postal Service and Commission in rate proceedings, current Postal Service rates are well below the profit maximizing level for each of its products. This means that the Postal Service can increase rates to make up for losses in other areas and that it can lower the rates for one product and make up for it with increased rates for another. Also, there is no incentive for the Postal Service to keep all rates above costs and it can sacrifice revenue on selected products for the purpose of gaining market share. Third, the Postal Service is required by law to break even, so no losses are incurred by any residual claimant in the event of money-losing rate adjustments. Further, the Postal Service's authority to break even is not affected by the quality of any analysis it might do prior to making a change.

Because of these fundamental differences, independent rate review is necessary and thorough analysis is required before changes are made, even if this means "less freedom" rather than "more freedom."

3. Chairman Gleiman, you are aware that it is sometimes argued that the Commission is not made up of individuals trained in the economic theories relating to rate-setting. Do you feel this on-the-job training for Commissioners has in any way been restrictive to the PRC's efforts or lengthened rate cases?

Response

No, and I do not understand the reference to "on-the-job training." Commissioners are appointed by the President, by and with the advice and consent of the Senate, and, by law, "shall be chosen on the basis of their professional qualifications." 39 U.S.C. § 3601. The responsibilities of Commissioners are not

limited to applying "economic theories relating to rate-setting." Among other things the responsibilities include making recommended decisions on rate and classification matters "in accordance with the policies of [the Postal Reorganization Act]" and which are "fair and equitable." 39 U.S.C. §§ 3622(b), 3623(c). Those policies involve numerous matters in addition to "economic theories." See e.g., 39 U.S.C. §§ 101, 403, 404(b), 3622, 3623, and 3662.

Having Commissioners with varied backgrounds is not unique to the Postal Rate Commission. A recent survey of State and Federal utility commissioners, reported in the April 29, 1996, issue of the National Association of Regulatory Utility Commissioners (NURAC) *Bulletin* reveals the following commissioner backgrounds:

Background	Number
Attorneys	121
Accountants	15
Economists	*14*
Engineers	23
Business	37
Miscellaneous	114
Unknown	69
Total	393

The Commissioners with whom I have served have been well-qualified to meet their statutory responsibilities. To the extent specialized economic, statistical, legal, or other expertise is required, the Commission employs permanent and temporary professional staff.

4. Please update us on the status of the vacancy created by the expiration of the term of Commissioner Schley? Have you had discussions with the Administration about filling this position and was there any time during your consideration of the reclassification case that this vacancy might have had an impact on the outcome?

Response

The vacancy remains and I have no current information on efforts, if any, to fill it. Last fall I had several conversations with officials in the White House Personnel Office concerning the potential vacancy, but have had no further discussions since Commissioner Schley's term expired.

I have said in the past that "five heads are better than four," and the advice and counsel of a fifth Commissioner would be welcome. So far, however, the vacancy has not hindered the Commission in the performance of its functions. In my view, it had no effect on the final outcome of the recent reclassification case (although, as the Commission's Recommended Decision indicates, the four Commissioners did split 2-2 on one issue in that case).

5. Mr. Gleiman, you have heard Mr. Runyon say that he would like to keep rates stable to the year 2000 and that it will take $12.4 billion in new revenues and savings to get there. Based on your findings from the information provided to you in the last rate cases, what are his chances? What recommendations can you offer that would assist him with this goal?

Response

Achieving the Postmaster General's goal of rate stability until the year 2000 will be extremely difficult unless the Service is willing to suffer deterioration of its financial position by running large losses. The rate of growth of postal revenue (independent of rate increases) appears to be slowing. This is evidenced particularly in First-Class volume growth which was 1.0 percent in FY 1995 and 0.6 percent so far this year. This is well below its average annual 2.7 percent growth over the years 1970 through 1995. Moreover, third-class bulk rate regular volume growth also appears to be slowing although not as dramatically. Thus, to meet Mr. Runyon's revenue growth targets, it appears that the Service will have to develop significant amounts of revenue from other mail classes and from new products.

I believe it will be very difficult for the Service to increase revenue sufficiently from these sources to make up for the diminished revenue growth in First-Class Mail (including Priority) and third-class bulk rate regular which together account for 83 percent of total postal revenue.

Cost control can also help the Postmaster General achieve extended rate stability. Unfortunately, the situation here looks as bleak as it does with revenue. Total factor productivity dropped 0.4 percent in FY 1994, 1.5 percent in FY 1995, and this year it is negative 2.5 percent for the first quarter.

As discussed in my response to Question 1, to the extent the Postal Service seeks to increase revenues by entering into nontraditional commercial ventures, it is imperative that some mechanism be established to ensure that those ventures cover their costs and are not subsidized by revenues from monopoly services.

6. In the Commission's submission to the Office of Management and Budget under the Inspector General Act, you note that in fiscal year 1995, the Commission reviewed the recommendations from a broad personnel audit, evaluated personnel actions previously taken, and made additional changes. Please provide more specific and detailed information on the results of the personnel audit as well as what changes were made in: personnel assignments, classification actions, organization of work, performance evaluation, and management processes.

Response

Personnel Audit

On June 9, 1992, the Commission contracted with an independent consultant to perform job audits, classify positions, and write new position descriptions for the support staff. During the course of this work the Commission asked the consultant for a report on his preliminary findings regarding the duties being performed in the various offices.

The consultant reported that in his opinion much of the work performed by attorneys was not legal in nature. Since the attorneys were performing duties similar to those of analysts in the Office of Technical Analysis and Planning (TAP), the consultant recommended that the attorneys be reclassified as analysts with the title of decision writer and reassigned to TAP.

The Commission announced the start of a reorganization on October 13 1992. The Commission adopted the consultant's recommendation that the Office of the General Counsel be abolished and that the Office of the Consumer Advocate (OCA) be reduced in size. A new office of Legal Adviser was established with fewer employees. During the period of reorganization, the Commission considered appropriate actions to deal with the question of excess positions which were encumbered. Reduction-in-force was one of the options considered; however, it was not implemented. Instead, employees who had their positions retitled, abolished, or reclassified to lower levels were reassigned with saved grade and pay indefinitely. The reorganization was effective on February 4, 1994.

Personnel Assignments/Classification Actions

These actions led directly to a number of personnel complaints and lawsuits from affected employees. The Commission was defended by attorneys from the Postal Service and the Justice Department. By March, 1995, all of the suits were settled. As a result of the settlements, one individual left the Commission; the

others were all reassigned. There have been no subsequent legal actions taken against the Commission by its employees.

In addition to the reassignments made pursuant to legal settlements, in 1994-1995 the Commission made the following personnel changes:

--- the acting director of the Office of Consumer Advocate became the permanent director of the office;

---an OCA staff attorney was made Deputy Director of OCA;

---based on increases in responsibilities and merit, three professional employees were promoted;

---following the retirement of the head of the Docket section, two parallel positions were created in dockets, which were filled by two PRC clerical employees;

---following a competitive bidding process, a special assistant to one of the Commissioners was appointed to a career position in the OCA;

---two vacancies among the Commissioners' special assistants or secretaries were filled;

---two summer interns were hired to provide help during 1995 summer vacations;

---four career employees resigned from the Commission;

---one individual was detailed to the Commission from the Bureau of the Census for statistical research; and

---twelve individuals served the Commission at some point during 1994-1995 as contract employees, helping in areas of either economic or legal expertise.

Organization of Work

The tapping of contract employees to augment the Commission's permanent staff allowed the Commission to produce the Docket No. R94-1 and Docket No. MC95-1 decisions without hiring permanent individuals who would be

underemployed during periods between cases. This necessitated some changes in the organization of the workload, requiring senior staff to devote more time to oversight and management responsibilities.

Performance Evaluation/Management Processes

Because of the unsettling nature of personnel complaints and lawsuits, particularly in an agency as small as the Commission, the Commission implemented more formal management tools in 1995 than had previously existed. These tools included:

--weekly staff meetings for supervisory staff;

--bi-weekly reports by all staffers to be submitted to supervisors;

--six-month written performance reviews and personal conferences for all employees with their supervisors;

--written annual performance evaluations and personal conferences for all employees, accompanied by the annual rating;

--necessary updates and rewrites of job descriptions; and

--reviews of personnel statistics, such as leave; personal interviews with the Chief Administrative Officer; and commencement of an awards and incentive program.

6.A. This same submission stated that the Commission determined there would be no benefit from conducting an audit of its financial operations in fiscal year 1995. Given the problems identified by audits in fiscal years 1994 and 1993 with the Commission's vendor and contract payment procedures, the Commission's management controls for complying with the Prompt Payment Act and the Federal Managers' Financial Integrity Act, and the Commission's Imprest Fund, do you plan on conducting any audits of your operations this fiscal year?

Response

The Commission has arranged for the Department of the Treasury, Financial Management Service group to conduct an audit for FY 1996. As for "problems identified by audits in fiscal years 1994 and 1993," the results of those audits are enclosed for your review. I note the "problems" were relatively minor.

Imprest Fund Audit

The three audit recommendations for the Commission's imprest fund were adopted: the fund was reduced from $1,500 to $1,0); a lock was secured for the cash box that is kept in the Commission's safe; and ne person is now fully accountable for the funds, with access provided to two others.

Vendor and Contract Payments Audit

The Department of Treasury Project Team that conducted that audit found that the "PRC . . . has many good management controls" and that the "PRC meets the GAO management controls standards and generally complies with the CORE Financial System Requirements concerning payments as far as its manual system is concerned. The risk rating for the PRC payment process is low."

According to Commission employees who participated in the audit, the key concern of the auditors seemed to be the Commission's archaic, outdated manual system, which is necessitated by the Postal Service's refusal to allow the Commission direct electronic access to the PRC accounts with the Postal Service. Perhaps the Commission could establish its own automated system, but such a duplication of effort does not seem justified. So, the Commission system will by necessity have to remain manual until the Postal Service allows the Commission direct electronic access. The areas identified by the Project Team for improvement (set forth on page 5 of the audit report) have all been addressed.

6.B. Beginning this October, will the Commission agree to provide the Subcommittee a copy of the federal entity submission that it submits to OMB as required under the Inspector General Act? If not, why not?

Response

The Commission will be more than happy to submit the reports required by the Inspector General Act of 1978 to the Subcommittee.

7. In your oral statement, you said you were pleased that in the past year the Commission had accomplished a wide range of administrative duties with fewer Commission staff than in March 1995. Please provide the number of staff the Commission had as of January 3, 1995 and the number of staff as of March 13, 1996. Also provide the number of all contract employees and consultants retained by the Commission during this time frame. Please include a description of work

performed by such contract employees and consultants and compensation provided under such agreements.

Response

Attachment V sets forth detailed information concerning the Commission's use of consultants during fiscal years 1995 and 1996. As discussed by our staffs, the names of the consultants have been omitted. This information will be made available to the Subcommittee separately. The use of consultants has been an extremely cost-effective way to augment the expertise of Commission staff when that is necessary to meet workload peaks. The reduction in career and full-time employees resulted from the resignation of four individuals and the departure of Commissioner Schley, his secretary, and his special assistant upon the expiration of his term. The information requested on staff levels follows:

EMPLOYEES ON JANUARY 3, 1995

Career and Full-Time Employees:	51
Intermittent Employees (clerical, including students) :	04
TOTAL	55

EMPLOYEES ON MARCH 13, 1996

Career and Full-Time Employees:	44
Intermittent Employees (clerical, including students) :	05
TOTAL	49

8. You mentioned in your prepared statement that the Commission has launched a rulemaking to reexamine "computer evidence" rules. Would you please describe the nature and extent of this rulemaking. What impact will this rulemaking have on the PRC, mailers, and the Postal Service?

Response

The Commission has special rules applicable to evidence generated by studies which use computers to analyze large data bases. During the last rate case (Docket No. R94-1) and the recent classification reform case (Docket No. MC95-1), concerns developed over whether these rules were well suited to

market research studies which used computers for entering and categorizing raw response data. Because of the complex technical nature of large market research studies, the Commission determined to initiate a rulemaking so that potential new regulations could be thoroughly critiqued. New rules which accommodate the need for providing market research respondents with necessary assurances of confidentiality will benefit mailers, the Postal Service and the Commission by making it easier to present market research studies in Commission proceedings.

9. In his statement for the Record, Vice Chairman LeBlanc suggests that the Commission have final authority in decisions affecting rate and classification matters. Do you share Vice Chairman LeBlanc's sentiments on this matter? Vice Chairman LeBlanc also said that the current postal structure is healthy and if the (Subcommittee) does "nothing, it could remain that way." Do you share these sentiments?

Response

I agree with Vice Chairman LeBlanc that the Commission should have final decision authority in the rate and classification process. And, I suggest that authority should also extend to complaint and nationwide service change proceedings.

I also agree with my colleague that the current rate and classification structure (i.e., having an independent regulatory commission) is healthy. Of course there is always room for improvement, and I have made some suggestions in response to other questions.

Attachment II sets forth legislative language which would give final decision-making authority to the Commission.

10. On page 11 of your prepared text, you note that potential problems exist with regards to the data and information the Commission and the parties to the ratemaking procedures normally use to evaluate Postal Service proposals. The first concern you noted is with the timeliness of regular Postal Service data reports. You noted that the basic Cost and Revenue Analysis report for 1994 was not filed until May 1995. What impact does this tardy filing have? What is contained in that report? Was it relevant to the 1994 rate case? Was this information contained in any previous filing before the Commission?

Response

Rate and classification filings with the Commission typically rely on an historic base year (or period) and a future test year. The Postal Service projects costs and revenues from the base to the test year.

The Cost and Revenue Analysis report (CRA) is a basic document that reports costs, volumes and other data by disaggregated categories. It is particularly valuable in a proceeding for verifying that the Postal Service's projections for interim years are reasonably accurate. Discrepancies are noted by the parties and form the basis of discovery and proposals to make alterations in the Service's proposals. Delay in receiving the CRA puts the parties (who have only a short time to respond to the Service's filing) at a significant disadvantage and may preclude them from meaningfully participating on issues which are affected by interim year cost and revenues.

Although some of the data contained in the most recent CRA was in the 1994 revenue, pieces, and weight report filed with the Commission on December 8, 1994, the information in the CRA was very relevant to the Docket No. MC95-1 proceeding. Also, cost data by subclass, which was crucial, were not previously available.

There is another concern besides timeliness. The Postal Service furnishes the CRA using its own costing methodology while rates are set using the Commission's costing methodology. Consequently, the parties and the Commission must spend significant effort converting the Postal Service provided CRA data from one methodology to the other. The Postal Service could greatly assist the Commission and the parties by routinely submitting the CRA using the Commission's methodology. It has done this on occasion in past classification cases when it suited the Service's purposes.

11. During the conduct of the hearing you stated you are now in favor of granting the Commission subpoena authority. Please describe how you envision this authority operating, including any requisite enforcement mechanism. Would the grant of such authority extend to the Commission's request for information from the Postal Service, as well as intervenors?

Response

I do not envision any extraordinary subpena authority for the Commission. Rather, such statutory authority could be modeled after similar provisions

applicable to other independent agencies. Such a provision would empower the Chairman, any Commissioner designated by the Chairman, and any administrative law judge appointed by the Commission to issue subpenas in connection with Commission proceedings, special studies, inquiries, or reports. Subpenas would be enforceable in district courts. The subpena authority should definitely extend to information and data maintained by the Postal Service. Draft legislative language providing subpena authority is attached (Attachment III).

I am aware of the concerns expressed by the Service about the need to prevent competitive harm which could result from the disclosure of proprietary information. In response to Chairman McHugh's questions at the March 13 hearing, neither the Postmaster General nor I could recall an instance where the disclosure of Postal Service information *by the Postal Rate Commission* has caused such harm. However, the Chairman's suggestion that perhaps a third party could mediate disputes between the Service and the Commission over whether disclosure would be appropriate intrigued me.

The proposed amendment set forth in Attachment IV addresses both the Postal Service concerns and the Chairman's suggestion. With respect to information provided to the Commission pursuant to a subpena or otherwise in connection with the Commission's work, the Service could insist that the information not be publicly disclosed. If the Commission disagreed with the Service's view, the Attorney General would make the final determination as to whether disclosure of the information was appropriate. The amendment also ensures the Service would control responses to Freedom of Information Act requests for Postal Service information in the custody of the Commission and codifies the judicially approved procedure for such instances set forth in *McGehee v. C.I.A.*, 697 F.2d 1095 (D.C.Cir. 1983).

Finally, the amendment requires that information subject to discovery in any Administrative Procedure Act hearing before the Commission, e.g., rate and classification proceedings, would be governed by Commission regulations modeled after the policies and procedures applicable to discovery in the United States district courts.

I fully expect that procedure described above would be used rarely, if at all. The Commission and the Postal Service should strive to resolve differences without the need for third-party intervention.

12. You stated that neither the statute nor Commission rules of practice prohibit the Commission from incorporating in its recommended decision

recommendations not contained in the original Postal Service submission. Please provide the Subcommittee with a report detailing instances where proposals made by parties, the Office of Consumer Advocate, or others have been incorporated in Commission recommended decisions although not contained in the original Postal Service submission.

Response

The Postal Reorganization Act requires the Commission to base its recommended decisions on the record made by the Postal Service and other participants in Commission proceedings The record consists of the evidence presented by the parties, together with their proposals and other arguments regarding what outcome the evidence supports. It is not uncommon for the Commission to conclude that the record evidence in a proceeding better supports the position of a party who opposes a proposal contained in the Postal Service's original submission and argues for a different result in the case.

For example, in the recent reclassification proceeding, the Postal Service proposed that regular rate second-class publications be divided into two separate subclasses; one new subclass would have featured rates that do not vary with the proportion of editorial content in the publication. In response to evidence and arguments submitted by American Business Press, McGraw-Hill, National Newspaper Association, and the Commission's Office of the Consumer Advocate, the Commission concluded that record evidence better supported retention of the current subclass structure and rates that reflect the editorial content in publications.

In the same proceeding, the Postal Service proposed a reconfiguration of rates for what had been third-class bulk regular rate mail that would have de-emphasized, or in some cases eliminated, the rate differential between letter-shaped pieces and flat-shaped pieces. In response to testimony sponsored by Newspaper Association of America, the Association of Alternate Postal Systems, and Val-Pak Direct Marketing Systems, together with argument on brief by the Office of Consumer Advocate, the Commission concluded that the Postal Service's rate proposal represented a retreat from cost-based rates, and therefore recommended rates that retained the pre-existing letter/flat difference in rate design.

Additional Questions

1. What is the cost to participate in major rate and classification cases? What are your plans to reduce the effort and expense required to participate in such classification proceedings?

Response

A mailer's cost to participate in a major rate or classification case will vary depending on the number of issues it is concerned about and the resources it devotes to those issues. Participants may sponsor extensive testimony or only focused legal argument. No reliable data exists which quantifies an average expenditure.

Nonetheless, the Commission is well aware of the fact that mailers expend significant resources (both time and money) in Commission cases, and the Commission has continuously adjusted its procedures to make participation simpler and less costly. For example, in our most recent case (MC96-2) the Commission has proposed a voluntary, alternative means for the electronic distribution of documents which may meaningfully reduce the cost and time involved in filing and serving legal pleadings and introducing evidence. One aspect of this alternative procedure provides for the Commission sending e-mail copies for participants unequipped to send e-mail themselves.

This alternative system is currently only being tested, but the Commission has received many favorable comments from participants about this initiative, and we are very hopeful that a workable system will emerge that will save all participants substantial time and money. See e.g., letter of April 25, 1996, to the Honorable Edward J. Gleiman from Gene A. Del Polito (Attachment VI).

2. The mail classification reform case, MC95-1 was just recently completed. What is the bottom line effect on the postal consumers?

Response

Actual implementation of the new classification and rate changes has not yet occurred. Thus, a definitive, empirical answer is not possible. Classification reform was intended to lead to rates which better reflect costs, to encourage mailers to provide automation compatible mail which can be processed more cheaply, and, generally, to increase efficiency and produce savings.

To the extent the new classifications and rates achieve the above goals most postal consumers will benefit through rates which are more fair, and often will be lower than they otherwise would have been.

It is clear that classification reform will benefit mailers who "workshare" since they will receive discounts which generally reflect the value of their efforts. These are typically large business mailers. The Commission had hoped that individual mailers could share in the savings resulting from automation through implementation of a Courtesy Envelope Mail (CEM) rate, but that proposal was rejected by the Postal Service Governors.

3. What are the two greatest problems facing the Postal Service?

Response

The apparent slowing of the rate of volume growth about which management can probably do little, and the inability to increase total factor productivity on which management ought to be able to have considerable impact.

4. In a speech delivered last year to the National Association of Postmasters of the United States, the PMG made a comment to the fact that the Postal Service ran the Publishers Express company out of business. How appropriate do you feel it is for a Federal Government entity to have as its goal to run private sector companies out of business?

Response

The proper role for the United States Postal Service in the American economy is a policy matter which can best be resolved by Congress. As it stands today, the Postal Reorganization Act indicates that the Postal Service should not act as an aggressive competitor in private markets. For example, 39 U.S.C. § 3622(b)(4) directs the Commission to consider "enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters" when recommending rates.

My personal opinion is that the current concern for protecting private enterprise is sound policy. The Postal Service has a large government-protected monopoly market which provides it with tremendous financial resources. I am a firm believer in the importance of the Postal Service's role to bind the Nation together through the correspondence of the people, but I do not believe that it is

necessary to destroy or threaten sectors of our private enterprise system in order to maintain mail services.

When the Postal Service provides high levels of reliable and timely service at reasonable (cost based) rates, entrepreneurs may find there is little profit in competing with the Postal Service for the carriage of mail matter which is not subject to the monopoly. The Postal Service can properly have a goal of providing reliable service at reasonable rates. But to the extent that private enterprise can provide more reliable and more efficient delivery of mail not subject to the monopoly, the mailing public of the Nation as a whole benefits, and such businesses should be allowed to exist.

5. In your statement, you mention the "courtesy envelope proposal" which if implemented would offer individual mailers a discount. What are your views as to why this proposal has been put on hold by the Postal Service?

Response

I cannot think of any legitimate reason for the Postal Service not to pursue the CEM recommendation.

ATTACHMENT I

1 **SEC. ___ PERIODIC FILING; BIENNIAL REPORT.**

2 (a) FILING OF INFORMATION AND DATA REQUIRED— Subchapter V of
3 chapter 36 of title 39, United States Code, is amended by adding at the end thereof
4 the following new section:

5 **"§ 3686. Periodic filing of Postal Service information and data**

6 "(a) The Postal Service shall file with the Postal Rate Commission, not later
7 than March 1 of each year, information and data for the most recently completed
8 fiscal year which shall set forth—

9 "(1) the costs of the Postal Service, including attributable costs by class,
10 subclass, and rate category of mail and type of mail service, presented in
11 accordance with the costing methodology employed by the Commission in the
12 most recent applicable decision under section 3622;

13 "(2) the revenues of the Postal Service by class, subclass, and rate category
14 of mail and type of mail service;

15 "(3) the mail volumes of the Postal Service by class, subclass, and rate
16 category of mail and type of mail service;

17 "(4) measures of the speed and reliability of postal service including—

18 "(A) the service standards applicable to each class and subclass of
19 mail and type of postal service,

20 "(B) the actual level of service (described in terms of speed of
21 delivery and reliability) provided to each class and subclass of mail and
22 type of postal service, and

23 "(C) the degree of customer satisfaction with the service provided to
24 each class and subclass of mail and type of postal service;

25 "(5) the name and location of any retail postal facility (including any
26 station, branch, community post office, or nonpersonnel rural unit) suspended,
27 closed, or consolidated;

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1 "(6) the revenues and costs associated with—
2 "(A) any product or service provided pursuant to section 407 of this
3 title, and
4 "(B) any other product or service for which a rate or fee is not
5 established pursuant to a decision under section 3622; and
6 "(7) such other information and data as the Commission, by regulation,
7 shall prescribe.
8 "(b) The Commission shall promulgate regulations prescribing the form and
9 detail of the information and data required under this section. Such regulations
10 shall give due consideration to avoiding unnecessary or unwarranted
11 administrative effort and expense.".
12 (b) BIENNIAL REPORT— Subchapter V of chapter 36 of title 39, United
13 States Code, is further amended by adding at the end thereof the following new
14 section:
15 **"§ Section 3687. Biennial report**
16 "Not later than June 30 of each even-numbered year, the Commission shall
17 submit a report on the state of the Postal Service to the President, the Congress,
18 and the Board of Governors. The report shall contain information relating to—
19 "(1) the extent to which the actions, policies, and procedures of the Postal
20 Service further the policies of and comply with the requirements of sections 101,
21 403, 404(b), and chapter 36 of this title;
22 "(2) an analysis of the efficiency of postal operations, generally,
23 including—
24 "(A) measures of productivity and efficiency;
25 "(B) the speed and reliability of service provided for the various
26 classes and subclasses of mail and types of mail service, and
27 "(C) efforts to control costs;

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1 "(3) trends in postal operations such as mail volume, costs, revenues, and
2 employment;
3 "(4) the effect of external factors such as technological advancement and
4 competition upon the Postal Service;
5 "(5) the extent, if any, to which the revenues for any postal product or
6 service do not exceed the attributable costs of such product or service; and
7 "(6) the adequacy of information and data used to produce the report
8 required under section 2402(e) of this title.".
9 (c) CONFORMING AMENDMENT— The table of sections for subchapter V of
10 chapter 36 of title 39, United States Code, is amended by adding at the end thereof
11 the following new items:
12 "3686. Periodic filing of Postal Service information and data.
13 "3687. Biennial report.".

ATTACHMENT II

1 **SEC. ___ COMMISSION DECISIONS FINAL.**

2 (a) IN GENERAL— The first sentence of section 3621 of title 39, United
3 States Code, is amended to read as follows: "The Postal Rate Commission shall
4 establish rates of postage and fees for postal services in accordance with the
5 provisions of this chapter.

6 (b) DECISIONS UNDER SECTION 3622— Section 3622 of title 39, United
7 States Code, as amended by section 2, is further amended—

8 (1) in subsection (a)(1) by striking out "submit a recommended" and
9 inserting in lieu thereof "render a"; and

10 (2) in subsection (b) by striking out "make a recommended" and inserting in
11 lieu thereof "render a".

12 (c) DECISIONS UNDER SECTION 3623— Section 3623 of title 39, United
13 States Code, is amended by striking out subsections (a) and (b) and inserting in
14 lieu thereof the following:

15 "(a) From time to time the Postal Service may request the Postal Rate
16 Commission to render a decision on changes in the mail classification schedule if
17 the Postal Service determines such changes would be in the public interest and in
18 accordance with the policies of this title. The Postal Service may submit such
19 suggestions for changes as it deems suitable.

20 "(b) In the absence of a Postal Service request under subsection (a), the
21 Commission may initiate a proceeding and render a decision on changes in the
22 mail classification schedule if it determines such changes would be in the public
23 interest and in accordance with the policies of this title.".

24 (d) DECISIONS UNDER SECTION 3661— Section 3661 of title 39, United
25 States Code, is amended—

26 (1) in subsection (b) by striking out "an advisory opinion" and inserting in
27 lieu thereof "a decision"; and

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1 (2) in subsection (c) by striking out "opinion" each time it appears and
2 inserting in lieu thereof "decision".
3 (e) DECISIONS UNDER SECTION 3662— Section 3662 of title 39, United
4 States Code, is amended—
5 (1) by striking out "rates" and inserting in lieu thereof "rates or fees"; and
6 (2) by striking out "recommended decision which shall be acted upon in
7 accordance with the provisions of section 3625 of this title and" and inserting in
8 lieu thereof "decision which shall be".
9 (f) EFFECTIVE DATE OF DECISIONS— Section 3624 of title 39, United
10 States Code, is amended by adding at the end thereof the following new
11 subsection:
12 "(e)(1) The Board shall prescribe the date or dates on which the new rates,
13 fees, mail classification schedule, or changes in such schedule shall become
14 effective.
15 "(2) The effective date for any new rate, fee, mail classification schedule,
16 or change in such schedule prescribed under paragraph (1) shall not be later than
17 the last day of the 12-month period which begins on the day the decision
18 establishing such rate, fee, mail classification schedule, or change is transmitted to
19 the Board under section 3624(d) of this title.".
20 (g) CONFORMING CHANGES —
21 (1) The heading for section 3624 of title 39, United States Code, is
22 amended by striking out "**Recommended decisions**" and inserting in lieu thereof
23 "**Decisions**".
24 (2) Section 3624(a) of title 39, United States Code, is amended by striking
25 out "recommend" and inserting in lieu thereof "render".
26 (3) Section 3624(d) of title 39, United States Code, is amended by striking
27 out "recommended" each place it appears.

ATTACHMENT II

1 (4) Title 39, United States Code, is amended by striking out section 3625.

2 (5) The matter describing section 3624 and section 3625 in the table of
3 sections for subchapter II of chapter 36 of title 39, United States Code, is amended
4 to read as follows:

5 "3624. Decisions of Commission.
6 "3625. Repealed.".

7 (6)(A) The first sentence of section 3628 of title 39, United States Code, is
8 amended—

9 (i) by striking out "decision of the Governors to approve, allow
10 under protest, or modify the recommended"; and

11 (ii) by inserting "under section 3624 of this title" immediately after
12 "Postal Rate Commission".

13 (B) The second sentence of section 3628 of title 39, United States Code, is
14 amended by striking out "and the Governors".

15 (7)(A) Section 3641(a) of title 39, United States Code, is amended by
16 striking out "recommended".

17 (B) Section 3641(d) of title 39, United States Code, is amended by striking
18 out "recommended".

19 (C) Section 3641(e) of title 39, United States Code, is amended by striking
20 out "recommended" each place it appears.

ATTACHMENT III

1 **SEC. _ POWERS OF THE COMMISSION.**

2 (a) OATHS; SUBPENAS— Section 3604 of title 39, United States Code, is
3 amended by adding at the end thereof the following:

4 "(f) (1) Any Commissioner of the Commission, any administrative law
5 judge appointed by the Commission under section 3105 of title 5, and any
6 employee of the Commission designated by the Commission may administer
7 oaths, examine witnesses, take depositions, and receive evidence.

8 "(2) The Chairman of the Commission, any Commissioner designated by
9 the Chairman, and any administrative law judge appointed by the Commission
10 under section 3105 of title 5, may with respect to any proceeding, special study,
11 inquiry, or report under this chapter or under section 404(b) of this title—

12 "(A) issue subpenas requiring the attendance and presentation of
13 testimony of any individual, and the production of documentary or other
14 evidence, from any place in the United States, any territory or possession of
15 the United States, the Commonwealth of Puerto Rico, or the District of
16 Columbia; and

17 "(B) order the taking of depositions and responses to written
18 interrogatories.

19 "(3) In the case of contumacy or failure to obey a subpena issued under
20 this subsection, upon application by the Commission, the United States district
21 court for the district in which the person to whom the subpena is addressed resides
22 or is served may issue an order requiring such person to appear at any designated
23 place to testify or produce documentary or other evidence. Any failure to obey the
24 order of the court may be punished by the court as a contempt thereof

25 (b) SPECIAL STUDIES; INQUIRIES— Section 3604 of title 39, United States
26 Code, as amended by subsection (a), is further amended by adding at the end
27 thereof the following:

ATTACHMENT III

1 "(g) The Commission shall conduct such special studies and inquiries as
2 duly authorized committees of the Congress may from time to time request.".

ATTACHMENT IV

1 **SEC. ___. PROPRIETARY AND OTHER INFORMATION**

2 (a) PROPRIETARY AND OTHER INFORMATION— Subchapter V of chapter 36
3 of title 39, United States Code, is further amended by adding at the end thereof the
4 following new section:

5 "**§3686. Proprietary and other information**

6 "(a)(1) If the Postal Service determines that any document or other matter it
7 provides to the Commission pursuant to a subpena issued under section 3604, or
8 otherwise, contains information which is—

9 "(A) described in section 410(c) of this title, and

10 "(B) exempt from public disclosure under section 552(b) of title 5,
11 "the Service shall, at the time such document or other matter is provided to the
12 Commission, notify the Commission, in writing, of its determination and the
13 reasons therefor, and of its intention to control the public release of such
14 information.

15 "(2)(A) If the Commission determines that the public disclosure of
16 information subject to notice under paragraph (1)—

17 "(i) is in the public interest, and

18 "(ii) will not result in the likelihood of substantial competitive injury
19 to the Postal Service,

20 "it shall provide its determination, and the reasons therefor, to the Postal
21 Service and the Attorney General.

22 "(B) If the Attorney General finds that a determination under
23 subparagraph (A) is not appropriate, the Attorney General, not later than 20
24 days after receiving such determination, shall notify, in writing, the
25 Commission and the Postal Service as to that finding, and the Commission
26 shall not publicly disclose the information subject to that finding.

ATTACHMENT IV

1 "(b) If the Commission receives a request under section 552 of title 5 for
2 information for which the Postal Service has given notice under subsection (a), the
3 Commission shall, not later than 7 days after receiving such request—
4 "(1) transmit the documents or other matter containing such information to
5 the Postal Service together with the request for information; and
6 "(2) notify, in writing, the requester of the actions taken under paragraph
7 (1).
8 For purposes of applying section 552(a)(6) of title 5, a request subject to this
9 subsection shall be deemed to be received by the Postal Service on the day the
10 Postal Service receives the documents or other matter transmitted pursuant to
11 paragraph (1) of this subsection.
12 "(c)(1) The provisions of subsections (a) and (b) shall not apply with
13 respect to any document or other matter which is subject to discovery in any
14 proceeding under this chapter conducted in accordance with section 556 and 557
15 of title 5.
16 "(2) The Commission shall prescribe regulations governing the disclosure
17 of documents or other matter described in paragraph (1) which, to the extent
18 practicable, reflect the policies and procedures applicable to discovery in the
19 United States district courts.".
20 (b) CONFORMING AMENDMENT— The table of sections for subchapter V of
21 chapter 36 of title 39, United States Code, is amended by adding at the end thereof
22 the following new item:
23 "3686. Proprietary and other information.".

ATTACHMENT V

POSTAL RATE COMMISSION CONSULTANTS

FY 1995

1. ***Accountant-CPA***

   Work: Reviewed the actual test year results for FY 1994 and compared with the data projected by USPS Witness Ward in his R94-1 testimony. Analyzed both favorable and unfavorable variances and ascertain their causes. Evaluated the results and implications for the future.

   Compensation: $16,870

2. ***Economist, Ph.D.***

   Work: Reviewed testimony of USPS witnesses to identify economic and econometric issues and to make recommendations about how to solve them.

   Compensation: $10,535

3. ***Mathematician, Ph.D., Specialist in Operations Research***

   Work: Prepared analyses and written reports on third class destination entry cost savings and discounts; the allocation of attributable delivery costs to USPS proposed subclasses; the third class parcel shaped mail costing issues raised by OCA, NAA, and USPS; and the question of the appropriate costing methodology for worksharing discounts addressed by numerous parties in response to a Commission's Notice of Inquiry.

   Compensation: $26,516

4. ***Attorney***

   Work: Prepared decisions in small post office appeals and reviewed the Domestic Mail Classification Schedule for possible adjustments.

   Compensation: $19,146

ATTACHMENT V

5. ***Economist, Ph.D.***

Work: Prepared and presented testimony in MC95-1 for the OCA on the proper pricing of postal services and the general theory of pricing as it applies to the markups associated with the various classes of mail.

Compensation: $12,953

6. ***Attorney***

Work: Prepared a policy memorandum based on analysis of the legislative history of the Postal Reorganization Act and outlined initial and reply briefs for the OCA.

Compensation: $5,033

7. ***Transportation Engineering, M.S.***

Work: Prepared Markov processes used for parametric analysis of testimony of USPS Witness Marc A. Smith and prepared testimony containing OCA proposals for First-Class Mail categories.

Compensation: $7,709

8. ***Ph.D.***

Work: Prepared and presented testimony concerning the history of domestic mail classification in the U.S. from the colonial era through passage of the Postal Reorganization Act of 1970.

Compensation: $9,546

9. ***Attorney***

Work: Researched classification of utilities and other entities subject to Federal and state regulations. Prepared analyses for review by the Commission and for use in Docket No. MC95-1. Also reviewed testimony and relevant literature on the history of postal classifications and the interpretation of 39 U.S.C. § 3623 for use in Docket No. MC95-1. Drafted portions of briefing papers and opinion analyses.

Compensation: $22,785

ATTACHMENT V

10. ***Attorney***

Work: Prepared part of the OCA brief.

Compensation: $15,591

11. ***Bureau of the Census, Statistician***

Work: Reviewed testimony, interrogatories, and other documents related to issues in proceedings before the Commission in order to identify major statistical issues and prepared written summaries of the major findings of reviews.

Compensation: $15,000

FY 1996

1. ***Attorney***

Work: Prepared part of the Initial Brief of the OCA.

Compensation: $4,533

2. ***Attorney***

Work: See work from FY 1995 which carried over into FY 1996.

Compensation: $13,083

3. ***Economist, Ph.D.***

Work: Identified cause of revenue/price problems in First-Class Mail forecasts presented by USPS witnesses and prepared drafts of volume forecasting section of the Decision.

Compensation: $17,098

ATTACHMENT V

4. ***Attorney***

Work: Analyzed issues in MC95-1, consulted on legal matters, and prepared decisions in small post office closing appeals.

Compensation: $27,788

5. ***Mathematician, Ph.D.***

Work: See work from FY 1995 which carried over into FY 1996.

Compensation: $40,681

6. ***Kenan Systems, computer and network specialists***

Work: Maintained computer operations, including network, internet, Home Page, and installation and repair of equipment.

Compensation: $44,024

7. ***Bureau of the Census, Statistician***

Work: Reviewed testimony, interrogatories, and other documents related to issues in proceedings before the Commission in order to identify major statistical issues and prepared written summaries of the major findings of reviews.

Compensation: $15,000

ATTACHMENT VI

1333 F Street, N.W. Suite 710
Washington, D.C. 20004-1108

ADVERTISING MAIL MARKETING ASSOCIATION

Tel. (202) 347-0055
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Wolkowitz Publishers Inc.
STAFF
HON. SIDEN
Gene A. Del Polito, Ph.D.
ACADEMIC RATING DIRECTOR
Carol A. Hubbard
DIR. OF PUBLIC AFFAIRS
Chad W. Rodgers
DIR. — PC
MEMBER EDITOR
Kathleen Smith
Ken Varner, Esq.

April 25, 1996

The Honorable Edward J. Gleiman
Chairman
Postal Rate Commission
1333 H Street, NW, Suite 300
Washington, DC 20268-0001

Dear Mr. Chairman:

As you know, I have long been an advocate of increasing general access to the business of the Postal Rate Commission through the use of electronic technology. The Office of the Consumer Advocate's use of a dial-up bulletin board system was an good first step although few of those who participate in rates and classification proceedings did much to advance the use of this communications alternative by providing the Commission with electronic documents.

The purpose of this letter, though, is to congratulate you for your leadership in taking public access to all Commission proceedings a giant step further through the development of a permanent site on the World Wide Web. In a word, the site is "GREAT!" I've accessed it often, and have found it very user-friendly and loaded with information that previously was rather cumbersome to obtain.

I am especially pleased with the depth and breadth of information you have authorized to be placed on this site. It makes doing business with and understanding the business of the Commission much easier. I also find it interesting that the Commission apparently does not have the fear of public accessibility that seems to mark the Postal Service's management of its own Web site. I've come to discover that when I need information on any piece of rates and classification business, the place to look is www.prc.gov--not www.usps.gov. That's a real shame, in my view, but at least someone in the postal community understands what public access should be all about. Now, if we only could get those who do business before the Commission to provide their communications in a form that might further this effort to provide wider public access.

Sincerely,

Gene A. Del Polito
President

POSTAL RATE COMMISSION
Washington, D.C. 20268-0001

Office of the Secretary

April 12, 1993

Ms. Nina N. Schwartz
Postal Inspector
P.O. Box 3200
Merrifield, VA 22116-3200

Dear Ms. Schwartz:

Thank you for your letter summarizing your review of the audit of our imprest fund. We appreciated your visit and the comments you made and moved quickly to implement your recommendations.

Thus, even before receiving your report the office reduced the amount of the fund from $1500 to $1000. Additionally, although nothing had ever been taken from the cash box in which the money is stored, we obtained a key for it so the box can now be locked. Your final recommendation was that individual accountability be stressed. That has been accomplished. In that connection it has been determined that the alternate imprest fund custodian will hve access to the box only when the custodian is absent from the office, whether on vacation or extended illness. On those occasions an accounting will be made before the custodian leaves.

Sincerely,

Charles L. Clapp
Chief Administrative Officer

OFFICE OF THE INSPECTOR IN CHARGE
Washington, DC 20066-6096

April 1, 1993

POSTAL RATE COMMISSION
APR 12 1993
OFFICE OF THE CHIEF ADMIN. OFFICER

Mr. Charles L. Clapp
Chief Administrative Officer and Secretary
Postal Rate Commission
1333 H Street, N.W., Suite 300
Washington, DC 20268-0001

RE: Audit of Imprest Fund, Postal Rate Commission
Case No. 004-1106062-AD(1)

Dear Mr. Clapp:

An audit of the $1500.00 Imprest Fund maintained at your office by Barbara DeMatte, Administrative Assistant, was conducted on March 17, 1993. The objectives of the audit were to determine whether cash and cash items are reconcilable to the authorized fund amount; purchases are adequately supported and documented; adequate internal controls exist; and limitations on the use of the funds are met.

The audit objectives are accomplished by:

A. Reconciling cash and cash items to the authorized Imprest Fund amount;

B. Examining purchases and supporting documentation to ensure their accuracy and adherence to fund use limitations;

C. Evaluating internal control procedures;

D. Discussing audit discrepancies with management to improve financial control through implementation of recommendations.

The audit disclosed that the imprest fund was stored in an unlocked box kept inside a file cabinet that remained opened throughout the day. Since the Administrative Office appeared to be a highly trafficked area, it was recommended that a lockable box be obtained and secured inside a locked desk drawer during the day.

It was noted that both the custodian and Alternate Custodian routinely accessed the fund. It was recommended that individual accountability be established and maintained. (Handbook F-19, 812)

Based on a review of Forms 1129, Cashier Reimbursement Voucher and/or Accountability Report submitted during Fiscal Year 1993, it was recommended that the amount of the $1,500.00 fund be reduced to $1,000.00.

These recommendations were discussed with Imprest Fund Custodian Barbara DeMatte, Alternate Maryanne Warne, and Assistant Administrative Officer Cyril J. Pittack on March 17, 1993.

Sincerely,

Nina N. Schwartz

Nina N. Schwartz
Postal Inspector
P. O. Box 3200
Merrifield, VA 22116-3200

Mr. McHUGH. With that, we will stand in recess while I run over and vote. And with the patience of Mr. Motley and Mr. Hunter, I will return as soon as my tired old legs will carry me, and I appreciate your patience. So we will stand in recess for 15 minutes.

[Recess.]

Mr. McHUGH. If we could come back to order.

Thank you all for your patience, particularly to the gentlemen at the head table who are comprising our third and final panel. I'm going to introduce everyone in the order in which we're going to ask you to speak. So it does not relate to any order in which you're seated.

First, we have Michael Motley, who is Associate Director of Government Business Operations Issues for the U.S. General Accounting Office. He is accompanied by James Campbell, who is Assistant Director of Government Business Operations Issues, also for GAO. The second half of our last panel is headed by Mr. Kenneth Hunter, who is the Inspector General of the U.S. Postal Service, also the Chief Postal Inspector of the Inspection Service. He is accompanied by Kenneth Weaver, Deputy Chief Inspector for Audit, and also Jeffrey Dupilka, Deputy Chief Inspector of the Criminal Investigations Unit.

So, gentlemen, thank you all for being here. As I am sure you have witnessed through the first two panels, it is the rule of this committee that all those submitted testimony must be sworn, so if you would please rise.

[Witnesses sworn.]

Mr. McHUGH. The record will show that all five of the panel members responded to the oath in the affirmative.

So without any further ado, welcome. Thank you for being here. Thank you for your patience. It has been already a relatively long day. We are looking forward to your comments and your testimony.

Mr. Motley, the floor is yours, sir.

STATEMENTS OF MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JAMES T. CAMPBELL, ASSISTANT DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES; KENNETH HUNTER, INSPECTOR GENERAL, U.S. POSTAL SERVICE, AND CHIEF POSTAL INSPECTOR, INSPECTION SERVICE, ACCOMPANIED BY KENNETH WEAVER, DEPUTY CHIEF INSPECTOR FOR AUDIT; AND JEFFREY DUPILKA, DEPUTY CHIEF INSPECTOR, CRIMINAL INVESTIGATIONS UNIT

Mr. MOTLEY. Thank you, Mr. Chairman. It's a pleasure for us to be here today.

First, I would like to introduce, as you already introduced, Mr. Campbell, who is resident over at the Postal Office in L'Enfant Plaza and is in charge of most of our Postal Operations work.

My testimony will address three major challenges facing the Postal Service: improving labor-management relations, setting competitive rates and providing competitive services, and controlling operating costs. First, I would like to talk about labor-management relations.

In September 1994, we reported that labor-management relations problems persisted on the factory floor of postal facilities. These employees' working conditions, including pay and fringe benefits, are determined through collective bargaining.

In recent years, the parties have had difficulties in reaching agreement at the bargaining table and have had to rely on arbitration to settle disputes, reducing the number of grievances elevated beyond local union and management levels to higher levels, and working cooperatively to resolve critical employee morale and teamwork issues. The effects of these problems include poor quality of work life for many postal employees and higher mail processing and delivery costs for the Postal Service.

In November 1994, collective bargaining agreements with the Postal Service's four major unions expired, and negotiations of all contracts but one, the National Rural Letter Carriers Association contract, ended in impasse, resulting in a need for arbitration. The NALC and the APWU have historically gone into negotiations together, but, for the first time since 1970, they negotiated separately. Arbitrators have now made awards in both those cases. The Mail Handlers Union and the Postal Service are still in arbitration, and the award is expected in April.

Another indicator of deteriorating labor-management relations is that, in just 3 years, from fiscal year 1993 to 1995, the number of grievances filed and referred to higher management levels for resolution increased by 31 percent, or about 21,000 cases.

We believe that improving employee attitudes, morale, and teamwork are critical to better mail delivery performance and customer satisfaction. However, some of the Service's efforts to make such improvements have been hindered by poor labor-management relations.

For example, to identify employee concerns and identify potential management actions and improve the quality of work life, the Postal Service administered an annual employee opinion survey to over 800,000 employees. In 1995, when the survey was to be done for the 4th year in a row, APWU and NALC, representing over 500,000 employees, asked their members not to respond to the survey.

There seem to be some differences of opinion between the union and the Postal Service as to why that happened. But union officials said that the survey results were inappropriately used against them in the 1994 negotiations. However, the Service responded that it did not introduce the survey results as a basis for negotiation, but it used our 1994 report on the Service's labor-management relations in those negotiations.

Although some employees did participate in the 1995 survey, the limited results in some areas invalidated the national results to the extent that the Service has abandoned the survey completely.

Finally, the Postal Service has recently initiated a top-down, corporate-wide initiative called "CustomerPerfect!", which you heard the Postmaster General talk about quite frequently this morning. This is intended to improve service quality and customer satisfaction. However, the Postal Service has not gained the support of the labor unions, and they are not participating in this overall Service effort.

As was also indicated in the testimony this morning, there have been some indications that some of the unions have failed to participate in some of the training that comes under the auspices of the CustomerPerfect! initiative. We have reported, in December 1995, that the success of this initiative is in doubt without the involvement of those labor unions.

I was encouraged to hear the Postmaster General's comments this morning when you asked the question, Mr. Chairman, regarding his actions on the GAO report. While a date has not been set yet for a summit, we look forward to action being taken on our recommendations, and we appreciate you, Mr. Chairman, continuing to pursue those recommendations that we put forth.

Turning to constraints in setting postal rates and providing competitive service, we have previously reported that the Postal Service is constrained both by the criteria in the 1970 act specifying how the Service must allocate costs and set postage rates and the length of the typically 10-month process of changing rates. We can appreciate some of the concerns expressed by Chairman Gleiman this morning regarding this area. However, these constraints have the effect of reducing the Service's flexibility in responding to change in the marketplace.

We said that legislative change to the 1970 act's ratemaking provisions will be necessary if the Service is to be more competitive. However, even with reform, the Service could still find competing with private firms difficult unless other improvements in price as well as service quality are made.

The importance of service quality is exemplified in the international mail market. Our report on international mail delivery, which we issued this week, explains how the Postal Service, privately owned firms, and other postal administrations compete with one another in the fast-growing international delivery service market. In contrast to the process for setting domestic postage rates, the Postal Service has greater flexibility in setting international rates.

Interestingly, the international market research data we reviewed showed that total international revenue for all carriers, including the Postal Service, grew at a rate of 12 percent annually, from 1987 to 1992, but the Service's international revenue growth was only one-half that rate, at 6 percent. The Service lost business to competitors because of its less competitive rates, less reliable delivery service, and lack of what we call "value-added" services, such as warehousing inventory and customer clearances.

I would like to note here that the Postal Service's continued viability as a full-service provider in the current competitive environment also depends on controlling the cost of operations. The Service is having difficulty in reducing labor costs as well as strengthening internal operating controls to avoid waste and abuse. Labor costs remain a major portion, 82 percent, of the Postal Service's operating costs, despite its 1992 downsizing.

To meet increased mail volume and make improvements during a downturn in customer satisfaction in 1994, the Service hired additional employees. As a result, Postal Service employment increased from its downsize level of about 782,000 employees in April

1993, to about 855,000 employees in November 1995, a growth of 9.5 percent.

One major cost-saving initiative undertaken by the Postal Service was an attempt to take advantage of emerging technology and improve operational efficiencies by implementing a long-term, $5-billion automation program. This program included use of optical character readers and bar codes to automatically sort and process mail, which was to reduce mail employees' work hours, labor work hours. However, work hours have increased, and savings produced from automation have been offset by increases in labor costs.

Later, in September 1995, we reported that performing remote bar coding in-house would cost more than if it were to be performed under contract. This is primarily due to the fact that contract employee costs were lower than the Postal Service's employees' wages and fringe benefits.

We estimated that with a ratio of 70 percent transitional employees and 30 percent career, as required under the Service union agreement, the cost differential between Postal Service and contractor bar coding would be more than 14 percent, or $86 million, and could ultimately increase if all bar coding was performed by career employees. This increase could amount up to $267 million annually, thus resulting in the Postal Service incurring greater labor costs in this aspect of the automation initiative.

Internal operating controls are another critical element in avoiding unwarranted costs. For example, in January 1996, we reported that the Service officials did not follow procedures for seven real estate or equipment purchases in order to meet what they, in some instances, believed to be the need to expedite the procurement process.

In some cases, the Service failed to resolve conflict-of-interest situations. Overall, we estimated that in these seven purchases the Service expended about $89 million on penalties or unusable and marginally used property, portions of which could be recovered if the properties were leased or sold.

Another example of internal control weaknesses that we plan to report on in the future involves the Postal Service controls over discounted bulk business mail, which constitutes almost one-half of its total revenue generation. However, the system has internal control weaknesses that increase the risk that the Service is losing significant revenue in discounted bulk mail.

For example, while the Service has annually received billions of pieces of bar coded mail and the volume is expected to increase in the future, especially after the rate reclassification goes into effect this July, acceptance clerks at mail processing plants do not have adequate automated equipment to verify the readability of mailer-applied bar codes.

Mr. Chairman, this concludes my prepared statement.

[The prepared statement of Mr. Motley follows:]

Statement of Michael E. Motley
Associate Director, Government Business Operations Issues
General Government Division

U.S. POSTAL SERVICE: CHALLENGES IN IMPROVING PERFORMANCE AND MEETING COMPETITION
SUMMARY STATEMENT BY MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR
GOVERNMENT BUSINESS OPERATIONS ISSUES
GENERAL GOVERNMENT DIVISION

GAO's testimony addresses three major areas that continue to challenge the Postal Service in providing prompt, reliable, and efficient mail services, and thus hinder it from becoming more competitive in the marketplace. These include (1) improving labor-management relations, (2) setting competitive rates and providing competitive service, and (3) controlling operating costs.

The Postal Service continues to have labor-management relations problems similar to some of those GAO reported on in 1994. Three of the four unions involved in the last round of negotiations were unable to reach agreements at the bargaining table and had to rely on arbitration to settle their disputes. In addition, the number of employee grievances filed and referred beyond the local management and union levels has increased by 31 percent since 1993. Although other attempts to address employee concerns and improve teamwork are underway, difficulties persist, and not all parties have made commitments to new initiatives. The Postal Service and employee organizations have yet to meet to address GAO's recommendation that they develop and sign a long-term framework agreement outlining overall objectives and approaches for improving both the processing and delivery functions of postal operations.

The Postal Service has lost market share to competitors in some areas where it once essentially controlled the market, such as the Express Mail market. It continues to experience problems in competing because of limited flexibility in changing rates and other factors such as less reliable service and not providing certain "value added" services that are provided by competitors. Even in the international mail area, where the Postal Service has greater flexibility in pricing, its rate of revenue growth is well below that of its competitors.

The Postal Service's continued viability as a full-service provider in the current competitive environment depends on, among other factors, its ability to control costs. Labor costs remain the major portion of the Service's operating costs, and it has had limited success in controlling labor cost growth. From April 1993 to November 1995, postal employment grew by 9.5 percent. The Service has efforts to constrain labor costs through a long-term $5 billion automation program. However, much of the savings produced from automation have been offset by increases in labor costs. Also, its remote barcoding functions are now being performed in-house, which will cost more than in the past, when this function was done under contract. In addition, internal control weaknesses in the Service's system for the acceptance of bulk mail as well as some of the Service's purchasing practices have added to its costs.

Dear Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to participate in the Subcommittee's oversight hearings on the U.S. Postal Service. My testimony will address three major challenges facing the Postal Service: (1) improving labor-management relations, (2) setting competitive rates and providing competitive services, and (3) controlling operating costs. These issues are not new and the Postal Service is pursuing numerous efforts to provide more prompt, reliable, and efficient mail services as mandated by the Postal Reorganization Act of 1970. My testimony is based on work we have completed over the past several years or have underway.

LABOR-MANAGEMENT RELATIONS REMAIN A PROBLEM

In September 1994[1], we reported that labor-management relation problems persisted on the factory floor of postal facilities. These problems existed between Postal Service management and its four unions representing postal clerks, city carriers, rural carriers, and mail handlers. These employees' working conditions, including pay and fringe benefits, are determined through collective bargaining. In recent years, the parties have had difficulties in (1) reaching agreement at the bargaining table and have had to rely on arbitration to settle disputes, (2) reducing the number of grievances elevated beyond local union and management levels to higher levels, and (3) working cooperatively to resolve critical employee morale and teamwork issues. The effects of these problems include poor quality of worklife for many postal employees and higher mail processing and delivery costs for the Postal Service.

In November 1994, collective bargaining agreements with the Service's four major unions expired, and negotiations of all contracts but one—the National Rural Letter Carriers Association contract—ended in impasse, resulting in a need for arbitration. The impasse for

[1] U.S. POSTAL SERVICE: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-201A and 201B (Vols. 1 & 2), Sept. 29, 1994).

the Postal Service and the National Association of Letters Carriers (NALC) resulted because they could not agree on any of the 80 economic and noneconomic issues at the bargaining table. Although the American Postal Workers union (APWU) reached agreement on about 90 noneconomic issues, they did not agree on economic matters and some related work rule issues. The NALC and the APWU have historically gone into negotiations together but, for the first time since 1970, they negotiated separately. Arbitrators have now made awards in these cases. The Mail Handlers Union and the Service are still in arbitration, and the details will not be made public until April 1996, when an award is anticipated.

An indicator of deteriorating labor-management relations is that in just 3 years--from fiscal years 1993 to 1995--the number of grievances filed and referred to higher management levels for resolution increased by 31 percent. In fiscal year 1993, about 51,800 grievances dealing with disagreements or complaints related to wages, hours, and/or other conditions of employment could not be settled at the local level and had to be elevated to higher levels for resolution. In 1994, the number had grown to about 65,200 and rose to about 73,300 in fiscal year 1995. This was an increase of over 21,000 grievances between 1993 and 1995.

Improving employee attitudes, morale, and teamwork are critical to better mail-delivery performance and customer satisfaction; and Service efforts to make such improvements have been hindered by poor labor-management relations. For example, to identify employee concerns and identify potential management actions, and improve the quality of work life, the Postal Service administered an annual Employee Opinion Survey to over 800,000 employees. In 1995, when the survey was to be done for the fourth year in a row, APWU and NALC, representing over 500,000 employees, asked their members to not respond to the survey. Union officials said that the survey results were inappropriately used against them in the 1994 negotiations. The Service responded that it did not introduce the survey results as a basis for negotiations, but had used our September 1994 report on the Service's labor-management relations in those negotiations. Although some employees did participate in the 1995 survey, the limited results in some areas invalidated the national results to the extent

that the Service has abandoned the survey completely. Because the Service still needs to hear the "voice of the employee", it has contracted with an outside firm to do telephone interviews with a sample of employees at each organizational level.

Finally, the Postal Service has recently initiated a top-down, corporate-wide initiative called *CustomerPerfect!*, to improve service quality and customer satisfaction. However, the Postal Service has not gained the support of the labor unions and they are not participating in this overall Service effort. Further, the NALC has asked their members not to attend training, sponsored by the Postal Service as part of its *CustomerPerfect!* initiative, geared to build teamwork and team leader skills. We have reported[2] that the success of this initiative is in doubt without the involvement and commitment of labor union leaders.

Recommendations for a Framework Agreement Have Not Been Implemented

The Postal Service has attempted to overcome the difficulties in labor-management relations. The Service agreed with the recommendation in our September 1994 report that the Postmaster General, along with the heads of the four unions and three management associations, which represent general managers, postmasters, and supervisors, develop and sign a long-term framework agreement that outlines overall objectives and approaches for improving employee working conditions. The Postmaster General made an offer that the Service, all four unions, and the three management associations convene a summit and discuss a proposed framework agreement. While the associations agreed, three of the four unions did not agree to attend a meeting at that time because they believed it would have interfered with impending contract negotiations. In our September 1994 report, we recommended that, if the parties could not reach a framework agreement within 2 years from the date of our report, Congress may want to reexamine any aspects of the employee and

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

management relationships that constitute barriers to reaching such an agreement.

CONSTRAINTS IN SETTING POSTAGE RATES AND PROVIDING COMPETITIVE SERVICES

In the early 1970s, the Postal Service had essentially 100 percent of the Express Mail market; by 1995, its share dropped to about 13 percent. The Postal Service has also experienced a similar decline in its share of the multibillion dollar parcel post market. Unlike its competitors, who can select the markets they serve and set prices according to the demand for and cost of the services provided, the Postal Service, by statute, is required to provide universal service to all communities. The Service is also constrained by law in allocating costs among its various services and setting prices on the basis of market conditions. Noncompetitive postage rates, as well as less reliable services, have contributed to the Service's reduced market share. Even in the international markets where the Service has greater flexibility to set its rates, its volume growth has been considerably less than that of its competitors because the Service has not provided competitive prices and services.

Postal Rate Process and other Factors Constrain Rate Setting

We previously reported[3] that the Postal Service is constrained both by (1) the criteria in the 1970 Act specifying how the Service must allocate costs and set postage rates, and (2) the length of the typically 10-month process of changing rates. These constraints have the effect of reducing the Service's flexibility in responding to changes in the marketplace. We said that legislative changes to the 1970 Act's ratemaking provisions will be necessary if the Service is to be more competitive.

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[3] U.S. POSTAL SERVICE: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992; U.S. POSTAL SERVICE: Postal Ratemaking in Need of Change (GAO/GGD-96-8, Nov. 15, 1995).

Price and Service Quality are Factors
Which Hinder Competitiveness

Although we believe postal ratemaking is in need of reform and hinders the Service's competitiveness, even with reform the Service could still find competing with private firms difficult unless other improvements in price as well as service quality are made. The importance of service quality is exemplified in the international mail market. Our report[4] on international mail delivery, which we issued this week, explains how the Postal Service, privately-owned firms, and other postal administrations compete with one another in a fast-growing international delivery service market.

In contrast to the process for setting domestic postage rates, the Postal Service has greater flexibility in setting international rates. Interestingly, the international-market research data we reviewed showed that total international revenue for all carriers, including the Postal Service, grew at the rate of 12 percent annually from 1987 to 1992, but the Service's international revenue growth rate was only one-half that rate, at 6 percent. The Service lost business to competitors because of its less competitive rates, less reliable delivery service, and lack of "value-added" services (such as warehousing, inventory, and customs clearance).

In the domestic markets, the Service faces similar difficulties. For example, the General Services Administration provides for the federal government's delivery of overnight letter mail under a contract with Federal Express awarded in 1990. Although the Service does not provide a service directly comparable to Federal Express, its Express Mail (overnight) service is similar in many respects, and has a minimum rate of $10.75.[5] In 1995 it had an on-time

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

[5]This $10.75 rate could be lower if the Service could justify volume discounts for the General Services Administration and other large customers. However, the Postal Rate Commission has said that a volume discount not based on a cost savings to the Postal

delivery rate of about 95 percent. However, Federal Express provides overnight delivery of letters under the contract for only $3.75, with a monthly on-time delivery rate in 1995 ranging from 96 percent to 98 percent (this excludes the months of partial government shutdown in November and December).

INABILITY TO CONTROL COSTS AFFECTS POSTAL PRICES AND COMPETITIVENESS

The Postal Service's continued viability as a full-service provider in the current competitive environment also depends on controlling the cost of operations. The Service is having difficulty in reducing labor costs, as well as strengthening internal operating controls to avoid waste and abuse. Labor costs remain a major portion—82 percent—of the Postal Service's operating costs despite its 1992 downsizing efforts. To meet increased mail volume and make improvements during a downturn in customer satisfaction in 1994, the Service hired additional employees. As a result, Postal Service employment increased from its downsized level of about 782,000 employees in April 1993 to about 855,000 employees in November 1995--a growth of 9.5 percent over that 31 month period.

One major cost savings initiative undertaken by the Postal Service was an attempt to take advantage of emerging technology and improve operational efficiencies by implementing a long-term $5 billion automation program. This program included use of optical character readers and barcodes to automatically sort and process mail, which was to reduce mail employees' labor work hours. However, work hours have increased and savings produced from automation have been offset by increases in labor costs.

Service would be contrary to the 1970 Act. In the 1990 rate case, the Service requested approval to offer volume discounts. However, the Postal Rate Commission disapproved the request because it did not believe the Service had provided data to demonstrated that cost savings could be realized from large customers.

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As part of this automation initiative, in November 1993, the Postal Service agreed with APWU that remote barcoding, which had been done by contractors, would be done by postal employees. This would be performed by a mix of Postal Service employees, both transitional and career. In February 1995, we reported that the Service was not able to barcode as many letters as expected using its optical character readers, and no major breakthrough or significant technological advances are expected in the near future. As a result, the Postal Service was relying on the more expensive remote barcoding function, diminishing much of the anticipated dollar and labor savings.

Later, in September 1995,[6] we reported that performing remote barcoding in-house would cost more than if it were performed under a contract. This is primarily due to the fact that contract employee costs were lower than the Postal Service's employees wages and fringe benefits. We estimated that, at the ratio of 70 percent transitional and 30 percent career workforce required by the Service-union agreement, the cost differential between Postal Service and contractor barcoding would be about 14 percent or $86 million (not adjusted for inflation) to process 23 billion letters annually. Furthermore, an issue still unresolved is whether the Postal Service and unions will decide to have transitional employees receive benefits similar to career employees. If this were to take place, we estimated that the cost difference would be even higher at 28 percent, or about $174 million annually. As such, if all barcoding was performed by career employees, we estimated that in-house barcoding costs would exceed contracting costs by 44 percent, or $267 million annually—thus, resulting in the Postal Service incurring greater labor costs in this aspect of the automation initiative.

Internal operating controls are another critical element in avoiding unwarranted costs. For example, in January 1996[7], we reported that Service officials did not follow required

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[6]POSTAL SERVICE: Performing Remote Barcoding In-House Costs More Than Contracting Out (GAO/GGD-95-143, Sept. 13, 1995).

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

procedures for seven real estate or equipment purchases in order to meet what they, in some instances, believed to be the need to expedite the procurement process. In some cases, the Service failed to resolve conflict-of-interest situations identified--both real and apparent. For example, contrary to the advice of the Postal Service's legal department, the contracting officer failed to resolve a conflict of interest on the part of an individual who helped evaluate the contract proposals and at the same time had a job offer pending from the successful offeror. As a result of the conflict of interest, the award was set aside by the courts and a replacement contract was awarded to one of the unsuccessful offerors. The Service paid $10 million to the original wining offeror to settle its claim under the contract, which was then set aside. Also, the new contract cost $8 million more annually than the old contract. Overall, we estimated that in these seven purchases, the Service expended about $89 million on penalties or unusable and marginally used property, portions of which could be recovered if the properties were leased or sold.

Another example of internal control weaknesses that we plan to report on in the future involves the Postal Service's controls over discounted bulk business mail. This is a significant portion of the Service's business—almost one-half of its total revenue of $47.7 billion is from such bulk mail. The Service has a system designed to verify postage due on bulk mail which enabled it to avoid losing revenues of $168 million in fiscal year 1994. However, the system has internal control weaknesses that increase the risk that the Service is losing significant revenue on discounted bulk mail. For example, while the Service has annually received billions of pieces of barcoded mail--and the volume is expected to increase in future years--acceptance clerks at mail processing plants do not have adequate automated equipment to verify the readability of mailer-applied barcodes. Also, these clerks have not always done required verifications because of the urgency to accept and deliver mail.

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Mr. Chairman, this concludes my prepared statement. I have appended a list of our Postal Service products issued since January 1995. I would be happy to respond to any questions.

Mr. MCHUGH. Thank you very much, Mr. Motley.

With that, we turn to Mr. Hunter. Welcome, sir. We look forward to your comments.

Mr. HUNTER. Thank you, Mr. Chairman.

Jeff, Ken, and I are pleased to be here to share with you the activities and the accomplishments of the Inspection Service. We have submitted written testimony for entry into the record, and I will endeavor to be brief, in view of the fact that I'm the clean-up hitter.

As you know, as the Inspector General, we report to you twice a year in a more detailed report than even the written testimony that was submitted. We also submit audit reports to management and the results of our criminal investigations to U.S. attorneys for prosecution. We believe that, in a Postal Service that is focused on results, we play an important role.

Now, in the past, we audited for strict compliance with rules and regulations, and we also looked for waste, fraud, and abuse. We still do both of those very aggressively, but we also help to improve systems to prevent waste, fraud, and abuse and ensure efficient, effective service. In fact, our customers are telling the Inspection Service that they believe we have made substantial progress in our efforts to refocus our work to better serve them.

Our efforts are also more balanced, focusing not only on audit findings and criminal proceedings, but on identifying the root cause of problems and recommending innovative solutions.

Our audit and investigative efforts can be catalogued in the four broad areas that we use in our semiannual report, and they are: audit of Postal Service programs and projects, protecting Postal Service revenue and assets, safeguarding postal employees and the work environment, and preserving the integrity of the postal system. I would like to address our accomplishments, briefly, in each of these areas.

First, auditing. We fulfill these responsibilities by examining and evaluating the adequacy and the effectiveness of the Postal Service's system of internal controls and quality of performance. Our written testimony provides quite a bit of detail in this area, but I would like to highlight four of the national performance audits, which were: the delivery point sequence program audit, the external first-class mail audit, the airport mail center performance audit, and the missent and missorted mail audit.

In addition, we conducted financial installation audits that identified over $10-million in revenue deficiencies. And our work in the area of contract audits resulted in postal management recovering or avoiding $70 million in contract costs.

The second category of our work is protecting the Postal Service revenue and assets. We have named this the Revenue and Asset Protection Program, or RAPP, for short. These investigations combine our audit and criminal investigative skills to more effectively investigate things such as fraudulent workers compensation, embezzlements and falsifications, procurement and expenditure activities, and a variety of postage revenue protection efforts.

In fact, the Inspection Service has established a revenue protection task force that crosses all key functions of the Postal Service

and includes vendors and customers, to focus on the areas of vulnerability.

This area of protecting revenue and assets has resulted in the following during the last fiscal year: In the area of workers compensation, we identified a total cost avoidance for the Postal Service of $57 million, and we believe this year we will achieve even a higher savings. RAPP investigations also identified approximately $48 million in revenue deficiencies and resulted in the arrest of 416 employees for a variety of offenses. Fraud against the Postal Service investigations resulted in another 117 arrests. And our financial investigations resulted in the arrest of 260 employees and contractors for embezzlement.

The third area of work is safeguarding postal employees and the work environment. As you will recall, workplace violence against postal employees was a major topic of the July 25, 1995, oversight hearing of the Inspection Service by this subcommittee. In response to concerns raised by you, the Inspection Service accepted the assignment to review a variety of conditions and issues in southern California.

A multidisciplinary task force interviewed almost 800 employees and examined areas ranging from security concerns, working conditions, labor-management relations, to sexual harassment, hiring practices, and allegations of fraud, waste, and abuse. The review reaffirmed that craft employees and supervisors agree on the need to deal more effectively with poor performance while recognizing good performance, to improve union and management relations, to improve communications and respect, and to reduce the adversarial relationship.

Safeguarding postal employees is our top priority, and all assaults and threats to postal employees are taken seriously, and criminal charges are initiated when possible. Any instances of employee misconduct are reported to postal management for appropriate disciplinary action. Assaults on postal employees resulted in 491 arrests in 1995. We spent over 158,000 investigative hours in this area last year.

As you are aware, the Inspection Service provided the subcommittee staff with recommendations for legislation that would create a statute to address Federal employees and amend a statute to address assault of contract employees. We feel the enactment of such legislation would help increase the safety of employees and contract employees.

Finally, the fourth area of our work is preserving the integrity of the postal system itself. Our criminal investigations target violations of statutes that are intended to protect postal customers, the Postal Service, and its employees from those who would compromise the integrity of the mail system. Criminal misuse of the mail ranges from theft and mistreatment of the mail to mailings of bombs and narcotics. Postal inspectors respond to such crimes not only to enforce the law but to reinforce customer faith in and satisfaction with the mail system.

Results in this area during the last fiscal year included over 1,500 arrests for mail fraud. Investigations of mail bombs and explosive devices placed in mail receptacles resulted in another 119 arrests. The interdiction of controlled substances that were being

sent through the mails resulted in almost another 1,900 arrests. Our investigations of obscenity and child pornography resulted in 142 arrests. And investigations of mail theft by nonemployees and contractors led to 4,565 arrests.

We are using our audit and our investigative skills to work jointly with postal managers and customers to achieve creative solutions to existing problems and the challenges of the increasingly competitive environment that we find ourselves in today.

At our last hearing we outlined for you the efforts that we have made with the credit card industry and the success in substantially reducing the losses they were suffering from credit cards stolen from the mails and used fraudulently. We are now doing the same thing in the rebate industry, and we are planning a similar initiative for the fulfillment industry, people who use the mails for fulfillment of orders to customers for products.

In summary, we look forward to working with postal management, postal customers, and you to not only maintain but improve the Postal Service's position as one of the world's most reliable and least expensive communications delivery businesses.

Thank you again for this opportunity to address the subcommittee, and we would be pleased to respond to any questions you have.

[Note.—The Report of the Executive Council on Integrity and Efficiency, may be found in subcommittee files.]

[The prepared statement of Mr. Hunter follows:]

TESTIMONY OF KENNETH J. HUNTER
CHIEF POSTAL INSPECTOR/INSPECTOR GENERAL

BEFORE THE POSTAL SERVICE SUBCOMMITTEE

HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

MARCH 13, 1996

INTRODUCTION

Chairman McHugh and members of the Postal Service Subcommittee:
I am Kenneth J. Hunter, Inspector General and Chief Postal Inspector for the U.S. Postal Service. I am accompanied by Deputy Chief Inspectors Kenneth C. Weaver and Jeffrey J. DuPilka. We appreciate this opportunity to update you on the activities and accomplishments of the Postal Inspection Service.

Having investigated crimes against the Postal Service, its employees, and our customers for more than 200 years, the Postal Inspection Service is one of the oldest investigative agencies of the United States Government. The magnitude of our responsibilities is proportional to the size of the Postal Service. In the Postal Fiscal Year 1995, the Postal Service delivered over 180 billion pieces of mail, employed over 750,000 career employees in more than 39,000 postal facilities, and generated revenue of about 54 billion dollars.

To meet our responsibilities, we employ 2234 postal inspectors, 1407 Postal Police Officers, and 878 professional, technical, and support employees. The Postal Inspection Service consists of 29 field divisions, reporting to National Headquarters. Administrative support for the field divisions is provided by five Operations Support Groups. We have five forensic laboratories with highly trained personnel and state-of-the-art technology strategically located to support field investigations. These laboratories support field investigations through their expert analysis of evidence and subsequent courtroom testimony.

Postal inspectors conduct audit and criminal investigations, serve warrants and subpoenas, make arrests, and present evidence in criminal, administrative, and civil actions relating to the Postal Service and the U. S. Mail. Nationwide, postal inspectors work cooperatively with other Inspectors General; the Department of Justice; and other federal, state and local law enforcement agencies on joint efforts.

Uniformed Postal Police Officers (PPOs) provide security for employees, customers, mail, and postal assets at select postal facilities around the nation. PPOs also escort high-value shipments, including registered mail and postal remittances in certain locations.

Our professional, technical and support employees play a vital role in supporting the functions of the Postal Inspection Service. They perform a wide variety of tasks including: providing management information systems; forensic evaluation of evidence; development, procurement and deployment of electronic security and surveillance equipment; writing, editing and publishing reports, manuals and other publications; direct contact with the public; and administrative support functions.

As Inspector General we submit a report to Congress twice a year. Our reports detail how much money audits have recovered or put to better use and the results of our criminal investigations. We also send the audit reports to postal management and forward investigations for criminal prosecution to the U. S. Attorney.

In a Postal Service focused on results, we play an important role. In the past, we audited for strict compliance with rules and regulations. Now we also help managers evaluate their management control systems. In the past we looked for "waste, fraud, and abuse." Now we also help improve systems to prevent waste, fraud and abuse, and ensure efficient, effective service.

The U. S. Postal Inspection Service strives to:

- Be innovative, question existing procedures and suggest improvements.
- Maximize the positive impact of our audits, investigations and other reviews and ensure their objectivity.
- Use our investigations and reviews to increase government integrity and recommend improved systems to prevent fraud, waste and abuse.

Our customers tell us that we have made substantial progress in our efforts to refocus our work to better satisfy customer needs. Our project goals are now more oriented toward meeting customer needs, increasing customer satisfaction and adding value to the services provided by the U. S. Postal Service. Our efforts also are more balanced, focusing not only on audit findings and criminal proceedings, but also on identifying the root cause of problems and recommending innovative solutions, and participating in joint efforts with our internal and external customers to make improvements.

Our goals support the goals of the U. S. Postal Service: reinforcing our commitment to employees, increasing customer satisfaction and safeguarding the assets of the Postal Service. Our efforts are tailored around the new CustomerPerfect! approach of the Postal Service, listening to the voices of the customer, businesses and employees. Our audit and investigative efforts support these goals in four broad areas designed to:

- Audit Postal Service programs and projects.
- Protect Postal Service revenue and assets.
- Safeguard postal employees and the work environment.
- Preserve the integrity of the postal system.

AUDITING POSTAL SERVICE PROGRAMS AND PROJECTS

Postal inspectors audit financial transactions, internal controls, and processes of major programs and projects of the Postal Service. Inspectors select audit topics and sites based on risk assessment, through sampling techniques or at the request of postal management. Audit results are reported to appropriate postal officials. Our internal audits comply with audit standards published by the Comptroller General of the United States, the American Institute of Certified Public Accountants and the Institute of Internal Auditors.

PERFORMANCE AUDITS

The primary purpose of conducting performance audits is to assist the U.S. Postal Service in accomplishing its goals and objectives (its effectiveness) with the minimum resources necessary (its efficiency). Although safeguarding assets and determining compliance with government regulations is part of every audit, performance audits go beyond the standard compliance audit, seeking ways to perform an operation more efficiently and effectively.

Postal inspectors conducting performance audits assess risks associated with postal operations, programs and systems to determine their impact on corporate success. Areas judged to be high-risk operations are audited to determine the reliability and integrity of management information systems, the effectiveness of operations and programs in accomplishing established goals and objectives and whether resources are used economically and efficiently.

Following are briefs of significant audits reported to postal management during the past six months.

National Audit of the Delivery Point Sequence (DPS) Program

Our review concluded that the DPS Program is beginning to realize delivery operations benefits as a result of the Postal Service's automation effort. Management has initiated a Savings Tracking System (STS) to focus attention on capturing delivery unit savings available through DPS. The audit disclosed that opportunities for capturing more DPS savings exist through increased conformance with national DPS policies and procedures, enhancements to the STS and better coordination between Processing & Distribution Centers (P&DCs) and delivery units. Management agreed with the majority of our recommendations, which included taking action to improve system discipline and delivery operations to capture more automation savings.

National Audit of the External First-Class (EXFC) Measurement System

Our audit concluded that EXFC testing conducted by the accounting firm of Price-Waterhouse provided a fair representation of quarterly First-Class Mail service for the 96 cities and associated three-digit ZIP Code areas. Management agreed with our recommendations and has taken action to improve collection box testing, test induction and destinating test volumes.

National Audit of the Address Management System (AMS)

Postal inspectors conducted an audit of AMS at 31 district offices and reviewed contingency plans, back-up site adequacy and AMS data base security at the San Mateo and Minneapolis Information Service Centers. Management has taken action to implement our recommendations to strengthen internal controls, which included developing a national standardized process to facilitate the flow of work; and updating and testing the contingency and disaster plan.

National Audit of Airport Mail Centers (AMCs)

An audit of operations at 10 AMCs concluded that improvements in ramp operations and in the Performance Measurement and Mail Handling Performance Management Programs will ultimately result in better service and lower cost to the Postal Service. Management agreed with our recommendations and initiated action to provide more oversight and training in the areas identified for improvement.

National Audit of International Mail Operations

A joint task force of postal inspectors and postal managers reviewed international mail flowing through the Miami International Airport, Airport Mail Center (AMC), and Processing and Distribution Center in Miami The objective of the review was to assist management in improving international service to the Caribbean and Latin American countries. The audit identified four key areas that accounted for over 50 percent of the dispatch errors to these countries. We also found that a major U. S. air carrier responsible for transporting 60 percent of the mail to these countries was not giving the Postal Service the proper level of service.

National Audit of Missent and Missorted Mail

The audit disclosed that management at all levels of the organization had begun to consider the negative impact missent mail had on service performance. Effective processes were in place at each audited location to identify missent mail within each delivery service area; however, we found there are opportunities to improve the missent identification and correction processes between P&DCs and our large-volume customers. Management agreed with all of our findings and has implemented corrective action.

DEVELOPMENTAL AUDITS

The Developmental Audit Program is based on phased activities that occur using several system developmental life cycle methodologies. The audit process includes steps for project initiation, requirements, design, testing, acceptance and implementation. Once a developmental project is identified, a level of priority for audit attention is established. Developmental audits are performed on new products and services and, information-based systems, as well as automation, technology and business process reengineering projects.

The goals of a developmental audit are to reasonably assure postal management that system costs are justified in relation to anticipated benefits; needed security and internal controls are incorporated; adequate documentation for maintenance procedures is contained in the system; procedural requirements exist for backup and recovery of data; and documentation is available for future audits.

Audit attention is provided over several reporting periods because of the length and complexity of new or redesigned developmental projects. Presently, over 30 projects are receiving varying levels of audit attention. Many of the projects involve automation equipment or mail redesign. Recently, postal inspectors completed an audit of four parcel sorter machines and performed a comparison of throughput, capacity, level of staffing and maintenance requirements. The audit concluded that the existing Small Parcel Bundle Sorter is appropriate for processing centers with high volumes of mail and the space to accommodate and other equipment options are suitable for lower mail volume operations with limited space.

FINANCIAL AUDITS

Our financial audit programs are designed to provide postal management and the Board of Governors with an independent examination and evaluation of the Postal Service's financial activities. We accomplish our objective by reviewing financial transactions, verifying account balances and assets and examining and evaluating the adequacy and effectiveness of Postal Service accounting and management control systems.

In planning our audits, we assess the risk to the financial systems and plan our work accordingly. We use the fiscal year results of our financial audits to express an opinion on whether the Postal Service's National Consolidated Trial Balance was fairly stated for the year. We coordinate our financial audit work with external auditors engaged by the Board of Governors in the annual certification of the Postal Service's Financial Statements.

The scope of our financial audit work includes financial opinion audits, financial installation audits, capital investment audits and contract audits.

FINANCIAL OPINION AUDITS

Our Financial Opinion Audit Program goals seek to ensure the accuracy and integrity of postal accounting systems and procedures and that electronic data processing controls comply with management policies. To accomplish these goals, we evaluate internal controls, assess risks, test financial transactions and inventory capital assets at the three Postal Service Information Service Centers.

Audit attention also is provided at selected field sites in support of the program. Postal inspectors evaluate property inventory records, construction-in-progress projects, vehicle maintenance facility inventories, rail and highway payments and imprest fund payments. Payroll controls at non-revenue generating facilities, which are not subject to audit under the Financial Installation Audit Program, are also reviewed. We observe the U.S. Postal Service's Cost and Revenue Analysis System test procedures to determine that data is collected as scheduled by knowledgeable technicians.

FINANCIAL INSTALLATION AUDITS

Financial Installation Audits were designed to support our Opinion Audit Program. Postal inspectors audit 200 field installations annually, selected by a random sampling of offices nationwide and stratified according to projected annual revenue. $10.3 million in revenue deficiencies were identified during these audits in 1995. Offices selected for review in FY 1996 represent approximately 19 percent of the total U.S. Postal Service projected revenue.

Postal inspectors test and evaluate internal controls to determine if systems and procedures are in place and working. We verify assets and ensure proper safeguards are maintained to protect the Postal Service from fraud, waste and abuse. The reliability of accounting and reporting procedures are also evaluated. Postal management uses the results of our audits to initiate corrective actions.

CAPITAL INVESTMENT AUDITS

In Fiscal Year 1995, we began a 'critical process review' of our Capital Investment Audit Program to optimize the value of the audit services we provide postal management and the Board of Governors. The current program includes after-cost studies on capital investment facility projects approved by the Board of Governors in excess of $10 million. Postal inspectors conduct reviews 18 months after a new facility has been occupied and compare costs and conditions before work begins with costs and conditions after the work is completed.

The current program also includes auditing documentation in support of each facility project prior to Board of Governor approval. We evaluate the process used to develop the Decision Analysis Report, recommend improvements and verify the support for the operational assumptions, costs and benefits presented in the report. Our objectives are to determine whether management followed proper postal policies and procedures, developed reasonable alternatives and used accurate and complete data to support projected costs and savings.

To gain an appreciation for the methodology and procedures used by private corporations to audit facility projects, the review task force completed a benchmarking effort, contacting more than 40 companies. To ensure customer focus and initiate a partnership with postal management, the task force also interviewed 67 selected postal managers and staff involved in facility projects at Postal Service Headquarters and field units. Interviews addressed policies, procedures, laws and regulations for new construction, leasing, building purchases and repair and alteration projects. Managers and staff shared their group goals and objectives, program administration and procedures, and provided information on current and future projects.

As a result of the 'critical process review,' the task force has completed the following tasks:

- New goals and objectives for the Capital Investment Audit Program, consistent with our Inspector General responsibilities and the goals of the Postal Service.

- A risk model and sampling methodology to focus audit attention on areas that represent the greatest possible risk to Postal Service revenue and assets.

- New procedures and report format, to ensure reports are submitted in a timely manner and in accordance with generally accepted government auditing standards.

CONTRACT AUDITS

Postal inspectors provide independent audit attention to costs associated with Postal Service procurements of transportation, equipment, supplies, services and facilities. These procurements amount to over $5 billion annually and represent considerable opportunity for fraud, waste and abuse.

We perform audits of contract price proposals, cost reimbursement contracts, time and material contracts, progress payments and contract claims. The majority of our audit work in this area is performed on a request basis to assist postal procurement officials and legal staff in negotiating, awarding, administering or settling contracts. We also conduct self-initiated audits based on judgment selection procedures and information obtained through our Postal Crime Hotline.

Postal inspectors also review contract administration practices on a request basis and as part of our self-initiated audit program. The reviews ensure there are effective internal controls and procedures in place to manage Postal Service contract-related programs.

In FY 1995 postal inspectors reported the results of 101 pre-award, post-award, contract claim and procurement activity audits to assist postal management in negotiating contracts and evaluating procurement operations. In FY 1995, postal management used the results of these or prior audits to recover or avoid $69.2 million in contract costs.

PROTECTING POSTAL SERVICE REVENUE AND ASSETS

Revenue and Asset Protection Program (RAPP) investigations combine audit and criminal investigative skills to more effectively investigate fraudulent workers' compensation, employee embezzlements and falsifications, procurement and expenditure activities, counterfeit postage, unauthorized use of postage meters and meter impressions, and reviews of mailing practices -- all of which pose the potential for revenue loss.

System breakdowns, internal control deficiencies or revenue deficiencies identified during the course of RAPP investigations are reported to postal management for corrective action and collection of revenue. Similarly, criminal violations found during RAPP investigations are reported to the appropriate federal, state or local prosecutor. Civil remedies have also proven to be effective collecting revenue and penalties. In a recent settlement of a civil fraud case against a mid-west mail presorting corporation, the corporation agreed to pay double damages regarding a scheme that defrauded the Postal Service of over $310,000.

Based in part on the success of the Meter Initiative, the Inspection Service has undertaken a similar initiative to focus on other areas of revenue protection. Working in conjunction with the Marketing Systems, Finance, and Engineering Departments, as well as the mailing industry, the Inspection Service has established a Revenue Protection Task Force and has targeted 5 areas of vulnerability for investigative attention. In addition, Postal Service management has initiatives in progress to strengthen these systems.

The Revenue Protection Task Force has provided investigative attention to five areas. They include:

- Official Mail Accounting System (OMAS)
- Presort
- Plant Verified Drop Shipment (PVDS)
- Second Class Mailings
- Nonprofit Mailings

We have initiated a total of 43 investigations resulting in documented revenue losses to the Postal Service of $11.6 million. Had these schemes remained undetected, we estimate the losses would now total $14.6 million. Further, we have completed 114 audits/reviews with a documented loss of $63.5 million. Marketing Systems has sponsored a number of joint initiatives with mailing industry representatives to assist in preventive efforts. The efforts of this partnership, are beginning to bear fruit.

EXPENDITURE INVESTIGATIONS

Expenditure investigations are conducted on a request basis or are self-initiated based on customer tips or from information obtained through our Postal Crime Hotline. The investigations include reviews of procurement or expenditure activities and false claims against the Postal Service. The Postal Inspection Service also uses two civil statutes to recover losses sustained by the Postal Service as a result of false claims, and to discourage others from filing false claims or statements against it.

An expenditure investigation was conducted at the William F. Bolger Management Academy, Potomac, MD. Postal inspectors reported the results of their review of all major identifiable programs, processes and systems of control at the Bolger Management Academy to determine if practices and procedures complied with postal policies and regulations. Our review disclosed a lack of management oversight and weak or non-existent internal controls in several areas, exposing Postal Service revenue and assets to risk. Management agreed with our recommendations and began corrective action, which included increased management oversight of expenditures in the areas of training, travel, salaries and construction projects.

EMPLOYEE EMBEZZLEMENTS

Employee embezzlements may include clerks who steal money from cash drawers to sophisticated kiting schemes involving postal money orders and falsified financial records.

Postal inspectors attempt to identify employee embezzlements in the early stages, before they are able to profit significantly from their crimes, and the victimization of the Postal Service is therefore minimized. Investigation into such crimes includes minimizing future losses by reporting to postal management any deficiencies found in systems or procedures so that corrective action may be taken. In 1995 Inspection Service investigations resulted in the arrest of 260 employees and contractors for embezzlement.

Another important element of our work in this area is the recovery of stolen funds from the responsible party. When an employee is covered under the Civil Service Retirement System (CSRS), the Postal Service may recover part or all of the lost funds through offsets taken against the employee's retirement fund; however, when an employee is covered under the Federal Employee Retirement System (FERS), the Postal Service is unable to recover stolen funds through such offsets. Legislative action is needed to change the law so that debts owed the government by federal employees under FERS are subject to the same provisions as those covered under CSRS. Postal inspectors have prepared a legislative proposal that would allow the Postal Service to collect debts from former employees by offsetting amounts against their FERS fund.

CONTRACT POST OFFICE EMBEZZLEMENTS

The Postal Service has contracted with private individuals and corporations to operate contract post offices in many areas across the country. The arrangement benefits contractors, who view it as a way to increase customer traffic to their stores; and customers, who may purchase postage stamps and money orders or conduct other postal business while they purchase merchandise offered by the contractor's regular business.

As with other embezzlements, postal inspectors seek to minimize losses by recovering stolen funds from the contract employer of the contractor's bonding company. Investigative reports by inspectors provide a basis for the contracting officer to terminate a contract when an embezzlement is discovered.

WORKERS' COMPENSATION FRAUD

Under the RAPP umbrella are our investigations into fraud against the Worker's Compensation Program. These investigations save the Postal Service millions of dollars each year in what would have been lifetime costs for the support of employees making false disability claims. Fraud detection and elimination is but one part of workers' compensation cost control. A joint task force of the Postal Service's Human Resources office and the Inspection Service identified many other areas, and Human Resources is pursuing these and achieving significant cost avoidances. We are working with Human Resources on proposals to do even more in this area.

The Inspection Service and the Inspector General of the U.S. Department of Labor conducted a joint review of the administration of the Federal Employee's Compensation Program. Significant program improvements were noted in both the Postal Service and the Department of Labor as a result of their efforts over the past three years.

The payment of compensation and medical benefits to employees who have sustained injuries while on duty continues to be a growing expense to the Postal Service. The Postal Service is responsible for funding all payments to postal employees receiving workers' compensation benefits. The administration of the Federal Employees Compensation Act (FECA) is handled by the Office of Workers' Compensation Programs (OWCP) of the Department of Labor (DOL). While FECA covers all federal agencies, the Postal Service represents about 25 percent of all FECA payments. The Postal Service has a vested interest in the program because it has accrued at least a $4.7 billion future liability in workers' compensation claims since the Postal Service reorganization in 1971. In addition, the Postal Service paid approximately $27.7 million in continuation-of-pay benefits in 1995 and incurred workers' compensation cash outlays totaling approximately $501.1 million for the year.

The Postal Service fully supports the intended purpose of the workers' compensation, but a small percentage of postal employees and medical providers abuse the system, causing the Postal Service to incur millions of dollars each year in fraudulent claims and enforcement costs.

In an attempt to minimize the Postal Service's exposure to workers' compensation program fraud, waste and abuse, Postmaster General Marvin Runyon recently approved a request for the Postal Inspection Service to fund an additional 25 postal inspectors to investigate workers' compensation program fraud and related matters. Additionally, 14 contractor fraud analyst positions were funded by the Postal Service to provide postal inspectors with additional investigative assistance and support for the workers' compensation program.

DOL regulations require individuals receiving workers' compensation benefits to report outside income; their benefit payments are then reduced accordingly. Postal inspectors continue to uncover incidents of unreported outside income. For example, a former distribution clerk from Washingtonville, NY, was arrested on charges stemming from his failure to report as required that he was self-employed; the former employee owned and operated a mobile food unit while claiming to be totally disabled. The man received over $200,000 in workers' compensation benefits before postal inspectors arrested him. This investigation resulted in a cost avoidance savings to the Postal Service of about $400,000.

In many cases, the type of unreported work being performed requires the same body movements that were restricted by the employees' physician. For example, at Linden, NJ, a former mail processor was arrested for making false statements regarding his claim for workers' compensation benefits after postal inspectors discovered he was selling real estate while claiming to be totally disabled with 'constant and severe pain.' The employee had resisted any rehabilitation efforts by the Postal Service and the Department of Labor. The former employee was sentenced to one year in prison. Estimated savings to the Postal Service on this case are $486,000.

The workers' compensation program is also subject to fraud and abuse by individuals outside the government. The vast majority of medical providers used by postal employees injured on the job have the best interests of their patients at heart; however, a few seek to take advantage of the program for their own enrichment. The submission of false bills, collusion with claimants to extend benefits and falsified claim documents are examples of cases investigated by postal inspectors. While the number of such cases remains fairly low, their potential monetary impact can be considerable due to the number of employees who may be affected by a single provider.

When job-related injuries preclude the performance of normal work functions, postal employees receive a monthly FECA payment while not working for the Postal Service. This wage-loss compensation is paid by the Postal Service through DOL in accordance with FECA. The projected monthly savings of the monthly FECA payment through age 70 is the amount referred to as cost avoidance. Workers' compensation fraud investigations conducted by postal inspectors last year resulted in a total cost avoidance of $57 million. The Inspection Service remains on target to achieve, for the third consecutive year, cost-avoidance savings exceeding $50 million. Our legislative proposal to allow for the Postal Service to collect debts from former employees by offsetting amounts against their FERS fund, previously discussed under the Employee Embezzlement section, would also aid our Workers' Compensation cases.

Following is a synopsis of RAPP efforts in 1995:

- RAPP investigations identified approximately $48 million in revenue deficiencies and resulted in the arrest of 416 employees for various offenses.
- Fraud against the Postal Service resulted in 117 arrests.
- Workers' compensation abuse resulted in disciplinary action against 321 employees, the arrest of 33 and the removal of 216 employees from the Postal Service.
- Financial investigations resulted in the arrest of 260 employees and contractors for embezzlement.

SAFEGUARDING POSTAL EMPLOYEES AND THE WORK ENVIRONMENT

Workplace violence continues to be an issue of concern for the Postal Service. Workplace violence against postal employees was a major topic of the July 25, 1995 oversight hearing of the Postal Inspection Service by this Subcommittee. In response to concerns raised by the Chairman and by Members of Congress representing Southern California, the Inspection Service agreed to review a variety of conditions and issues, including those related to the fear of violence in certain Southern California postal facilities. A multi-disciplinary task force interviewed over 800 employees and examined areas ranging from security concerns, working

conditions, and labor/management relations to sexual harassment, hiring practices, and fraud, waste, and abuse allegations. The review reaffirmed that craft employees and supervisors agree on the need to: deal more effectively with poor performance while recognizing good performance; improve union and management relations; improve communications and respect; and reduce the adversarial relationship.

The Postal Inspection Service promotes aggressive programs to ensure the safety of postal employees. The programs focus on reducing assaults on employees, eliminating drug sales in the workplace and preventing postal crimes. Safeguarding postal employees is our top priority; all assaults and threats to postal employees are taken seriously, and criminal charges are initiated when possible. Any instances of employee misconduct are reported to postal management for appropriate disciplinary action.

Assaults on employees during FY 1995 resulted in 491 arrests, and narcotics involvement by employees led to 108 arrests. Postal Inspection Service crime prevention efforts last fiscal year included:

- 158,000 investigative hours
- 2,712 employee presentations
- 1,384 post office security surveys.

The Postal Inspection Service's Security Force, is integral to the security program established for the U.S. Postal Service. Postal Police Officers (PPOs) provide security at postal facilities where risk, vulnerability and history demonstrates a need for their presence.

As you are aware, the Postal Inspection Service provided the subcommittee staff with recommendations for legislation that would create a statute to address stalking Federal employees and amend a statute to address assault of postal contract employees. We feel the enactment of such legislation would help increase the safety of employees by enabling us to address problems at a much earlier stage.

PRESERVING THE INTEGRITY OF THE POSTAL SYSTEM

The U.S. Postal Service is the world's largest postal system. Our customers rightly take for granted that a letter correctly addressed and mailed will be properly delivered. Today's Postal Service is in the communications business, competing with other companies and technologies for the opportunity to deliver America's messages. Its future success depends on its ability to become more businesslike and competitive. The U.S. Postal Inspection Service adds value to postal services in a variety of ways, including ensuring the security of items entrusted to the U.S. Mail.

Our criminal investigations target violations of statutes intended to protect postal customers, the Postal Service and its employees from those who would compromise the integrity of the mail system. Criminal misuse of the mail ranges from theft and mistreatment to the mailing of bombs and narcotics. Postal inspectors respond to such crimes not only to enforce the law, but to reinforce customer faith in and satisfaction with the mail system.

Criminal investigations by postal inspectors during FY 1995 resulted in the following:

- Mail fraud investigations resulted in 1,538 arrests.
- Investigations of mail bombs and explosive devices placed in mail receptacles resulted in 119 arrests.
- Interdictions of controlled substances in the mail resulted in 1,887 arrests.
- Interdictions of obscenity and child pornography in the mail resulted in 142 arrests
- Mail theft by non-employees and contractors led to 4,565 arrests.
- Mail theft or mistreatment of mail by employees resulted in 607 arrests and the removal of 1,116 individuals from Postal Service employment; 1,491 employees also were disciplined.
- A total of 297 employees were disciplined for miscellaneous crimes, including sabotage of equipment and theft of postal property. Of these, 59 employees were arrested and 179 were removed from Postal Service employment.
- The investigation of miscellaneous external crimes, which may include counterfeit and contraband postage, money order offenses and vandalism, resulted in 536 arrests by postal inspectors.

Postal inspectors protect consumers from false or fraudulent mailings through civil statutes related to misrepresentations in mail order marketing. Inspectors may ask operators to sign an informal Voluntary Discontinuance in less severe instances; they may obtain a Consent Agreement in which an operator agrees to modify or discontinue a promotion; or may obtain a False Representation Order or Cease and Desist Order, requiring that mail addressed to an identified scheme be returned to the sender, that money be returned to consumers or that the operator stop engaging in the scheme. If more immediate measures are needed, inspectors seek a Temporary Restraining Order or Preliminary Injunction to detain mail.

The Inspection Service considers a number of factors in deciding whether to seek relief under the false representation and lottery statute. First, and most important, is the content of promotional materials. Inspectors normally make test or demand purchases of products or services that consumers will receive if they respond to a promotion ("fulfillment"). In some cases, those samples are obtained from complaining consumers. In most lottery cases, fulfillment is not required because the solicitation constitutes a lottery on its face.

Evidence is also gathered regarding the identity of the persons or entities responsible for a scheme, or whether there is scientific evidence which substantiates any medical or scientific claims made in an advertisement. Except in serious cases where criminal intent to defraud is apparent, a case will be forwarded to the Postal Service Law Department for action if the fulfillment is not what is advertised, will not perform as advertised, or the representations in the solicitation are otherwise not substantiated.

Often inspectors become aware of a scheme because a large number of consumers complain about it. If a scheme is generating a large number of complaints, there is a large volume of mail [illegible] the scheme, or the dollar loss to the public is significant, those facts [illegible] the decision whether to devote resources to it.

When they have evidence of a false or fraudulent scheme, inspectors must decide whether to present the matter to the United States Attorney for consideration of prosecution under the criminal mail fraud statutes, or to present it to the Law Department for civil action or both. Many factors affect this decision, including whether a target's intent to defraud can be demonstrated.

Most statutes authorizing the government to seek injunctive relief require a different showing than that of probable cause. One exception, in addition to Section 3007, is 18 USC Section 1345, which has been interpreted to require that the government show probable cause to believe that a person is engaging in a violation of 18 USC Section 1341 (mail fraud) in order to obtain a preliminary order enjoining that conduct or activity.

Standards of proof required of various agencies in statutes authorizing injunctive relief vary, but most statutes require a "proper showing" to support injunctive relief, or do not specify what showing is required. It is not clear which of these statutes has the highest standard of proof because the standards are usually not clearly defined. It is clear that a "strong prima facie case" as required in Securities and Exchange Commission (SEC) cases is a higher burden than probable cause. However, we interpret the National Labor Relations Board "reasonable cause" standard as the same or lesser burden than probable cause.

As an initial matter, our research reveals that few other federal statutes are directly comparable to Section 3007, which authorizes the court to order the Postal Service to detain the defendant's incoming mail pending a full administrative hearing on a complaint filed under Section 3005.

Section 3007 has a very limited purpose: to preserve the status quo between consumers and the defendant until the administrative process determines whether the defendant's incoming mail, containing consumer remittances, will be returned to sender pursuant to Section 3005(a)(1). Unlike most injunctive actions, court decisions under Section 3007 do "not affect or determine any fact at issue in the statutory proceedings," i.e. in the administrative court. Thus, once a district court issues (or refuses to issue) a preliminary injunction, it has no further authority. The jurisdiction for making a decision about the permanent fate of the defendant's mail lies with the Postal Service and the courts to which Postal Service decisions are appealed. The standard of proof governing the permanent relief available under Section 3005 is the "preponderance of the evidence" standard.

In contrast, the court issuing most injunctions sought by the SEC, FTC, CFTC, FERC, and IRS is the same court which ultimately will decide whether to issue a permanent injunction against the challenged activity. Thus, the standard of proof set out in the injunction statutes applies to the permanent relief, not just the preliminary relief. It follows that a higher statutory burden for injunctive relief would apply in those actions than in status quo statutes like Section 3007.

A lower standard of proof in Section 3007 actions is also appropriate because the relief requested, detention of mail containing consumer remittances and responses, is so limited. The remedies available to other agencies seeking injunctive relief are far more onerous.

In addition, the higher standards of proof required of other agencies are matched by greater investigative authority. Every other agency may issue civil investigative demands or investigative subpoenas, and has the authority to subpoena witnesses. The Postal Service has neither investigative subpoenas authority nor the authority to subpoena witnesses to testify at hearings.

Finally, a lower standard of proof is reasonable in light of the potential harm to consumers whose remittances are sent in response to a false representation scheme. The Postal Service has no authority to order a promoter to make restitution to consumers, even if a mail-return and false representation order are ultimately issued. Thus, the maintenance of the status quo between consumers and the promoter may be the only opportunity that the government has to ensure that consumers do not lose their money if the promotion is based upon misrepresentations.

During FY 1995, postal inspectors initiated the following action:

- 2,983 promotions were voluntarily discontinued
- 209 administrative action requests filed
- 168 complaints filed with administrative law judges
- 88 Consent Agreements filed
- 13 Temporary Restraining Orders filed
- 117 False Representation Orders filed
- 105 orders to withhold mail issued.

Forfeiture is a powerful law enforcement tool. It deprives criminals of the use of their ill-gotten gains and serves the tenet that "crime does not pay." During FY 1995, inspectors conducted 405 seizures of property with a total appraised value of over $16 million and secured 353 forfeitures.

Fines ordered as a result of Postal Inspection Service investigations resulted in $26.7 million in assessments and voluntary and court-ordered restitution of over $1 billion.

The Postal Inspection Service was one of the first agencies to recognize the potential for recouping losses through the Program Fraud Civil Remedies Act (PFCRA). In FY 1995, postal inspectors referred 58 cases to Postal Service attorneys for administrative action through this authority, including individuals or companies who attempted to defraud the Postal Service. Successful PFCRA actions have included contract fraud, employee embezzlements or other schemes to knowingly deprive the Postal Service of revenue.

Postal inspectors at division offices are designated as Public Information Officers. Their responsibilities include alerting postal employees, consumers and business to current crimes by circulating media releases and hosting prevention presentations before various groups. During FY 1995, PIOs made 874 television and radio appearances, provided 752 print media interviews and sent out 321 news releases.

While promoting the efficiency and integrity of Postal Service programs as an important part of our Inspector General mandate, we are in the forefront of the IG community as a leader in effecting the cultural change necessary to move our agency forward. We are using our audit and investigative skills to work jointly with postal managers and customers to achieve creative solutions to existing problems and the challenges of an increasingly competitive environment.

We are striving for excellence in our Inspection Service goals of improving Postal Service performance, improving public confidence in the use of the mail, ensuring the safety of employees, increasing revenue and reducing costs. This partnership will strengthen the Postal Service and help enable the organization to move forward as a viable competitor in the marketplace of the future.

We look forward to working with postal management, postal customers and Congress to not only maintain, but improve, the Postal Service's position as one of the world's most reliable and least expensive communications delivery businesses. Thank you for the opportunity to address the subcommittee. We would be pleased to respond to any questions you may have.

Mr. McHUGH. Thank you, Mr. Hunter. I appreciate that.

Mr. Motley, let's begin with you. It's been about a year and a half since you issued your labor-management report about the problems of bad relations on the workroom floor. You mentioned it here again today. Page 3 of your statement reminds us that Congress may want to re-examine aspects of the employee-management relationships that continue to be barriers to developing long-term agreements, and on and on and on.

First of all, I'm curious, do you have a list or a recommendation as to which part of those problems are simply contentious issues in terms of negotiations and which are an area for a legislative remedy? I would assume that many Members of the House, at least, would be concerned about going in and disrupting what would normally be considered collective bargaining. If two parties can't agree to a process and an agreement that helps the institution, that's unfortunate, but that's the way negotiations go sometimes.

We would, obviously, be interested where, in your opinion, there is need for legislation to force agreements where they should be reached. Are you able to tell us where the difference might lie?

Mr. MOTLEY. I think the difference is difficult to define in many regards, Mr. Chairman, but let me say this, that a good number of the issues that were raised in that 1994 report are ones that the Postal Service could probably begin to initiate from a management perspective and attempt to work with the unions.

There are a few issues that are addressed in that report that fall into the 1997 legislative perspective, such as the ones that you referred to a little bit earlier, the collective bargaining issues and also the right to strike. With regard to collective bargaining, there might be some other options that may or may not be more palatable. We haven't pursued them entirely at this point. They deal with an approach of final offer arbitration, which is a little bit different than the procedure that exists now.

You have probably heard discussions from the unions as well as the Postal Service regarding the idea of the right to strike. There is a lot of contention there as to, if they receive the right to strike, should there be a right to have replacement workers.

So I think the real role that this subcommittee can play is in looking at those things from a legislative perspective, but also in keeping a very strong monitoring role over the actions that the Postal Service either could take or already has taken.

My sense is that a lot of the initiatives that would be related to the recommendations we addressed, there has not been much action by the Postal Service to initiate something there. And I think continued efforts on this subcommittee's part to hold the Postal Service accountable to those recommendations is probably the best approach.

Mr. McHUGH. So, in those areas you mentioned last, we're talking about administrative will rather than legislative authority.

Mr. MOTLEY. That's correct, Mr. Chairman. Mr. Campbell would like to add something.

Mr. CAMPBELL. Well, I may not add a lot to what Mike has said, but I would point in our statement at page 2, to an example of what happens where the so-called noneconomic and economic is-

sues get entangled, and all of the issues then go to arbitration. In fact, nothing gets settled at the table. That happened in the case of the Postal Service and NALC or city letter carrier negotiations in 1994.

So anything that could be done through legislative change or in some other way to encourage the parties to come to agreement at the table could address a number of both economic and noneconomic issues. Our reports dealt more with the work floor issues, the noneconomic, or the quality of work life, issues.

Mr. MCHUGH. Which continues to be a problem.

Mr. CAMPBELL. Yes, sir.

Mr. MCHUGH. You may have heard me ask the Postmaster General about one of the comments in your testimony with respect to the apparent inability of the Service to integrate system-wide those things it may be doing well in isolated locations. His comment—I hope I accurately recall it—was that their current CustomerPerfect! program was intended to address that.

I would be interested if you would care to speculate on whether or not you think that can happen in the current environment. But, even apart from that, were you able, in making that observation, to identify what failing there might exist? Is there something in the system that could be corrected, absent a total CustomerPerfect! initiative, that could help them to integrate what they do well?

Mr. MOTLEY. I will have Mr. Campbell respond to that, Mr. Chairman.

Mr. CAMPBELL. We did report, in December of last year, the lack of sharing of what we call "best practices" that are implemented at various places in the Service, the problem of not sharing those, in many cases, even within a district or within the local office. By the way, that problem had also been reported by the Inspection Service sometime earlier.

One of the more promising initiatives that we saw in the course of our review was electronic dissemination of these ideas in the form of an electronic bulletin board. I don't know the exact status of that, but with an organization the size of the Postal Service, it would seem that there needs to be some method of that sort where employees and managers throughout the Service would have easy access to what really is working.

But then, of course, management, or the leadership of the Postal Service needs to identify those. They could do some showcasing where there is something that really works. I've seen that at other organizations where they will bring in these practices and demonstrate them, and it's called "showcasing". I'm not sure they have done that, but they are working on it and it is a part of their CustomerPerfect! initiative.

Mr. MCHUGH. The information is certainly important. You can't act on what you're doing well if you don't have the information that identifies that. But don't you have to integrate it? Is part of this problem related to your observations on lack of a training program at the management level, or are they separate?

Mr. CAMPBELL. There's training needed and training underway in the area of teamwork, and this is where the management team and work team, at the operating level, are working together to get the job done. In that context of trusting one another, sharing infor-

mation, it seems to me that, if there is a good practice, there's a greater opportunity that that practice will be shared, if they have that teamwork. And they are trained in that regard.

If I'm answering your question, I see a relationship in that regard, working in a team, not only at the unit level, but at higher levels, so the information does flow. It's sharing information, not holding back.

Mr. MCHUGH. Yes. And then, ultimately, you have to have an atmosphere on the workroom floor for the worker.

Mr. CAMPBELL. Of trust.

Mr. MCHUGH. Yes. Which goes to training, as well.

Mr. CAMPBELL. Yes.

Mr. MCHUGH. How you get management to be able to convey that more effectively.

Mr. MOTLEY. I might just add to that, Mr. Chairman, that one of the things that we addressed in the 1994 report and we were quite high on last year was the leadership team. This is comprised of executives at the Postal Service level, management associations, and the unions. One of the things that we said in that report is that concept needed to work itself down through the organization. And I believe some of those things Jim is sort of alluding to in that teamwork type of effort and communication, we haven't seen that taking place in most of the locations.

Mr. MCHUGH. Any speculation as to why you haven't seen it taking place?

Mr. MOTLEY. I think part of it has to do with the labor-management relations problems. As inferred in our testimony here, one of the unions, in particular, has pulled out of the teamwork effort. And I'm not exactly sure of all the reasons behind that, but I think it's some of those reasons that we need to pursue so that there can be a better synergism among these groups.

Mr. MCHUGH. From your understanding of CustomerPerfect!, what would your—and I guess you mentioned that in your testimony, but I'd like to have it spoken to on the record, apart from that—CustomerPerfect! doesn't work perfectly well if it isn't a team approach. Is that a fair assessment?

Mr. MOTLEY. I would suggest that's true, Mr. Chairman. Again, in our 1994 report, we had a relatively large section that talked about all the initiatives that the Postal Service had underway. And the failure of some of those initiatives was directly attributable to the groups not being able to work together. I believe this is why we set this up, in the very beginning of this report, how important it is for the Postal Service to coordinate and get the cooperation of the unions and management associations.

I believe in Mr. Runyon's discussion this morning he indicated that they are working at the highest levels right now, and that they are just getting down to the workers. I think the real proof in the pudding of this initiative will be at that level.

Mr. MCHUGH. I agree. Well, obviously, a lot of things come back to this. And I don't pretend to sit here and have the answers to it. Obviously, there are real challenges involved. But I think, if we're going to have any kind of success, it's certainly something that has to be dealt with honestly and, hopefully, effectively.

You may have heard me ask Chairman Gleiman about your comments as to the 70 demand-pricing criteria. Would you have anything to say in response to his comments?

Mr. MOTLEY. I might just add, Mr. Chairman, that the Postal Rate Commission had an opportunity to comment on that report, and we attempted to address the comments they provided us in the report that we issued not too long ago. I would suggest to you that we weren't attempting to limit the ratemaking process in any particular way.

We felt as though the review that was needed was one of consideration as to what degree some of the factors that were considered in the ratemaking process should be put. And that's one of the reasons that we had, in that particular report and the earlier one in 1992, that Congress may want to look at these things to see what level of either demand pricing or other factors should be considered.

We said in those reports, as well, that the criteria appeared to us to be conflicting in some areas, and we felt as though that was a concern. I think it's fairly well laid out in the reports themselves. I can understand some of the comments that Mr. Gleiman had, but I think our report makes it quite clear what we were attempting to do.

Mr. MCHUGH. OK. Thank you.

You may have heard testimony today, and certainly not with any pride on behalf of the Postmaster General, that the Federal Government takes its overnight, its expedited mail services under a contract with one of their major competitors. I was interested in reading observations put out by GAO that, in your estimation, even if it had greater commercial freedom, the Postal Service may be unable to compete successfully because of some of the constraints they are under. Could you expand on that for purposes of the record?

Mr. MOTLEY. Yes, Mr. Chairman. When we looked at, specifically, the international mail area, and we made the statement there that the revenue growth had been significantly less than its competitors, really what we were seeing there was the quality of service issue. And there were some pricing issues, as well. Maybe Mr. Campbell can add to some of those in a minute.

But we were looking at a quality of service issue. Competitors were offering things that the Postal Service was not offering. I mentioned in the statement some things like warehousing or preclearance at the customs locations. As Mr. Runyon indicated, they are starting to address some of those concerns now.

I think, from the domestic perspective, what we have—and I think that it goes back to maybe your earlier issue about volume discounting or the report that we issued that talked about demand pricing as well as volume discounting—the Postal Rate Commission has basically said that the Postal Service can provide volume discounts if it's able to demonstrate that there is a savings in addressing that volume discount provided by a large customer.

In the 1990 rate case, I believe it was, the Postal Service asked to get a volume discount. However, the conclusion of the Postal Rate Commission is that sufficient data was not provided by the Postal Service to demonstrate that there was going to be a cost savings.

In the example that we have in our testimony, it's maybe not geared to some of the service issues, because we can't suggest that the contractor that currently has the GSA contract and the Postal Service overnight delivery are identical; however, they are very similar in many respects. But when you see a cost differential of $3.70 versus $10.75, you say, "Could the Postal Service do it for $3.75?" And I believe that's really what they need to demonstrate.

Mr. MCHUGH. Mr. Campbell.

Mr. CAMPBELL. I think Mike's last point was the thing I was going to add, that that price differential, $10.75 versus $3.70 or $3.75, is quite a difference, that they would have to, presumably, make up through, I suppose, volume discounting. That seems to be quite a challenge to bring the price to that competitive level.

But there are other aspects of that at least I found interesting. The contractor, Federal Express, is doing desk-to-desk delivery, nationwide, about 98 percent of the time, on time. And the Postal Service is running about 95 percent. So the Service would have to compete on the basis of both price and delivery service, and I would see a challenge on both of those.

Even with the flexibility of offering customer-designed packages, which is what's involved there, we don't know whether or not they can do that. They have never had, really, the opportunity. But I think it would be interesting to see.

Mr. MCHUGH. A real challenge. Increase delivery efficiency and cut the price by two-thirds.

Mr. CAMPBELL. Yes, sir.

Mr. MCHUGH. Well, before we leave you, international mail, you had your report earlier this week that you referred to.

Mr. MOTLEY. Yes, sir.

Mr. MCHUGH. And you cited several policy issues that we on the subcommittee should reexamine when we consider our reform proposals. I'd like to have you state a couple of those for the record, because I think that's an important thing to have out there.

Mr. MOTLEY. Mr. Chairman, I'd like to have Mr. Campbell add a few comments regarding that.

I think some of the things that we have to look at, and I believe Mr. Runyon brought them up during his testimony, are the Department of Transportation issues related to control over the prices for air carriers, American flag air carriers. He indicated that the Secretary of Transportation would like to relinquish that responsibility, and I understand that there are some things in the works to, in fact, do that.

I think some of the flexibility that's currently provided, in some ways, it will be a test for the Postal Service to see whether or not they are able to compete, much like Mr. Runyon is projecting that they will, because it just goes back to the previous discussion that we had. If they are able to improve those services, and they have made numerous initiatives over the last couple years to improve those international mail services, then it might show that they will be able to compete.

I wouldn't directly correlate it to the domestic market, but it will be interesting to see how the Postal Service goes along.

Mr. CAMPBELL. In terms of legislative changes that might deal with the issues in that report, our very fundamental message is

that, in effect, the whole ball of wax needs to be looked at together; that is, the price regulation, the monopoly, and all these things, we would think need to be addressed together. We, in that report, elected not to go into any particular recommendations for change as affects just the international mail service.

I think that's all I would be able to add to that.

Mr. MCHUGH. OK. Well, I thank you.

Mr. Hunter, you heard in Mr. Motley's testimony his reference to problems currently being encountered and losses through the bulk business mail, and the revenue losses there. What can you do to help us more fully understand what that situation is and you might be doing to correct that?

Mr. HUNTER. It is one of our high priorities, as you know, as we set priorities and tackle them. Obviously, protection of the employees was first, but immediately thereafter is both the protection of the customers, the credit card initiative, and this whole revenue protection initiative, the oldest part being the meter part which is now about 3 years old, and then, of course, the rest that followed on from that.

We spent a significant amount of time briefing your subcommittee staff on the things that are being done there. There's no question that we feel that there's an exposure there that needs to be reduced, that it is too easy to cheat the Postal Service on revenue today.

So instead of taking the traditional approach of simply auditing and investigating and presenting cases to the U.S. attorney, we have aggressively included not only all the appropriate functions from within the Postal Service but the vendors of the related equipment, whether it's multiline optical characters readers or the meter companies, and the customer, because the customer ultimately suffers. If one of their competitors doesn't pay postage and they do, they will lose business to the competitor who then has the advantage.

We've identified that a number of things need to be done, which could be summarized, as follows: one is, important system changes need to be made in the equipment that produces the postage or the information, in the case of multiline optical character readers. System changes need to be made by the Postal Service. It accepts so much mail, so fast, every day, that needs to be less manual and more automated. So a series of system changes that involve procedures, that involve hardware, that involve training, that's an important aspect of it.

We're not where we want to be yet, but I am pleased that the involved parts of the Postal Service and the industry are very focused on it and are working in that direction, from encrypted meter indicia, to digital meters, to software protection on the MLOCRs that are available commercially, to developing systems to automate a lot of the necessary review of the acceptance of mail.

Mr. MCHUGH. Mr. Motley, you heard that. Feel better?

Mr. MOTLEY. Does that make me feel better? Well, I think it does help a fair amount, Mr. Chairman, to know that these things are being looked at by the Inspection Service and that there are some improvements. However, some of the concerns that we have—I'll give you an example.

When bulk mail is accepted—our future report that, hopefully, will be out not too long from now, will lay out, in some regard, some of the equipment that is not even available yet for acceptance clerks to use in evaluating whether or not bar codes are readable.

In some regards, how they have been making that determination is holding the letter piece up and eyeballing the bar code. And if it's "akilter", you know, they know that it won't be able to be read by the automated equipment. But if it's off, let's say, from—I don't know what the tolerances are—it might not be able to be read by the automated equipment.

Until they get the new equipment, which isn't scheduled to come to them until May, they won't be able to assure themselves, from an automated perspective, whether or not some of these bar codes will actually go through the automated equipment. This is where the Postal Service ends up incurring additional expenses when they have previously given the mailer the discount for the mail.

There are, I believe, 260 pieces of this automated equipment, and it's equipment that will be portable, so it could move around from one location to the other. It's called "automated bar code evaluator", or "ABE", for short. But this equipment won't be available till May. Keep in mind that the rate reclassification will take place effective in July, which I think everyone anticipates it will significantly increase the amount of bulk mail business coming into these centers.

So in addition to the things that Chief Hunter has spoken about here, I think it's important that these systems get out there quickly, that they get tested, and that they are monitored by the Postal Service. I think management attention—in many instances, let's say, the Postal Inspection Service has brought these problems to the attention of the Postal Service, and I don't believe the kind of management attention that's warranted for such a large portion of the revenue generation in that area has been brought to bear at this point.

Mr. MCHUGH. Mr. Hunter, any other response to that?

Mr. HUNTER. I would agree that improvements are needed. In terms of the improvements, the piece of equipment mentioned is but one piece of what is needed. I mean, there are a number of other things that they are working with, like artificial intelligence systems that will literally direct the acceptance clerk to do things based upon information the system has. We are going to perform a national audit of bulk mail acceptance this year, because we want to further quantify the areas that require improvement.

Mr. MCHUGH. In government, we always like to append a price tag to everything, particularly how much we're losing through fraud and abuse and such. Is there an estimate as to what the Postal Service believes is being kept from its treasury through fraud a year, $1 billion, $2 billion, half a billion?

Mr. HUNTER. No one knows how to quantify that at this point. There are estimates. In fact, the Finance Department did a fairly sophisticated estimate at one point, with regard to what the losses could be just in the meter area, which is one way to accept postage. There's also the permit and the stamps, of course. Their estimate ranged from zero to about $170 million.

I personally feel—and it's strictly me, personally, from our experience—that the exposure could be $100 million in the meter area and $100 million in the permit area. And I don't know what it is in the counterfeit stamp area, because we haven't had enough significant cases there, but I think that's a threat also.

Mr. MCHUGH. I'll bet you it's not zero.

Mr. Motley, have you ever see any figures? Does that sound reasonable?

Mr. MOTLEY. It would be difficult for me to suggest, Mr. Chairman, what a reasonable number might be. Mr. Campbell may want to respond.

Mr. CAMPBELL. I would just add that one of the recommendations we have in the report that will be going over to the Postal Service within the next 2 weeks, we expect, is that the Postal Service try to get a handle on the amount of losses that are occurring as a result of the bulk mail acceptance, just in that one area.

We think the Service needs that, and they don't have it. They don't have any even reasonable estimate of how much mail is coming through that has a shortage of postage paid.

Mr. MCHUGH. Well, Chief Hunter, you heard it first here.

Well, you mentioned you're going to do an audit this year; you plan to do a national audit this year on bulk mail. What other national audits do you foresee in the near future?

Mr. HUNTER. Well, we also have one planned in the metered area, when you're speaking of revenue protection. Besides that, there are other ways, of course, that the Postal Service can achieve significant savings, and it has to do with productivity. So, in doing our risk analysis of what are the areas that should have the highest priority, we're directing a lot to that area, also.

For example, with the automation, it's important to not only ascertain that the equipment works as designed, but are the benefits being realized for which it was designed. So we will be focusing, for example, on the city delivery area, because a prior audit of the delivery sequencing disclosed that although productivity gains are being made in the office, they are being lost on the street. So we will be focusing on that, as an example.

We will also be taking a look at allied labor. As was indicated by GAO, the number of employees has increased, and it increases for a number of reasons. I mean, new deliveries, 1 million new deliveries a year, new homes and things, requires a lot more carriers. And volume drives it up, too.

But the Postal Service and the Inspection Service are concerned about the growth in what's called "allied labor", labor that is involved with the transport of mail between machines and a number of things like that. It's kind of a miscellaneous category. So we will be performing a national audit in that area.

We have a number of other national audits. We have provided you with our audit plan for this year that's based on that risk analysis. The remote bar coding system is another example of an area we're going to take a look at nationally, as well as the international mail. And another one that we're going to do is to audit the follow-up on the audits, because we've changed our audit program to not only identify things that are not in compliance, the 700-plus findings we had last year, but the best practices.

So we're going to audit the followup on the audits. When we made recommendations for improvement, were they adopted, and then sustained? Another thing that has been done in that regard that I would like to mention is that the Postmaster General now has asked to be briefed at the time audits are initiated and then personally briefed on the results. That's helping a lot with the visibility, also.

So we meet with him on the average of once every 2 weeks to share the results, and he is very process and production oriented because of his background and his training. That's helping to gain visibility for best practices being adopted elsewhere, because he's very good at asking why until he gets an answer that's acceptable.

Mr. MCHUGH. Your working with the PMG in that fashion leads to an area that we discussed last year and, quite honestly, it is a topic that has been brought to the subcommittee's attention at various times over the past 12 months, and that is the structural status of your office vis-a-vis the Postal Service itself.

As you may recall, we talked about your legal positioning, in that you are not technically apart, either in your audit or your inspection service, from the Postal Service. And the question is, does that somehow inhibit your independence? Does it somehow cast a question as to perhaps your being too close to management to critique them and to oversee them fairly.

I recall very clearly your response at that time. You didn't believe that that was, in fact, the case. Chairman Gleiman changed his mind about subpoena power in the last 12 months. Have you had any additional thoughts about that legal structure in which you find yourselves? Do you think it inhibits you now?

Mr. HUNTER. No, I don't. I understand the concern. I was amused, because, if the objects of our audits were asked if they felt we were independent, they would probably reply, "We feel they are too independent." We are not the subject of any effort on the part of the Postmaster General, or anyone else within the Postal Service, to not audit things or change our findings.

One of the things the Postmaster General did shortly after he became Postmaster General, because of some concerns he had similar to what you've raised, he hired two outside experts to take a look at that whole issue, two people that are very respected, former IGs. I would also add that, besides reporting to the Postmaster General, as you know, we report to the Board of Governors, which relies upon us heavily for independent assessment of things that they approve or are interested, whether it's expenditures or other concerns they have, and also to you, as we recently demonstrated with your request to take a look at the situation in southern California, plus some broader concerns that existed.

So we have three entities that we report to, that we strive very hard to serve well, and it's not a problem for us.

Mr. MCHUGH. First of all, just for the record, I certainly wasn't—and you didn't say I was—but I want to make it clear that it's not my intention to question anyone's integrity or the effort with which they pursue their assigned duties.

You brought up southern California. As you know, that's a very troubling situation to all of us, and I commend you here today for the effort that you and your department put forward, a lot of work,

a lot of effort. Unfortunately, we haven't been able to utilize the tools that you gave us as yet to remedy that situation. You may not agree with that. If you don't, I would be happy to hear it. That's not your shortcoming.

But it was my understanding, by way of example, that as you were attempting to interview certain employees, you were identified as part of the problem, not a potential part of the solution; that some were saying, amongst the employees, that this Service is nothing more than an extension of the PMG, and if we talk to them, it will ultimately end up to the knowledge of our supervisors, to our detriment.

Would that not be a situation that could be rectified if there were some kind of wall of separation constructed?

Mr. HUNTER. I don't think so, in this case. First, in direct response to that, GAO encountered the same problem when looking at a situation that they looked at in 1994. And, of course, as you know, we've both come to the same conclusions regarding the change that needs to take place in the relationships for the Postal Service to be successful.

We, of course, were accused of just what you mentioned, as were they, in terms of the source of information that they relied upon. The feeling by the organizations involved is that, if you want to know how employees feel, it's their responsibility to tell whomever the inquirer is how they feel. So they have the same reaction, in the remarks to their report, as we encountered.

Now, the second point is that, in spite of that official stand of employee organizations, when we went out to interview the employees, as you know, in 19 of the 20 offices, or actually 21 of the 22, the employees cooperated. Again, it was voluntary, but, as you know, hundreds of them said, "Yes, I would like to be interviewed. I would like to say how I feel."

And, of course, their feelings were similar to what GAO found using a different source, using the employee opinion survey data, and we, in effect, did the same thing in person. They said, "Hey, we would like to see more positive labor-management relations. We would like to see less of this adversarial relationship. We would like to have some shared goals." I mean, they are all very dedicated to providing service to the customer. They would like some of this interference out of the way.

So we were able to do it, in spite of some of those feelings. An independent organization, GAO, encountered some of the same feelings, even though they are independent. What needs to be tackled are the root causes, the thing you're driving at, in terms of, how do we solve this relationship problem? I think you're trying to do the right thing in terms of bringing pressure to bear on the parties to get together to work it out.

This can only be worked out by the parties. The imposition of solutions has not worked. Thousands of grievances have been decided by a third party, and yet the number of grievances continues to go up. Imposed solutions that are on a win-or-lose basis won't lead to the kind of relationship that's necessary to be successful.

Mr. MCHUGH. Mr. Motley, is that your recollection of your 1994 experience; were you viewed in that way?

Mr. MOTLEY. I think what Mr. Hunter may be referring to, and my recollection, more of the "You're part of the management organization" type concept came in responses to our draft report that was sent out to the unions as well as management associations, some of which provided written comments and characterized that kind of thinking in those written comments.

Maybe some of the other things that you were alluding to weren't quite there. But I think that's where we encountered much of that kind of response. Unions perceived that we were part of the Postal Service organization and a management organization, when, in fact, that wasn't the case at all. But I believe that's a position that many of those organizations have continued to take over the years in representing their membership.

I believe it's those kinds of barriers, particularly, Mr. Chairman, that need to be addressed in some regard. I think there's a significant amount of distrust among and between those organizations. Maybe the summit that the PMG has recently called for could help to alleviate some of those concerns.

Mr. MCHUGH. Well, we would hope.

Chief Hunter, you mentioned that safety of the employees is your top priority or among your top priorities. For the record, why don't you tell us what you and the Postal Service, in general, are doing to enhance that. Obviously, violence in the postal workplace and in post offices continues to be a concern of us all. What can we look forward to happening differently, if anything?

Mr. HUNTER. Well, you've identified one category of concern, in terms of violence in the workplace among employees. As was outlined in July, there are a number of things that the Postal Service and the Inspection Service are doing. No. 1, we investigate every assault and every credible threat, and we apply some very onerous and detailed requirements on those investigations in order to not only investigate the specific incident but to determine whether or not it may be one step in a series of incidents that could become more violent.

The Postal Service, with regard to workplace violence, has been doing a number of other things with the organizations and on its own, from the National Committee on Workplace Behavior; the national forums it's held; the pre-employment screening changes; more employee training and stand-up talks; the 85 mental health professionals that they retain, one per district; the EAP program, which is probably the most robust anywhere, the up to 12 free counselings with an outside agency, at no expense to the employee, for any reason, just in an effort to reduce stress in the workplace; the EAP hotline; the Inspection Service hotline; the kinds of things that we do.

But I would also hasten to add that employee-on-employee violence isn't the source of all the threats against employees, that non-employee assaults on employees is also a very important area that we work in, as well as the reduction of hazardous materials in the mail. Robberies clearly are an example of an area of often non-employee violence on employees, and we've made some significant progress there, too. In fact, it's very related to the prior subject.

Working with one of the major employee organizations in southern California, we've driven down robbery significantly in the L.A.

area, which did have almost half of the robberies in the Postal Service last year, almost half of the 282 robberies. By working personally and officially with the organization, myself meeting with their president and about 100 to 200 of his stewards each year, and combining the ideas of the carriers and the inspectors and postal managers, there was a significant reduction.

So a lot is going on in that area. That's also a demonstration that there can be common goals that people agree upon that make progress, even though they belong to organizations that would seem to be in opposition. I could cite examples where the opposite is the case, too, of course.

Mr. MCHUGH. When you deal with prevention, you're into a situation of judgment, do we turn our post offices into police stations? But clearly there are instances where the potential for violence is significant enough to warrant the posting of police personnel on a regular basis. Are there set criteria as to where you place those officers? How do you make that judgment?

Mr. HUNTER. We have criteria, in terms of where we assign postal police officers on a permanent basis, and in a moment I will ask Jeff to outline those. But we also assign either postal police officers or, if they are not in the vicinity, we contract for security in ad hoc situations. In other words, we may become aware of a particular threat, at a particular time, at a particular location, that we believe requires some enhanced security.

An example could be that someone is obviously targeting one of our employees, and there is a threat of violence. Until they can be apprehended or the necessary steps can be taken to have them institutionalized or incarcerated, we will add additional security. So it happens both on an ad hoc basis, frequently, or on a permanent basis.

Now, in terms of the kinds of things we look at permanently, that's one of Jeff's responsibilities, and I will ask him to respond.

Mr. DUPILKA. We conduct facility surveys to determine deployment of postal police officers that involve a number of factors. Primary would be the employees in the station or the facility; hours of operation; mail volume on hand; the risk attendant in the direct area surrounding the facility; the type of facility that we've built, in terms of security, what we can put into a different area; what we've done as far as the perimeter, what surrounds it, geographically, as well as the environs around it; and what we can build in as far as hardware.

As you see in some of our newer facilities in different parts of the country, if we build new buildings, we do things that other corporations that build facilities in this country do, as far as building security into the building: access controls, gates, lighting, fencing, and those types of things.

Mr. MCHUGH. In my recollection of Willie Sutton, who robbed banks because that's where the money was, I would assume the potential for robbery at any postal facility is directly relevant to the amount of cash on hand. Even the smallest of rural post offices has cash on hand. 7-Eleven has the sign that says "No more than $50", and other facilities have a wall safe where you deposit that cannot be opened. Have we ever considered that kind of action to lessen the incentive and to keep the Willie Suttons at bay?

Mr. DUPILKA. In terms of robbery prevention, that's exactly what we're doing. The Postal Service has done some wonderful things as far as their cash management, getting the amount of money that's in an office out, and securing the amount of cash that's in an office, when it's in there, in a security container that's not generally accessible except to certain employees.

We're also using more credit card acceptance across the Nation. We're going to be the largest acceptor of credit cards, nationwide, when we're fully deployed in that area, which will remove a lot of the cash from the offices, because people will be able to pay with credit cards and not have to bring cash and other negotiables into the post office.

So we're doing some very innovative things there, Postal Service-wide, to keep the money out.

Mr. MCHUGH. Just a suggestion, maybe we ought to do a little PR-ing of that fact. I mean, it's kind of useless if someone comes in to rob the place, inflicts harm, and then later finds out that you've done all these things and there's no cash, but the harm has been done. A la 7-Elevens, when you walk in there, you know the clerk has no more than $50, because they make very clear that situation. Maybe we need to do the same.

Mr. DUPILKA. I think that a good example would be, over the weekend, we saw in the Post that even though there is very little money available actually in banks that you can get at, and the high likelihood of getting caught is there, that people are still robbing more banks than they ever had in the past. It's just indicative of some of the things that are going on in this country, in terms of violence and robbery.

Mr. MCHUGH. Well, no argument there. Obviously, you're always going to have an element who don't make rational decisions as to who they will rob. It's so shocking.

Mr. DUPILKA. We fall into that trap. We try to overlay a rational thought process on essentially an irrational act.

Mr. MCHUGH. Precisely. That's why it's good to get congressional input.

Let me thank all of you gentlemen for your testimony today, as well as Chairman Gleiman and Chairman del Junco and the Postmaster General, for being here today and helping us, not just meet our legislative requirement of oversight, but to add to the discussion and to, most of all, provide us information that we know will be very useful to us as we continue the process of reforming and reexamining the Postal Service.

We look forward, as we do with the other panel members, to continue to work with all of you so that whatever end product we produce, it is as effective as it can possibly be.

I would also state for the record that we would like to reserve the prerogative of submitting some written questions to all of the panel members, all three panels, on behalf of not just the Chair but other subcommittee members. We would appreciate, if we do exercise that prerogative, your cooperation in responding at your earliest convenience.

So with that, thank you all, every one, and we will adjourn the subcommittee for today.

[Whereupon, at 1:30 p.m., the subcommittee was adjourned.]

[The questions and responses of GAO and the Inspector General follow:]

GAO RESPONSES TO QUESTIONS OF APRIL 9, 1996, FROM THE CHAIRMAN, SUBCOMMITTEE ON THE POSTAL SERVICE, HOUSE COMMITTEE ON REFORM AND OVERSIGHT, RELATING TO MARCH 13, 1996, HEARING

QUESTION 1

In your testimony, you stated that there are internal control weaknesses in the Postal Service's system for the acceptance of bulk mail as well as the fact that some of the Service's purchasing practices have added to its costs. What are some of the control weaknesses and the purchasing practices that are adding to high costs?

GAO RESPONSE

Bulk Mail Acceptance

We identified a number of control weaknesses in the Postal Service's bulk mail acceptance program. Required verifications and supervisory reviews of mail preparation/postage due on huge volumes of discounted mailings submitted by customers were often not done. Even when verifications were done and mailings were rejected, the Service did not have adequate controls to ensure that the mailings were not later resubmitted and accepted into the mail stream without the errors having been corrected or additional postage paid. Acceptance clerks were not given the tools they needed to adequately determine whether the increasing volumes of mailer-applied barcodes met Postal Service technical standards. Consequently, the potential existed for bulk mail with discounted postage rates to be accepted for processing and delivery with barcodes that could not be read by the Service's automated sorters.

All of these situations may have resulted in lost revenue to the Service because the Service would have, in effect, "paid" customers to do work (sorting, barcoding, and transporting of mail) that the Service had to do itself. However, the Postal Service did not know how much revenue was being lost by accepting improperly prepared mailings. The Postal Inspection Service has, for several years, identified bulk mail acceptance as a high risk for potential revenue losses. Overall, the dollar amount of the discounts on such mail is estimated by the Service to be about $8 billion annually.

Service executives have recognized the vulnerability of the system to revenue losses and have started taking some steps to minimize the effects of known control weaknesses. For example, while bulk mail acceptance is primarily a marketing department responsibility in the Postal Service, a unit was recently established by the Chief Financial Officer/Senior Vice President to help ensure all revenue due is

collected. The unit was allocated $10 million, with the expectation that it will collect an additional $100 million in postage revenue.

Our draft report detailing our findings and recommendations is currently with the Postmaster General for official comment, and we expect to issue the report in final form to the Subcommittee in June 1996.

Purchasing

Our report[1] on selected Postal Service purchases identified several practices that contributed to higher costs for the Postal Service and its customers. In these purchases, there were two recurring themes–internal management controls were sidestepped and standards of ethics were violated. For example, internal control breakdowns in the review and approval process for acquiring a building in St. Louis, MO, resulted in the Postal Service paying a real estate development firm $12 5 million for a building that the firm had acquired earlier the same day for $4 million Service officials, pressured by an impending deadline and unsubstantiated belief that other parties were interested in the property, misrepresented details of the acquisition to the Board of Governors and failed to get proper approval from the Service's Capital Investment Committee before making the purchase.

An example of ethics problems occurred in a 1993 purchase involving barcode sorting equipment. The contracting officer failed to correct an apparent conflict-of-interest situation involving an individual who was a technical consultant to both the Postal Service and the winning offerer. The dispute was submitted to an arbitration panel, which awarded $22.2 million in damages to an unsuccessful offeror. In general, Postal Service officials circumvented internal controls to speed up the purchasing process and failed to adequately deal with known or potential ethics violations.

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

QUESTION 2

To what do you attribute the soaring increase in employee grievances? (up 20,000 in three years).

GAO RESPONSE

Postal Service officials do not know the causes of the increased grievances since fiscal year 1993.[2] They said that the Postal Service and the unions have started a series of meetings, facilitated by the Federal Mediation and Conciliation Service, to determine why the number of grievances has increased and to find ways to reduce the high grievance rate.

Although we have not determined the causes of the increased grievances, the rise in the grievance rate may be due in part to the contentious 1994 contract negotiations[3] and deteriorating labor relations at the national level. Some academic research has shown that in companies where labor-management relations is highly adversarial (as is the case at the Postal Service), grievance rates tend to rise before the start of contract negotiations.[4]

While the recent, contentious contract negotiations may explain in part the increase in grievances, other factors may have also contributed. Overall, relations between the Postal Service and the American Postal Workers Union and the National Association of Letter Carriers at the national level may have worsened since 1994 when we issued our report. It appears that conflict between the Service and the unions has intensified over issues such as wage and fringe benefits for transitional employees doing remote encoding, the collection and use of employee opinions regarding their working conditions, and training of employees as part of a new Postal Service quality improvement initiative.

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[2]In fiscal year 1993, the grievance rate was 9 grievances per 100 employees. In fiscal year 1995, the rate had increased to 11 grievances per 100 employees.

[3]In November 1994, collective bargaining agreements with the Postal Service's four major unions expired, and negotiations of all contracts but one ended in impasse, resulting in a need for interest arbitration.

[4]See, for example, Nancy R. Mower, "The Labor-Management Relationship and Its Effects on Quality of Work Life," M.S. thesis (Cambridge: Massachusetts Institute of Technology, 1982).

QUESTION 3

Were unions ever contacted or encouraged to participate in the development and subsequent implementation of "CustomerPerfect!" initiative embarked upon by the Postal Service?

GAO RESPONSE

The Service's Vice President for Labor Relations said that the national union presidents were briefed on CustomerPerfect! as part of the Service's initial efforts to promote and elicit support for the initiative. The response from the union presidents varied. For example, the President of the American Postal Workers Union, along with other union officials, attended a briefing provided by the Vice President for Quality, whereas the President of the National Association of Letter Carriers did not respond to the invitation to hear the briefing. Of the four major unions, the President of the Rural Letter Carriers Association has demonstrated the greatest interest in and support for the initiative, according to the Vice President for Labor Relations.

We have not reviewed implementation progress of the CustomerPerfect! initiative to assess the extent to which the unions are participating at the various organizational levels. At the time of our December 1995 report on the Service's quality improvement efforts[5], it did not have the commitment of labor union leaders to implementing this initiative. We believe that their commitment is necessary to most effectively implement the initiative.

QUESTION 4

In the international market, the Postal Service had a clear window to come out on top and offer competitive rates. It clearly did not move in a timely fashion. They claim they want to be competitive and yet when they have the opportunity as they had in this instance, they fail to deliver. Can you elaborate on the reasons for the lost market share? What has the postal Service done to improve the quality of its international services? Is it too late?

GAO RESPONSE

Although the Postal Service's overall volume of international mail pieces has grown in recent years, the Service has lost some market share in the international mail market because of several reasons. The Postal Service reportedly did not provide certain value-added services offered by its competitors, such as warehousing,

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

inventory, and customs clearance for its letter mail service. For example, the Postal Service required customers to sort and bag their bulk mailings by country of destination and to transport the mailings to an international airport to qualify for the best prices. In contrast, the Service's international competitors were willing to pick up unstamped business mail at the customer's location, do some sorting, and transport the mail to the appropriate place overseas. Using its overseas facilities, the competitor would then sort, stamp, and give the mail to the local postal authority for delivery to ultimate destinations.

The Postal Service also had not matched the competitors' reliability and speed of service, especially in the express market, partly because the Service did not have end-to-end control of delivery. According to the Postal Service, it is required to use scheduled U.S. commercial air flights to transport mail overseas. A combination of treaty arrangements and national postal monopolies compel the Postal Service, for the most part, to rely on foreign postal administrations for in-country express delivery. In contrast, some private carriers, use their own aircraft and ground transportation and thus have better control over schedules. For example, Federal Express said that it has experienced growth in its international express market because it adjusted its flight schedules for faster express service.

Postal Service officials also attributed the market share loss to the need to price according to "inequitable" terminal dues[6] systems. Postal Service officials said that its international treaties required substantial international rate increases in the 1980s that hurt its competitive position. For example, the Postal Service increased its international postage rates in 1981 by an average of 39 percent for all its services. Postal Service officials said this increase was necessary largely because the Universal Postal Union Congress[7] increased the terminal dues by 267 percent during its 1979 meeting.

In 1995, the Postal Service announced plans to compete "aggressively" for international mail delivery. The Service said that its expects to double its 1995 international mail revenues by the end of the decade. According to a senior Postal Service official, the Service expects to be "a leading provider of efficient, high value, reliable and secure, full-service international communication and package delivery services" to "meet the needs of U.S. citizens and businesses on a worldwide basis."

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[6]Terminal dues are the payments made between national postal administrations to cover the costs of handling and delivering incoming international letter mail, printed matter, and small packets.

[7]The Universal Postal Union is an intergovernmental organization comprised of postal administrations of 189 countries. Its Congress meets every 5 years to reevaluate and revise, among other things, the terminal dues system.

The Service has taken steps to work with postal administrations in other countries to improve international mail delivery services including the following.

- In January 1994, the Postal Service, in cooperation with postal administration of 20 other countries, implemented an external system to measure on-time mail delivery between the United States and major industrialized countries. The system, administered by Price Waterhouse, measures letter mail delivery times from deposit to delivery.

- The Service Upgrading Task Force, created in 1994 and consisting of representatives from the United States, Canada, and eight major European countries, is tasked with identifying problems and implementing solutions to improve delivery time between countries represented in the task force.

- The Postal Service and other postal administrations recently began using electronic data interchange to facilitate the movement of international mail and to collect data on mail flows. According to Postal Service officials, the Service now has production system exchanging tracking data on express mail service with 24 other postal administrations and is testing electronic data interchange covering other mail types in a program involving 17 other postal administrations which represent about half of all international mail volume.

We do not believe that it is too late for the Service to increase its international mail volumes and enhance its position in the international mail markets. However, based on the data we gathered in our review, it will be extremely difficult for the Service to become the provider of choice for the most profitable international service, e.g., express letter and package delivery, because other firms are already well entrenched in this market and are continuously expanding and perfecting their international services.

QUESTION 5

What can our subcommittee or Congress do to encourage the postal service and the unions to address the problems reported by GAO? Are current working conditions a factor that explains, at least in part, the reported instance of violence in some postal service facilities? How do these conditions affect the Service's efficiency and its service to customers?

GAO RESPONSE

In our September 1994 report on labor-management relations,[8] we recommended that postal management, the four major unions, and the three management associations develop a long-term agreement on approaches to remedy the adversarial labor-management climate. It might help if the Subcommittee periodically requests reports from the parties on their progress in developing and implementing a framework agreement. If they cannot reach a framework agreement within a reasonable period of time, Congress may want determine if a legislation initiative may be appropriate to encourage and facilitate a more cooperative approach by Service management and the unions to resolving the problems identified in our report.

Our review of the Service's labor-management relations did not address the causes of work place violence at postal facilities. However, the review did show that labor-management problems persist on the work room floor of postal facilities. In the Service's processing and delivery facilities, many employees reported that they worked in an atmosphere of intimidation and tension that was characterized by the use of (1) formal disciplinary processes to correct employee problems, (2) grievance processing to obtain relief from disciplinary actions, and (3) arbitration to resolve the ensuing conflict. We concluded that the problems have not been adequately dealt with over many years because labor and management leadership have been unable to work together to find solutions to employee problems.

A number of academic studies, and our analyses of employee opinion survey results, EXFC, and CSI survey results indicated that a relationship exists between employees' attitudes, labor climate, and service performance. We reported that poor postal labor-management relations limits the Service's ability to improve employee commitment to customer satisfaction, organizational productivity, and service quality More recently, we reported[9] that labor-management relations problems contributed to low service delivery scores in Chicago, the Washington, D.C. metropolitan area, and other big cities in 1994 and early 1995.

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

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

QUESTIONS FOR THE INSPECTOR GENERAL

1. In previous correspondence to me you have stated that the blending of the inspector's audit expertise with the criminal investigative expertise has resulted in greater successes for the Inspector General as you more closely align the Inspector General's goals with those of the Postal Service. You stated that these efforts will be highlighted in the President's Council on Integrity and Efficiency Annual Report which will feature some of your projects conducted by multi-disciplinary teams. Please provide a copy of the Council's report, and highlight the relevant sections that discuss the efforts you cite.

We provided only a few examples of the success we have had with multi-disciplinary teams. The men and women of the Inspection Service are committed to resolving problems associated with fraud, waste and abuse within and involving the U. S. Postal Service. For an agency as large as the Postal Service to succeed, we must perform our role as watchdog and consultant within the organization. The Postal Inspection Service has many tools available to rid the organization of fraud, waste, and abuse, such as:

- False Claims Act
- Recommendations to Management
- Program Fraud Civil Remedies Act
- Arrest and Prosecution
- Forfeiture
- Civil Prosecution
- Administrative Action

The creation of the Revenue and Asset Protection Program (RAPP) has allowed us to focus on a central theme - Problem Resolution. The tools described above allow us to address problems through a total effort, not only from a criminal or an audit view. Following are additional examples of where our agency has used multi-disciplinary groups:

- Revenue Protection Task Force
- Meter Initiative - Meter Audits, Criminal Investigations
- Official Mail Accounting System Investigations
- Remail Investigations

The work performed by individuals on these initiatives is both audit and criminal in nature. The blend of experience complements our overall investigative and audit initiatives. A copy of the draft report of the Executive Council on Integrity and Efficiency is enclosed as ATTACHMENT A. Examples of our efforts are highlighted on pages 91-94.

2. Why did the Postal Service end up paying $50 million to the Postal Buddy Corporation as a settlement?

As a result of the termination of the agreement with Postal Buddy Corporation (PBC) for the installation of self service kiosks in postal lobbies, PBC submitted a claim to the USPS for $1.3 billion. The USPS General Counsel's office reviewed the claim, requested the Inspection Service conduct an audit of the claim, and brought in expert legal counsel for an independent evaluation of USPS exposure in the case. Based on the results of these analyses, the General Counsel's office entered into a settlement with PBC for $50 million. The audit of the claim revealed PBC had incurred $27 million in costs which had not been recovered, and legal advice indicated PBC was entitled to a reasonable profit on those costs plus interest until the date of final settlement. These factors were considered when the $50 million settlement was reached.

The General Counsel's office also considered the risk and cost involved in successfully supporting its case in court before final settlement. The opinion of the USPS General Counsel's office was that the risk and cost of potentially lengthy litigation could be more costly than the $50 million settlement. This decision was made by the proper office, General Counsel, and is outside the realm of expertise of the Inspection Service.

a. What measures do you and the Postal Service have in place to prevent this from happening in the future?

The USPS has taken steps to help prevent similar situations from surfacing in the future. Postal Service management has consolidated its procurement operations under the Vice President - Purchasing. All national procurements are now assigned to an appropriate group of specialists within Purchasing. This will ensure qualified, trained contracting officers are involved in all national procurements and consistent interpretation of policies and procedures is effected.

Also, we are currently participating in a group assembled to evaluate the current project justification and procurement processes of the Postal Service. Along with executives from Finance, Purchasing, General Counsel, and the Office of the Board of Governors, we are evaluating the current procedures for major project approval and procurement and the level of oversight needed and provided. This group will identify opportunities for improvement and recommend process modifications to increase controls. Naturally, we will continue to selectively audit purchasing activity in the Postal Service.

3. To what extent have you completed any developmental audits of the Postal Service's electronic commerce initiatives?

Developmental audits have been assigned to two of the Postal Service's electronic commerce initiatives, Electronic Commerce Services (ECS) and Advanced Hybrid Mailing Service (AHMS). Each audit has just been recently assigned and provided limited audit attention. Both of the electronic commerce initiatives are new and are just now proceeding into the design and testing phases.

a. What are some of the challenges facing the Postal Service as it begins to further develop such things as electronic postmarks and E-mail technologies?

Our developmental audit work has just recently begun so our technical knowledge of electronic postmarks and E-mail technologies is just now being developed. Technical concerns include: system security; system and data integrity; potential for system to accommodate rapid growth; and emerging new methods to electronically attach the cryptographic algorithms that encode and protect electronic postmarks and E-mail technologies. Additional concerns include postal liability in the event of system compromise and how the existing law governing electronic commerce activity will apply.

4. What are the major unaddressed challenges facing the Postal Service in the area of revenue protection? Is the Postal Service where they should be in the area of meter/revenue protection?

We feel the most pressing challenges faced by the Postal Service are being addressed, with our assistance. First among these is the collection of the proper revenue for the services provided. We see a need for the Postal Service to train bulk mail acceptance clerks so that correct postage rates are charged, complicated regulations are understood and can be explained to customers, and that acceptance procedures are uniform nationwide. Further, the Postal Service needs to ensure that it benefits from the worksharing discounts it offers and can verify that discounts being taken by customers are proper.

When the Inspection Service undertook the Revenue Protection Task Force three years ago, our focus was two-fold. First, we were to investigate instances where the USPS was being cheated of revenue and then we were to identify any system weaknesses which we could bring to the attention of postal management for corrective action. Since that time, we have formed an active partnership with key postal managers in formulating corrective action.

It is important to remember that, in order to be responsive to customers, the USPS accepts business mail at large and small postal facilities throughout the country. Accordingly, acceptance and verification functions are highly decentralized and performed by thousands of clerks. These clerks face large volumes of mail, limited acceptance time, a highly automated mail stream and a very complex rate and discount structure. The key challenges, therefore, relate to current efforts to refine and upgrade the acceptance system.

Postal management has recognized this need and has several initiatives underway, many in which we are assisting. They are outlined below:

TRAINING

Given the decentralization discussed above and ongoing changes in regulations and personnel, training is an ongoing challenge.

RISK ASSESSMENT

The Office of Business Mail Acceptance has contracted with an outside consultant to study various types of business mailers and determine the most common sources of error. The results will be used to develop a risk assessment model enabling clerks to focus their attention on problem mailers.

DATA INTEGRITY

Incident to our investigation of presort fraud, we have identified instances where mailers have manipulated computerized data to either understate postage owed or inflate workshare discounts. Inspectors have worked with postal management as well as MLOCR (Multi-line Optical Character Readers) manufacturers to provide us with secure access to raw machine data before it can be subject to manipulation. We are also working on standardizing machine output reports to reduce the learning curve for acceptance personnel.

ACCEPTANCE EQUIPMENT

In order to verify an automated mail stream, the Postal Service must provide its acceptance clerks with more sophisticated verification tools. Several such tools are being deployed or under development as follows:

1) Automation Barcode Evaluator (ABE) - These are small, stand-alone machines currently being deployed at the 250 largest acceptance units around the country. They contain computerized barcode reading capability and allow the clerks to check automated mail for barcode readability and accuracy. This tool should make the clerks more efficient and effective in dealing with barcoded mail.

2) Real Time Acceptance System (RTAS) - This system is a computerized acceptance process whereby clerks are provided software that prompts them step-by-step through the acceptance process. It will contain several elements to assist the clerks including mailer history, statistical sampling methods, postal rates and regulations and will compile the data during verification. This system is scheduled for a pilot test in the Houston Post Office in the near future.

3) Permit System Update - Postal management is currently in the process of updating a permit system to make it more interactive with mailers' computerized systems. This will enable the acceptance clerks to download computerized data in advance of the mail being received for verification. It will help the clerks in planning their workload, preparing for sampling and doing additional electronically-based verification. This is a long term process which is expected to be concluded in a year and a half to two years.

DETECTION

Another project underway involves the use of database comparisons. Comparing ODIS (Origin-Destination Information System) test results, which sample live mail, to postage payment databases for metered or permit mail, postal clerks will be able to verify that proper postage has been collected. This process, now in its early stages, and others like it, will be of immense assistance to the Inspection Service in identifying individuals or firms defrauding the Postal Service.

In addition to acceptance and verification systems, we have identified two other areas of vulnerability which pose challenges to the Postal Service in terms of system improvement.

OFFICIAL MAIL ACCOUNTING SYSTEM (OMAS) - Prior audits and investigations have disclosed that official mail (mail from other government agencies) has not been fully accounted for in the postal system. This mail has been reported by acceptance clerks through the 85 districts for ultimate consolidation to National Headquarters. We have found that this manual process frequently breaks downs and full accounting is not realized at year end. In order to address this problem, postal management is taking steps to computerize this process which we feel will have a beneficial effect. They plan on testing a debit card system that is scheduled to begin in FY 97 wherein the OMAS mailings are accounted for at point of sale through a bank card system and the data is rolled up automatically and accounted for at National Headquarters. Again, we feel this is a significant improvement and we will monitor the implementation.

PLANT VERIFIED DROP SHIPMENT (PVDS) - We have identified an area of vulnerability in this (PVDS) system wherein mail is verified at point of origin and drop shipped to distant destination cities prior to entering the postal system. Under this arrangement, the mailer can take advantage of transportation discounts. We have found this system has a potential to be manipulated in that mail could be added to the shipment after the verification process. While we have not found significant cases to date, we are concerned with the vulnerability of this system and have voiced our concerns to postal management. They have studied the system and, through the Office of Revenue Assurance, Department of Finance, have recently issued a report.

POSTAGE METERS

Concerning postage meter revenue protection, the Postal Service has achieved some notable advances toward increased accountability and security. Recent changes in postal regulations will permit the Postal Service to more closely monitor the use of postage meters through a centralized licensing system and metered postage accounting and to decertify postage meter models found to be vulnerable to tampering and abuse. The introduction of encrypted postage devices will give inspectors the ability to more effectively monitor metered mail and detect counterfeits while greatly reducing the risk of postage meter tampering and malfunction.

a. How many postal inspectors are thoroughly experienced in identifying presort computer fraud? What are the average years of experience for those inspectors with experience in this area?

While "presort computer fraud" may be a relatively new area of interest to our service, inspectors have always been required to learn the modus operandi of the criminals they pursue and have been accustomed to educating themselves in all of civil and criminal violations of the postal laws. Certainly, frauds against the Postal Service are no exception. Because of the emphasis being placed on revenue protection, experienced inspectors have been selected for placement on the teams with revenue protection assignments. The level of experience varies but inspectors assigned to revenue protection investigations average more than 10 years on the job experience. Further, all inspectors working these assignments are receiving specialized training in detecting and prosecuting these frauds.

b. How many presort companies, inserting letter shops, and mass mailing companies exist in the United States?

There are several thousand firms in the United States involved in the mail preparation industry, including printers, presort bureaus, "letter shops", and mass mailers. The largest 28 businesses account for approximately 16% of the annual revenue earned by these firms.

5. You mentioned in your testimony the Bolger Academy audits which disclosed a complete lack of management oversight and nonexistent internal controls. You mentioned that the Postal Service has begun corrective action, but how much longer will it be until management of this complex is improved?

a. Mr. Hunter, the Inspection Service brought to managements' attention the problems at the Bolger Academy from 1988 to 1991. I realize this matter predates your tenure, but could you delve into that type of investigation and give the Subcommittee an idea if what occurred there with the renovations and the travel expenses are common problems within postal management? What programs do you have in place that assists the Postal Service in correcting these problems either through education or by catching them initially?

The 1988 through 1991 investigation into activities at the Bolger Academy identified the improper use of the food services and maintenance contracts for service outside the scope of those contracts. The manager of the Academy at the time circumvented internal controls and directed contractors to perform work at the facility not called for under the contract. This included using contract employees to perform clerical services in Academy offices and to perform a variety of construction type services. These are not common problems in the USPS and management disregard for internal controls is not often revealed as a cause. However, our routine audits of travel vouchers and our contract audits are designed to ensure compliance with regulations. As part of our oversight of contracts at the Academy since that time, we identified the need to conduct an in-depth evaluation and investigation of all Academy activities.

Our report of 1995 recommended several steps management needed to take to increase financial controls at the Academy, improve accountability of repairs and construction projects and improve management of training functions. Postal management accepted our recommendations and took the the following action:

- Assigned an employee specifically responsible for purchasing, budgeting and accounting at the Academy, and provided training from Headquarters Finance.
- All repair and alteration projects and use of ARA contracts to be overseen by Facilities Management and Services Coordinator.
- Training responsibility assigned to Headquarters.

We believe postal management has taken the correct action on the many recommendations put forward by the Inspection Service audit team reviewing internal controls at the Academy. We also believe those actions will improve management and accountability. We will provide follow-up audit attention to ensure the increased controls are effective, particularly concerning abuses of travel expenses and renovation expenses.

Also, we have made significant changes to the focus of our Capital Investment Audit Program (**Facilities Audits**) to include routine audits of the 12 Facility Service Offices (**FSO**) of the Postal Service. The FSO at Columbia, MD, responsible for facility repair, alteration, and improvements at the Bolger Academy, will be included in these reviews.

In addition, the USPS has increased its emphasis on ethics training and requires all managers to routinely receive refresher training. These steps will contribute to strengthening controls at the Bolger Management Academy.

6. On March 21, 1995, a gunman (a former postal employee) murdered two postal employees, two postal customers, and wounded severely another postal customer at the Fairfield Street Post Office in Montclair, New Jersey Substation A. This is a brutal example of what can happen even at small post offices which may not be in high crime area, simply because of inadequate security and the possibility of an accumulation of cash throughout the course of daily business which can be an easy target for someone with criminal intent. It appears that alarms are provided in facilities which activate when there is unauthorized entry after the facility is closed. What measures are available in postal facilities for the security of postal patrons during business hours.

The robbery at Montclair was clearly facilitated by the fact that the perpetrator, as a former postal employee, was familiar to the employees at that office. In that respect, and others, it is not typical of other robberies, and does not provide many useful lessons concerning security measures which help prevent robberies.

The Inspection Service believes the best way to provide for the security of postal patrons during business hours is to make the post office as unattractive a robbery target as possible. In larger post offices, the presence of uniformed postal police officers, security cameras and alarms discourage would-be robbers. In high crime areas, bullet resistant screen lines "harden" targets, while increased remittance pick-ups, in some cases by armored car, help reduce the likelihood of robbery.

Unfortunately, the tragedy at Montclair demonstrates that this kind of violence can occur, without the slightest provocation, in cities and towns where it is least expected.

a. Is there more electronic or mechanical security at some facilities than in others?

Yes, there is more electronic and mechanical security at some facilities than in others.

The electronic and mechanical security devices are above our baseline security requirements as outlined in the Postal Service's publication, Building and Site Security (RE-5). The RE-5 addresses the physical security requirements for facilities as they are constructed. A site survey, security survey, and risk analysis by an inspector are required prior to implementing additional security hardware.

The Inspection Service also has national burglary countermeasures and robbery countermeasures programs in place. The burglary countermeasures program defines equipment requirements based on overnight accountability. Crimes committed in the area are also taken into consideration. The robbery countermeasures program is designed to ensure the adequacy of existing equipment and provide new equipment based on a threat assessment of the area. Modifications are currently being made to further enhance the robbery countermeasures program.

b. What is the criterion to have postal police assigned to post offices? Where are they generally located?

In 1971, the Postal Service created the Security Force, armed uniformed security officers, to upgrade security at major post offices. The Security Force is generally assigned to postal facilities located in major urban areas. Today there are approximately 1,400 postal police officers (PPOs) in approximately 55 postal work sites.

The Security Force is responsible for protecting persons and property of the U. S. Postal Service by enforcing Federal laws and postal regulations on Postal Service controlled property.

The Inspection Service uses a security force assessment survey to aid in the decision to establish or maintain PPOs at a postal facility. This assessment takes into consideration numerous factors that include facility location, facility type, facility operations, facility complement, local police coverage, local crime statistics, physical security, fencing and lighting.

c. Some have suggested that post offices have the same security safeguards as are provided in banks (i.e., bullet proof glass, security cameras, detection equipment, alarms etc.), for the protection of customers, employees, and for the financial integrity of the postal service. How do you respond to that suggestion?

We already use most of the same safeguards as the banks. However, location and facility design are our first considerations in reducing the risk of crime. Based on a risk analysis of the facility, we implement security procedures as well as hardware to reduce risk of robberies and burglaries. Other security procedures inspectors might suggest include recommendations that cash be removed from the window clerks drawers several times during the day, that money be counted out of public view, that funds be remitted on an early dispatch, and/or that the last remittance be held over night for a morning or daylight dispatch. The security hardware which is installed in our facilities ranges from alarm and CCTV (Closed Circuit Television) systems to bullet resistant screenlines. The level of security increases based on risk.

The USPS has a requirement and responsibility to provide postal services to the public. Sometimes this requires the placement of a postal facility in an area banks or similar businesses might avoid. We attempt to provide the security necessary to meet the risks identified in the area to allow postal employees to conduct business with the public as safely as possible.

It may be helpful to compare postal robberies to robberies of financial institutions. According to figures released in a copyrighted article in The American Banker (4/26/96), in FY 95 there were 5,500 bank robberies nationwide among 11,861 FDIC insured financial institutions. During the same period, the Postal Service suffered 120 facility robberies among its nearly 40,000 post offices.

d. The Postal Inspection Service has risk evaluation criteria, or security analysis, which takes into account (1) the amount of money transacted at the facility each day, (2) the hours the facility is open, and (3) when it is located in a high crime area. Can this be a foolproof analysis when robbers are mobile, ruthless and determined to obtain easy money -- low or high digits?

Unfortunately, there is no such thing as a foolproof risk analysis. Decisions about the type of security measures to put in place can only be made with regard to the perceived risk.

In addition to the three criteria mentioned above, the Inspection Service makes site visits to view general conditions of the neighborhood and the environmental layout or design of the facility. They also review the security measures and devices used at nearby businesses, including banks. The inspector will contact security managers of the chain stores in the neighborhood to determine what protective measures are instituted at their stores. The inspectors evaluate the office's performance in implementing established security procedures within the facility and determine if those procedures are adequate.

Installing security hardware such as alarm systems, CCTV systems and even bullet resistant screenlines are effective preventive measures but will not ensure a crime will not occur at the facility.

The greatest influence in reducing the crime risk is a combination of good facility design, adequate operating procedures, active employee involvement, and proper security equipment.

e. What further evaluation has been made at the Montclair, New Jersey facility and its environs? Would that area be considered a high crime area?

Station A, Montclair, NJ has moved to a new location and been renamed Memorial Station. Based on the crime statistics for a period of three years, the new facility would not be considered in a high crime area, however, an alarm system and CCTV system have been installed.

7. Recently there has been a great deal of publicity dealing with the change of address scams. Could you give us a recap as to your evaluation of the issue? What did the Postal Inspection Service do when it first heard of the scam? Did you suggest any precautions? Have those suggestions been implemented and with what results?

Although exact figures are not available for past years, our experience with fraudulent changes of address, submitted to the Postal Service or to financial institutions, tells us that they have become an increasingly serious problem. Most of the fraudulent changes of address, apart from those filed as harassment by former spouses or business partners, are being filed by criminal gang members intent on stealing credit cards, checks and/or financial information.

The rise in fraudulent changes of address is part of the continuing problem of credit card theft and fraud. Another aspect, being addressed by the Inspection Service, is theft from concentration points in the mail distribution network. These thefts occur from Postal Service vehicles, carriers, airline mail containers, apartment house mailboxes and postal relay boxes.

Beginning in August of 1992, inspectors began meeting with security representatives of financial institutions, airlines, credit card issuers, and credit card manufacturers to discuss the problem of credit card theft and how to prevent it. The working group arrived at many sound prevention suggestions, but none more significant than "card activation." Under this approach, the credit card is virtually useless until received by the true cardholder and activated by calling a toll free number and reciting a prearranged code.

Card activation has helped reduce fraud losses by over 50% since its inception. The Inspection Service continues to help facilitate working group meetings every four months to discuss solutions to the security problems confronting the industry.

Predictably, the success of card activation in deterring theft from the mail has not entirely solved the problem of credit card fraud. Apart from credit card theft, financial institutions report an increase in the theft of personal financial information. This information, in the form of checking account and credit card account information, enables criminals to plunder existing accounts, open new accounts and take advantage of a variety of other financial services.

To help the industry combat this problem, inspectors have investigated credit card fraud stemming from the theft of information from rental car companies, auto dealerships, retail stores, hospitals and other sources.

Criminals can also use a fraudulent change of address to divert the mail containing this information. A change of address form may be submitted to the Postal Service, or directly to the financial institution. The theft of personal financial information is often referred to as "identity fraud," and it is definitely a growing problem.

During the first months of 1996 we canvassed our field divisions to determine exactly how many fraudulent changes of address were under investigation. At that time, divisions reported 265 open cases where approximately 4,048 fraudulent changes of address had been filed. Of those, nearly 2,909 were filed directly with financial institutions and another 1,139 were filed with the Postal Service. Inspectors work closely with the security departments of the victim institutions to combat these individual fraud cases.

To help financial institutions prevent these frauds, the Inspection Service industry working group has assembled two helpful industry guides. One guide is to be used to train employees to detect fraud in credit card applications submitted by the "identity fraud" perpetrators. The other guide will help prevent the theft of financial statements being processed by presort mailers working for the institutions.

Concerning postal policy on the filing of changes of address, the Inspection Service has been working with address management at Postal Service Headquarters to amend postal regulations. In June of 1994, inspectors recommended that change of address procedures be changed so that a verification letter would be sent to the original address, alerting the customer to the effective date of the change, before forwarding the mail. The Postal Service did not adopt this recommendation at that time.

In November, 1995, the Postal Service announced that an address confirmation letter would be sent to the old address, or, if the change of address was effective immediately, to the new address. This procedure was not intended to ferret out fraudulent changes of address, but rather to verify the accuracy of the original change order. Because most changes of address are effective immediately, or within two or three days, the address confirmation letter would be forwarded in the majority of cases to the new address.

On April 2, 1996, the Postmaster General announced that, along with the address confirmation letter, a verification letter would be sent to the original address. The verification to the old address does not list the new address (for privacy reasons), but does give the effective date and a toll free telephone number to call if the order is fraudulent. We believe this verification letter will eliminate much of the problem of fraudulent changes of address submitted to the Postal Service.

a. Please provide a summary and detailed history of the Inspection Service's involvement and interactions with the physician highlighted in the "60 Minutes" television story on this matter. In addition, please provide a summary and detailed history of the Inspection Service's investigation of the specific New York City mail drop that was highlighted in the "60 Minutes" television story on this matter.

Dr. Zupanc first called our service on November 14, 1995, to report that she had detected a fraudulent change of address filed on her behalf. An inspector returned her call the following day and learned that a change of address had been filed for Dr. Zupanc on August 30, 1995, forwarding her mail to 2022 Church Avenue, #147, Brooklyn, New York 11226.

She was understandably concerned because she was aware that persons using the Brooklyn return address had attempted to have funds withdrawn from her bank and had already received personal financial information through the mail.

On the same day, postal inspectors took steps to stop any further forwarding of Dr. Zupanc's mail to Brooklyn and entered her complaint in the Inspection Service Mail Theft Reporting System (MTRS). A copy of the complaint was forwarded on November 16, 1995 to the New York Division Inspection Service office.

On December 8, 1995, the inspector taking Dr. Zupanc's complaint spoke with the New York Division inspector investigating Nigerian gang activity in Brooklyn. We believe the Nigerian criminal gangs to be responsible for using the Church Avenue address in Brooklyn, which is a commercial mail receiving agency, to receive other's mail.

In mid-December, Dr. Zupanc contacted the New York Division inspector to confirm her previous complaint. She also informed the inspector assigned this matter that her pension fund managers had been contacted by someone using her name in an unsuccessful attempt to withdraw funds. She was not aware of any personal financial loss.

Inspectors contacted one of her credit card companies and arranged to have a credit card issued in her name and forwarded to the mail receiving agency in Brooklyn. The inspector's intent was to deliver the credit card as bait to identify and arrest individuals using the box to fraudulently obtain Dr. Zupanc's mail.

Unfortunately, before the "controlled delivery" could be effected television crews visited the Church Avenue address and tipped the employees at the mail receiving agency that Box #147 was being used illegally. At that point, the inspectors stopped the flow of all mail addressed to Dr. Zupanc to that box number.

Shortly thereafter, inspectors in New York learned that another credit card issuer was about to issue another card in Dr. Zupanc's name, but to an address in Jamaica, New York. Inspectors intervened and attempted a second controlled delivery to the addressed in Jamaica, but again they were told a news crew had been at the same address only two days earlier. A woman who had been renting living quarters at the Jamaica address to an unidentified male was unable to identify her renter other than to say he was an "African." A later attempt to deliver the same letter was also unsuccessful.

Inspectors have made no arrests in connection with the unsuccessful effort to defraud Dr. Zupanc and her bank or credit card issuers. The operators of the mail receiving agency in Brooklyn were reminded of postal regulations requiring that individuals submitting applications to receive mail through the agency must furnish two forms of personal identification, one of which must include a photograph. Failure to follow postal regulations may result in withholding of delivery of all mail for the address.

8. It has been reported that there are about 4,000 changes of address scam cases. How are you handling these cases and what is your success in apprehending the criminals?

In January of 1996, field divisions were canvassed to determine the scope of this problem. Our field divisions identified 265 active mail theft cases under investigation where 4,048 fraudulent changes of address had been filed (2,909 with financial institutions and 1,139 with the Postal Service).

We cannot give exact arrest figures for fraudulent changes of address because these complaints, which result in theft of mail or credit card fraud, are not recorded separately. They are recorded as any other mail theft complaint. During FY 95 we recorded 4,565 arrests and 4,254 convictions for all external mail theft offenses.

9. Have the perpetrators of these crimes used the fraudulently received credit cards to obtain stamps and other postal services? What kind of verification is used for customers when they use credit cards at a postal facility?

The Inspection Service does not collect statistics on the number of fraudulent purchases of postage or postal products made with stolen or fraudulently obtained credit cards.

Beginning in May 1995, postal clerks were authorized to accept credit and debit cards for postage and postal products (except for bulk mailings, CODs, and postal money orders) at all non-contract retail outlets. Credit card purchases must be authorized by swiping the credit card through a magnetic card reader which displays the approval of the transaction by giving an authorization code number.

The Postal Service has instructed its window clerks to "swipe" all credit card purchases and to take the extra step of entering the last four digits of the card. These last four digits often appear in the hologram on the face of the credit card. If the card has been altered or re-embossed, the clerk should notice the alteration when reading the last four digits. Also, if the magnetic stripe on the card has been re-encoded, entering the last four digits should reveal this fraud.

10. I know that you are familiar with concerns about the failure of the Postal Service to address the pay discrepancy for postal inspectors with other federal law enforcement officers. Why has the Postal Service failed to address this pay discrepancy, particularly for senior journeymen inspectors?

In an effort to address the reported discrepancy between the salaries of senior field inspectors and other senior federal law enforcement officers, the Postal Service contracted with the Hay Group, an independent consultant on compensation and benefits.

The Hay Group is conducting a thorough study of the duties, responsibilities and compensation of inspectors in supervisory and managerial positions. The Hay Group will compare the results of their study with the duties, responsibilities and compensation of other federal law enforcement officers. If a discrepancy is found, we expect that the Hay Group will be asked to look further at non-supervisory inspectors and federal agents. We understand the results of the Hay Group's initial study will not be presented to the Postal Service before July of this year.

a. To what extent has the Postal Service rejected your recommendations to rectify this problem with postal inspectors' pay? If postal inspectors are series 1811 criminal investigators, why are they not paid the same as all other 1811s in the federal government?

The Inspection Service's internal Pay Task Force evaluation and recommendations were set aside without action by the Postal Service in favor of an independent review. For this purpose, the Postal Service contracted with the Hay Group, an private compensation and benefits consultant.

The comparison of total compensation received by postal inspectors and other 1811 series federal officers, over the course of their careers, is not a simple issue. The Postal Service initially addressed salary discrepancies created by Pub. L. 101-509 in 1990, and adjusted inspector salaries with an across the board increase of 13.5% (law enforcement premium) and locality pay adjustments in various parts of the country.

At that point, compensation and benefits for entry level inspectors were generally considered very competitive, if not the the highest in federal law enforcement. It is not until the latter part of the typical inspector's career that a discrepancy in pay appears, compared to other 1811 series federal officers.

Since 1990, of course, other salary increases for 1811 series officers, not necessarily matched by the Postal Service, have re-opened the issue of pay comparability. We are confident these issues will be resolved following the report of the Hay Group.

11. In February 1996, the Postal Service submitted a report to the Government Reform and Oversight Committee concerning an internal computer matching program that will be conducted solely under the control and direction of the Postal Inspection Service. According to the report (and the March 11, 1996, Federal Register notice), the matching program compares employee data with vendor data for the purpose of identifying instances where employees have attempted to corrupt the postal procurement process and defraud the Postal Service. Thus the matching results may be used to take specific action against records' subjects. What has been the result of the matching program to date? If it has not started, when do you expect it to begin? How often is the matching effort conducted? How many employees have had actions taken against them as a result of problems identified in the matching effort?

The computer matching program described in our report to the Government Reform and Oversight Committee was announced in the Federal Register, in compliance with the Computer Matching Protection Act requirement for public notice. The period of public notice, and invitation for comment, ended April 20, 1996.

The computer match has not yet been conducted. Since the initial matching request was filed, several key personnel involved in the project have transferred from the St. Louis Division. We do not expect this project to be properly staffed until late this year. Once the match is conducted, any "hits" would have to be verified and investigated further. This process will undoubtedly take several months to complete.

A similar match was conducted several years earlier, but on a much reduced scale. While we did find a number of matches, none led to criminal or civil prosecution, nor any administrative action. However, it is important to note that inspectors find negative results useful in judging the adequacy of the internal controls in place over postal procurement.

12. How is your budget prepared and what is the process for finally receiving funding? Who, if anyone or any entity, has the power to cut your budget and on what basis? Do you generally receive full funding of your budget?

The budgetary process is the same for the IG/Chief Inspector as it is for all officers within the Postal Service. There are three different budgets; personnel, nonpersonnel, and a capital budget.

The personnel budget is funded at "full complement"; that is, sufficient funding to support 100% of our authorized complement. The authorized complement is approved by the Postmaster General. Any funding for personnel costs that are not used must remain unspent. The nonpersonnel budget funds all other activities including travel, relocations, supplies, ammunition, office leases and communications. The capital budget funds all purchase of equipment, vehicles, etc. that exceed $2,000 in cost.

A budget request is submitted by the Inspection Service to Finance. This budget, with the budget from all the other USPS officers, is evaluated by various committees of postal executives based on activities to be undertaken and their benefit to the organization. The Senior Vice President Finance, based on the recommendations of the committees, can and does cut/reduce the nonpersonnel and capital budget requests, as he does throughout the organization. Personnel costs are funded to support our authorized complement. The Inspection Service generally receives full funding for its budget. At no time has our budget request been reduced from one year to the next.

13. What percent of the Inspection Service's time is spent on investigating labor management issues? Waste, fraud and abuse within the Postal Service? Matters relating to the security of the mail? Fraudulent schemes?

Inspection Service workhours for all audit and criminal investigations in FY 95 are listed below.

Labor/management issues may be addressed under Performance Audit (PA) subjects or during assault and threat investigations (ECA). Waste, fraud, and abuse within the Postal Service would be investigated under the Revenue Asset Protection Program (RAPP). Security of the mail would be investigated under Prevention and Security (PVS). Fraud schemes occurring through the mail impacting consumers, businesses and government entities would be investigated under mail fraud (F).

Subject	Workhours FY 95		% of Total
Performance Audit	PA	153,458	4.0
Other Audit Activity	AF,AC	346,197	9.1
Revenue and Asset Protection	RAPP	693,858	18.4
Prevention/Security	PVS	83,238	2.2
Other Prevention	PVC	129,053	3.4
Fraud	F	570,898	15.1
External Crimes (Assaults)	ECA	158,847	4.2
External Crimes (Mail Theft)	ECMT	541,815	14.3
External Crimes (Robbery)	ECR	71,839	1.9

Subject	Workhours	FY 95	% of Total
Other EC (Burglary + Misc.)	EC	64,619	1.7
Internal Crimes (Mail Theft)	ICMT	510,078	13.5
Other IC (Narcotics + Misc.)	IC	63,038	1.6
Prohibited Mailings	PM	381,983	10.1
Totals:		3,768,921	99.5%

14. In your Semiannual Report for FY 1995, Volume I you reported 9,057 calls from postal employees and the general public on the Postal Crime Hotline. What is the count for this reporting period? How many have been followed up? Are the 4,000 change of address cases included in this number?

We have received a total of 14,620 calls on the Postal Crimes Hotline (1-800-654-8896) for FY 96 through April 24th. Of these, 313 were referred to field divisions and 224 were followed up with some investigation in the field. The vast majority of the complaints concerned unsatisfactory consumer transactions. These complainants were furnished a Mail Fraud Questionnaire and directions as to whom the completed questionnaire should be directed.

Very few of the fraudulent change of address complaints are received through the hotline. Most are received and acted upon at the local level where they are reported to inspectors by local post offices, banks, credit card issuers and other customers.

15. The Inspection Service reported in a previous semiannual report (FY 1995 Volume 1) that at the request of the Inspector General, DOD the Postal Inspection Service was asked to investigate procedures at airport mail centers (AMC) and military bases to account for military mail dispatches. It was found that duplicate payments were made to air carriers, not intentionally but because there was a transfer of operation from New York Postal Data Center to the St. Louis Information Service Center and the implementation of automated billings at airport mail centers. Also, some military bases were adding rebilled mail to billing forms thereby creating duplicate payments. The Postal Inspection Service recommended that management establish controls at the airport mail centers, create missing document reports to identify facilities improperly accounting for military mail dispatches and issue clearer instructions to exchange offices and military bases on proper rebilling information of airline transportation at transfer points. Have they been fully implemented and what amount of savings had DOD realized by the tighter controls?

In the Semiannual Report, we reported possible duplicate payments of $900,000. Postal management undertook a detailed review of all billing records, and with the Military Mail Agency determined duplicate billing of approximately $480,000 which has been returned to the military. Management has changed their policy to

require all mail carried on behalf of the military to be documented in the same manner as International Mail. This has been coordinated with the military. This will allow the issuance of missing document reports as recommended in the finding.

As to how much on a continuing basis the military will save, we cannot say. However, the bulk of the duplicate payments found during our audit related to an internal processing problem, which has been corrected.

a. Can there be further streamlining to prevent overpayment for military mail?

The change in billing documentation, as described above, should eliminate any duplicate payments caused by failure on the part of the military or airlines to properly rebill shipments from the original plan.

b. What can you further report regarding the investigation of the International Surface Air Lift which you disclosed was not operating as designed to ensure that all revenue is being collected?

The International Surface Airlift audit cited in the Semiannual Report was conducted at one acceptance point in the Northern New Jersey area. As a result of that audit, a National Audit has been commissioned, which is in the reporting process. We have identified internal control weaknesses which have been discussed with management and are being corrected. We have found that as mailings are entered, trust funds maintained for our customers are not always reduced in a timely manner to reflect the mailing. We will be including the final information in our September 30, 1996 Semiannual Report.

16. You also reported revenue deficiency in the Official Mail Accounting System - the centralized billing system that allows government agencies to receive postal services without prepaying postage. Has this system been improved? What would you think of the proposal that government agencies have one main mailing facility where all agencies would pool their mail for forwarding to the Postal Service (and saving by utilizing bulk mailing)?

OMAS revenue deficiencies identified in the audit report were due to failure to reconcile the old method of collecting revenue. Management has taken action on several of the recommendations for enhancing internal controls in OMAS. The proposal to use an accounting card to collect postage is being considered by a task group, on which the Inspection Service is represented. We continue to monitor management's completion of all recommendations.

Your suggestion to have one government mailing facility for agencies to pool their mail would create additional workload for both the Postal Service and our OMAS customers. OMAS is entered throughout the country, depending on where the federal government's business is being conducted. Our goal is to move OMAS to a payment system closely resembling that of commercial customers. This system would strengthen our internal controls and be easier for our customers as well.

ADDENDUM QUESTIONS

1. Investigations into fraud of all types: workers' compensation, mail fraud, etc. are up. What do you attribute this to?

Our investigative workhours of fraudulent claims made against the Workers' Compensation program are increasing because this project is directly linked to our revenue protection goals and those of the Postal Service. The costs to the Postal Service for supporting the Federal Employee Compensation Act (FECA) amounted to $501.1 million in FY 95. While the Postal Service supports the intended purpose of the program, fraud and abuse in the program, by employees or medical providers, will not be tolerated.

Inspectors' investigations and prosecutions of fraudulent claims have resulted in long term cost avoidance (through the cessation of benefits) of approximately $57 million during this FY. Because of the success of our efforts to curb fraud and abuse in this program, the Postmaster General authorized the hiring of an additional twenty-five inspectors to be assigned to Workers' Compensation fraud investigations.

Mail fraud investigative resources, however, are not increasing, as reflected in the workhour figures below. The recent decrease in resources applied is attributable to the fact that some of the resources formerly devoted to mail fraud investigations have been directed to revenue protection matters.

Mail fraud investigative workhours for FY 95 show a decline over the previous years. This decline is attributable to the transfer of Frauds Against the Postal Service (FPS) and Frauds Against The Workers' Compensation Program (FWC) workhours from mail fraud to the Revenue Asset Protection Program (RAPP). Traditional consumer protection activities of inspectors, however, including vigorous enforcement of the mail fraud and false representation statistics, will be maintained.

Mail Fraud Workhours	
1995	570,898
1994	764,077
1993	723,239
1992	692,671
1991	621,592

2. What are your latest figures on workplace violence? If on the increase, what do you consider to be the major factor?

From October 1, 1995 to March 31, 1996, the Inspection Service opened 459 assault cases and 320 threat cases. These cases represent serious incidents (those in which criminal charges could be brought). These figures represent a decrease, compared to the same period last year (SPLY). Over the past four years, the number of assault cases has risen approximately 10%, while there has been an insignificant variation in threat statistics. See the attached chart for current statistics. ATTACHMENT B.

3. What do you think of the PMG's commitment to preventing acts of violence in the workplace?

Postmaster General Runyon has made a very strong commitment to the prevention of workplace violence. During his tenure as Postmaster General, we have seen

the Employee Assistance Program (EAP) revamped. The EAP is now a respected and important part of the Postal Service program to reduce workplace violence. It regularly provides information and programs of interest to all postal employees, as well as access to confidential psychological counseling, allowing employees an opportunity to constructively deal with their personal problems.

In addition, a position in the Employee Relations Office at Postal Service Headquarters has been designated to deal with workplace behavior programs. As a result, 47,407 supervisors have been trained in workplace violence awareness. Guidelines for the development of threat assessment teams in the Postal Service's 85 districts are being developed, as are crisis management plans. The Postal Service is also exploring the possible use of dispute resolution processes and training for supervisors on proper and compassionate ways of handling employee terminations.

Mr. Runyon has been supportive of Inspection Service efforts to increase the safety of postal employees in the workplace. The Inspection Service recently completed training of security control officers at over 400 of the Postal Service's largest facilities. We are currently working on the training program for the next size level of offices. Active and knowledgeable security control officers will increase the effectiveness of security operations in postal facilities as well as the effectiveness of the Inspection Service.

Other changes in Postal Service procedures which have had a positive impact on preventing workplace violence which have been put into effect since Mr. Runyon became Postmaster General are a tightening of hiring procedures, including background checks; and the initiative of a pre-employment interview process.

4. How do you feel Postal Employees view the Postal Inspection Service? How well do postal employees cooperate with the Postal Inspection Service? If they are not willing to cooperate, what makes the so reluctant?

Overall, based on the level of cooperation inspectors receive in their audit, administrative, criminal investigations and on my personal visits with employee groups, I believe postal employees view the Postal Inspection Service in a positive light.

The Inspection Service has made a concerted effort, through the general media and through articles in employee publications and in personal presentations to employee and supervisor gatherings, to explain what we are doing to protect employees on the job, to improve workplace security and to better protect the

mails and postal assets. Our objectives in these areas impact directly on the interests of employees. We welcome employee suggestions and feedback through our Postal Crimes Hotline.

We also have offered a standing reward for information about any fraudulent claim, including underpayment of postage. Employees can be paid up to half the amount of any funds recovered. A separate $50,000 reward was announced over a year ago by the Postmaster General for information leading to the arrest and conviction of anyone involved in the alteration, tampering, counterfeiting or fraudulent use of a postage meter.

In general, I think employee cooperation with the Inspection Service is good. Naturally, there are always a few exceptions who might be reluctant to cooperate, and there are some areas of our investigations where some employees resent our efforts. Our goal is to be viewed as fair, impartial and professional by all employees.

Executive Council on Integrity and Efficiency

MEMORANDUM

TO: ECIE Members DATE: March 28, 1996

FROM: Thomas D. Blair
ECIE Vice Chairman

SUBJECT: ECIE Annual Progress Report to the President for FY 1995

The subject draft report, which will follow the President's Council on Integrity and Efficiency section in the final report, is attached for your review. Please review the applicable narrative and statistical portions of the report, as well as the membership, address, and hotline information for your organization. Please submit comments, corrections, as well as negative replies to me by Thursday, April 11, 1996. As in past years, the report will be coordinated with and approved by officials in the Office of Management and Budget before issuance.

I can be reached at the Office of Inspector General, Smithsonian Institution, MRC 905, Washington, D.C. 20560. My telephone numbers are (202)287-3326 and (202)287-3017 (facsimile).

* Attachment A