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 FIFTH CONGRESS

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GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

WEDNESDAY, JUNE 10, 1998

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

The subcommittee met, pursuant to notice, at 11 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Gilman, LaTourette, Sessions, Fattah, Davis, and Burton (ex officio).

Also present: Representative Blumenauer.

Staff present: Robert Taub, staff director; Heea Vazirani-Fales, counsel; David Jones, professional staff member; Laurel Grover, clerk; and Denise Wilson, minority professional staff member.

Mr. MCHUGH. We have received cooperation with the minority, and I appreciate that, to begin with statements. The members up here heard me talk before; that may be why they're not showing their faces until we dispose of that part. So perhaps we can at least begin the introductory part of the hearing, and of course I want to welcome everyone here this morning for this continuation of our oversight activities here as part of the 105th Congress.

I'm particularly pleased that we have such a distinguished pairing of panels to begin to inform us a bit about their perspectives on the operations of the U.S. Postal Service.

For the edification of those who may not be aware, our first panel includes Ms. Karla Corcoran, of course, the Postal Service's inspector general, and she has brought some very able staff individuals with her whom I know she will introduce. And Mr. Bernard Ungar, who is Director of Government Business Operations Issues for the General Accounting Office. He, too, has brought some able assistants with him.

And of course neither of these individuals are strangers to this panel. Both the inspector general [IG] and General Accounting Office [GAO] are on the front lines as America's postal watchdogs, and they have proven to be valuable partners with this subcommittee in reporting to us on a broad range of postal operations.

Although the GAO has been evaluating postal operations since the Service was sworn in 1971, the inspector general is a relatively new player on the postal scene. Unlike virtually every other major Federal agency, when it came to the Postal Service the American public did not in the past have the benefit of the oversight provided by an independent inspector general.

I believe in a very positive way that was remedied in 1996 when the Congress enacted legislation to create the postal IG. In that regard, the subcommittee looks forward to hearing from Ms. Corcoran on the progress of establishing her office during the past year. In my opinion it is important that the American postal consumer be assured that the inspector general has the necessary staff and resources to vigorously carry out all of her responsibilities under the Inspector General Act.

With a budget of nearly $60 billion and nearly 900,000 employees, the Postal Service rivals the Department of Defense as the largest Federal agency. It would thus seem appropriate that the postal IG budget should be comparable to the budget for the Office of Inspector General within the Department of Defense. I look forward to exploring this matter with Ms. Corcoran today.

It is important to note that both the IG and GAO have identified a number of initiatives that the Postal Service could undertake to improve its own service, and, in that regard, I look forward to Ms. Corcoran and Mr. Ungar highlighting these initiatives, especially the extent to which the Service has followed up on the questions raised by the IG and the GAO in its reports to Congress. Further, they have a number of assignments pending, and I hope Ms. Corcoran and Mr. Ungar both can report to us on the status of these assignments and the impact these reports will likely have in assessing the productivity and efficiency of the Postal Service.

Our second panel of witnesses today particularly includes the Postmaster General, William Henderson. Although Mr. Henderson has been Postmaster General now for less than 1 month, he, of course, is no stranger to the Postal Service. Literally 1 year after the Post Office Department was abolished and the Postal Service created in 1971, Mr. Henderson joined the Service as a management trainee in 1972.

Unlike other Postmasters General who arrived from outside and had to learn the ropes of this massive organization from scratch, Mr. Henderson brings a knowledge of the inner workings of the Postal Service. By inheriting a dedicated work force and many beneficial long-term programs already in place, he truly can, and I would argue he already has, hit the ground running.

However, the Postal Service faces considerable challenges in sustaining its current performance and maintaining a competitive role in providing mail service to the American public in the future. As both the IG and the GAO have found, the Postal Service requires significant attention to such areas as labor-management relations, internal controls, and revenue protection.

The subcommittee looks forward to hearing Mr. Henderson's plans to develop innovative solutions to these and other problems confronting the Postal Service. And I would add, while today's hearing is not specifically devoted to reform issues, the recent decision of the Postal Service to press forward with its proposal to increase postal rates despite earning profits has raised widespread concern among postal consumers, major mailers and the Congress about the workability of the current ratemaking process.

Evidently the issue of modernizing our Nation's postal laws will prove inherent in evaluating the operations of the Postal Service, and the subcommittee is very interested in hearing Mr. Hender-

son's assessments of developments in the reform debate. Given that Mr. Henderson's tenure at the Postal Service covers nearly the entire 28 years since the Post Office Department ceased to exist, I believe he is well positioned to understand how well the Postal Reorganization Act has worked in those intervening years, as well as how very important the task of modernizing our postal laws is to the future of this agency.

With that I would conclude my remarks. I see we have been joined by the gentleman from Ohio, Mr. LaTourette, a member of the committee. I'm pleased to see that he is here. And I am also pleased to see that the chairman of the full committee, Mr. Burton, the gentleman from Indiana, is here and that we're being joined by the ranking member, Mr. Fattah. I told you they were waiting to see when I was done.

At the risk of breaking out of protocol, but understanding that the other two gentleman just arrived and want to catch their breath, I would yield to Mr. LaTourette, if he has any comments he would like to make at this time.

Mr. LATOURETTE. Thank you very much, Mr. Chairman, and I will do my best to serve as filler while Mr. Fattah and Mr. Burton catch their breath. I want to commend you for having this oversight hearing, and when we get to the second panel I want to add my congratulations to the comments you already made welcoming Mr. Henderson on board, and I hope he has a long and successful term at the helm of the Postal Service.

I'm very interested today. When we had this oversight hearing last year, there were a number of concerns that I had when Mr. Henderson's predecessor appeared before the subcommittee, relative to performance bonuses and the criteria by which they could be achieved, also a number of issues relative to labor-management discussions. I look forward to hearing how those are coming along, not only from the first panel but also from the second panel.

Today, however, when it's my opportunity to ask questions during this oversight hearing, I want to indicate, Mr. Chairman, my very strong reservations about the Auto Day Pilot Program now being conducted in Milwaukee, WI. I have concerns and questions have been raised about whether or not one industry is being favored over another.

I have concerns about guaranteeing day certain delivery for one-third the cost of a first class piece of mail. I also have the same concerns you expressed in your opening remarks about the cost of first class mail going from 32 cents to 33 cents. And I have grave concerns about a Federal agency using its monopoly and clout to develop a marketing plan which, if I read the documents correctly, they're specifically designed to take revenues away from a private enterprise.

If all of those things are true, I am given pause this morning, and when I try and reconcile those events with the basic mission statement of the Postal Service. Regardless of that, I look forward to asking those questions. I'm also happy that the subcommittee is exercising its oversight responsibilities this morning, and I look forward to hearing from both of the panels.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman for his comments and for his participation. In reserving the opportunity to go to the chairman of the full committee whom we're honored to have here, kind of as a windup of this, I would be happy to yield to the ranking member, Mr. Fattah.

Mr. FATTAH. Well, I would like to make an opening comment, but I would be glad to yield to the full committee chairman if he would like to make some remarks.

Mr. MCHUGH. I appreciate that courtesy. We are deeply honored, Mr. Chairman, that you've found time to be with us.

Mr. BURTON. I wish my wife was here to hear you say that.

Mr. MCHUGH. We've got cameras running, and I would be happy to provide you with a copy.

Mr. BURTON. I go home to my wife and I say, "Do you realize how important I am?" And she says, "Take out the trash." And I want you to know that I do appreciate the reverence that you have for me.

I want to also welcome the new Postmaster General, Mr. Henderson. As chairman of the committee, I hope we have a good working relationship, and I'm sure we will. And if we can be of any help to you in your new position, we would like to do that.

I know that Chairman McHugh has worked very hard over the past couple of years on postal reform. I hope that you and Mr. McHugh work well together, and I'm sure you will. There are a lot of challenges facing the post office, and I'm sure you're aware of those. Everybody on the committee wants to make sure that the American people get first class service, and toward that end, we will be happy to do everything we can to assist you.

A couple of things concern me, as already have been mentioned by my colleague, Mr. LaTourette. One is the Postal Service increasing the cost of First Class postage. Last year, the Postal Service had over $1 billion in profit, and this year it's projected it's going to be about $1.4 billion. I just don't understand the Board of Governors and everybody going along with the postal rate increase when you've had a $2.4 billion surplus over the past 2 years. I think the American people need an explanation, and we would like to have one, as well.

I also would like to, along with Mr. LaTourette and others, look into the plans and the programs that you have in place that do put the Postal Service in direct competition with private package carriers like Federal Express, United Parcel and others. I understand that the Postal Service does provide that service and does it well. But we want to make sure that a governmental or a quasi-governmental entity is not in competition in an unfair way with these private carriers.

And there's been some question about whether or not there's cross-pollination between the revenues that have been coming in from first class and second class and third class mail being used to offset some of the costs of these packages, to put the Postal Service in a more competitive position. So these are things that we want to look into with you. We talked to your predecessor a little bit about those. Perhaps you can work with us to shed more light on the subject.

And finally, let me just say congratulations on your new appointment. We will look forward to working with you. And I look forward to hearing from the panel that is before you.

Mr. Chairman, I yield back the balance of my time.

[The prepared statement of Hon. Dan Burton follows:]

STATEMENT of the HONORABLE DAN BURTON
Chairman, Government Reform & Oversight Committee
June 10, 1998

Mr. Chairman, I want to commend you for your careful oversight of the Postal Service, and for your herculean efforts on behalf of, H.R. 22, the Postal Reform Act of 1997. Today's hearing is our first opportunity to welcome and hear from our new Postmaster General, William Henderson. Mr. Henderson, as Chairman of the Government Reform and Oversight Committee, I want to congratulate you on your promotion to Postmaster General, and extend to you my best wishes for success in your new position. I look forward to working with you to maintain a strong, viable Postal Service as we move into the 21st century. Please don't hesitate to call me whenever I can be of help to you.

In the 104th Congress Chairman McHugh launched a very important debate on comprehensive postal reform. The Postal Service's impact on Americans' daily lives and on our nation's economy is far-reaching. Mr. McHugh recognizes that the Postal Service faces unique challenges in maintaining top-quality, universal service at affordable rates in the face of vigorous competition from today's new electronic means of communication. As Chairman of the Government Reform and Oversight Committee, I strongly support Chairman McHugh's efforts to pass a postal reform bill. I believe it is very important that we move forward now to make needed reforms that will help the Postal Service respond to these challenges in a businesslike fashion, and to provide a level playing field in those areas where the Postal Service competes with taxpaying businesses. We should not wait until we face a crisis before we pass postal reform legislation.

There is one issue in particular that I believe is very important and needs to be discussed at today's hearing. That is the Postal Service's request for a one cent increase in First Class postage rates. Given that the Postal Service made more than $1 billion in profit last year and already has a surplus of more than $1.4 billion this year, I do not accept the claim that a rate increase is necessary for its financial health. In early April I wrote to the previous Postmaster General, Marvin Runyon, and to the Chairman of the Board of Governors, objecting to the Postal Service's rejection of the Postal Rate Commission's request to delay consideration of the rate case until complete, accurate, and up-to-date financial data is available. I believe that it's very important that we have the most accurate, up-to-date data available for review before making a final decision on postage rate increases.

It is also my strong belief that all Members of the House be on record as to whether they believe a rate increase is a responsible course of action at this time. With this in mind and with my full support, the House will consider a Sense of the House Resolution introduced by our colleague, Representative Tom Latham, urging the Postal Service Board of Governors to reject the decision by the Postal Rate Commission to increase postal rates. The Resolution will be considered as soon as the Floor schedule allows.

Thank you Mr. Chairman and I look forward to hearing from today's witnesses.

Mr. MCHUGH. Thank you, Mr. Chairman. Again, we appreciate your being here.

Next, back to the gentleman from Pennsylvania, the ranking member, a fellow who has been very, very instrumental in helping us on this panel to conduct these oversight hearings and our oversight responsibilities. We appreciate that, as always.

Mr. Fattah.

Mr. FATTAH. Thank you, Mr. Chairman. I yielded to the full committee chairman because I understand how the system works here, and I also have a continuing hope that the chairman of the full committee would help me figure out how to lower my handicap, at least get me below 100 on the first 9 holes.

But, nonetheless, in keeping with the international flavor of the joint session, and reminded of the chairman's remarks about taking out the trash, a prompt that is never recognized at home, has been the saying, I had some officials in from the French Postal Commission. They were in our country because they were trying to figure out how to learn from the U.S. Postal Service, which is by far the best in the world, and to learn how it is that maybe the citizens of their country could benefit from some of the efficiencies and effectiveness of our service.

So even though there were some legitimate concerns, I think that is a very good starting point for this discussion. I'd like to also welcome formally the new Postmaster General, and also the chief operating officer, Mr. Lewis. I look forward to hearing from our relatively new inspector general, who has been swamped with investigations and requests, many which have emanated from my office, on a range of matters.

Our subcommittee has had some time now to have a public comment period on H.R. 22, which is the chairman's bill on postal reform, and at some point soon we will be issuing a document reflective of that. There are a whole range of other issues, including the 1 cent increase that the Postal Rate Commission has made a ruling on, along with some of the packaging issues, that I think make this hearing very timely.

So I want to thank you for convening us, and I look forward to the testimony from this panel and the ones that will follow. Thank you.

[The prepared statement of Hon. Chaka Fattah follows:]

Mr. **Chairman**:

I commend you for holding the first general oversight hearing on the postal service this session. The timing of today's hearing is particularly important. We have a new Postmaster General of the Postal Service -- welcome Mr. Henderson and a new Chief Operating Officer -- welcome Mr. Lewis. We also have the opportunity to learn first hand the work and accomplishments of the "new" postal service Inspector General, Ms. Corcoran. In addition, we will be brought up to date on a number of reports and issues pending before the General Accounting Office.

Before I make any further remarks, I would like to thank the Chairman of the Subcommittee, Mr. McHugh for joining with me on many initiatives this Congress, especially in the area of diversity and the postal service.

The issue of "Glass Ceilings" whether in the Federal workplace or the postal service is a serious matter. I look forward to working with the Chairman in assisting the postal service and the inspector general in ensuring diversity in senior and executive level positions within their respective organizations. Your interest and assistance in this regard has been commendable.

This has been a busy time for postal matters. Since we last met in November of 1997, the Subcommittee revised H.R. 22, the Postal Reform Act and opened a "public comment period," by which interested parties could comment on the revisions. Currently, the Subcommittee working on preparing a document that reflects the comments and suggestions of those parties.

The Postal Rate Commission has issued a number of recommendations. the most important one dealing with the increase of the price of first-class mail by one cent. and another regarding the setting of rates for the packing and sending of packages.

The Inspector General has literally been swamped with requests for investigations (to which I plead guilty of asking for) and requests to handle complaints and inquiries. The GAO has been kept equally bussy. working on a number of requests, ranging from diversity to Global Package Link.

With that as the backdrop for our hearing today, let me thank our panelists for coming. I look forward to hearing your presentations and having the benefit of your thoughts. Thank you.

Mr. MCHUGH. I thank the ranking member, as always, for his input and guidance and leadership. With that, I would be happy to yield to the gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Thank you, Mr. Chairman. I appreciate this opportunity to be here today, and it's great to be with my chairman, Chairman Burton.

Mr. Chairman, today what we are going to do is to hear a discussion about the Postal Service and from our new Postmaster General, William Henderson. I would applaud you and your staff for the work that you have done in working with not only the entire postal committee but also the post office and their professional staff in dealing with H.R. 22. I've heard consistently from those in the postal community that our work with them and also our work with Postmaster General Henderson has been diligent, participatory, logical and also very innovative as we try and work together.

But I want to say, Mr. Chairman, that the workers of the Postal Service are among the hardest working workers in our country. They represent the lifeblood of an organization that delivers an incredible service to the American people, and that's something that every member of the U.S. Postal Service should be proud of.

I recently had an opportunity to travel in Jewett, TX, with Stan Waltrip, a rural letter carrier in my district. And I must confess, I think I have tennis elbow after working with Mr. Waltrip. It was probably a very unfair thing. He let me help him, and I agreed to do it, but I'm the person that had to hand the mail out all day. It was a very enlightening thing for me to do.

The level of innovation that the post office has delivered and continues to deliver is impressive. The Postal Service has improved its operations and profits have gone up. But not all have seen positive effects from the Postal Service reform.

I have heard from more than a few people, individuals and businesses in my district, about the increase in first class postage. I had hoped that some sort of events in the past year would have made the pending increase unnecessary; nonetheless, I encourage the Postal Service to continue on its path to greater efficiency and improved service.

I hope to hear more today about the Postal Service's plan about entering new areas, new lines of business already inhabited by other American entrepreneurs. For instance, the Postal Service has been experimenting with packaging operations for some time, but this expansion has not been without an effect on other businesses. Hundreds of my constituents operate packaging operations where they rent out mailboxes and sell their mailing and packaging services.

This comes as no surprise to the post office. We have talked about this for a long time. The benefits currently enjoyed by the Postal Service in terms of infrastructure alone give it a substantial advantage over other competitors in areas like packaging. For instance, it's taken Mailboxes Etc. 18 years to open up 3,300 stores throughout the country. If the Postal Service were to expand its packaging operations to all of its postal centers throughout the country, Mailboxes Etc. would have 38,212 competitors overnight.

Another area the Postal Service is experimenting in is business advertising. I have had extensive discussions with several people

who have approached me, and they have brought to my attention that the Postal Service will have the ability to have an advertising delivery service available to all mailboxes in an area the day after it is delivered to a local post office, and will do that at a discounted price. As you probably understand, automobile dealers will have the privilege of overnight delivery of advertising to all mailboxes in an area at a price unavailable to other members of the public or any other business.

Mr. Chairman, I think as we approach H.R. 22, we're going to have to keep talking about innovative and constructive, competitive maneuvers that the post office needs to take. But I find this very enlightening, that we're here today to hear from our new Postmaster General and our other panel who will be here to help us understand more about how they intend to implement these new changes, what the impacts will be, the necessary impacts on their operations and each one of their employees.

And I thank you for the time.

Mr. MCHUGH. I thank the gentleman. I always heard Pete Sessions delivers. Now I know it's literally true, so it's good news.

I would be happy now to yield to the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. And let me just echo some of the sentiments that have been expressed by other members of the committee, yourself, and of course Chairman Burton. I, too, take the opportunity to welcome and acknowledge the new Postmaster General and his deputy, as well as other members of the staff who are present this morning.

As I understand it, the Postal Service has posted annual profits for the past 3 years. I acknowledge and commend all of those parties who contributed to this significant improvement, and especially former Postmaster General Runyon and the inspector general, as well as all of the men and women who work for the Postal Service. It's indeed illustrative of the hard work they do. And I'm sure that Mr. Henderson played a pivotal role in these profits, and know that he will continue to do so in his new role as Postmaster General.

As all of us know, the Postal Service is very important to the lives of all Americans. It handles over 43 percent of the world's mail, serves more than 8 million small businesses, and employs approximately 900,000 people nationwide.

I represent the city of Chicago, where one of the largest post offices exists and where there are a large number of people employed by the Chicago Postal Service. In fact, there are over 1,600 postal workers who live in my congressional district alone, 1,600 men and women who work hard, pay taxes, provide services, earn a living, and contribute to the economy of the Nation.

I'm interested in hearing from you today, and would raise a few concerns basically that are raised by the people that I represent. I recently spoke to a constituent who works for a nonprofit organization in Bellwood, IL, and they are concerned that as a result of the Revenue Reform Act of 1993, the nonprofit postage rate may go up in October by an average of 15 percent, while the overall average increase for commercial mail is expected to be 3.5. This could be a huge operating increase for many nonprofit organizations, and they, along with myself, are very much concerned about it.

I'd also be interested in hearing about cost overruns, the recent decisions that some of the post offices have made to contract out services for priority mail, labor-management issues that continue to be at the forefront of what I consider to be the biggest problems facing the Postal Service today, as well as the question of diversity that all of us are grappling with all the time.

With that said, Mr. Chairman, I appreciate the opportunity and certainly look forward to engaging the witnesses.

Mr. MCHUGH. I thank the gentleman.

And with that, I see no other members for a statement. We always try to obey the rules of the full committee, so we particularly want to make sure that happens today. So if I could ask those who will be expecting to testify to please rise and affirm an oath for me.

[Witnesses sworn.]

Mr. MCHUGH. The record will show that all seven of the witnesses responded in the affirmative. With that, we would note that we have your complete statements entered on the record. I, and I'm sure every other member, have read them fully, and we would appreciate if you could make comments that perhaps condense them, because both of your testimonies were very, very complete and very thorough, and we appreciate that.

But we would begin with Ms. Corcoran, and again with our thanks for being here today, we look forward to your comments and our attention is yours.

STATEMENTS OF KARLA W. CORCORAN, INSPECTOR GENERAL, U.S. POSTAL SERVICE, ACCOMPANIED BY COLLEEN McANTEE, ASSISTANT INSPECTOR GENERAL FOR AUDITS; SYLVIA OWENS, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS; THOMAS COOGAN, LEGAL COUNSEL; AND BERNARD L. UNGAR, DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY TERESA ANDERSON, ASSISTANT DIRECTOR; GERALD P. BARNES, ASSISTANT DIRECTOR; ANNE HILLDARY, SENIOR EVALUATOR, LABOR-MANAGEMENT RELATIONS; AND THOMAS SHARKEY, SENIOR ECONOMIST

Ms. CORCORAN. Thank you, Mr. Chairman. Mr. Chairman, Mr. Fattah and members of the subcommittee, I am pleased to appear before you today to highlight the progress made by the Office of Inspector General during our first full year of operation. Joining me are Colleen McAntee, the Assistant Inspector General for Audits; Sylvia Owens, the Assistant Inspector General for Investigations; and Thomas Coogan, legal counsel. With your permission, I would like to submit for the record my full statement.

Mr. MCHUGH. Without objection, so ordered.

Ms. CORCORAN. I am proud to report that we have made remarkable progress since March 1997 when I last testified before this committee. At that time, we were like a newborn going through the first critical and sometimes painful stages of growth. Today I am going to discuss with you our accomplishments, our challenges, and what we believe are the key management issues facing the Postal Service.

We have made progress on many, many fronts, meeting legislative mandates, building infrastructure and hiring employees, defin-

ing and explaining our authorities and responsibilities and conducting audits, investigations and other reviews. As you are aware, the legislation that established a new, independent OIG for the Postal Service required us to develop a 5-year strategic plan by January 1998. We met our deadline and have developed a strategic plan that recognizes the Postal Service "Customer Perfect" goals.

We recently issued the first semiannual report prepared by this office. Our new report format has a complete account of what is being done within the Postal Service to combat fraud, waste, abuse, and mismanagement, including information from the Inspection Service. In our opinion, this unified approach is in keeping with the legislative intent of the Inspector General Act. By including all OIG-related work performed within the Postal Service, we believe that it will provide a more complete picture for both Congress and postal management.

In building our infrastructure, we have hired skilled and experienced employees; acquired office space in five locations; provided staff with training, equipment, and support; and developed policies and procedures. Last March when I testified, we had only five permanent employees. Today we have 178, and within 3 months we will have hired 380 employees.

I am especially pleased with the caliber of employee we are recruiting. I consider them to be among the best and brightest professionals from the government, private sector, and the Postal Service. We have also hired a number of people from the Postal Inspection Service. We have emphasized hiring employees with professional certifications that are recognized throughout the business and government communities, such as certified public accountants, certified internal auditors, and certified information systems auditors. We are proud of our record on diversity; 43 percent of our employees are minorities, 56 percent are women.

This is not only a period of growth for us, but a time of transition. We are working cooperatively with the Postal Inspection Service to ensure a seamless transition of functions. The Inspection Service has already successfully reduced its staffing levels to its projected year 2002 level. However, we will continue to work from the original agreement as to the transfer of functions which provided that we would build our staff to over 500 by 2002.

As we hire staff, we are assuming more of the functions designated by the Governors. We have also started working in areas not previously performed by the Inspection Service, such as contract monitoring, labor management, and ratemaking.

An important part of our job has been to educate Postal Service employees, customers, management, and stakeholders about our new office. We often need to address how and why we differ from the Inspection Service. For example, we are working to increase awareness that all audits conducted within the Postal Service must, in accordance with the Inspector General Act, be conducted, supervised, and coordinated by this office.

We have worked diligently to create an effective organization that is responsive to the needs of the Postal Service, the Governors, and Congress. At the same time, we have completed some significant projects. I'd like to highlight a few.

We are conducting a series of reviews to address the year 2000 problem, which is critical to the Postal Service. More than 600 computer applications exist that, if uncorrected, may hinder mail movement or undermine financial management systems.

In another review, we found that the Postal Service's procedures needed to be improved for receiving fuel. The Postal Service purchases up to 500 million gallons of fuel each year. Our review increased management's awareness of the need to comply with the environmental laws and regulations and improve quality assurance efforts.

Mr. Chairman, one area of particular interest to you concerns a project we did on management's retaliation against an employee who reported an allegation to our office. This employee was fired after reporting improprieties about a landscaping contractor to us. While we were conducting an inquiry into the matter, which we verified as being true, the worker was reinstated with the Postal Service. As a result of this investigation, the Deputy Postmaster General notified postal officers for the first time that no retaliatory action should be taken against employees who contact the Office of Inspector General.

Now I would like to turn to some of the most critical issues currently facing the Postal Service and the work we are doing in those areas. Earlier this year, the House majority leader asked us to identify the top 10 management problems in the Postal Service. After talking with our stakeholders, including Postal Service management, union leaders and others, we developed a list that includes issues such as workers' compensation, electronic commerce, and data integrity.

One of the most critical problems the Postal Service faces is workplace violence. At your request, we conducted a review of the Milwaukee murder-suicide to determine what could have been done to prevent this tragedy, including whether Postal policies addressing workplace violence were followed.

While the report has not been finalized, we briefed the new Postmaster General about our concerns. The Postal Service Threat Assessment Team guidelines, which are designed to help prevent tragedies such as this, had not been fully followed. While compliance with the guidelines cannot safeguard employees from acts of violence, the guidelines may have given management a better indication of the mental state of the offender, the current work climate of the office, and an opportunity to take preventive action. We will continue doing work in this vital area.

Labor-management is the Postmaster General's top priority. With over 800,000 employees, the Postal Service is one of the country's largest employers. The over 100,000 grievances at the regional or national level awaiting arbitration indicate that labor-management relations need improvement.

OIG has designated audit responsibility for the labor-management area and will review issues such as discipline, grievance and appeals, and workplace relations. We are also in the process of meeting with union and management association leaders to ensure that we understand their issues and concerns.

Now I would like to turn to some of the challenges that we face. Since inception, we have received more than 15,000 complaints and

inquiries. These complaints are from postal employees, members of the public, and Members of Congress, most of them dealing with labor-management issues. More than 1,600 have been handled or retained in our office for evaluation and potential action.

This volume of inquiries has been quite surprising to us. We want to meet the expectations of our customers, including Congress. As with most offices of inspector general, we currently plan to hire only sufficient staff to work on broad agency-wide issues rather than on individual cases. Hiring staff to work on individual cases would require us to more than double our projected hiring. We will continue to maintain a data base of the individual complaints to develop trends on emerging or continuing issues.

Another challenge is recruiting and hiring staff as we continue to build our infrastructure and perform our mission. This office began with nothing but a vision and the strong support of this subcommittee. Building systems, acquiring equipment, and developing policies and procedures has been a monumental task to achieve while at the same time meeting customer expectations. Over the next 3 months we plan to more than double our staff from 178 to 380. This would be a tremendous challenge to a mature organization, but as you know, we are still in our infancy.

Another challenge is the inconsistency between the Inspector General Act and the Postal Service legislation with respect to financial statement audit responsibility. Under the Postal Reorganization Act, the Postal Service must retain an independent certified public accountant to perform an annual audit of Postal Service financial statements. In contrast, the Inspector General Act requires the Office of Inspector General to conduct, supervise, and coordinate all audits relating to the Postal Service.

In the late 1980's, when Government agencies were asked to provide greater financial accountability, agency management tried to maintain control of financial statements by hiring external auditors and not using the offices of inspector general.

Congress subsequently passed the Chief Financial Officers Act in 1990, authorizing the inspectors general to audit agency financial statements, or to select and oversee an independent public accountant to perform the work. This Chief Financial Officers Act does not apply to the Postal Service. Therefore, unlike other offices of inspector general, we are not expressly responsible for the agency's financial statement audit.

Mr. Chairman, not only must we address all of these critical areas and more in the coming year, we also need to continue to chart a course for the future direction of this office.

In conclusion, I would like to reaffirm our commitment to meeting the challenges before us. Thank you for this opportunity to report on our progress and your continued support for our mission. This concludes my oral statement. I would be pleased to answer any questions you may have.

[NOTE.—The "United States Postal Service Office of Inspector General Strategic Plan, Fiscal Years 1998–2002," may be found in subcommittee files.]

[The prepared statement of Ms. Corcoran follows:]

STATEMENT OF
KARLA W. CORCORAN, INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

BEFORE THE
SUBCOMMITTEE ON THE POSTAL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 10, 1998

Mr. Chairman, Mr. Fattah and Members of the Subcommittee, I am pleased to appear before you today to highlight the progress made by the Office of Inspector General (OIG) in our second year. Joining me are: Colleen McAntee, Assistant Inspector General for Audits; Sylvia Owens, Assistant Inspector General for Investigations; and Thomas Coogan, Legal Counsel.

Mr. Chairman, I am proud to report that we have made remarkable progress since March 1997 when I last testified before this Subcommittee. At that time, we were like a newborn -- going through those first critical and painful stages of growth. After starting operations on January 6, 1997, with no employees and no infrastructure, we reported to you that we had established a pay package, developed our first budget and determined the designation of functions between OIG and the Postal Inspection Service, which since 1988 served as the Office of Inspector General. Today I am going to discuss with you our accomplishments since my last appearance, and the areas where we believe this office will be adding value to Postal operations over the next few years. Attached for the record is a listing of our accomplishments.

Progress Made by the OIG

We have made progress on many fronts: meeting legislative mandates; building infrastructure and hiring employees; explaining our authorities and responsibilities; and conducting audits, investigations, and other reviews. As you are aware, the legislation that established a new, independent OIG required us to develop a five-year strategic plan by January 1998. We met our deadline, and I am proud that we developed a strategic plan that recognizes the Postal Service's *CustomerPerfect*! goals -- voice of the customer, voice of the employee, and voice of business. As part of the strategic plan, we established the mission, vision and goals that we have incorporated into our daily activities. To help accomplish the strategic plan, we also developed an annual plan that is the basis for measuring our performance and results. As we gain more knowledge and experience over the next few years, we will revise the strategic plan. We have included a copy of the plan with our statement for the record.

We have also issued three semiannual reports to Congress as required by the Inspector General Act. The first two reports, done in 1997, were prepared with the Inspection Service taking the lead. With the first report of 1998, the OIG has taken over the preparation of the semiannual report. We will continue to include Inspection Service work in our report because it is key to the Office of Inspector General's mission to prevent, detect, and report on fraud, waste and abuse in the agency.

In building our infrastructure, we continued hiring highly skilled and experienced employees; acquired office space in five locations to establish a Postal-wide presence; provided OIG staff with training, equipment and support to help them do their difficult job; and started developing policies and procedures. We have also established our own Internet home page for our stakeholders to have easy access to our activities.

Recruiting Staff

Today we have 178 employees in offices in Rosslyn, Virginia; Minneapolis, Minnesota; St. Louis, Missouri; and Dallas, Texas, and soon will be opening an office in San Mateo, California. By September of this year, we plan to hire an additional 202 employees, bringing our total staff level to 380, comprised mostly of evaluators and criminal investigators. In order to facilitate this massive hiring in a tight job market while continuing to conduct audits and investigations, we have hired an experienced personnel management firm to assist us in screening over 1,500 applications. By the year 2002, we expect to have more than 500 employees.

I am especially pleased with the caliber of employees we are recruiting. I consider them to be among the best and brightest financial auditors, evaluators, criminal investigators, attorneys and other professionals from the government, private sector and the Postal Service, including a number of Postal inspectors. We have attracted experienced and talented people who are dedicated to building an outstanding, independent Office of Inspector General and a better Postal Service. Over a quarter of

our staff possesses professional certifications, such as Certified Public Accountant (CPA), that are recognized throughout the business and government communities. The skills, experience and dedication of all our staff will serve us well in the months and years to come. We also place a high priority on diversity -- 43 percent of our employees are minorities and 56 percent are women.

I also want to emphasize that we are not just hiring individuals; we are building a winning team. Our employees are our most important resource, so we are taking the time and care to hire the best we can. In an effort to bring a unique multi-discipline approach to this new endeavor, auditors and investigators are working together on teams, enabling us to draw on the strengths of each profession. We believe the synergy of an effective team will enhance our productivity, and enable us to leverage our resources to oversee a $60 billion, 800,000-employee enterprise that touches the lives of every American every day.

Transfer of Functions

This is not only a period of growth but a time of transition. We are working cooperatively with the Postal Inspection Service to ensure a seamless transfer of functions, and to deal with some of the ongoing issues arising from the Inspection Service's having previously acted as the OIG, and OIG's oversight of the Inspection Service. Our agreement with the Inspection Service allowed for a five-year transfer of functions, giving the Inspection Service five years to reduce their staff. While the

Inspection Service has already reduced its staffing levels, we continue to work from the original agreement as to the transfer of functions.

As the Office of Inspector General hires staff, we have assumed more of the functions designated by the Governors, as provided to you at our last testimony. For example, in August 1997, we assumed full responsibility for the Hotline, which included the Inspection Service Postal Crimes Hotline. Since that time, the Hotline has handled more than 15,000 calls. We are now conducting all investigations of senior Postal officials and have transitioned the headquarters year-end financial statement work previously done by the Inspection Service to our staff.

We have also started working in areas that had not previously been emphasized by the Inspection Service, such as contract monitoring, labor management and ratemaking. While we are not yet fully staffed and much of our current staff is involved in establishing this new office, we have focused our attention on critical areas, such as Year 2000 computer initiative, labor management, Inspection Service oversight, financial statement review and procurement fraud investigations. Our quick response team of evaluators and criminal investigators has, as promised, quickly responded to requests by Members of Congress, the Board of Governors, and Postal management. For example, we were asked to do some high-level background investigations on several people, and in just three days we conducted investigations that other agencies routinely do in 35 days.

Educating Employees and Stakeholders

We are educating Postal Service employees, customers, management and other stakeholders about the new Office of Inspector General. We are explaining the role and mission of a statutory Office of Inspector General by speaking at conferences and training sessions, distributing an educational brochure, and establishing a World Wide Web site. We sometimes struggle to deal with the various perceptions people have about the role of a statutory Inspector General.

Also, we often need to address how and why we differ from the Inspection Service. Since 1988, the Inspection Service served as the OIG. However, unlike the new OIG, the Inspection Service was part of management, reported to the Postmaster General, and was perceived by some as lacking the independence of the new OIG. It is often difficult to explain to Postal management that the new OIG is not simply following old ways, but is fully asserting its statutory role and responsibilities, including keeping the Governors and Congress fully and currently informed.

For example, it may not be well understood that because the Office of Inspector General is not part of Postal management, we have the authority to initiate audits and investigations without management or the Governors' approval. Further, we are working to increase awareness that all audits conducted within the Postal Service must, in accordance with the Inspector General Act, be conducted, supervised, and coordinated by

the Office of Inspector General. This is to ensure that all significant management control weaknesses are identified and corrected.

Projects

Although resources have been dedicated to developing an infrastructure, we have been able to accomplish some significant projects. For example:

- Addressing the Year 2000 problem is especially critical for the Postal Service, because USPS manages more than 600 computer system applications related to internal and external operations. If the problem is left uncorrected, USPS could face critical computer system failures, which may hinder mail movement. Our review of the Postal Service's Year 2000 program enabled management to more clearly recognize the need to devote additional resources to ensuring that critical corrections are made on time. This was the first of a series of reports to be issued on this critical topic. A second report is currently with management for comments.

- The Postal Service purchases between approximately 480 million to 500 million gallons of fuel annually that, if not managed properly, could result in system breakdowns and environmental hazards. Our review of fuel-receiving practices and procedures increased management's awareness of the need to comply with environmental laws and regulations and improved quality assurance efforts.

- The Postal Service spends hundreds of millions of dollars annually on advertising. Management is taking steps to strengthen controls over advertising expenditures after we found they could not justify payments for more than $1.7 million in charges paid to four advertising agencies because documentation was insufficient, inaccurate or not provided.

- We have been told Postal workers fear management retaliation if they report wrongdoing and some of their fears may be justified. A Postal worker was fired because he contacted the Office of Inspector General alleging improprieties with a landscaping contract. While we were conducting an inquiry into the matter, the worker was reinstated with the Postal Service. As a result of the investigation, I am happy to report the Deputy Postmaster General sent a letter to Postal officers stating that no retaliatory action should be taken against employees who contact the Office of Inspector General.

- We completed our first arrest and conviction of a contract employee for stealing OIG equipment. We also received authority from the Attorney General to apply for search warrants as necessary to complete investigations.

- The Postal Service spent over $45,000 on a Postmaster installation ceremony, and could have spent substantially more because there were no policies or controls over such expenditures. We recommended that the Postal Service develop policy guidance for such costs.

- Drug abuse continues to afflict our nation's workforce. A review of drug use and sale within the workplace provided an opportunity for management to strengthen their current policies. We found management needed to improve their ability to obtain and maintain data related to the extent of drug-related problems among employees.

We also conducted eight fact-finding reviews related to labor-management issues at specific locations, including matters brought to our attention by you and other Members of Congress. While these fact-finding reviews are continuing, they have allowed us to learn about the issues facing the Postal Service in labor-management relations. Also, in several instances, we identified problems and brought them to management's attention. They are currently addressing these issues. In addition, we have identified systemic labor-management problems for future nationwide reviews.

Issues Facing the Postal Service

I would like to turn now to some of the most critical issues facing the Postal Service and the work we are doing in these areas. Earlier this year, the House Majority Leader asked us to create a list of the top 10 management problems in the Postal Service. After talking to our stakeholders, including Postal Service management, union leaders, and others, we developed that list and reported our results.

- Workplace violence. USPS management widely acknowledges concerns about violence in the workplace. In December 1997, you requested the Office of Inspector General to address your concerns about workplace violence. We have been conducting a review of the Milwaukee murder-suicide to determine what could have been done to prevent the tragedy, including whether Postal policies addressing workplace violence were followed. While the report has not been finalized, we found that management had not followed the USPS Risk Threat Assessment guidelines. Although we are unable to determine whether following the guidelines would have prevented this tragedy, compliance with the guidelines might have provided management with an indication of the mental state of the offender as well as the current work climate of the office. This information could have been used to assess what actions needed to be taken before the outbreak of violence.

  We are planning additional audits and reviews focusing on the root causes leading to violence and evaluating ways that the Postal Service might reduce the potential for incidents of violence in the workplace.

- Labor-management relations. With over 800,000 employees, the Postal Service is one of the country's largest employers. Currently, the Postal Service has over 100,000 grievances at the regional or national level awaiting arbitration. Such statistics indicate that labor-management relations need improvement. OIG has the designated responsibility for the labor-

management area and will review issues such as discipline, training, staffing, recruitment, retention, grievance and appeals process, and overall workplace relationships. We believe these reviews will assist the Postal Service. In addition, we recognize the new Postmaster General has made labor-management relations his top priority. To assure that we have an understanding not only of Postal management issues, but also of the unions and management associations, we are in the process of meeting with union and management association leaders.

- Workers' Compensation. The USPS has substantial workers' compensation future liability costs estimated at over $5.1 billion. The Inspection Service is continuing to investigate claimant fraud. OIG issues subpoenas to oversee and support those important investigations. We are focusing our efforts on health care provider fraud investigations and audits, as well as systemic reviews.

- Service Delivery. Timely, accurate, secure, and consistent delivery of USPS products directly affects the use of services by Postal Service customers. OIG will provide independent assessments in areas such as consistent and accurate service, ease of use, and access to service. We also will evaluate whether the measures used by Postal management fairly reflect the services provided.

- Financial Management. USPS is developing new initiatives to expand products that have growth potential, and to defend products and services threatened by competition. OIG will review new USPS initiatives and cost-management efforts by providing independent financial analyses. These reviews will validate the integrity of the data used in projections and decision-making processes. In addition, OIG will examine the adequacy of internal controls relating to the financial system and will review revenue generation initiatives.

- Systems Automation. Management states that upgrading facilities and automating processes with new technology are key ingredients to the Postal Service's success in cost management. OIG will review proposals to automate systems to ensure that the projected cost savings are sound and management proposals are based on proven technology. A developmental audit group, including engineers and other technical experts, will work toward ensuring the Postal Service puts the appropriate technology in place on time.

- Ratemaking. In a competitive market, the Postal Service wants a process for changing prices, products and service features that is both timely and protects the interest of the public. The Postal Service believes its capability to respond quickly to competitive influences is crucial to its ability to operate in a break-even manner. OIG is responsible for the ratemaking area and will monitor and review the Postal Service data used in the ratemaking process.

- Electronic Commerce. The USPS faces potential loss of revenue due to increased use of e-mail and electronic financial transactions instead of first-class mail. For example, the U.S. Postal Service estimates that it could lose annual revenues of up to $500 million with the federal government's switch to electronic funds transfer of paychecks and benefit payments. As more customers move to electronic commerce, the loss of Postal Service revenues could be substantial. OIG will evaluate Postal Service proposals to compensate for lost business and its efforts to reengineer USPS processes to incorporate electronic commerce into daily operations. OIG will also review this area as well as others for potential intrusion into computer systems.

- Data integrity. Data integrity is the key to the success of the USPS decision-making process. Decisionmaking has substantial financial and labor-management implications and must be based on sound, reliable data. OIG will provide independent analysis, including validation of key data elements, and will review the USPS information management and data processing systems.

- Year 2000. USPS has identified over 600 systems requiring Year 2000 review. OIG will continue to audit USPS efforts to timely comply with Year 2000 requirements, particularly on their critical systems. The Postmaster

General and the Governors have stated that this is one of their areas of key concern.

We believe we can add value to the Postal Service by detecting waste, fraud, abuse, and mismanagement. We also will add value by helping improve the efficiency of Postal activities and operations, and encouraging Postal management to take prompt corrective action. We plan to work constructively with the Postal Service.

Challenges

While we are making progress, challenges exist that make progress more difficult.

High Volume of Complaints The volume of complaints received from Postal employees, members of the public and Members of Congress, has been staggering. Since inception we have received more than 15,000 complaints and inquiries. Many of these complaints are received by our OIG Hotline, which became fully operational in August 1997. A large portion of these complaints were referred to the Postal Service, such as questions about delivery service. More than 1,600 of these have been handled or retained in our office for evaluation and potential action. Most of those have involved labor-management problems.

This volume of inquiries has been quite surprising to us. We would like to meet the expectations of our customers, including Congress. However, to address this number

of individual complaints -- which continues to accelerate -- within a reasonable time would require OIG to significantly increase its projected staffing. The role of an Office of Inspector General normally focuses on broad agency-wide issues rather than on individual cases. Therefore, we have based our staffing projections on addressing issues through systemic reviews rather than individualized inquiries as represented by the bulk of these complaints. We will continue to maintain a database of the individual complaints to develop trends on emerging or continuing issues.

Hiring and Training New Personnel. We are planning to more than double our staff in the next three months, from 178 to 380. This would be a tremendous challenge to a mature organization, but as you know, we are still in our infancy. Although we have developed some infrastructure, such as policies and procedures to aid people in becoming familiar with our organization and the Postal Service, many of these processes are still being developed. Training and managing a large workforce that has never worked together is in itself a challenge. It is even more challenging to maintain our momentum while carrying out all aspects of our mission in a consistent manner.

Financial Statement Audit Responsibility. The Inspector General Act and Postal Service legislation are not consistent with respect to financial statement audit responsibility. Under the Postal Reorganization Act, the Postal Service must retain an external independent certified public accountant to perform an annual audit of Postal Service financial statements. In contrast, the Inspector General Act requires the Office of

Inspector General to conduct, supervise and coordinate all audits relating to the Postal Service.

It is important to understand this issue in the context of the Inspector General community. As background, Congress recognized the importance of centralizing audit responsibility in a single audit entity with the passage of the Inspector General Act in 1978. In the late 1980s, when government agencies were asked to provide greater financial accountability, agency management tried to maintain control of financial statements by hiring external auditors and not utilizing the Offices of Inspector General. Congress subsequently passed the Chief Financial Officer's Act in 1990, expressly authorizing the Inspectors General to audit agency financial statements, or to select and oversee an external independent public accountant to perform the work. This Act does not apply to the Postal Service; therefore, unlike other Offices of Inspector General, we are not responsible for the agency's financial statement audit.

Creating an Infrastructure. Most OIGs were created through combining existing internal audit and investigative functions with an operating infrastructure. This OIG, in contrast, began with literally nothing but the Inspector General and a vision. Building systems, acquiring equipment, and developing policies and procedures has been a monumental task. At the same time, customers' expectations have to be met, and the workload continues to increase rapidly. Building an organization while developing high-quality products that add value to the USPS and dealing with unique transition issues will continue to be a balancing act for at least the next few years.

Conclusion

In conclusion, I would like to reaffirm my commitment to meeting the challenges before us. The next several months will be critical because of rising expectations of the OIG and planned growth. We hope that you will continue to communicate with us about what you perceive to be our role as an independent Inspector General. Together, we can work to better serve the American public through an improved Postal Service. I look forward to answering any questions you may have.

United States Postal Service
Office of Inspector General
Accomplishments

Major accomplishments achieved by the Office of Inspector General (OIG) from March 1997 to June 1998:

Audit and Related Work

- ★ Reviewed USPS efforts related to the Year 2000 computer conversion.
- ★ Developed a long-range plan targeting high-risk areas within marketing.
- ★ Provided consulting services to management on vehicle maintenance facility.
- ★ Investigated Tray Management System shutdown.
- ★ Reviewed a Chicago Post Office renovation project.
- ★ Suggested improvements for audit reporting and follow-up process.
- ★ Suggested improvements for vehicle management accounting system conversion.
- ★ Recommended stamp operation improvements.
- ★ Recommended changes in fuel-receiving practices and procedures.
- ★ Reviewed Postmaster General's request for legal fees reimbursement.
- ★ Reviewed Inspection Service disciplinary case and identified areas for improvement.
- ★ Recommended reinstatement of a Postal worker retaliated against for alleging wrong-doing.
- ★ Reviewed expenditure on Postmaster's installation ceremony.
- ★ Completed investigation of postal manager for misconduct and conflict of interest.
- ★ Recommended contractor for debarment.
- ★ Partnered with Inspection Service to complete FY 1998 audit workload plan.
- ★ Reviewed and provided updates to the USPS Administrative Support Manual to include OIG authorities and responsibilities.
- ★ Completed a review of USPS efforts to eliminate drugs in the workplace.
- ★ Completed an audit of revenue projections for a public-private partnership effort.
- ★ Monitored financial statement audit work in preparation for transition from Inspection Service.
- ★ Identified overcharges on a USPS contract related to information technology components.
- ★ Partnered with the Inspection Service on several audits, such as the External First Class Mail.
- ★ Completed a review of advertising agency invoice approval procedures.
- ★ Completed several labor-management fact-finding reviews.
- ★ Performed work on workplace violence issues.

Law Enforcement

- ★ OIG Special Agents granted full law enforcement authority. Conduct criminal investigations, carry firearms, serve subpoenas, execute warrants and make arrests.
- ★ Over 90 criminal and executive investigations are currently being conducted.
- ★ Received search warrant authority from the Attorney General.
- ★ Issued the first OIG subpoena.
- ★ Made first arrest and obtained first conviction.

- ★ Qualified all criminal investigators with firearms and conducted quarterly firearms qualification.
- ★ Trained investigators in non-lethal law enforcement techniques.
- ★ Developed profiles of potential areas susceptible to embezzlements.
- ★ Prepared internal investigative operating procedures and policies concerning such issues as the use of deadly force.
- ★ Handled more than 15,000 Hotline inquiries.
- ★ Designed database to facilitate trend analyses.
- ★ Obtained access to law enforcement databases from other federal agencies.

Human Resources

- ★ Recruited and hired total staff complement of 178 diverse and talented team members.
- ★ Designed a detailed recruiting package that explains OIG organization.
- ★ Hired a contractor to screen and perform preliminary assessment of candidates for ongoing OIG hiring effort.
- ★ Developed an awards program.
- ★ Established a toll-free job vacancy announcement line.
- ★ Designed appraisal systems focusing on teamwork, leadership, creativity, communication and conceptualization.
- ★ Developed performance standards, awards and evaluation systems.
- ★ Designed program to ensure staff maintains continuing education requirements.
- ★ Attended a number of job fairs in order to recruit highly qualified candidates.

Infrastructure

- ★ Established an Internet home page.
- ★ Obtained office space for headquarters and three other locations throughout the nation.
- ★ Designed and installed organizational Local Area Network.
- ★ Equipped staff with integrated computer work stations, laptop computers, and automated organizers to enable staff to work more effectively.
- ★ Purchased specialized software to support audits and investigations.
- ★ Designed official badge and insignia.
- ★ Issued credentials to all OIG special agents, evaluators, and other staff.
- ★ Designed and installed organizational telephone system.
- ★ Obtained access and training on USPS corporate databases, including Inspection Service, finance, and other relevant systems.
- ★ Published five-year strategic plan and annual performance plan.
- ★ Conducted review of OIG internal security.
- ★ Conducted review of OIG internal financial systems.

Outreach

- ★ Designed an educational package describing OIG mission and responsibilities.
- ★ Established toll-free Hotline.
- ★ Established a congressional/media relations team.

- ★ Presented numerous briefings at postal and private conferences and training programs to educate postal employees about the OIG's mission and authorities.
- ★ Created comprehensive orientation program.

Legal Considerations

- ★ Developed a system for reviewing, issuing, and tracking subpoenas.
- ★ Transitioned subpoena authority from Inspection Service to OIG, including issuing the first subpoena in 1997.
- ★ Processed 430 subpoena requests and 18 Freedom of Information Act requests.
- ★ Responded to a series of legal questions regarding the OIG's role within the Postal Service.
- ★ Provided comments to the draft financial statement opinion, including "best practice" guide published several years ago by the Office of Management and Budget.
- ★ Worked with the USPS Law Department to amend a bylaw that clarifies procedures for the Semiannual Report to Congress.
- ★ Reviewed proposed legislation and regulations related to USPS.

Mr. MCHUGH. Thank you very much, Ms. Corcoran, and we appreciate your comments and your being here.

And with that we would turn to our official from the General Accounting Office. Mr. Bernard Ungar, as I mentioned, is no stranger to this subcommittee. We welcome you back.

Mr. UNGAR. Thank you, Mr. Chairman, and other members of the subcommittee. We're certainly pleased to be here, and I appreciate the opportunity to help the subcommittee carry out its oversight responsibilities.

Before I begin to summarize my statement, I would like to introduce my associates who are accompanying me. On my right are Teresa Anderson and Mr. Gerald Barnes, two assistant directors in our office who have spent some time working on postal issues. In addition, in case we need to get bailed out for some real tough questions, we also have with us some of our staff. In particular I'd like to mention Ms. Anne Hillary, a senior evaluator that has been doing work in the labor-management relations area for some time, and Mr. Thomas Sharkey, a senior economist who has been with GAO a short time but who is very familiar with postal matters.

As the inspector general noted and as many of you noted in your opening statements, the operational and the financial performance of the Postal Service over the last few years has certainly been noteworthy, and we want to recognize that. At the same time, as has been recognized, there are a number of issues and challenges that are confronting the Postal Service, not only to continue the performance, but also problems that it has been faced with for a number of years; as well as some new issues that are arising from the new opportunities that the Postal Service is exploring in the competition area.

We've issued since last April, about the time of your last hearing, about 11 products on the Postal Service. We have a number of reviews that are ongoing, and what I would like to do is just highlight for you a few of those and just mention briefly sort of where we are, as you had requested, on some of the ones that are in process.

First and foremost, I would like to mention the work that we've done in the last year in the labor management relations area, which of course the new Postmaster General has indicated would be his top priority. We would say that at least in our experience it's the No. 1 problem that we see the Postal Service faces today. Although I know there are a number of problems that may be vying for No. 1, that certainly is a significant one.

We've looked at this issue over the last several years and found, of course, that the relationship that the Postal Service has had with some of its major unions have been very problematic and very confrontational and adversarial for some time.

We pointed out in our recent report and in our testimony before the subcommittee a few months ago that some of the indications of that problematic relationship are the rising number of grievances that the Postal Service has received, a larger number that await arbitration; the instances in the past, in which the Postal Service and three of its major unions have had to go to arbitration. The parties were not able to settle their differences by negotiation.

And what we pointed out in our last testimony was that one effect of this adversarial relationship is the time and effort that postal management and employees spend on grievances and not processing the mail. So obviously that would dampen the productivity of the Postal Service and affect its costs, certainly, to some degree.

There are a number of causes to this problem that we and others have pointed out: autocratic management styles by a number of the managers and supervisors in the Service, adversarial attitudes and approaches to problems by both sides over time; a performance management system that had previously focused on individual performance, although more recently the Postal Service has instituted a new system for its managers and supervisors which basically addresses both the unit performance as well as the individual performance. The Service hasn't been able to go that far for the craft employees at this point, because, of course, the union agreement would come into play there.

And I think the underlying cause that we saw was no common framework, no common objective, that had been laid out by both the Postal Service and the unions for coming to grips with this problem, but we recommended that a framework be developed a few years ago. We reported a few months ago that there had been some progress, but very limited progress.

Starting in October 1997, the Postal Service and the major unions and its management associations, with the help of the Federal Mediation and Conciliation Service, began a process of summit meetings where all the parties came together, and we are certainly very encouraged that this is a positive step and would certainly hope that, progress will continue. Nonetheless, it's an area that will require a lot of attention by the new Postmaster General, and certainly additional oversight, we think, by this subcommittee to make sure that progress continues to be made.

The second area that I'd like to mention just briefly is a recent report that we issued on the Service's delivery point sequencing initiative. This is basically the automation of the sorting of the mail in the sequence to which the carrier is going to deliver it. I don't know whether Mr. Sessions had the opportunity to deliver delivery point sequenced mail or not, but if he did, he probably was involved in handling mail from a number of different bundles to get it to the right place at the right time, which is a concern that some folks have raised in the Postal Service. Initially the Postal Service expected it to be done in 1995. It ran into a number of obstacles and problems, and now it's expected to be complete in 1998. We certainly note that the Service made a great deal of progress in implementing this initiative. It required installation of a lot of equipment and, in effect, a different way of doing work for both city and rural carriers, both in terms of sorting mail and delivering the mail. The DPS initiative began in 1993.

The Service projected a substantial amount of work hour savings, primarily from the time that the carrier used to spend in the office sorting the mail. A lot of that time would be now being able to be devoted to delivering mail in the street, because machines would automatically sort mail based on bar codes that had been put into place by bar coding equipment.

Basically, at the time we issued our report, which was a few months ago, the Service had overcome many of the problems it had experienced. The Service experienced most, but not all, of the savings, and so we would say that it was fairly successful in the long term. Although, again, the Service did experience a number of problems that it didn't expect.

However, one of the problems that it had almost from the beginning was labor-management relations. Again, the effort started out on a positive note with the National Association of Letter Carriers, the union representing the city carriers. They had joint agreements; things looked very positive, but soon after the initiative began, it ran into trouble. Both sides couldn't agree on how to resolve those issues, and I think the situation went downhill since then.

And the relationship between the Postal Service and the city carriers was not very positive throughout that experience, although I must say that based on the work that we did, the city carriers certainly supported the automation effort. I think their concern was with specific implementation issues and the relationship that they had in terms of how problems were going to be resolved once they came up.

Some of the lessons that we saw, that the Postal Service could learn and the subcommittee might be interested in looking for in future initiatives would be setting ambitious goals but not unrealistic goals. I think the Postal Service acknowledges that some goals were pretty ambitious and maybe somewhat unrealistic.

A second lesson would be, making sure that there's a good handle on what barriers and obstacles might be encountered in the initiative. In this case a number of ones came up that weren't fully expected.

Third, establishing a means for resolving disputes with the union when they do arise during the course of a major initiative. In this case, they were unable to do that in a smooth way.

Finally, making sure that the right data are available to measure success. In this particular case, there were work hour savings targeted, and measured. A question came up as to how much of those savings were really attributable to delivery point sequencing versus other initiatives that local managers may have taken. That point was a little unclear. Another point is that the Postal Service did not have data on the exact percentage of mail that was sorted by DPS. And that, of course, was a critical issue that had to do with the union.

A third issue that I'd like to mention very briefly has to do with the Postal Service's implementation of the Results Act, and what I would like to focus on primarily is the 1999 annual performance plan that the Postal Service has recently issued in a preliminary form, and they expect to issue in final in September.

At the subcommittee's request, we've looked at that plan. We had several observations and have a draft report now with the Postal Service for comment. We've discussed our issues and concerns with the Postal Service, and our impression is that its in general agreement with us. We feel that the Service has done a very nice job in laying out very specific results-oriented goals that are measurable. The Service has some very good measures already.

The Service plans to develop some additional measures which look very promising to us. So all and all, I think the Service is off to a very good start. The major concern that we have, and one which we will encourage the subcommittee to get involved in, is the degree to which the Service has, in its preliminary plan, explained the specific steps or strategies that it plans to take to implement those goals and the resources that will be associated with those steps.

We think it's very important and a very fundamental part of the Results Act to have a good clear picture of where the agency is going—its goals—how it's going to measure, what steps are going to be taken to get there, how much is it going to cost, and do these all seem reasonable and in line with the Congress' wishes as one of the major stakeholders.

Now I'd like to just briefly mention a couple of areas that we have been working on, primarily at the request of the subcommittee or some of the subcommittee members.

In the area of competition, we recently issued a report on certain international package delivery services at the Postal Service, and that report I presume will be released at some time in the next couple of weeks. It deals with the GPL program.

The subcommittee has also asked us to look at the concerns or allegations that the GPL program has been cross-subsidized by other classes of mail. We have not begun that yet, but we do plan to start that shortly. We understand that the inspector general has also been asked to look at the international area, and will certainly coordinate our efforts very closely with the inspector general. We already have in many instances.

We're currently doing work on the Universal Postal Union. At the request of the subcommittee, that work is in process, and I know a number of issues have been raised about whether the Postal Service is the most appropriate organization to represent the U.S. Government and the United States—the country as a whole before international bodies concerned with creating postal rules.

Another area that we have been doing work in at the request of the members of the subcommittee has to do with the issue of diversity, and Mr. Fattah has asked us to do work in the areas of the training programs that the Postal Service has in the areas of diversity and sexual harassment. That work is under way. And Mr. Davis has asked us to look at some issues concerning diversity, particularly issues that have arisen as a result of a contractor's study that was released in January 1998. Those efforts are under way, and we certainly hope to be finished in the next several months with those and be reporting to you.

With that, I would like to conclude my summary and be available for questions.

[The prepared statement of Mr. Ungar follows:]

SUMMARY – U.S. POSTAL SERVICE: PERFORMANCE PROGRESS HAS BEEN MADE, BUT CONTINUED ATTENTION TO CHALLENGES IS NEEDED

As the Postal Service stands ready to enter the 21st century, it faces significant challenges that call for vigilance and attention as it strives to sustain and expand on reported performance improvements. In fiscal year 1997, the Postal Service ended another year of overall high performance in some of its operational areas, sustaining 3 years of encouraging results. With reported net income of over $1 billion and increasing on-time delivery scores for First-Class Mail, the Service has shown that it can maintain a high income level while providing its customers with improved service. Also, in some management areas, such as automation of mail processes and labor-management relations, GAO acknowledges that some progress has been made. For example, the Service has overcome many of the initial obstacles it encountered in its efforts to automate letter sequencing and is making substantial progress toward accomplishing its goals in that area. In addition, the Service has also recently made some progress in addressing its labor-management relations problems and has made a good start in developing its strategic and 1999 annual performance plans required under the Government Performance and Results Act (Results Act).

However, challenges remain for the Service to sustain performance and continue on a progressive path toward accomplishing established goals and objectives and improving operations. GAO believes that sustaining and expanding on recent progress will be dependent upon the extent to which Congress, the Service, and other major postal stakeholders continue to focus attention on key issues, particularly:

- labor-management relations, in which efforts to address persistent problems continue, although the sometimes adversarial nature of the relationships among the Service and many of its labor unions can affect progress in implementing improvements;

- postal reform, in which fundamental issues are still being considered, such as defining universal service obligations and the scope of the postal monopoly;

- competition, in which the Service is continually striving to deal with competitors so that it can maintain a firm position in a dynamic communications environment; and

- the effectiveness with which the Service implements the Results Act, particularly with respect to the implementation of its strategic plan and the development and execution of its 1999 and beyond annual performance plans.

GAO is providing information on recently completed work that relates primarily to postal management and reform issues and ongoing work that relates in large part to the issues of competition and diversity.

Unger

STATEMENT

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's oversight hearing on the U.S. Postal Service. In my testimony, I shall briefly discuss the Service's overall performance during fiscal year 1997, including the Service's reported successes and remaining challenges. Also, I will discuss work that we have completed since the spring of 1997, when we last testified at the Subcommittee's Postal Service oversight hearing. Much of this work was done at the Subcommittee's request and addresses issues related to postal management and reform. In addition, I shall provide information on our ongoing work, which relates primarily to the issues of competition and diversity.

SERVICE PERFORMANCE HAS CONTINUED TO IMPROVE IN SOME AREAS, BUT CHALLENGES REMAIN

First, I would like to briefly discuss the continuation of the Service's reported performance successes and mention some areas of concern and challenges that still remain. For the third year in a row, the Service has reported increases in net income, certain mail delivery services, overall mail volume, and revenue. Net income for fiscal year 1997 was about $1.3 billion, which marks the third straight year that the Service has reported net income in excess of $1 billion per year. In fiscal year 1997, the overall

delivery score for the on-time delivery of overnight mail reached a 3-year high of 92 percent, and total mail volume increased to about 191 billion pieces. This volume helped generate more than $58 billion in revenue during fiscal year 1997 the highest revenue figure reported by the Service in the most recent 3 fiscal years.

Although such performance results appear to be encouraging, other information suggests that some areas of concern and challenges remain. For example, the delivery scores of 2-day and 3-day mail for fiscal year 1997–reported by the Service to be 76 and 77 percent, respectively–were less than the score for overnight mail. In addition, the fiscal year 1997 scores for delivering 2-day and 3-day mail had declined from levels previously reported for fiscal years 1995 and 1996[1] Such declines may reinforce concerns previously expressed by some postal customers that the Service's emphasis on overnight mail delivery has been at the expense of 2-day and 3-day mail delivery efforts.

Also, despite a reported increase in overall mail volume, the Service has acknowledged that due in large part to increased competition, its participation in delivering some types of mail has declined or suffered slow growth. For instance, the Service's delivery of Express Mail packages[2] has declined due, in part, to its inability to offer volume discounts

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[1]For fiscal years 1995 and 1996, the Service reported that the scores for the delivery of 2-day mail were about 78 and 79 percent, respectively. The score for delivering 3-day mail in both fiscal years 1995 and 1996 was about 80 percent.

[2]The Service's Express Mail package delivery service is intended to deliver documents and merchandise packages weighing up to 70 pounds within a specified period of time, usually by the next business day. Both domestic and international services are offered.

to large business mailers and its poor coverage of Zoning Improvement Plan (ZIP) codes for next-day delivery. In addition, the Service reported that the increased use of electronic alternatives to First-Class Mail, such as electronic mail and banking functions, has contributed to a lower growth rate than expected for this type of mail--around 1.5 percent for fiscal year 1997--rather than the 2.5 percent initially anticipated. The Service expects that this trend will continue in future years and will result in significant losses in First-Class Mail revenues. In addition, continued aggressive efforts by various competitors have challenged the Service's ability to participate in the international mail market, participation that the Service acknowledged has declined in recent years.

Also, in light of the Service's reported net income of over $1 billion in each of the last 3 fiscal years, questions have been raised concerning the appropriateness of the Service's recently approved request for increases in various postage rates. Questions have also been raised about the means by which the Service determines the need for such increases, including the use of specific data to justify the rate increase request.

OUR COMPLETED WORK RELATED TO KEY MANAGEMENT ISSUES

I would now like to highlight for you some of the work that we completed during the past year, in which we reported on topics involving key management issues that have received a great deal of attention from Congress and various postal stakeholders. The topics we

addressed included (1) labor-management relations; (2) automated letter sequencing, also known as Delivery Point Sequencing (DPS); and (3) the Service's plans prepared in response to the Government Performance and Results Act (Results Act).

Labor-Management Relations

During recent years, our work has shown that the poor state of labor-management relations within the Postal Service represents one of the most significant internal operational and managerial problems facing the Service. When we issued our most recent report in October 1997 on labor-management relations in the Service,[3] little progress appeared to have been made in improving relations among the Service and three of its four major postal labor unions.[4] We reported that although some improvement efforts, known as initiatives, had been established, difficulties existed in reporting on the initiatives' results because, in some cases, initiatives had only recently been implemented or had been discontinued. Also, disagreements among the parties prevented the full implementation of some initiatives. In our 1997 report, we included various indicators,

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

[4]The four major postal labor unions include (1) the American Postal Workers Union (APWU), (2) the National Association of Letter Carriers (NALC), (3) the National Postal Mail Handlers Union (Mail Handlers), and (4) the National Rural Letter Carriers' Association (Rural Carriers). In many instances, the Service's labor-management problems and concerns have involved three of the four major unions–APWU, NALC, and Mail Handlers. The Rural Carriers have generally had a more cooperative relationship with the Service.

such as a growing number of employee grievances, which showed that problems on the workroom floor of various postal locations appeared to have continued since 1994 when we initially reported on the existence of these problems.[5] In the 1994 report, we mentioned that in many instances, labor-management relations problems resulted from autocratic management styles; the sometimes adversarial attitudes of employees, unions, and postal management; and an inappropriate and inadequate performance management system.

Subsequent to the issuance of our 1997 report, we have seen some progress in the parties' efforts to address such problems. For example, in late October 1997, Service officials along with representatives from the four major postal labor unions, the three management associations,[6] and officials from the Federal Mediation and Conciliation Service (FMCS) began convening summit meetings, one of the initiatives that we had discussed in our 1997 report. According to FMCS, which helped facilitate the summits, progress has been made and continues to be made in addressing labor-management relations problems that have plagued the Service for years, including issues related to employee grievances. We are encouraged by the recent reported progress as well as the new Postmaster General's emphasis on the importance of addressing labor-management relations problems. We

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

[6]The three management associations include (1) the National Association of Postal Supervisors (NAPS), (2) the National Association of Postmasters of the United States (NAPUS), and (3) the League of Postmasters of the United States (the League).

support the parties' use of summit meetings as an opportunity to try to reach agreement on approaches to solving long-standing labor-management relations problems. However, the underlying problems that have hampered good relationships between the Service and most of its labor unions remain and pose significant challenges to the Service and its unions.

This year, events are scheduled that may affect the state of labor-management relations within the Service. For example, elections for officers in the two largest of the four major postal labor unions–APWU and NALC–are set to occur in the summer of 1998. Such officers can play an important part in the overall relationship that the organizations have with the Service. In addition, collective bargaining negotiations are expected to begin in August 1998, shortly after the elections of new union officers for these two unions. Also, the newly appointed Postal Service Vice President for Labor Relations should become involved with the negotiations. In the past, negotiations between the Service and three of the four major postal labor unions have sometimes been marked by controversy and disagreements that have in some cases required arbitration. The conduct of the negotiations and the extent to which settlements can be agreed upon instead of relying on arbitration can be highly dependent on the attitudes and approaches that Service officials and union representatives bring to the bargaining table.

Automated Letter Sequencing

In April 1998, we reported on the implementation of the process known as DPS,[7] the final phase of the Service's letter automation program. As part of the overall automation program, DPS, which began in 1993, entails the automated sorting of letters that have been barcoded by either business customers or the Service. DPS was designed to provide letter carriers with letters already sequenced into delivery order, so that carriers would spend less time in the office manually sorting letters and more time on the street delivering mail. In doing so, DPS was expected to save letter carrier workhours, thus reducing overtime costs and improving productivity.

The Service has made substantial progress in implementing DPS, despite initial obstacles. For instance, DPS implementation, which was initially scheduled for completion by the end of fiscal year 1995, fell behind schedule due to delays in procuring automated equipment and a shortfall in the volume of barcoded letters. The Service acknowledged that it had been overly optimistic in its DPS expectations. Subsequently, it revised goals and benchmarks for the implementation of DPS to be completed by the end of fiscal year 1998. The progress that the Service has made toward achieving these goals and benchmarks included the deployment of all the automated equipment needed to support

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

DPS, the implementation of DPS in more delivery zones than expected, and annual increases in carrier workhour savings.

Although the Service achieved carrier workhour savings through DPS implementation, part of these savings was offset by a nationwide decline in city carrier street efficiency, which involves the number of deliveries carriers made per hour. On DPS routes, the Service believed that the decline was greater than it had anticipated from DPS work methods and was due in part to route adjustments that were less timely and accurate than expected. NALC believed that much of the decline in efficiency was caused by DPS work methods, such as the additional time carriers needed to handle and prepare some DPS letters on the street, work that was formerly done by carriers in the office. The Service is working to improve city carrier efficiency through various efforts. For example, the Service has made additional funds available so that inspections can be made prior to implementing DPS on specific routes, and routes can be adjusted to capture DPS savings. Also, the Service is working to improve supervision of city carriers' street operations and is testing both alternative delivery methods and new city carrier performance standards.

Although the Service has achieved some success in addressing operational issues, it has been less successful in resolving disagreements about DPS implementation with NALC, the postal labor union that represents about 234,000 city carriers. Such disagreements generated the filing of many grievances. Most of the grievances were resolved through

settlement while several had to be resolved through national arbitration. In many cases, the grievances involved employee concerns about specific DPS implementation procedures that were established in various memoranda signed by the Service and NALC. Although many city carriers we spoke with said that they saw benefits to DPS, they also said that they were concerned about its effects on their daily work, particularly their ability to serve customers efficiently.

Strategic and Performance Plans

In July 1997, we issued our observations on a draft of the Service's 5-year strategic plan that was developed in response to the requirements of the Results Act.[8] We found that the draft plan had various strengths, the most significant of which was the substantial emphasis that the plan placed on the achievement of performance results. This emphasis was generally consistent with the Results Act's concept of a systematic management process that used results-oriented goals and strategies as well as quantitative performance indicators to measure progress toward these goals.[9]

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

[9]According to the Service, strategic planning has been in place since 1995 when it established its current management system called *CustomerPerfect!*™, a system of continuous assessment and improvement of postal operations so that the Service can better provide postal products and services to its customers in a competitive environment.

The plan generally addressed the six major components required by the Results Act, including a mission statement, general goals and objectives, strategies to achieve the goals and objectives, and performance measures of the goals and objectives. In doing so, the plan provided useful information on the Service's vision of its future and how the Service planned to achieve its desired results. However, we believed that for some of the components, such as the Service's mission statement, the information could have been strengthened so that it could have been more complete and more clearly conveyed. When the Service's final strategic plan was issued at the end of September 1997, we found that improvements had been included in the plan that made it a clearer and more complete document.

In its 1997 Comprehensive Statement on Postal Operations, the Service included a preliminary version of the Annual Performance Plan for fiscal year 1999. The plan is intended to provide a yearly update of and more detailed information on the goals and targets to be achieved and establish performance indicators to be used in determining how progress is being made toward achieving the goals and targets. We are currently reviewing the plan and are finding that, overall, it did an effective job of articulating performance goals that defined expected performance and were quantifiable and results-oriented. Also, the plan did a good job of discussing how the Service plans to measure and review results, and it recognizes the role of management and some stakeholders, such as the Inspector General, in reviewing and evaluating programs. However, although the plan broadly discussed the strategies and resources necessary to achieve its goals, we

believe that the plan could better link particular strategies and resources with particular performance goals. Without such linkage, it may be difficult for stakeholders reviewing the plan to understand how the Service intends to achieve its goals.

OUR COMPLETED WORK RELATED TO OTHER POSTAL MANAGEMENT ISSUES

I would now like to provide you with a brief summary of work we completed since the spring of 1997 on other issues related to the Service's overall management and operations. This work resulted in reports on (1) cost overruns at the Chicago Post Office, (2) the procurement of postal uniforms, and (3) emergency suspensions of operations at post offices.

Cost Overruns at the Chicago Post Office

In October 1997, we reported on the cost overruns that occurred in the construction of the new Chicago Main Post Office.[10] We found that based on our review of the events that occurred and an investigation by the Postal Inspection Service, the overruns, which totaled about $133 million, appeared to be due primarily to inadequate planning. The Service implemented procedures aimed at reducing the likelihood of cost overruns

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

occurring in similar future capital investment projects, including earlier notification of problems to the Board of Governors and more Postal Inspection Service involvement with review of facilities construction. Also, we were asked to review mail service performance data on Chicago's Graceland postal station, which had been the focus of constituent complaints. We compared performance data from the Graceland station with another postal station–Boston's Brookline station–that had achieved higher data results and yet functioned in an environment similar to the Graceland station. Our analysis of the data confirmed that there were differences in the performance of the two stations, but it also showed that the data were not informative about the causes of the problems with mail service in Graceland or in Chicago.

Procurement of Postal Uniforms

In January 1998, we provided information on the Service's efforts to centralize its procurement of postal uniforms.[11] Congressional concerns about this issue involved the extent to which a centralized program might adversely affect American companies currently participating in the Service's decentralized system for procuring uniforms. We reported that to help minimize the overall effect on American companies, the Service was planning to implement various oversight efforts to ensure that contractors under the Centralized Uniform Purchasing program (1) produced uniforms exclusively using

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

American materials and labor and (2) adhered to the Apparel Industry Partnership's "Work Place Code of Conduct" designed to ensure that goods are not produced under sweatshop conditions. Also, the Service met with the National Association of Uniform Manufacturers and Distributors, which represented some of the Service's retail vendors, in an effort to address their concerns about the Service's planned move to centralized uniform purchasing. Notwithstanding these actions, however, the number of retail vendors selling postal uniforms under a centralized program was expected to decrease from more than 800 to 6 or less.

The Service estimated that it could save about $13 million to $17 million annually through centralized uniform procurement. However, according to the Secretary for the Board of Governors, the decision to move forward to implement the program was not based on anticipated savings but on the need to comply with existing memoranda of understanding with postal labor unions. The memoranda anticipated that, through centralized purchasing, employees would be supplied with a greater number of uniform items of a higher quality with an overall reduction in costs to the Service. Nevertheless, the Postal Service recently decided to delay plans to implement the Centralized Uniform Purchasing program pending further discussions with affected unions. Postal officials do not see any movement toward program implementation before 1999 at the earliest.

Emergency Suspensions of Post Offices

In April 1997, we issued a report on information involving emergency suspensions of post offices,[12] which are temporary closures that the Service may initiate under conditions that constitute a threat to the safety and health of postal employees or customers or to the security of the mail, such as natural disasters, or other conditions, such as the termination of a lease. In our earlier report on post office closures,[13] we briefly described emergency suspensions and as you requested, in our April 1997 report, we followed up on that work to provide you with additional information related to such suspensions. Among other things, we reported to you that between the beginning of fiscal year 1992 and March 31, 1997, the operations of 651 post offices had been suspended for various reasons, half of which involved lease or rental agreement terminations. Recently, we obtained from the Service updated information on post offices under emergency suspension, which showed that as of March 13, 1998, 470 post offices were under emergency suspension. Also, we were told that 311 of these offices were undergoing a feasibility study by the Service to determine whether they should be permanently closed. In addition, in March 1998, the previous Postmaster General announced a nationwide moratorium on post office closings initiated by postal management. However, this moratorium did not affect the Service's program for suspending operations at specific post offices due to emergency situations.

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[12] U.S. Postal Service: Information on Emergency Suspensions of Operations at Post Offices (GAO/GGD-97-70R, Apr. 23, 1997).

[13] U.S. Postal Service: Information on Post Office Closures, Appeals, and Affected Communities (GAO/GGD-97-38BR, Mar. 11, 1997).

OUR COMPLETED WORK RELATED TO POSTAL REFORM

At this time, Mr. Chairman, I would like to discuss some of our completed work efforts that relate mainly to postal reform, a significant issue that has been the subject of much debate in Congress and among postal stakeholders. Since April 1997, we have reported on the mail box restriction law and issues concerning the governance of the Service. We also provided you with our views on proposed revisions to your postal reform legislation.

Mail Box Restriction

At your request, Mr. Chairman, in May 1997, we reported on issues involving the mailbox restriction,[14] which generally referred to the law (18 U.S.C. 1725) that essentially gives the Service exclusive access to mailboxes. At the time that we issued our report, proposed postal reform legislation included a demonstration project to test relaxing the mailbox restriction. However, as you may recall, Mr. Chairman, you believed that more information was needed on this topic before changes to this law could reasonably be considered.

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[14] U.S. Postal Service: Information About Restrictions on Mailbox Access (GAO/GGD-97-85, May 30, 1997).

To provide you with additional information on the mailbox restriction, among other things, we obtained the views of over 1,000 randomly selected adults in the continental United States and other postal stakeholders, including the Service and the seven major postal labor unions and management associations. We reported that the vast majority of the adults were opposed to allowing just anyone to put mail into their mailboxes. However, their views differed regarding the desirability of mailbox access for particular companies or particular items. For example, about 60 percent of the adults favored allowing express companies, such as Federal Express and United Parcel Service, to put packages into mailboxes. But less than 50 percent of the adults favored allowing companies to leave other types of items in mailboxes, such as utility bills, magazines or newspapers, and catalogs, coupons, or ads.

Also, mixed views about the need for the mailbox restriction were expressed by other postal stakeholders. For example, the Service, the seven major postal labor unions and management associations, and a contractors' association believed that the mailbox restriction was needed generally to protect postal revenue, facilitate efficient and secure delivery of mail, and promote the privacy of postal customers. Other stakeholders, including the Justice Department and the Postal Inspection Service, opposed any relaxation of the mailbox restriction law because, among other things, it helped deter mail theft by limiting mailbox access and made it easier to detect, investigate, and resolve cases of mail theft. However, Service competitors generally believed that the law should be repealed or changed because it was unnecessary, impeded competition, and infringed

on private property. Also, none of the eight foreign postal administrations we surveyed said that they needed a law restricting mailbox access and none of these countries had ever had such a restriction. However, these countries' mail delivery practices generally involved less use of mailboxes than is the case in the United States.

Governance of the Postal Service

At your request, Mr. Chairman, in August 1997, we provided information on issues related to the governance of the Service that you believed could be helpful in deliberations on postal reform.[15] For our report, we obtained information on issues of concern to current and former members of the Postal Service Board of Governors,[16] including any areas where members indicated a need for legislative attention. Also, among other things, we provided information on governance issues that was intended to provide additional perspective in postal reform discussions. Frequently cited issues by current and former Board members that we interviewed included (1) limitations on the Board's authority to establish postage rates, (2) the inability of the Board to pay the Postmaster General more

[15]U.S. Postal Service: Issues Related to Governance of the Postal Service (GAO/GGD-97-141, Aug. 14, 1997).

[16]The Postal Reorganization Act of 1970 created the Postal Service Board of Governors to be the governing body for the Service. The Board consists of 11 members and is comparable to the board of directors of a private sector corporation. The Board directs the Service's exercise of powers, directs and controls expenditures, reviews Service practices, and conducts long-range planning. Also, among other things, the Governors participate in establishing postage rates and take up other matters, such as mail delivery standards.

than the highest rate permitted for a postal executive, (3) the Board's lack of pay comparability with the private sector, and (4) qualification requirements that were too general to ensure that Board appointees possessed the kind of experience necessary to oversee a major government business. However, there was not a consensus among the members on what legislative changes should be considered to address their concerns.

Observations on Proposed Revisions to Postal Reform Legislation

In April 1998, we communicated our observations and comments concerning proposed revisions to H R 22, the Postal Reform Act of 1997, which would change current laws to give the Service greater commercial freedom while establishing rules intended to ensure fair competition.[17] In our letter, we offered our comments on the principles and trade-offs relevant to congressional consideration of the proposed revisions, and our observations on selected features of the proposed revisions that related to our reviews of postal issues. For example, based on our previous work, we believe the Service could benefit from defining the concept of universal service, which the proposed revisions would require.

We also discussed the potential impact of reducing the scope of the letter mail monopoly to $2. On the basis of available data, it appeared that the short-range impact of reducing

[17] Postal Service Reform: Observations on Proposed Revisions to H R 22 (GAO/GGD-98-97R, Apr. 7, 1998).

the scope of the letter monopoly to $2 would not significantly affect the Service's ability to provide affordable universal service. We determined that little of the First-Class Mail volumes that are currently protected by the postal monopoly would become subject to competition. In addition, we said a variety of other factors, such as a reduction in First-Class Mail volume due to increased use of electronic media along with costs, inflation, and service quality, could in the long run, in combination with any change in the scope of the postal monopoly, have an impact on the Service's ability to provide affordable universal service.

ONGOING GAO WORK RELATED TO COMPETITION AND DIVERSITY ISSUES

I would now like to discuss our ongoing work, most of which has been initiated at your request, Mr. Chairman, or at the request of members of your Subcommittee, in which we are focusing on various postal activities that in large part relate to the issues of competition and diversity. The ongoing work related to competition includes three efforts, two of which involve issues associated with the Service's role in the international mail market. The three efforts include reviews of (1) Global Package Link, one of the Service's international parcel delivery services, (2) the Service's role in the Universal Postal Union, and (3) the Service's development of new postal products. In addition, our other ongoing work addresses the issue of diversity, with a focus on three review efforts involving (1) the promotions of women and minorities into higher postal management

positions; (2) diversity training for postal employees, particularly in sexual harassment and equal employment opportunity (EEO), along with specific postal EEO-complaint related data; and (3) trends in federal EEO complaint caseloads.

Global Package Link

In response to your request, Mr. Chairman, we performed a review of the international parcel delivery service known as Global Package Link (GPL), a service which began in 1995, and was designed to make it easier and more economical for direct marketers to export bulk shipments of merchandise internationally. Private express carriers had raised concerns that GPL parcels were subject to fewer customs clearance requirements and received preferential customs treatment overseas, thus giving the Service an unfair competitive advantage in providing international parcel delivery service. In reviewing issues related to these concerns, we focused on the Service's international GPL activities in the three countries where GPL was primarily operating in fiscal year 1997, which included Canada, Japan, and the United Kingdom. During this period, nearly all GPL parcels were sent to Japan.

We found that differences existed in foreign customs requirements for GPL and private express parcels, the greatest of which were in Japan where private express carriers were subject to requirements regarding the preparation of shipping documentation and payment of duties and taxes on their parcels that did not apply to GPL parcels. However,

regarding the private carriers' two major areas of concern, the results of our work generally showed that despite differences between the Service and the carriers in various delivery and customs clearance processes for parcels shipped to the three countries, GPL parcels did not appear to receive preferential treatment over private express parcels in (1) the speed of customs clearance in any of the three countries or (2) the assessment of duties and taxes in Canada and the United Kingdom. We were unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because essential data were unavailable.

In commenting on our draft report, private carriers continued to express concerns that differences in customs clearance requirements for postal and privately shipped parcels result in more work and higher costs for the carriers, placing them at a disadvantage in competing with the Service to provide international parcel delivery service. However, Service officials commented that it enjoyed no customs clearance advantage over private carriers and that GPL and the expanded business opportunity it represents is critical to the future of the Postal Service and its customers. Private carriers have urged Congress to protect fair competition by enacting legislation that would require the Service and the carriers to compete on the same terms, particularly with regard to customs treatment. Issues related to fair competition involve weighing how the Postal Service and private carriers can compete, given that different sets of requirements and obligations currently exist.

Universal Postal Union

At your request, Mr. Chairman, we have recently begun a review of the Service's role in the Universal Postal Union (UPU), a specialized agency of the United Nations that governs international postal services. Issues involved in this review cover a wide range of concerns. For example, some private carriers have raised concerns about the Service's authority to represent the United States in the UPU because in that position, the Service acts as both a participant in developing international mail policies and a competitor with international private carriers, thus perhaps gaining unfair competitive advantages. As such, a proposal has been suggested that would designate the Office of the U.S. Trade Representative to participate in UPU's activities instead of the Postal Service. At this time we are in the process of obtaining more information about UPU's functions, the Service's role as a participant in UPU, and the issues and concerns that may contribute to future discussions about UPU's activities.

Development of New Postal Products

We are currently addressing issues related to the Service's development of new postal products, such as phone cards and the electronic postmark. Specifically, our work involves obtaining information on (1) any statutory and regulatory authorities and constraints governing the Service's ability to market new products; (2) the Service's processes for developing, testing, approving, and marketing new and electronic products;

and (3) new and electronic products that the Service marketed during fiscal years 1995 through 1997, including financial data related to such products.

Promotions of Women and Minorities

At the request of Congressman Danny Davis, a member of the Subcommittee, we are currently obtaining information on issues related to the promotions of women and minorities into higher postal management positions. Concerns about this topic were raised in response to the issuance of a contractor study on diversity that was presented to the Postal Service Board of Governors in January 1998. The study generally identified relatively small numbers of women and minorities that had been promoted into higher postal management levels, particularly those in the Executive and Administrative Schedule level 17 and above. As agreed recently with Congressman Davis' office, we are currently obtaining information related to this issue, including the extent to which required promotion processes for higher level postal positions are being followed in specific postal locations and the effects that a selected number of such promotions have had upon workforce diversity in these locations.

Diversity Training and Postal EEO Complaint Data

At the request of the Subcommittee's Ranking Minority Member Chaka Fattah, we are obtaining information about the extent to which the Postal Service has provided various

types of diversity training, particularly on the topics of sexual harassment and EEO, to postal employees. Most recently, we learned that the Service is making efforts to emphasize the importance of training for postal employees through the development of a guide that provides employees information on available training courses, including sexual harassment and EEO. Also, the Service has developed a draft Human Resources Strategic Plan that, among other things, identifies strategies for employee training and development. In addition, as part of our review, we are working to obtain and review specific EEO data related to complaints that Congressman Fattah requested, including such data as the numbers and types of complaints being filed and the types of postal facilities that have large numbers of pending EEO complaints.

Trends in Federal EEO Complaint Caseloads

In response to requests from Congressmen Elijah Cummings and Albert Wynn, we are developing and analyzing data on unresolved EEO complaints at federal agencies and at the Equal Employment Opportunity Commission (EEOC), the agency that is primarily responsible for establishing regulations that govern the processing of employees' EEO complaints by federal agencies. Also, EEOC conducts hearings and adjudicates employees' appeals of agency final decisions on their complaints. The requesters asked that the Postal Service be included in this work mainly because it is covered by most of the same EEO complaint processes that apply to most federal agencies. Also, the Service, with over 850,000 employees, is the largest federal civilian employer. Information is being

developed about the inventories of EEO complaints at federal agencies and EEOC and how trends in the number of complaints filed and the time taken to process them have contributed to inventory levels.

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Mr. Chairman, this concludes my prepared statement. I have included a list of our Postal Service products issued since April 1997 in the appendix. I would be pleased to respond to any questions you or the members of the Subcommittee may have.

GAO POSTAL RELATED PRODUCTS ISSUED SINCE APRIL 1, 1997

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

Postal Service Reform: Observations on Proposed Revisions to H.R. 22 (GAO/GGD-98-97R, Apr. 7, 1998).

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

U.S. Postal Service: Little Progress Made in Addressing Persistent Labor-Management Problems (GAO/T-GGD-98-7, Nov. 4, 1997).

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

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

U.S. Postal Service: Issues Related to Governance of the Postal Service (GAO/GGD-97-141, Aug. 14, 1997)

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

U.S. Postal Service: Information About Restrictions on Mailbox Access (GAO/GGD-97-85, May 30, 1997).

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

U.S. Postal Service: Information on Emergency Suspensions of Operations at Post Offices (GAO/GGD-97-70R; Apr. 23, 1997).

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Mr. MCHUGH. Thank you. I appreciate your comments, Mr. Ungar. As you heard through the opening statements, just about all of the members here today have specific questions about some very narrow, very important but relatively narrow, product offerings and such. I want to get to those questions so that the members can present them themselves, but let me start with a more broadly based inquiry.

Mr. Ungar, you mention the GAO's work and the fact that indeed the inspector general's office is looking at the development of the annual performance plan, and you generally commented that you thought it was a good start and made some comments. I would like to narrow down your analysis on that particular plan to both of you and ask what, if anything, do you think was done positively or needs to be done in addition or perhaps retracted with respect to labor relations?

The Postmaster General will say in his statement, and has presented a written statement and has said, to his credit, in some of his early interviews that this, is indeed, one of the more pressing aspects, and GAO has commented before. I fully agree, and I think the Postal Service in theory agrees that the performance plan provides at least an opportunity by which to reconcile some of that gap that exists between management and labor. And yet if you look, as I did, at the preliminary plan as introduced, labor-management relations are not dealt with in any great depth.

Do you see that as a problem with the plan or do you think that should be addressed in another way?

Mr. UNGAR. Mr. Chairman, I think it is an issue that certainly needs to be addressed. In fact, we made a comment to the Postal Service, actually it was to the subcommittee as well, in a report that we issued on the Services their strategic plan. The draft of the strategic plan did not really focus on this labor-management relations problem.

The Postal Service was responsive and said it would be developing some specific goals in the area of labor-management relations, and I know that's a very difficult area to deal with. I think that the performance plan does have space for goals related to the work environment, and I think the Service plans to do that, gauge that through some questionnaires to employees, as I recall.

I do think it's important that this issue be a key part of the plan. The Postal Service had indicated to us that it certainly plans to make it that and that's going to be an evolutionary process. I certainly would hope that the Postal Service would work very closely with its stakeholders, primarily the unions, in determining what ought to be the goals and how it ought to measure them and what kind of specific strategies ought to be applied.

One of the issues that we discussed at the last hearing, a number of the members raised, had to do with the actual day-to-day working relationships between postal supervisors and managers and work room floor employees. These were very difficult relationships. One of the examples would be the different way in which the city carriers' performance system is structured versus rural carriers.

For example, overtime in the city carriers' situation is a day-to-day situation where they have to negotiate, and there's often, dif-

ferences of view; whereas the rural carrier system is a little different. I know that there are some initiatives in the Postal Service aimed at trying to get a handle on that. I also know that the Postal Service and the city carriers union haven't exactly seen eye-to-eye on those things.

So those are the types of things—specific goals and discussions with the stakeholders—that at least over time would be helpful.

Mr. MCHUGH. So they plan to make it part of the plan?

Mr. UNGAR. Well, there is a line item in there for the work environment. It doesn't specifically, as I recall, mention labor-management relations per se, but it's my understanding that the Service is working toward something and, as you say, planning to plan.

Mr. MCHUGH. OK. Ms. Corcoran, any comments on the strategic plan in general, but particularly with the labor-management issue?

Ms. CORCORAN. We certainly believe that labor-management issue is a very, very important issue. And based on the work that we've done, which has been fairly limited, we think there's a lot of opportunity for some improvement.

We agree with Mr. Ungar that, you know, it certainly needs to be mentioned. We know that even in their various performance goals that is one of the areas that they're working on. We are in the process of monitoring their annual plan and what they are doing in terms of implementing that, and we will continue to do that and keep the subcommittee informed as to the progress.

Mr. MCHUGH. I would just hate to see a missed opportunity, one on which apparently everyone agrees. It seems to me if you're going to try to address such an intricate problem over time, that you've got to focus on it in a pretty deliberate way. Thus far I would say to Mr. Henderson, with a kind of a hint on what might be on his pop quiz coming up, that, maybe that's something we ought to look harder at.

Let me just ask one more general question of both and yield to my colleagues.

There is a lot of concern about what the Postal Service is doing in offering new products. Some are new, some are nonpostal products. I know that both of you have started to look into and examine the introduction of new nonpostal products to date, and I was curious how do you plan to go forward with that.

Most particularly, some people are objecting to what they view as an apparent interpretation unilaterally by the Postal Service that the traditional postal charter, which normally was considered a certain form of communications, now can include any kind of communication by their definition, including electronic. So are you looking at that kind of thing, and how are you proceeding with it?

Ms. CORCORAN. We are going to be looking at these type of areas. We have a unit that's called revenue generation. Part of their job will be to look at what is being marketed by the Postal Service and what is being looked at by the Postal Service.

Mr. Henderson over the past few weeks has been talking with all the management of the Postal Service, talking with them about his view of how the Postal Service is being viewed. One of the areas that he's going to, I believe, probably talk to you about today is the public policy issue.

I was in a meeting with him the other day where there were questions where, you know, we need to make sure that what we're doing is for the best interests of what we're trying to do as a Postal Service and as it relates to mandates. So, we will be looking at those types of things and reviewing them. We have done some initial survey work to determine what are the—all the various type of areas that the Postal Service is getting into.

Also, we will be looking to see how they put together their revenue streams if they go forward with these products, because that's very important. I think lots of times those revenue streams might be a little pulled from the sky rather than based on real hard facts, which is hard to do, we understand, but they need to have some real backup to them. So we will be looking at a lot of different areas.

Mr. MCHUGH. Mr. Ungar.

Mr. UNGAR. Mr. Chairman, at the request of the subcommittee, we do have an effort under way that I mentioned that is really focused on new products, and I would like to mention that we expect to be done in November with that. I will ask Mr. Barnes to give you a summary of exactly what we're looking at.

Mr. MCHUGH. OK. Mr. Barnes.

Mr. BARNES. Thank you. Basically at your request, Mr. Chairman, we're looking at basically the statutory, regulatory authority that the service has in terms of implementing new products. We're also reviewing the process for developing, testing, improving and marketing new electronic products, and we will also be providing you with an inventory.

As you know, the Postal Service basically doesn't consider any of its products to be nonpostal products, but rather it considers all of them to be an extension of its traditional core of businesses, such as first class mail, priority mail, and express mail. Most of the Service's new products today come through its marketing department, and since June 1996, the marketing department is following a highly structured review process commonly referred to as the "customer perfect" 5.1 process.

The 5.1 process, we found out, is divided into four major processes, which is the concept stage, the business plan stage, the test stage, and the implementation stage. In looking at these various stages, each time the new products move through, they're required to get approval by management and the board. Not all new products introduced by the marketing department follow through this new 5.1 process, and some of the products which—these products are outside of the marketing department's purview. For example, retail, global priority mail and global package link did not come through the new 5.1 process.

So as we—as Bernie has mentioned, today we've done quite a bit of work and we're doing the last bit of our audit work today. As you mentioned, we will be issuing a report to you coming early November.

Mr. MCHUGH. I agree with your assessment, your analysis of the Postal Service's view of its product offerings. I think, and I'm not intending to take sides here, but I think it's a basic dispute amongst the postal community if a coffee mug with Bugs Bunny on

it is really postal product and whether it is or isn't, and I understand it's a picture of a stamp and all of that.

Will you be addressing that issue, or are you assuming that if they say it is a postal product, you're going to accept that. Are you just looking at the chain of command and the chain of events that gets that product to the market?

Mr. BARNES. Well, basically in agreement with your staff, Mr. Chairman, what we will be looking at is new electronic products that are coming out by the Postal Service. It was the decision that we wouldn't look at the retail end, because I believe the inspection service and the IG are doing some work in that area. So we decided that we wouldn't look at retail but we're going to focus in on new electronic products.

Mr. MCHUGH. Do you agree to that? OK.

Mr. UNGAR. Mr. Chairman, we are also looking at the legal, the statutory and regulatory framework under which this is being undertaken. I don't know exactly what the inspection service is doing, but should you like us to look at some other products or services at some point, we would certainly be happy to oblige.

Mr. MCHUGH. I was interested if this debate was going to be in any way addressed by you, and we can pursue that later because it is an issue. We do have a few moments before the vote, I would be happy to yield to the chairman, Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman. I will just ask two real quick questions.

I noticed in your statement, Mr. Ungar, that the Chicago Post Office, I don't know if this is in Mr. Davis' district or not, had a cost overrun of $133 million. Can you tell us a little bit about the total cost of that project and why the cost overruns took place?

Mr. UNGAR. Yes, sir. I can't recall the total costs, I think it was around $200 million—I will get that number for you.

Mr. BURTON. The reason I'm concerned, if the total cost was say $200 million, a $133 million cost overrun is a pretty substantial increase.

Mr. UNGAR. Right.

Mr. BURTON. And I would like to know why.

Mr. UNGAR. Yes, it is a substantial cost increase relative to the total cost. I don't remember the exact figure. We have it here, and I will provide that for you.

There are a couple of reasons for that; one was that the initial site that was proposed and initially costed out was one that the city of Chicago opposed. It appeared to us and the Inspection Service, which also looked at this, that maybe enough homework hadn't been done in terms of, the city is acceptance of this type of facility at that particular location, and of course, in this case it didn't.

The other dilemma that was directly related to the cost overrun was that at the alternate site, this facility happened to be right in the middle of railroad tracks that were active, and there was an underestimate of the costs that would be associated with undertaking a major construction project with that situation. So that added to the costs unexpectedly.

Another issue that arose unexpectedly as the construction, process was under way was that another part of the Postal Service was developing in its automation plan, and informed the folks respon-

sible for construction that it wanted to install automated equipment in this facility that had not been considered in the original design. So that added to the costs.

What we had there during the period of this project was a series of situations in which the folks responsible for the construction had to go back to the Service and the board of governors for more and more money on several occasions. We concluded—not too surprisingly—that better planning is certainly something that was needed in this particular situation, as well as better oversight on the part of the Postal Service and the board of governors.

We understand now that as a result of this experience, a number of new procedures have been put into place, including an early warning system to provide insight to the board of governors of potential problems and earlier involvement of the Inspection Service in monitoring construction projects. I think this now maybe the inspector general's responsibility.

Mr. BURTON. Well, if you could give me a detailed report on that, I'd sure like to have it.

Mr. UNGAR. Yes, sir.

Mr. BURTON. And I would like to have the original cost estimates as well.

Mr. UNGAR. Yes.

Mr. BURTON. All I wanted to ask Ms. Corcoran was, I understand you met with our staff recently and they said that you've been doing this for a little over a year now. I just wondered if there's any problems that you're having that this committee could be of help with.

Ms. CORCORAN. No, sir, not at this point in time. I think——

Mr. BURTON. If you have any, I'm sure Mr. McHugh or I will be very happy to work with you.

Ms. CORCORAN. Thank you.

Mr. BURTON. Thank you.

Mr. MCHUGH. I thank the chairman. I'm not as fast as I used to be, so I have to get going to the floor. Did you want to——

Mr. LATOURETTE. No, I think that's a great idea.

Mr. MCHUGH. Why don't we just stay in recess, if we could vote, and I certainly will be back. I hope some of the other members will be able to join us, as well. We will just stand at ease for a few moments.

[Recess.]

Mr. MCHUGH. The record will show that Mr. Davis, Chairman Burton and I would have been back sooner, but I took a wrong turn and took us to the wrong room, and I admit that fully. I apologize.

Mr. DAVIS. We all followed.

Mr. MCHUGH. That's the good news, they all followed.

I want to recognize, before we proceed to questioning, the gentleman from Oregon, Mr. Blumenauer. He has asked, although not a member of the subcommittee or the committee, if he might be extended the opportunity to sit in on this hearing. It is permissible under the rules.

As I know the Postmaster General is aware, Mr. Blumenauer has been very active in issues involving post office relocation, community regulations and such. So we acknowledge his presence and

thank him for being here and thank him for his input on those issues.

Mr. Chairman, were you completing and/or have completed your questions?

Mr. BURTON. Yes, I have, thank you.

Mr. MCHUGH. I would then defer to Mr. Davis, if he may have any questions at this time. Mr. Fattah is not here.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Ms. Corcoran, you know, I was thinking we have a street in my community that's named Corcoran and it was, of course, after famous people, and so that puts you right in that category.

But let me just ask you, we hear the question all the time about labor-management relations as being the real big sticky issue. In your 5-year strategic plan, is there something there that addresses those problems?

Ms. CORCORAN. Yes, sir. Part of our strategic plan that we have put together includes an area for labor-management. We're still novices in the labor-management field within the Postal Service, trying to understand exactly what all is involved in this, but it is one of our prime focuses over the next 5 years and it includes a number of different areas.

The 10 major areas that we believe are facing the Postal Service, that we described in both our semiannual report and in our statement, three of those areas relate very strongly to labor-management. One is just the overall labor-management climate which includes how people are treated, grievances, just the entire—whether they're treated fairly, all of those type of issues. A second one is the violence in the workplace and the entire safety of the work force.

Then the third area is workers' compensation, which there's a lot of concerns within the Postal Service to keep workers' compensation costs down. But there's a lot of concerns and complaints that we hear the people aren't treated fairly when dealing with the workers' compensation complaints. So we are going to be dealing with this on numerous fronts.

Mr. DAVIS. Is there much emphasis placed upon training; that is, training both supervisory or management personnel as well as workers themselves?

Ms. CORCORAN. We have not done an overall review in the area of training. However, we did take a look at the Milwaukee situation and what was being done for training there.

Several years ago the Inspection Service had done what they call a service investigation because of concerns in Milwaukee. What we found is that while they have improved training, there doesn't seem to be a level playing field for all the training, that it's more sporadic than what we would like to see. That will be part of what we include in our final report that we do on Milwaukee. That's only one place but it is—if it's indicative of what's going on in the rest of the program, it's something we certainly need to look at.

Mr. DAVIS. And that would include human relations as well as work-oriented task assignments?

Ms. CORCORAN. Right, that's correct. This particular training was more in the diversity and human relations type areas that we are

looking at, versus actually doing functional type training to do your job.

Mr. DAVIS. Thank you very much.

Mr. Ungar, did I understand as you were discussing overruns with Chairman Burton, you basically suggest that the problem with the development in Chicago was probably poor planning and some design change that was necessary because everything had not been put in up front?

Mr. UNGAR. Right. Yes, Mr. Davis. The two problems—the two major problems—were the change in site because of the city of Chicago's concern about the original site, which again dealt with building over railroad tracks which caused a lot of problems, and second, the change in the design of the building that had to be made for the automation equipment.

I would just mention during the recess I did look at our report, and the total cost was estimated at $330 million to construct the post office.

Mr. DAVIS. I guess when you look where it actually wound up being put, I would probably say it would almost take architectural as well as some engineering geniuses——

Mr. UNGAR. Right.

Mr. DAVIS [continuing]. To have dumped the facility in the area where they ultimately decided——

Mr. UNGAR. To go.

Mr. DAVIS [continuing]. To do it. Another question that I have is, I talked about all of these people who live in my congressional district and who work for the Postal Service. There seem to be some concern relative to movement toward privatization, and that is the contracting out. It's been my experience that oftentimes when we look for privatization, it's because we've got some difficulty with profit or with costs or with efficiency and effectiveness.

We have a system now that's making money for the last 3 years. What's the—what's driving the privatization ideas? Do you know or would you respond to that?

Ms. CORCORAN. I'm not exactly sure what the Postal Service is doing. I believe it's a lot for efficiency and effectiveness. The National Performance Review that came out in 1993 certainly listed that outsourcing should be something that should be viewed by Government agencies as a positive, and they should look for areas to be able to franchise and to do other types of outsourcing.

I believe that the Postal Service is trying to do all it can to be as much like a private organization as it can, and it sees that that is one of the ways. But, I believe Mr. Henderson probably could answer the question.

Mr. DAVIS. We are making money?

Ms. CORCORAN. Absolutely.

Mr. DAVIS. We're earning a profit right now, and in many places we find 90 percent and above delivery rates or management efficiency rates, and because of that, that sort of drove me to that question. Thank you very much.

I don't have any other questions at the moment, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. The gentleman from Ohio, Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman. I was glad that you brought up during your questioning the idea of nonpostal products and I look forward to the GAO's response on that.

Just as a sideline, I had a fellow in my district office the other day that made a plaster of Paris cast of Mount Rushmore, and apparently since that appeared on a stamp, he wanted my help in getting it. So I will be interested in that. Maybe we can sell those at the post office. He threw it on the ground and it was very encouraging.

Mr. Ungar, I want to focus on pages 3 and 4 of your testimony, if I can. It points to what I was attempting to talk about in my opening remarks, and I think what Mr. McHugh is talking about, and Chairman Burton.

First, in the middle paragraph you talk about, your report talks about the declining scores for 2- and 3-day mail, and the paragraph that ends at the top of the page before that says that overnight mail has reached a 3-year high. The last sentence of that paragraph is what I want to focus on, that "Such declines may reinforce concerns previously expressed by some postal customers that the Service's emphasis on overnight mail delivery has been at the expense of 2-day and 3-day mail delivery efforts."

That's a concern that's expressed to me a lot, that we see the post office commercials on television, and they have apparently more trucks than other people and more people than other people. But the fear is and the concern that's expressed is that the people that put the 32, soon to be the 33 cent stamp on a letter are paying the cost of that, and not only are they paying the cost of it, but now apparently the results indicate that they're getting worse service while paying more.

I'm wondering what thoughts you have on that, one; and, two, based upon your analysis of the situation, are you aware of anything that the Postal Service plans to do to improve the scores for 2- and 3-day mail?

Mr. UNGAR. Yes, sir. When we first noticed that the scores were going down for the 2- and 3-day delivery mail, we had a concern of the capacity of the Service to really manage more than one objective in the same area at the same time, and so we did raise that concern a while back.

Most recently, however, the Postal Service has been able to, as I recall the most recent data, improve on—time delivery of 2- and 3-day mail. It is an area that the Service discusses in its 1999 annual performance plan. I think the Service is almost at their target, I think, with the most recent data that I saw. I believe 87 percent on time is what the target is for 1999, and I think it's close to that now.

We do have a double-edged sword here. There has been a great deal of focus on the overnight mail, and of course mailers of other classes of mail have expressed concern about their service. So, on the one hand, I think the Service does need to address the entire range of customers that it has, but by the same token, be realistic in what it's going to be able to do and the steps it's going to take.

So we're encouraged, though we haven't yet seen the specific steps that the Service plans to take. That's a part of the issue we're raising with strategies and resources. It would be helpful in its

final version of the 1999 plan if the Service were to clearly lay out the strategies that it intends to take, or maybe it even has taken already, to improve mail delivery in terms of on time performance, and what the incremental resource use would be to do that.

Mr. LATOURETTE. Just so I'm clear as to what you said, even though there's been a 2-year decline in 2- and 3-day mail deliveries, you're saying they set some projections for this current year and they're hitting those marks. Is that what you're saying?

Mr. UNGAR. Well, in a sense, yes, sir. I believe the most recent data I saw was in the 1980's—the mid-eighties. I think the Postal Service has the data on on-time performance. The performance has improved most recently based on Postal Service reports.

My recollection is that in the 1999 performance plan, the Service set a target of 87 percent. I will have to double check that and get back to you. So the Service is improving, is what I'm saying, and it's close to, as I recall, the target that was set for 1999.

Ms. ANDERSON. They added this mail class this year to their goals to achieve in this fiscal year, in addition to raising the scores for the overnight.

Mr. LATOURETTE. OK. The other observation, Mr. Ungar, is on page 4 of your written statement, and Mr. Davis was talking to you about labor-management issues and the fact—and actually to Ms. Corcoran, and privatization concerns. Everyone seems to acknowledge that the Postal Service is a profitmaking venture now for the last 3 years and everyone regards that as a good thing.

That raises questions, again, that came up during the chairman's observations and mine relative to the data that that's used to justify a rate increase. I was wondering if you had any observations or comments about that. Your statement says that questions have been raised. I guess I would be interested in answers to those questions.

Mr. UNGAR. Yes, sir; so would we. We haven't really looked at the overall rate increase situation. However, we have been, at the subcommittee's request, monitoring a contract study of the data that's used in the ratemaking process, and of course that's one of the key issues: Which data are the decisions being made on?

I would like to defer to Ms. Anderson, who has been quite heavily involved in monitoring that study, to explain it to you.

Ms. ANDERSON. That study is looking at the data that's used in the five of the key systems, and that study is expected to be completed probably in early fall. We anticipate that that will identify some of the key areas where improvements may be needed and also lay out some areas for recommendations and improvements to focus on.

Mr. LATOURETTE. Thank you very much.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

The gentleman from Texas, Mr. Sessions. Any questions?

Mr. SESSIONS. Yes, thank you, Mr. Chairman.

I would like to direct my questions to the Postal Service in particular, to talk—to have them talk with me. There was a discussion about problems internally with management and workers, and what I am concerned about is the new relationship. I'm going to talk with the Postmaster when he's up here on the next panel

about the relationship with whoever takes his place, and perhaps there is someone there now, and who is going to be handling a lot of these problems.

But I'm interested in—from a legal perspective that falls under your realm as IG, about the lessons that you were learning from this huge amount of labor-management problems that you're having. I'm interested in hearing some discussion about the number of people who are out every day, who are workers who are on—which I hear about a lot, and there were people who are suspended, the number of people who then go through the grievance process, and your finding that your managers are overruled and you're having to pay back pay.

I'm hearing this across the country as an increased problem, that there is more—there's more punitive action taken rather than a resolution of issues in those timeframes. So I would like to hear either from you or your counsel, if I could, more in depth about this problem.

Ms. CORCORAN. At this point in time the amount of work that we've done in labor-management and in looking per se at the issues that you're dealing with has been very minimal. What we've actually done is to look at eight what we call factfinding missions, where people had—a number of people had complained about conditions within their postal unit, and because of that we went out to see whether or not these complaints were justified.

Then we've done this review of the Milwaukee situation, and we are currently in the process of looking at the overall grievance situation and what is causing a lot of those grievances. We believe that there are some answers that we will be able to give, but at this point in time it's fairly limited because of the amount of work we've done.

Mr. SESSIONS. So in other words, I guess, to further delve into this issue, I am hearing that it's taking, based upon the amount of complaints that there are and the grievance procedure, that the timeframes are lengthening out and that there are more people involved in this process.

But I'm also hearing from, quite honestly, from many postal workers that there are a good number of employees that are suspended for long periods of time prior to resolution of this, and then a good number of these are overturned to where you're having to pay back pay to people who were involved in being out of work, had to seek unemployment, had to do a lot of these things. Then when the day—their day in court came along, whenever they held their hearing, they were returned back to work. It was not a justified suspension.

I'm interested in hearing specifically about that, and perhaps—Mr. Ungar is shaking his head that he has some understanding of what I think is a problem in your marketplace. Mr. Ungar.

Mr. UNGAR. Mr. Sessions, I was shaking my head because we heard the same dilemma that you've mentioned. I don't think, though, that we have any data on that specific problem.

Mr. SESSIONS. Let me say this, that I consider you very reasonable, and if you're hearing this, it is something that I'm hearing. I'm trying to ask openly and forthrightly today to please provide me some information, please provide me data. If this is not a prob-

lem, then I need to know that, and respond back accordingly. If this is a problem, I'm intensely interested in what you're doing to resolve that.

I believe that a resolution of problems—and I spent 16 years in the private sector, I can tell you not everybody agrees on how to run the railroad, or in this case the post office—but a resolution of issues is very important to the ongoing success of your business, and as inspector general I believe that that is important.

Ms. CORCORAN. I agree, sir. Approximately 67 percent of all the calls that we have maintained in our office, the 1,600 that I had mentioned in my testimony, concern labor-management relations and these types of issues.

Mr. SESSIONS. The first word you said earlier, it's of minimal impact. I wrote down the first words that you said, and we can go back and see what your testimony is, but I wrote down "minimal impact".

Ms. CORCORAN. I'm sorry. I said minimal?

Mr. SESSIONS. You said that these had minimal impact, is what I wrote down. And if you did not say that, please, we will go back—I'm sorry, that's what I wrote down.

Ms. CORCORAN. I'm sorry. If I did, it was a mistake.

Mr. SESSIONS. That's OK. OK.

Ms. CORCORAN. Minimal work, we've done minimal work.

Mr. SESSIONS. Minimal work in this area?

Ms. CORCORAN. In this area, because we're still staffing up. I'm sorry, but not minimal impact. This is a major problem.

Mr. SESSIONS. Major problem, minimal work. And if you can go back, and unless you have those figures today, provide me something. But I am greatly concerned about this because I think it deals with the efficiency.

When I speak with the Postmaster, I'm going to talk with him about those things that I think it's great to go after, the lines of business, protect your market share, do all of those kinds of things, but I see a good number of problems internally within the post office today that I believe need to be worked on for a long period of time, including your efficiency, prior to going out and getting new lines of business.

So if you would provide that to me or to our chairman, I would appreciate it.

Thank you, Mr. Chairman.

Mr. MCHUGH. The gentleman yields back?

Mr. SESSIONS. I'm through, thank you.

Mr. MCHUGH. Thank you.

The ranking member from Pennsylvania, Mr. Fattah.

Mr. FATTAH. I'm sorry my return was delayed, but another committee that I serve on, the Education and the Workforce Committee, was considering H.R. 3725, which would extend to the Postal Service coverage under the OSHA Act. It's passed out of committee. The Congress has a number of committees that have jurisdiction over matters that would be of interest to this panel.

Let me just try to wrap this up, because I know this panel has been on for a while and we want to move on. There are a host of concerns, I guess the most prominent of which has been laid out by the new Postmaster General and has been a subject of concern

by my office and any number of other Members, is the whole issue of labor-management relations and improvements therein and the grievance procedures.

I've not been able to be fully briefed by my staff, but I understand that Congressman Sessions and others have asked a number of questions along this line. So rather than to prolong this hearing and have the possibility of duplicating questions that have already been asked, what I will do is cease and desist and to the degree that there's any other questions, we will submit them in writing. Thank you very much.

Mr. MCHUGH. Thank the gentleman for that.

A point of clarification: That bill was passed from committee, is that right? I'm sure there are some interested people.

Mr. FATTAH. Mr. Chairman, it was passed out of committee and sent to the full House.

Mr. MCHUGH. I thank the gentleman.

The gentleman from New York, Mr. Gilman, we welcome you, sir.

Mr. GILMAN. Thank you, Mr. Chairman. Thanks for conducting this hearing. It's good to have all of these top executives here with us today.

I think that Mr. Davis may have touched on labor-management relations, but I would like to know how much progress has been made for really improving personnel labor-management relations. I continually hear from my postal employees that there's poor morale and management and it needs to be improved. It was hoped that GAO findings in 1994 in these labor-management problems, that a long-term framework agreement for change would have been developed. Could you comment on that, please?

Mr. UNGAR. Yes, Mr. Gilman. There has been some progress. In a report that we issued to the subcommittee a few months ago we pointed out, for example, that since our 1994 report a number of initiatives had been undertaken by the Service in working with its unions and management associations.

For example, a program that was instituted was the Associate Supervisors Program, which was a way to train supervisors in how to better deal with employees and work in a team environment and deal fairly with different people and so forth. Our understanding is that that program was pretty well received by both management and the unions involved.

On the other hand, a number of other initiatives that have been undertaken since our 1994 report unfortunately hadn't made such progress. A couple of them fell by the wayside and were discontinued. A number of others for the most part were tried, but disagreements arose between the Service and the unions that were relevant in each and every case.

In terms of how these particular initiatives were to be implemented, for example, one of them was delivery redesign that looked at how city carriers should sort and deliver the mail. Both the Postal Service and the city carrier union had their own ideas about that and they never could reach agreement, so the Postal Service went ahead.

So the systemic problem continues. We had recommended a framework agreement be developed. It hasn't been developed yet. However, we're encouraged because starting last October, so far

now there have been three summit meetings between the Postal Service, the unions and management associations aimed at trying to talk through together some of the issues that confront them and trying to work toward a solution.

Mr. GILMAN. So essentially what you're telling me is that there has been very little progress, is that correct, in improving labor-management relations?

Mr. UNGAR. Yes, there's been some, but not as much as we would have hoped to have taken place.

Mr. GILMAN. What can be done to improve it, then?

Mr. UNGAR. One thing, Mr. Gilman, I think would be continued oversight by the subcommittee. I think that this is certainly a very important issue, and congressional interests being expressed, I think, would be a good stimulant. Also I know that the——

Mr. GILMAN. If you want oversight, we have to have a plan to oversee and one that's working, but apparently you don't have one that's working. What is management doing?

Mr. UNGAR. Well, the former Postmaster General had invited a number of the associations and unions to meet with him after our 1994 report. Unfortunately, there wasn't unanimity among all the parties on their willingness to meet. One reason was because there was a contract situation that had to be dealt with. But, finally, that's taken place.

I think another important ingredient is the personal involvement of the Postmaster General, and of course the new Postmaster General has said that labor-management relations is his No. 1 priority. So I presume if he personally becomes engaged in this issue, does make it a top priority, and the Postal Service does continue to come up with very specific goals and measures in its performance plan, that there will be a lot more visibility to this issue.

I think that is what it's going to take, not only on the Postal Service's part, but I think too, of course, the unions will have to recognize that there is some value to working closely with the Postal Service to come up with an approach for resolving their disagreements.

Mr. GILMAN. Well, you mean in all of this time, then, since there was a failure of any implementation, there's been no conferring with labor and getting management together and trying to come up with a new plan?

Mr. UNGAR. Well, there have been discussions. I think the problem——

Mr. GILMAN. Discussions with who?

Mr. UNGAR. Between the Service and the relevant unions. They have taken place. What they hadn't been able to do is to get together as a group. Looking at the initiatives that were launched after our 1994 report, of which there are many, they were in various stages of implementation or negotiation, and so there certainly were discussions.

Now one of the problems, I mean it's a natural problem here, is that not all of the unions are involved in each and every issue. For example, the mail handlers would not necessarily be involved in the same issues or grievances that the city carriers would be involved in. Both unions, meaning the APWU and the city carriers, for example, have concerns about the grievance problem, but they

have slightly different approaches that they've been dealing with. I don't think the rural carriers have had such a major problem or dilemma working with the Service.

Mr. GILMAN. Mr. Ungar, I'm looking at this GAO report, it was dated November 1997, "little progress made in addressing persistent labor-management problems," and I guess you made a statement in that report. What's been done since November 1997 to correct this?

Mr. UNGAR. Since November 1997 there have been, I believe, two additional meetings—three, there's been a total of three summit meetings.

Mr. GILMAN. Meetings with who?

Mr. UNGAR. Between the Postal Service, its unions and the management associations, and those meetings were facilitated by the Federal Mediation and Conciliation Service. There have also been, as we understand it, individual meetings with the Postal Service and the individual unions, that I believe have been facilitated by the Federal Mediation and Conciliation Service, as well. We don't have the details of what transpired during those meetings, but——

Mr. GILMAN. At least have recommendations come out of those meetings?

Mr. UNGAR. I don't have that information, sir.

Ms. ANDERSON. As far as I understand, they're in the process of setting agendas for issues they want to look at and what approaches they want to take.

Mr. GILMAN. A meeting to decide when to meet again, is that it? This seems to be a failure on the part of the Service. If you've got a 1997 report that says you're not doing well on labor-management problems, and then it says it could—without such a consensus, the ability to sustain lasting improvements in a postal work environment may be difficult to achieve. We're hearing reports that there are some problems out there, and you're hearing reports that you've even made a report on, but what is the Postal Service doing to correct all of that?

Mr. UNGAR. Right. Sir, I think maybe you might want to ask Mr. Henderson. He might be able to give you some more specifics. We haven't really been a party to the efforts that have been recently undertaken, so we really don't have any detailed information.

Mr. GILMAN. I am addressing it to the wrong people, and we will ask the Postmaster General.

Another question. There has been some concerns raised by UPS and Federal Express concerning global priority mailing. Can you tell us something about those problems?

Mr. UNGAR. Yes, sir. As a number of members have mentioned this morning, Federal Express, DHL, and United Parcel Service—have expressed concern about what they label as an unlevel playing field in the context that the Postal Service and they are competing for certain types of mail, for example, international package mail.

The private sector would argue that the Postal Service, a governmental organization, has a number of advantages. One of those advantages has to do with the way packages are treated by foreign Customs organizations. What the subcommittee asked us to look at was, among other things, is the treatment and the requirements for

packages, such as bulk shipments, and what are the differences in treatment?

We recently completed that effort and indeed found that there are differences in requirements that the Postal Service must meet compared to the private sector. These largely stem from Customs requirements of foreign countries, and packages are treated differently from the standpoint of who is carrying them, whether it be the Postal Service or Federal Express or UPS.

There are differences by country as well. I think the greatest difference that we identified in the three countries that we looked at, which were Canada, UK, and Japan, were with Japan. There was less difference with Canada because the Postal Service uses a private carrier in Canada versus the public postal service in Japan, for example.

Mr. GILMAN. Did you make any recommendations as a result of your study?

Mr. UNGAR. No, Mr. Gilman, we did not. We pointed out the differences.

We did raise to the subcommittee a number of issues that the subcommittee needs to deal with. For example, answering the public policy questions of should requirements be the same? If so, what requirements ought to apply? And how does one achieve those similarities in requirements given the fact that many of the Customs requirements are imposed by foreign governments? There are though some that are U.S. based.

Mr. GILMAN. Have you explored the cause for the need to raise the first-class mailing rate? I have received a number of complaints from small business and nonbusinesspeople with regard to whether or not there is truly a need when there is an announced surplus.

Mr. UNGAR. No, Mr. Gilman, we have not. The only involvement that we have is monitoring a contract study that is currently under way in which a contractor is looking at the quality of the data that is used in their ratemaking process.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

I fully agree with the ranking member's observation about moving along here. We do have the Postmaster General.

Let me just ask a couple of what I hope are quick followup questions.

As a point of information, particularly to follow up Mr. Gilman's remarks, the Customs study on GPL has not been finalized yet. We have a copy. You mention it in your report. So that is still evolving, and it raises some very interesting questions that I think Congress and others will want to consider as that issue progresses.

Both of you made comments about situations that arose and then said that the Post Office had developed regulations to try to preclude them. Ms. Corcoran, you mentioned the situation of a whistleblower being fired. I think that is an atrocious situation. Yet we understand that an order went out that it is not to be the standard policy when someone raises a concern about an impropriety or an illegality.

Also, you did an earlier report to us on costs involved with the installation of a particular postmaster, $45,000. Again, there is supposed to be plans and standards.

Mr. Ungar, you mentioned a $133 million overrun in the great State of Illinois. Again, there are supposed to be new planning standards.

Are either or both of you satisfied in all of those cases that those plans and those standards are sufficient and they are being implemented? To say you are doing it is one thing, and that is an important first step, but to do it is something else. How is your level of confidence on those kinds of things?

Ms. CORCORAN. We are going to be monitoring to make sure that those type things are really being implemented and being followed through and that, beyond being implemented, are they going to be sufficient to deal with the problems that are identified? That will be a major portion of the work that we do as follow-on to all of our reviews.

With the whistleblower concern, this is going to be an ongoing issue. As the IG becomes better and better known throughout the Postal Service and people come to us with their concerns, we are going to certainly be aware and be listening for people telling us that they believe they have been retaliated against because of that and looking into any possible situations to see what has really happened. We recognize that just because someone has put out an order saying you don't retaliate doesn't mean that that will not happen.

In keeping with the Deputy Postmaster General in particular about this case where he issued the order, he was very, very supportive of what we are trying to do; and he understood how it would undermine the entire process if someone is allowed to be fired or other action taken against them because of the retaliation.

Mr. MCHUGH. Well, the follow-on, of course, is, is there a need to extend very specific whistleblower protection laws to the Postal Service? Do you have an opinion on that?

Ms. CORCORAN. I am going to ask Tom Coogan to answer.

Mr. COOGAN. Mr. Chairman, I think our view was from the last time, although there is some limited protection in the Inspector General Act, we would support extending that to include some sort of relief or remedy that is available to employees, not just at the Postal Service but at all agencies when they report wrongdoing to their inspector general. The inspector general has made that recommendation to the President's Council on Integrity and Efficiency as part of their legislative initiative for the entire IG community.

Mr. MCHUGH. Any response from that particular body as yet?

Mr. COOGAN. I am not aware of the status at this point.

Mr. MCHUGH. Mr. Ungar, how about you and the cost overrun?

Mr. UNGAR. Sure. Mr. Chairman, we have not gone in and verified the new steps that were reported to have been taken by the Postal Service in terms of the construction issue. The Service certainly sounded as though it was headed in the right direction, assuming that the steps are effectively implemented.

I would point out that the report on the Chicago Post Office really dealt with two issues. One was the cost overrun. The other was the poor quality of service at one of the postal stations in the Illi-

nois area, the Graceland Station. And we made a specific recommendation in that report that the Postmaster General have an independent party assess performance for a period of 2 years at that Graceland Station. And for the last several months, at the direction of the previous—I believe it was Postmaster General, the Inspection Service has gone in once a month, looked at the implementation of corrective actions at the Graceland Station, and has issued a report on that. As of May of this year, service has improved greatly at that station.

Mr. MCHUGH. Good. Good.

Mr. Fattah, do I believe you have a follow-on?

Mr. FATTAH. Thank you, Mr. Chairman.

I just wanted to ask the Inspector General, Ms. Corcoran, about this issue of diversity. Now, this is an issue that I am very concerned about in terms of the Postal Service in general. You mentioned in your testimony earlier that you are staffing up and putting together the inspector general's office, and I just wanted to give you an opportunity to tell the subcommittee of your efforts to make sure that your work force is, in fact, diverse and that critical roles are being—people are being recruited for critical, important roles in your office that reflect the diversity of the Postal Service personnel in general and the entire country.

So, if you would, would you put on the record now some response to this matter?

Ms. CORCORAN. As mentioned in my testimony, 46 percent of our staff are minorities. When you take our PC level group, it is 16 percent of our staff are minorities. It is something we are working very hard at. We believe it is really important to have diversity not only in experience and talent but also in all the other areas.

In the next few weeks, we are going to be going to Puerto Rico, to a job fair there, trying to work to improve our Hispanic numbers. We regularly attend the various law enforcement conferences, particularly those that are aimed at minority groups, so that we can assure ourselves that we are getting the best, the brightest, and with diversity included.

Mr. FATTAH. Thank you for that response. Let me say that overall percentages are important, but one of the issues with the Postal Service itself is that there is a very significant level of diversity at various ranks, but the higher the rank, there starts to be a dearth of opportunity seemingly, even in positions where they are hiring directly from postal employees who are in the pool, very, very much who are represented in terms of minority groups. There seems to be a dearth as you reach higher and higher into the Postal Service.

So the overall percentage numbers I can appreciate, but the point I would raise is, in the charts that you provided, you list certain very important critical roles in the IG's operation, and these are roles in which obviously yourself and some of your key people will be involved in making employment decisions around. I just want to reinforce my interest, and I am sure the general committee's interest, in this matter so that the IG's office is capable of fully representing the potential that everyone can bring to helping make this a first-class, professional operation.

Ms. CORCORAN. I agree. Thank you.

Mr. FATTAH. Thank you.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. I would associate myself with the gentleman's remarks.

As I recall reading your testimony you had a very impressive percentage, a significant statistic on women employees. Do you recall? Fifty-four or fifty-six?

Ms. CORCORAN. Fifty-four percent.

Mr. MCHUGH. Fifty-four percent, which also, I think, is a testament to your attempts at being diverse, and we appreciate that.

Unless some other member has a pressing question, I would——

Mr. DAVIS. Just one, Mr. Chairman.

Mr. MCHUGH. Mr. Davis, certainly.

Mr. DAVIS. Thank you very much. And it is—have either one of you, in your studies and reviews, looked at the issue of reducing drugs in the workplace?

Ms. CORCORAN. Yes, sir. We just have completed a review requested by the Governors looking at the use and the sale of drugs in the workplace. That report was issued to management and to the Governors last week.

We found a number of issues. Probably the largest issue was that the Postal Service didn't have any system to capture, track, and analyze data to determine the extent of the problem. Basically, they needed to—we suggested to them that they needed to explore with other Government agencies, particularly the Department of Justice, whether there were opportunities to possibly expand some of the random drug testing to some of the more sensitive jobs that deal in the safety areas and security. We suggest they needed additional training and definitive guidelines in the—what were the consequences of drug use.

We also looked at the other side of it, and we looked to see what the Inspection Service was doing in terms of investigating the sale and use of drugs on the postal premises. We found that their efforts since 1992 have significantly declined, and we suggested to them that they needed to work with the Postmaster General to determine what is the appropriate level to deal with.

As part of this effort, we actually sent out a questionnaire to each of the unions and management associations to get their views on it, and all but one of those associations and unions were fairly positive about that, yes, this is an area that the Postal Service needs to be concerned about.

Mr. DAVIS. Could we get a copy of that report?

Ms. CORCORAN. Yes, sir.

Mr. DAVIS. Thank you.

Thank you very much, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

Again, thank you both for being here but, more importantly, for your efforts on behalf of your agencies. The GAO has been of tremendous assistance and very, very cooperative in the output; and the product has been enormously helpful. We deeply appreciate your role and that of your agency.

Ms. Corcoran, in your agency infancy, you, too, have been very, very helpful, instrumental and we look forward to expanding——

Did you have a question? I am sorry. I yield to the gentleman. I thought your questions were for the Postmaster General.

Mr. BLUMENAUER. Thank you, Mr. Chairman. I appreciate the courtesy the subcommittee has shown in allowing me to participate today.

Mr. MCHUGH. Certainly.

Mr. BLUMENAUER. I would hope that I could just pose one question to the panel.

Mr. MCHUGH. By all means. I apologize to the gentleman for not referring to him earlier.

Mr. BLUMENAUER. I found your conversation here fascinating.

My question is for any member of the panel who may have information on a rather startling experience I had of late in my community in Portland, OR, arising from discussions with both the regional representative from Denver and from local people about facilities decisions that were being made.

Our community has just recently completed a relatively unprecedented 50-year planning process that has involved the State government, the local government, and thousands of people in the community, to determine what is the future land use plan, where transportation facilities will be located, and how we get the most out of public investment. I was, frankly, stunned to find out that postal representatives were not only uninvolved but they were also unaware of the planning process, which was designed to be able to help people coax the most out of future investments.

I was just curious, since I know our community isn't the only one that is trying to cope with future planning efforts, with your raising concerns about facilities location, what is being done to make sure that the Postal Service is integrated into the local planning process to make sure that you are getting the most out of facilities investments?

Mr. UNGAR. Yes, sir. We have not looked directly at that issue, except from the context of closures of post offices. We haven't looked, at least recently, at the front-end planning process overall, so I don't think we would be in a position to comment other than on post office closings, and we would be happy to provide copies of our products to you. But other than that—I don't know about the inspector general.

Ms. CORCORAN. We have a facilities unit that will be looking at facilities throughout the Postal Service, how they are planned, how they work with the local areas to determine where is the best location. We will be taking on any number of these issues.

We would be happy to sit down with you and understand exactly what your concerns are so that, as we plan our future assignments, that we will include your concerns with those.

Mr. BLUMENAUER. Thank you.

Mr. Chairman, again, I do appreciate the courtesy of the subcommittee.

Mr. MCHUGH. Yes, sir.

Mr. BLUMENAUER. When they are looking at 40,000 facilities around the country, occasionally a flare goes up when we close or relocate post offices. However, we must not overlook deeper problems, problems raised by postal representatives playing catchup trying to figure out how to better serve the community. It is an absolute imperative that the Postal Service be a full partner in local and regional planning efforts so that you are not always trying to

figure out where facilities should have been. When people are planning 10 and 20 years in advance, this has the potential of saving huge amounts of money and avoiding inappropriate location decisions, and it would seem to me that that would solve a lot of problems.

I look forward to sharing information with you, and I would hope that perhaps this might be something that the subcommittee could follow up on as well, because it saves a lot of problems in the future.

Mr. MCHUGH. As I mentioned in my opening remarks with respect to your presence, we all recognize and appreciate the work you have done here, and perhaps the Postmaster General may have some comments on your concerns as well. I think they are very legitimate.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. MCHUGH. OK. I gave a hell of a speech leading up to that, so I won't repeat it. Thanks for being here truly. We look forward to working with you all. I appreciate it.

Mr. UNGAR. Thank you, Mr. Chairman and members.

[Followup questions and responses follow:]

Answers to Questions

from

The Honorable John M. McHugh
Chairman
and
The Honorable Chaka Fattah
Ranking Minority Member

Committee on Government Reform And Oversight
Subcommittee on the Postal Service

Submitted by

Karla W. Corcoran
Inspector General
U.S. Postal Service
June 10, 1998
Testimony

September 29, 1998

Office of Inspector General's Response to Questions Submitted By Chairman McHugh

Major Challenges

Question 1

What major challenges does your office face in discharging its responsibilities? What areas need increased attention, priority, and resources? Do you believe that your overall resources are sufficient?

Response

Numerous Challenges Facing OIG

In our March 1998 Semiannual Report, we identified the following eight challenges facing our office:

- obtaining full and complete access to all U.S. Postal Service (USPS) computer systems;
- educating our customers about our role and mandate;
- increasing our knowledge of Postal Service programs and operations;
- responding effectively and timely to the Governors, Congress, management, and employee requests;
- clarifying our financial statement audit responsibility;
- managing the high volume of hotline and Congressional requests;
- recruiting additional highly skilled staff; and
- developing state-of-the-art management information, communication, and reporting infrastructure while meeting our customers' expectations.

Since March 1998 we have identified two additional challenges. These are:

- refining roles and responsibilities with the Inspection Service; and
- ensuring OIG has responsibility for all audits of USPS programs and activities.

While all challenges are interrelated and we are making progress on each, two areas are of particular concern. We are concerned about managing, evaluating, and responding to requests and controlling postal management contracts for audits and audit-related services.

Managing, Evaluating, and Responding to Requests

As a new organization, we have worked to hire sufficient knowledgeable staff to manage, evaluate and respond to the overwhelming number of requests we have received. We started with no staff. When we started hiring, we generally hired from outside USPS to bring in a fresh perspective. To date, our staff has spent much of their time building our infrastructure and understanding postal systems.

When we opened our doors in 1997, we were flooded with requests from many sources. In part, we believe this was because people did not clearly understand our mission. Most inquiries, including those from Congress, concerned individual requests. We agreed to work on some of those requests to identify systemic problems but recognized we did not have adequate staff or knowledge to address all of them.

Currently, more than 2,000 inquiries have been retained in our office for further analysis and potential action. Meeting customers' expectations and managing this workload to the satisfaction of the requesters, while building our infrastructure, including hiring, will continue to be challenging.

Controlling Audit and Audit-Related Services Contracts

We are concerned that postal managers are contracting for audit and audit-related services. We believe this is our responsibility under the Inspector General Act. In 1983, the Department of Justice advised that the Inspector General has primary responsibility for agency audits, stating the term "audit" includes a wide range of activities. The Justice Department further advised management to exercise "extreme caution" when assigning audit responsibilities to an official other than the Inspector General.

USPS officials prefer contracting because the contractor's work can be controlled and recommendations accepted or ignored. Further, when management contracts for audit work, they control release of findings to the public. It is important that we maintain control over all audit work within the USPS to assure that independently recommended corrective actions are properly tracked, implemented, and reported.

Challenges Facing USPS

Stakeholders helped us identify the following challenges facing USPS:

- violence in the workplace
- workers' compensation
- labor-management relations
- service delivery
- financial management

- systems automation
- rate-making
- electronic commerce
- data integrity
- Year 2000 (Y2K)

We are focusing attention, setting priorities, and devoting resources to these areas, some of which, e.g., labor-management, will require considerable additional attention and resources. For example, in the Y2K area, we have completed four reports and management is in the process of taking corrective action. We have a series of reports planned to continue advising management of actions needed to address problems in this critical area.

Planned Resources

We based our original resource estimates on historical data provided by the Postal Inspection Service and our corporate knowledge of other OIG operations. In the past 18 months, we have continued to gain knowledge of postal operations. Based on our current understanding of USPS' Inspector General needs, we requested and were approved a fiscal year (FY) 1999 staffing level of 480. However, as our knowledge of USPS audit and investigative needs increases, our staff levels may change. For example, our original staffing level for Labor Management was 25; however, because of the number of hotline complaints and Congressional requests, we increased the area in FY 1999 to 57. During the next few years, we will continue to strategically evaluate the number of people needed to fulfill the OIG mission as our knowledge of USPS continues to grow.

USPS Actions to Implement OIG Recommendations

Question 2

What action has the Postal Service taken in response to the recommendations in your reports to date? Are you satisfied with its response(s)? If not, what should the Postal Service do to become more responsive?

Response

USPS Response to OIG Recommendations Generally Good

Since our establishment, we have issued 47 reports to management. Generally, management's responses to our recommendations have been encouraging. For example, in response to one of our projects, the Deputy Postmaster General directed to all postal officers not to retaliate against employees for notifying the Inspection Service or OIG about allegations of fraud, waste, or abuse. However,

there have been exceptions where USPS management has not agreed with our recommendations; we are continuing to work with them. For example—

- As a result of our review of expenses related to the installation of the Atlanta Postmaster, we recommended the USPS establish a policy setting spending guidelines for such events. The USPS established a new policy addressing expenses for events such as this, but the policy left many areas open to interpretation as to what is considered a reasonable expense. We recently advised management that the new policy should define "reasonable expense". They agreed to develop parameters.

- We recommended the suspension of a contractor, but USPS management elected not to follow our advice. We recently advised the Vice President Purchasing that we disagreed with their decision not to suspend the contractor and that we would report that disagreement in our upcoming Semi-annual Report to Congress.

- Our review of a Drug-Free Workplace Program resulted in seven suggestions for program changes. USPS management agreed with six of the seven recommendations.

We are working with postal management to establish a formal audit resolution process. Prior to creating an independent USPS Inspector General, a formal audit resolution process for the Postal Service did not exist. In the interim, we are continuing to work with management to resolve open issues and keeping the Audit Committee informed. Once a formal audit resolution process is established, we will have a method for addressing any remaining unresolved issues.

We are also concerned that all audit recommendations may not be tracked, implemented, and reported because postal management continues to contract for audit and audit-related services without notifying us. For example, our analysis of a statement of work for a management review of personal services contracts showed that five of the seven objectives were audit tasks. We were advised that USPS preferred contracting for this type of service because the contractor's work could be controlled and recommendations could be accepted or ignored. It is important that we maintain control over all audit work within the USPS to assure that independently recommended corrective actions are properly tracked, implemented, and reported.

We believe this is our responsibility under the Inspector General Act. In 1983, the Department of Justice advised that the Inspector General has primary responsibility for agency audits, stating the term "audit" includes a wide range of activities. The Justice Department further advised management to exercise "extreme caution" when assigning audit responsibilities to an official other than

the Inspector General. A single audit focal point will assure accountability and alleviate duplication of effort.

We are working with senior postal management to more fully define what constitutes audit and audit related services within USPS. The Audit Committee is aware of our concerns and we will keep them informed of our progress with management.

Role of the OIG in the Certification of Financial Statements

Question 3

You helped explain the history of the Inspector General Act as it relates to the certification of financial statements and the role of the IG in the process, particularly the need for change in the process at the Postal Service.

a. Are you suggesting that the IG be included in this process simply because other IG offices have this responsibility? To what extent have you identified any concerns with the quality of certification and/or the independence of the current process?

b. Given your resource constraints, do you believe you have the staff and ability to be responsible for the audit, as well as address the other priorities that you described in your testimony?

Response

Role of OIG in the Certification of Financial Statements

We are not suggesting that the IG be included in the financial audit certification process simply because other IG offices have this responsibility. Since my June 10 testimony, we have had extensive discussions with the Governors concerning our role in the certification of USPS financial statements. At the September Audit Committee meeting, the Governors authorized us to serve jointly with Finance as the contracting officer's representative on the contract with the independent public accounting firm. This will enable us to assist the Audit Committee in ensuring the quality and independence of the work performed by the independent public accountant as required under the Inspector General Act. We are working with Finance to clarify specific areas of responsibility. The Governors agreed to consider our request to be the sole contracting officer's representative for the financial statement certification contract during the coming year. During the short period we have worked with the independent public accountants, we are not aware of any specific problems with the quality of their work.

One of our first initiatives was to hire the staff necessary to perform the audit work to support the USPS financial statement opinion. We have filled all of our

job vacancies in headquarters and St. Louis and filled most of our vacancies in our Minneapolis and San Mateo offices. We have made significant strides in recruiting highly qualified staff for these locations, which will ensure a smooth transition from the Inspection Service. Many of our staff members have advanced degrees and are Certified Public Accountants, Certified Internal Auditors, or Certified Information Systems Auditors. These auditors are dedicated to the financial statement audit support and will assist with other projects as the need arises.

Despite the fact that we do not issue the financial statement opinion, we are responsible for about 80 percent of the audit work supporting the opinion. The Inspection Service traditionally performed this role, and we are in the process of transitioning this work to our staff. Our work on the financial audit will be conducted in accordance with generally accepted government auditing standards. These standards incorporate private sector generally accepted auditing standards.

If we were given complete responsibility for the USPS financial statement audit, we could either do the work ourselves or contract with an independent public accountant. If we did the work ourselves, our staff would need to be increased by 10 auditors. If we contracted with an independent public accountant, our staff would need to be increased by three auditors to monitor the contract. Neither option would affect our other work as long as the Governors agreed to this increase in staff.

Assessment of USPS Actions to Comply with the Government Performance and Results Act

Question 4

The Postal Service is in the process of finalizing its first annual performance plan in compliance with the Results Act.

a. What is your assessment of the Postal Service's strategic plan and annual performance plan required under the Results Act? What areas do you believe require the most oversight in this regard?

b. What is the role of the OIG in the Postal Service's implementation of the Results Act?

Response

USPS Has Made a Good Start in Complying with the Results Act

At Congress' request, the General Accounting Office (GAO) reviewed the draft strategic plans and preliminary annual performance plans submitted by the cabinet departments and selected major agencies, including USPS. Because of this assessment, we did not issue a separate report on the USPS strategic plan.

Overall, we agree with GAO's assessment. GAO reported the draft strategic plan was a work in progress that provided much useful information on the agency's vision. GAO recognized that the draft plan had many strengths but believed it could be further strengthened to better meet the purposes of the Results Act. Similarly, the preliminary performance plan represented a good start but could have been more useful by providing a more complete picture of intended performance within the USPS and discussion of how the strategies and resources would help the USPS achieve its goals. In addition, the plan could have been expanded to include a discussion of how management will verify and validate the data used to measure performance as required by the Results Act.

We are evaluating the final USPS strategic and performance plans to assess whether USPS incorporated GAO's recommendations. We anticipate this work will be completed by December 1998.

OIG Role

The Results Act does not define a specific role for OIGs in their agencies' implementation efforts. However, recent legislative initiatives have called for all OIGs to promptly assess whether agencies have met their stated goals. We believe we should not usurp management's responsibility for selecting or making decisions on strategic plans and performance measures, or take any actions that would compromise our independence. We will act in an advisory or consultative capacity in the implementation stages and perform independent reviews. As part of our consulting role, we plan to focus future reviews on several opportunities for improvement identified recently by an independent consulting firm. This firm assessed USPS using the Malcolm Baldridge National Quality Award criteria. In this role, we will be able to further assist USPS in meeting the Results Act guidelines.

New Postal Service Products

Question 5

You have mentioned that you will be assessing the Postal Service's efforts to introduce new Postal products, particularly electronic commerce services.

a. What issues have arisen in your examination of new non-Postal products to date? How does the Service's process for introducing non-Postal products compare with the process for introducing new Postal products? Do you believe that improvements are needed in either of these processes?

Response

Efforts to Audit Electronic Commerce

We have formed a specialized unit to evaluate the electronic commerce area. Topics we will review include direct vendor delivery, electronic data interchange, electronic funds transfer, and USPS' rate filing for an online service that enables customers to do automated mailings from their personal computers.

In addition, we are establishing a computer intrusion unit to prevent and detect fraudulent activity and sabotage involving USPS information systems. This unit will investigate attempts to "hack" into postal systems and proactively review those systems to help postal management avoid such intrusions.

Reviews of Non-Postal Products

Since GAO is conducting a review of three specific non-postal initiatives, we are not currently conducting reviews of individual non-postal products. We conducted a global review of the Marketing Office's processes and development of non-postal products. We found that non-postal and postal products are introduced using very similar processes. In our review, we identified several issues in the areas of marketing management, project funding, and control processes that needed further improvement. We suggested that all ongoing projects be periodically revalidated, continuity of management be established, a marketing process be established for new ideas, and completed projects be transitioned to other organizational units.

Quality of USPS Data

Question 6

The Postal Service has acknowledged that it needs to improve the quality and availability of data on its operations. Based on your experience, has the lack of good quality data impeded your ability to review Postal Service operations? What deficiencies have you found in the quality and availability of Postal Service data? Has the Postal Service developed plans to remedy these deficiencies?

Response

Impact of Data Quality on Our Audits

We have found that USPS is sometimes inaccurate and incomplete. For example, during our audit of Bulk Mail Center Manual Mail Operations, we tested Productivity Information Reporting System data. This is the only system currently used to report mail volume and productivity for all 21 bulk mail centers. We found that source data was inaccurate and incomplete. Consequently, we could not rely on the data from this system. We also noted that policies and procedures governing the capturing and reporting of mail volume data were insufficient and outdated.

Our review of the Grievance and Arbitration process found that the Grievance and Arbitration Tracking System was incomplete and inaccurate. Additionally, there were substantial discrepancies between paper documents in the field and the Grievance and Arbitration Tracking System data in headquarters.

In our review of the Drug-Free Workplace Program, we found the USPS generally does not gather or maintain data in a manner that would indicate the extent of drug-related problems. Data, such as the number of people testing positive for drug use during fitness for duty evaluations, is not recorded in a manner suitable for analysis.

We will continue to evaluate the quality and availability of data as we conduct projects of USPS operations and activities.

Some Initiatives Are Underway by Management to Improve Quality of Data

We have been advised that USPS management is working to develop a system to replace the Productivity Information Reporting System, which should improve mail volume and productivity data. Additionally, USPS management says it plans to update existing policies and procedures. The former USPS Chief Financial Officer indicated in a recent discussion that USPS has no information-rich system to capture all real data. He estimated it would take approximately 5 years to implement such a system. We will monitor management's progress in these areas.

OIG's Relationship with the Postal Inspection Service

Question 7

As you know, Congress created the Office of the Inspector General to provide an independent oversight body within the Postal Service. Could you reflect on the "value added" to the Postal Service by having an Office of Inspector General that is separate from the Postal Inspection Service? How has your office coordinated its audits and activities with the Postal Inspection Service? Are there any areas where responsibilities continue to be unclear?

Response

How an Independent OIG Adds Value

The Postal Service benefits from having an independent Inspector General (IG), separate from the Inspection Service, for several reasons:

- Independence - The Inspectors General were created in 1978 because agencies lacked adequate audit and investigative coverage. Before 1978, internal audits and investigations lacked independence from agency management. The Chief Inspector, who also previously served as the Inspector General, was appointed by and reported to the Postmaster General. This created the perception of less independence and greater management influence over the IG. Today, the Inspector General is appointed by and reports directly to the Governors and is not part of Postal management. This reporting relationship removes the IG from management.

- Oversight of the Inspection Service - When Congress created an independent OIG, it conveyed oversight responsibility for all activities of the Inspection Service to the OIG. We created a division specifically dedicated to this oversight function. This division has both investigative and audit responsibilities.

- Trust - Some postal employees and customers have indicated they do not trust postal management to objectively address their concerns. The creation of an independent IG has opened a new line of communication outside postal management.

- Increased Responsibility - We assumed responsibility not previously addressed by the Inspection Service. These areas include postal rate-making programs and operations, revenue generation programs, electronic commerce, computer intrusion detection, and labor management.

- Use of Evaluators and Auditors – We have attracted experienced auditors, evaluators, analysts, and managers from the Postal Service, other government agencies, and private industry, who work collaboratively with Federal law enforcement officers. We recognize the value of cross-disciplinary knowledge, and have attempted to capture that benefit by mixing evaluators and investigators in the same functional groups.

We Coordinate Closely with Inspection Service

As the OIG, we are responsible for all USPS audits. Under our delegation of functions, the Inspection Service has agreed to continue performing area and local audits and pre-award and post-award contract awards. In addition, during the transition of work from the Inspection Service to us, the Inspection Service has continued to perform audits that are our ultimate responsibility. Therefore, we prepared a joint Audit Workload Plan with the Inspection Service for 1998, designed to provide partnership opportunities for postal-wide audit attention. The Inspection Service provided most of the staff earlier in the year, but as our staff became available, we contributed more resources and led several of the audits.

Additionally, the Assistant Inspector General (Audit) meets weekly with the Inspection Service Deputy Chief Inspector (Audit) to coordinate audit activities and discuss new projects. Our directors coordinate frequently with Inspection Service counterparts. Audit workload planning is coordinated to prevent duplication of effort and ensure adequate audit coverage. We will continue to partner on numerous audit projects, and have again worked jointly to develop an Audit Workload Plan for FY 1999.

In the investigative area, we have taken primary responsibility for investigation of allegations of fraud, waste and abuse such as: kickbacks, bribery, product substitution and health care fraud. We are also responsible for investigating any allegations of misconduct against USPS executives. The Assistant Inspector General (Investigations) meets regularly with the Inspection Service Deputy Chief Inspector (Criminal) to coordinate investigative activities and discuss new cases.

Roles and Responsibilities Between the OIG and Inspection Service Clarified

The designation of functions between Inspection Service and us, approved by the Governors, established a framework for audit and investigative coverage. We have encountered some circumstances that require individual coordination with the Inspection Service. As with any major transfer and transition of functions and responsibilities, instances have arisen requiring resolution and clarification. These situations have typically been resolved without difficulty. For example, the Inspection Service, recognizing the need to avoid duplication of effort, cancelled one contracting process review project at our request. We had already scheduled a similar review at the headquarters level that would encompass any area-level concerns.

Further, USPS management historically relied on certain types of facility and other post-contract verification reviews by the Inspection Service that would normally not be undertaken by an OIG. We advised management and the Inspection Service that we will not be performing this work because it is a program management responsibility.

We are working with the Inspection Service to clarify and develop procedures to address investigations. Investigations have the potential to fall under both organizations' areas of responsibility. For example, an investigation of a worker's compensation issue by the Inspection Service could identify potential provider fraud that is the responsibility of the OIG. We are working to ensure a smooth and orderly process to address these situations.

Our role within the USPS was described in the June 1998 version of the Postal Service's Administrative Support Manual, which is distributed to all Postal facilities. We are updating the audit and investigative policies and procedures section of the Administrative Support Manual to clearly reflect the authorities, role, and mission of the independent OIG. As we identify areas that have not been addressed in the designation of functions, we will resolve them with the Inspection Service or, if necessary, the Governors.

Complaint Investigation

Question 8

Your office is responsible for conducting independent reviews of complaints from Postal Service employees, including complaints with respect to the Postal Inspection Service.

a. How many complaints have pertained to the Postal Inspection Service? What have been the nature of these complaints? How many complaints have been investigated, and what have been the general outcomes?

b. The Postal Service has said that postal employees are already able to bring alleged abuses to the attention of the Postal Inspection Service or the Inspector General. Please summarize your guidance to postal employees for the record. Which issues are handled by your office and which are handled by the Postal Inspection Service? What process does your office use to handle and investigate alleged abuses?

Response

Complaints Against Postal Inspection Service

From our establishment in 1997 through September 21, 1998, we have received 198 complaints that pertain to the Inspection Service. The most common issues, which account for 78 percent of all complaints, are:

- case selection (29%), where complainants have concerns as to why the Inspection Service has not, or appears to have not, taken any action on a matter;
- misconduct (16%) on the part of Postal Inspectors;
- complaints from Postal Police Officers (11%) about their roles and responsibilities as members of the Inspection Service;
- inadequate investigations (11%) conducted by Postal Inspectors;
- violence in the workplace (6%) related to the perceived lack of concern or efforts by the Inspection Service to address this matter; and
- improper disciplinary (5%) actions taken by the Inspection Service management towards its employees.

After receiving a complaint, we review the related documentation, determine the nature of the complaint, and identify a course of action which would best respond to the issues. This information is entered into our database, which includes classifying it into a category such as one of those mentioned above.

We have conducted reviews of several complaints by individuals. For example, we reviewed a situation where a Postal Inspector was placed on paid administrative leave for 18 months pending management's decision on a disciplinary issue. This review identified opportunities for improvement in the handling of internal affairs cases in the Inspection Service and the monitoring of administrative leave. Based on our work, we identified "disciplinary actions" within the Inspection Service as an area needing further attention.

We also have conducted broader reviews of Inspection Service operations. Specifically, we reviewed the Confidential Informant/Confidential Source Funds Program to ascertain if an effective and efficient system of controls exists to protect these funds. Our review disclosed that the Inspection Service had adequate controls over the Confidential Informant/Confidential Source Funds Program. We also are finalizing a review of the Inspection Service Audit Tracking System. When we are made aware of potential postal inspector misconduct, if it does not appear to be systemic or does not involve an executive

(GS-15 or above), we notify Inspection Service Internal Affairs. We then monitor their handling of the situation to assure appropriate action is taken. This has occurred in a number of instances as a result of hotline complaints.

Guidance to Postal Employees

We are educating Postal Service employees, customers, management and other stakeholders about the new OIG. To do this:

- we are explaining the role and mission of a statutory OIG via a number of avenues, including our World Wide Web site, an educational brochure, and our Semiannual Report to the Congress;

- we have published a "Dear Postal Colleagues" letter in the *"Postal Bulletin"*, an article in *"Postal Life"* magazine, and a revision to the Postal Service Administrative Support Manual; and

- we have made numerous presentations at various conferences and training sessions and routinely send acknowledgment letters to all hotline complainants that highlight our function.

We have also prepared guidance to employees emphasizing our statutory responsibilities and our authority. Regarding our authority, we have emphasized that the OIG has unrestricted access to all Postal Service operations, programs, records, and documents. The OIG has direct and prompt access to the Governors when necessary, and we can issue subpoenas and administer oaths.

More generally, we have explained our role and mission of preventing, detecting, and reporting fraud, waste, and abuse, and promoting efficiency in Postal Service operations. We have stated our primary interest in "systemic" issues, because addressing these issues is how we believe we can add the most value to the Postal Service and the individuals involved. However, we do want to know about all concerns--from whatever source--since we reserve the right to conduct any situation-specific inquiry deemed appropriate.

Issues Handled By the OIG

Issues handled by the OIG and the Inspection Service are outlined in a mutually agreed to "Designation of Functions." This document was approved by the Governors and is published in our Semiannual Reports to Congress.

Issues of workplace violence and other exigent matters are immediately referred to the Inspection Service. When we receive complaints, we immediately assign a file number for tracking and monitoring purposes, and review allegations to determine what action is warranted. Every complaint is referred to the appropriate office for attention, i.e., audit, investigation, postal management for

corrective action, etc. By maintaining a database of complaints, we will also be able to identify systemic issues for future audits and investigations.

Outstanding Complaints

Question 9

We understand that your office has a backlog of outstanding complaints. How large is the backlog? Does the backlog affect the ability of Postal Service employees to seek redress for abuses? What is your goal for reducing the backlog? Will an increase in staffing needs help resolve your current problem? If yes, approximately how many employees do you need? If more staff is hired, will the new staff have experience in the relevant subject areas in order to expedite this process?

a. Some Congressional offices have indicated to the subcommittee that they have experienced a delay in receiving responses or substantive replies to inquiries made to your office. What is the cause of this delay? Is there something Congress can do to facilitate a quick response time?

b. How does your office distinguish between those cases that merit investigation, and those that do not or cannot be investigated due to resource constraint reasons or otherwise? Given the current situation, what role do you think the IG should play with respect to labor management relations issues?

Response

Volume of Complaints

Between Congressional and hotline requests, we have received more than 19,000 complaints since 1997. We analyze each complaint to determine what action is warranted. We have referred a large portion of these complaints to the USPS, including the Inspection Service, for action. Examples of referrals include service delivery problems, theft, vandalism, tampering, and mail fraud. To identify systemic problems within the USPS not to investigate individual matters we are evaluating and analyzing more than 2,000 complaints.

Most of the 2,000 complaints involve labor management problems. In addition to asking us for assistance, employees have numerous avenues within the system available to them for redress of labor disputes. These include the various grievance procedures, the Equal Employment Opportunity Commission and, in some cases, the Merit Systems Protection Board. Many of the complaints we receive are from individuals who have already gone through one or more of these processes. Our analysis seeks to identify systemic issues, such as failure of the

USPS to follow procedures, so we can address Postal-wide problems affecting a large number of employees.

We are continuing to hire staff to meet our approved staffing level. As of September 21, we have hired 296 employees, with 236 actually on board. We plan to have 480 employees as of March 1999. We continuously reevaluate our staffing needs based on workload demands. We have found it particularly challenging to find talented individuals who possess the requisite skills and temperament to work in the labor management area.

Our Responses to Congressional Inquiries

One of our major challenges is simultaneously (1) meeting our customers' expectations while (2) our workload continues to increase rapidly and (3) we continue to build our infrastructure, including hiring. As we become a mature organization, we will have the structure in place to respond to Congressional inquiries more effectively. We have made tremendous strides in establishing the supporting processes and believe that these improvements will result in increased customer satisfaction.

When we opened our doors in 1997, we were flooded with complaints from many sources, including Congress. Most Congressional complaints concerned individual constituent requests. We agreed to work on some of those requests to identify systemic problems, but recognized we did not have adequate resources to address all of them. Unfortunately, some of these requests could not be handled to the satisfaction of some Members because we did not review the individual case or took several months to complete the review. It would be helpful for the Subcommittee to let Members know that we usually are not able to address complaints individually, but will always consider complaints for systemic reviews.

Our Role in Labor Management

We are always deeply concerned about allegations of wrongdoing against anyone. Our mandate is to identify systemic problems within the Postal Service, not to investigate individual cases. We also track and use the invaluable data provided by individuals to help us identify systemic problems and future postal-wide audits, and have an operational database that tracks complaints to identify systemic problem areas.

Systemic Problems

Question 10

Based on your work to date, has your office investigated any systemic problems that may have generated a number of complaints? What have been the results of these investigations?

Response

Examination of Labor Management Complaints

To date, our office has addressed a number of individual complaints, completed several projects relating to workplace violence, and is in the process of finalizing our first systemic labor management review. The individual cases we worked on allowed us to familiarize ourselves with the various labor management rules, regulations, and agreements, and provided insight into potential systemic areas. Our workplace violence projects explored the areas of supervisory training, compliance with threat assessment procedures, and criteria for identifying locations with labor management problems. Our first systemic review of the grievance and arbitration process disclosed a number of opportunities for improvement. These reports should be finalized shortly. If requested, we would be happy to provide the Subcommittee with copies of the reports once they are completed. We have investigated several problems in the labor management area generated from a number of complaints.

Financial Disclosure Forms for USPS Officials

Question 11

What financial disclosure forms are Postal Service officials required to complete each year? How do these forms compare with financial disclosure forms that are required for officials in other Federal agencies? Who reviews these financial disclosure statements to ensure that they are completed properly? Are there security measures implemented to ensure that these statements are kept confidential?

Response

Financial Disclosure Reports

Pursuant to Office of Government Ethics regulations, all executive branch employees, including Postal Service employees and our employees, are required to file the same financial disclosure forms. Employees whose rate of basic pay is equal to $87,030 or above must file Standard Form 278, Executive Branch Personnel Public Financial Disclosure Report. Employees whose rate of basic

pay is below $87,030 must file Office of Government Ethics Form 450 if their agency determines the employee's position could result in a potential conflict of interest between the employee's financial interests and work assignments.

Governors of the Postal Service complete Standard Form 278 at the time of their nomination and annually thereafter. The Standard Form 278 remains confidential if the Governors perform the duties of their office for less than 60 days in a calendar year. If a Governor performs the duties of his or her office for more than 60 days in a calendar year, his or her Standard Form 278 becomes public. The USPS General Counsel, who is the Designated Agency Ethics Official, reviews each of the Governor's financial disclosure reports.

The USPS Alternate Designated Agency Ethics Official or other authorized designee of the General Counsel reviews each Standard Form 278, including the forms filed by our employees, for possible conflicts of interest. The reviewing official follows the Office of Government Ethics guidelines.

A USPS Vice President or designee reviews the Forms 450 of headquarters employees, and the field counsel, serving the filer's state, reviews the forms of field employees. A human resource specialist within our office reviews the Forms 450 for our employees. Each reviewer also follows the guidelines set out by the Office of Government Ethics.

According to regulations promulgated by Office of Government Ethics and postal management instructions, the reviewing official is responsible for maintaining proper care of each financial disclosure report. For example, in our office, the reviewing official secures the Forms 450 in a locked cabinet. The Office of Government Ethics reviews the Postal Service ethics program approximately once every 3 years to ensure USPS is in compliance with ethics laws and regulations.

Retaliation as a Response to Employee Complaints

Question 12

As you know, the Office of Inspector General's Semiannual Report to Congress for October 1, 1997 through March 31, 1998 included a March 19, 1998 memo from Michael Coughlin to officers of the Postal Service that described how a supervisor at a postal operating facility attempted to remove an employee in retaliation for making a complaint to the Inspector General's office concerning existing management violations. The letter stated that no retaliatory action is to be taken against any Postal employee for alleging to the Office of Inspector General wrongdoing of any sort within the Postal Service. To the best of your knowledge, does retaliation against postal employees for making a complaint to the IG continue to be a problem within the Postal Service?

a. In your view, is fear of retaliation widespread among postal employees? Are supervisors at a postal operating facility customarily made aware as to which postal employees make a complaint?

b. The Postal Service has said that postal employees are already able to bring alleged abuses to the attention of the Postal Inspection Service or the Inspector General. Please summarize your guidance to postal employees for the record. Which issues are handled by your office and which are handled by the Postal Inspection Service? What process does your office use to handle and investigate alleged abuses?

c. Have there been instances in which your office's ability to review a complaint filed by a postal employee was compromised due to actions or interference taken by management?

d. Has the Office of Inspector General implemented guidelines or procedures to try to prevent retaliation against employees making complaints from occurring in the future?

Response

Fear of Retaliation

We are not aware of any instances where an employee alleged retaliation for complaining to us after the Deputy Postmaster General's March 1998 letter. In addition, we can not know how many employees are not reporting fraud, waste and abuse to us because they fear retaliation. However, some employees have specifically asked for confidentiality, indicating their concern about possible retaliation. We will continue to investigate aggressively any allegations of retaliation against employees for reporting fraud, waste, and abuse.

We do not disclose the names of employees who make allegations unless the complainant has indicated that he or she does not require confidentiality or disclosure is unavoidable. We adhere strictly to Section 7 (b) of the Inspector General Act, which states: "The Inspector General shall not, after receipt of a complaint or information from an employee, disclose the identity of the employee without the consent of the employee, unless the Inspector General determines such disclosure is unavoidable during the course of the investigation." We have found, however, that many employees who file complaints with us have already identified themselves to management by asking their Congressional representatives or unions to intervene on their behalf or by filing grievances or complaints.

Guidance on Whistleblower Complaints

The following summarizes our outreach efforts to make Postal employees aware of the ways to report alleged abuses, including whistleblower complaints, to the OIG:

- we are explaining the role and mission of an independent OIG via a number of avenues, including our World Wide Web site, an educational brochure, and our redesigned Semiannual Report to Congress;

- we have published a "Dear Postal Colleagues" letter in the *"Postal Bulletin"*, an article in *"Postal Life"* magazine, and a revision to the Postal Service Administrative Support Manual; and

- we have made numerous presentations at various conferences and training sessions and routinely send acknowledgment letters to all hotline complainants that highlight our function.

We will investigate all instances of retaliation against employees who have alleged wrongdoing to us. Our investigations of alleged retaliation will include a number of steps. For example, we will review pertinent reports and other relevant documents related to the case. In addition, we will conduct interviews with complainants, witnesses, supervisors, and other employees. We will conduct appropriate site visits, as necessary. If the allegations of retaliation are substantiated, we will take appropriate action to refer them to management, or if criminal, to the United States Attorney. We will also report all cases of retaliation to Congress and the Governors.

We also monitor allegations of abuse in order to determine if they are systemic or reveal a pattern of abuse. In cases such as this, we conduct an organizational review to identify the causes of the abuse and to make appropriate recommendations to remedy the situation.

To our knowledge, our ability to review a complaint filed by a postal employee has not been compromised by management. In the two instances where USPS employees reported allegations of retaliation to us, we reviewed one allegation and are in the process of reviewing the other. As you know, management is responsible for issuing guidelines to prevent retaliation against employees, and creating a culture that deters retaliation and encourages employees to report abuses. Our role is to investigate retaliation and recommend appropriate corrective action. We will promptly notify the Deputy Postmaster General of any reported instances of retaliation by management so that immediate remedial action can be initiated.

The Deputy Postmaster General's letter to all Postal officers stating that retaliation must not be taken against any employee who alleges wrongdoing to the OIG, Postal managers, or the Postal Inspection Service, is a good first step. We will examine whether additional steps are necessary to prevent retaliation in the future.

Atlanta Postmaster Ceremony

Question 13

In one of your first reports, you have disclosed how $45,593 in postal funds were used to pay for the ceremony of naming a new postmaster for Atlanta, Georgia. Since this report, are you satisfied with the action taken by the Postal Service to prevent these types of expenditures from recurring?

Response

Some Actions Taken

The Postal Service has implemented some corrective actions; however, the actions did not address all of our suggestions.

In June 1998, the Postal Service revised their policies on the installation of new postmasters, as follows:

- the postmaster can incur expenditures for providing refreshments, producing signs, printing brochures, etc., and;
- "discretion and judgment" should be used to ensure that expenditures are "reasonable" and included in the annual budget for a facility.

However, policies have not been established that specifically limit or address the reasonableness of installation ceremony expenditures. We believe that "reasonable" is too vague a term and that specifying acceptable dollar ranges for installation ceremonies would provide a better level of internal control.

Therefore, we requested that the Postal Service's Chief Operating Officer further define or clarify what constitutes a "reasonable" amount and to establish monetary thresholds. USPS responded that the Chief Operating Officer will work with Postal Service's Human Resources and Finance to define the monetary parameters.

USPS OIG Office in San Mateo, California

Question 14

You mentioned in your testimony that you will soon be opening an office in San Mateo, California. How soon do you expect this office to be opened? What do you anticipate the size of this office to be? What do you envision will be the primary function or role for this office?

Response

We Have Established the San Mateo Office

Our San Mateo office opened on July 3, 1998. Currently, we have 8 staff members on board, consisting of 4 auditors and 4 investigators. Our plans call for a total staff of 12; consisting of 8 auditors and 4 investigators. The San Mateo office's primary mission is to conduct financial statement opinion audit work and investigate matters under our jurisdiction. In addition, this office will conduct additional audits, reviews or consulting work in the Western United States.

Reporting to a Board of Nine Governors

Question 15

Unlike most other Inspector General Offices, your office does not report to a single person as "head of agency" but instead reports to nine different individuals who collectively comprise the head of an agency for IG Act purposes. Please describe to me in general terms the nature of the communication that exists between you and the Postal Board of Governors. Is there anything Congress can do to facilitate this communication process?

Response

Communications with the Governors

I participate in the monthly Board of Governors meetings and prepare written monthly activity reports to the Governors to keep them apprised of our current activities. In addition, I attend regularly scheduled Board of Governor Audit Committee meetings, and meetings of Capital Investment, Compensation, and Strategic Planning committees, as necessary. My senior staff or I meet monthly with the Secretary of the Board of Governors to discuss items of mutual interest. While I have direct access to individual Governors, I primarily work with the Chairman of the Board. The Governors understand that I am required to keep them and Congress fully and currently informed.

OIG Investigation of Newspaper Delivery

Question 16

I understand that there have been problems with poor newspaper delivery by the United States Postal Service. What initiatives has your office been taking to investigate this problem? What do you plan to do with your findings? Until your report is issued, do you have any recommendations regarding the problem facing the nation's community press with postal delivery?

Response

We Will Review Periodical Class Processing

We are aware of concerns from community newspaper publishers about the untimely delivery of newspapers sent via the Periodical Class of mail through the USPS. We plan to review Periodical Class processing problems in FY 1999. Recently, each Vice President, USPS Area Operations, was asked to analyze service issues and report to the Chief Operating Officer within 60 days. We will start our review by examining the results of that effort and determining what work will appropriately address Periodical Class processing problems.

Findings Will Be Provided to Management

We plan to issue a report with findings and related recommendations to management to initiate corrective action of any identified deficiencies in Periodical Class processing. We will also apprise the USPS Board of Governors and the Congress of the review results. Given the longstanding concern over this issue, we will also schedule follow-up attention as appropriate. We anticipate the results of our assessment of the Area Vice Presidents' efforts may allow us to make some early recommendations.

Opportunities for Minorities and Women at the Top

Question 17

A January 17, 1998, *Washington Post* article titled, Diversity Hits "Ceiling" at the Postal Service, described how promotions were limited for minorities and women in top-level positions at the Postal Service. In light of this article, what measures have you taken to improve the role of women and minorities in your office? Please disclose the latest statistics of women and different minority groups currently employed with the Inspector General's Office.

Response

We Are a Diverse Organization

We have worked hard to create an organization whose cultural philosophy demands that all people be treated fairly and be given the opportunity to develop their unique and diverse skills and abilities to the fullest. We are committed to attracting and retaining a diverse and highly qualified workforce from government, private sector, USPS, colleges and universities. As of September 21, 1998, we have 236 employees on board. Sixty-five percent of our staff are minorities and women, as follows:

- 119 females (50%)
  - 54 White
  - 65 Minority

- 99 minorities (42%)
  - 24 African American males
  - 54 African American females
  - 6 Hispanic males
  - 5 Hispanic females
  - 3 Asian males
  - 5 Asian females
  - 1 Native American male
  - 1 Native American female

At the executive level, which includes GS-15 equivalents or above, we have a total staff of 31, including16 women and minorities. Specifically, we have 12 women and 6 minorities as shown below:

- 10 White females
- 3 African American males
- 2 African American females
- 1 Asian male

At the GS-14 and below equivalent levels, which include most of our working level auditors, evaluators, and investigators, we have 107 women and 93 minorities as shown below:

- 44 White females
- 52 African American females
- 21 African American males
- 5 Hispanic females
- 6 Hispanic males
- 5 Asian females

- 2 Asian males
- 1 Native American female
- 1 Native American male

We are extremely proud of our efforts to provide all staff meaningful opportunities for growth and career advancement. For example:

- We are continuing to encourage our staff to compete for vacancies which will lead to advancement in the administrative, evaluator, and investigative areas.

- We have provided career broadening opportunities involving changes in job titles and promotions, for more than 30 people, including 24 women and 19 minorities.

- We encourage our staff to obtain job-related education and training to enhance their professional skills and promotion potential.

September 29, 1998

Office of Inspector General's Response to Questions Submitted by Ranking Minority Member Fattah

USPS Procurement, Bidding Process, and Minority Contracting

Question 1

Earlier this year, I contacted your office to request an investigation of the United States Postal Service procurement, contract bidding process and minority contracting opportunities. Please provide a status of that request.

Response

Progress in Completing Requested Reviews

As agreed with the Subcommittee staff, we are conducting a series of reviews to respond to this request. Specifically, we have completed seven reviews addressing various aspects of the procurement, contract bidding process, and minority contracting opportunities. These include reviews of:

- two facilities-related contracts;
- contracting irregularities at a bulk mail center;
- quality assurance over major commodity purchases;
- use of indemnification clauses in postal contracts;
- procurement prequalification process; and
- supplier diversity, which specifically includes minority contracting.

We are continuing our series of reviews in this area. When these reviews are completed, we will provide a report summarizing our results.

Diversity in the USPS OIG Workplace

Question 2

In your attachment, under the heading of Human Resources, you list that you have "recruited and hired a total staff complement of 178 diverse and talented team members."

Of the 178 employees you have hired to date, how many are at the IG Executive Schedule (IGES) level and how many are in Band 3? Of those total amounts, (in the IGES and Band 3) how many are African-American, how many are Hispanic and how many are Asian-American?

How will you ensure the employment of diverse team members at these two levels and do you view the hiring and promoting of ethnic minorities, especially at senior and executive pay and position levels, important to fulfilling your goal of a diverse team?

Response

OIG Diversity

We have 236 employees on board as of September 21, 1998. Of this staff of 236, 9 employees are at the IGES level: 3 are women and 1 is an African American male. We have 22 employees at the Band III level: 12 employees are women and minorities, including 9 women, 4 African Americans, and 1 Asian. Staff at the IGES and Band III are considered executives.

We are currently in the process of filling most of our remaining executive-level vacancies. We advertise all our positions for the widest dissemination using USPS, OPM, and IG web sites, as well as various newspapers and professional publications. We have recruited staff nationally, including executive-level applicants. We have recruited at Hispanic job fairs and conferences, including one in Puerto Rico at the National Organization of Black Law Enforcement Officers; Women in Federal Law Enforcement; the Hispanic Police Command Officers Association Conference; and various Asian American professional conferences. Our response to Question #17 from Chairman McHugh provides a breakdown of the number of women and minorities, as well as a picture of job opportunities we have made available for career growth.

We ensure that all employees are afforded equal opportunity to receive appropriate training and to perform the full range of responsibilities within their pay bands so that they are competitive at the next highest levels. There is no glass ceiling at the OIG. We strongly support filling high-level positions with qualified minorities and women.

USPS OIG Mission

Question 3

It is my understanding that much of your "case" workload, i.e., casework/ complaints, are because your office is considered a last resort for independent investigation into problems members have with the postal service or the Postal Inspection Service. Could you comment on that observation?

How much of your "case" workload can be characterized as systemic? Please explain.

Also, in yesterday's *Washington Post* there was an article entitled, "Report Criticizes IRS on Complaint Probes." The article noted that "complaints about agency managers are often referred to those same managers" and that "the system appears to result in little penalty to the manager and often retaliation against the complainant." Does this apply at all to the type of postal inquiries/complaints you are asked to investigate?

Do you view Postal Service administrative or mismanagement problems and inquiries as part of your responsibility to resolve, or do you refer these matters to postal headquarters to handle? If yes, describe the types of problems typically referred and whether you track, follow-up or analyze the resolution.

Response

Commenting on OIG as Last Resort

We hear from hotline callers and Congressional inquiries that people feel they have exhausted all other avenues before coming to us. We believe that often they are frustrated because of the time it takes for them to exercise their rights. In some cases, employees may be hoping that if another independent party reviews their complaint, a different outcome could result.

Case Workload Characterized as Systemic

We have over 2,000 individual complaints that we are evaluating and analyzing. We incorporate all these allegations into various databases that can be used by the audit and investigative units to identify systemic problems. As we complete our analysis of this data, we will be able to better determine whether these individual cases will identify systemic issues. We believe we can be of more help to employees by identifying and correcting systemic problems that affect a large number of employees than by investigating individual complaints.

Similarities with IRS Review

In our limited reviews, we have noted two instances where complaints about postal managers were referred to the same manager for resolution, similar to the situation disclosed at IRS. Therefore, we believe that this situation could exist elsewhere in USPS. We will consider the USPS complaint resolution process in our future audit plans.

Handling of Administrative or Management Problems

We will review systemic administrative or management issues, as appropriate. For example, we recently reviewed management's compliance with the Threat Assessment Guide and supervisory training in the area of conflict resolution. Given our limited resources, we believe we can best add value to the USPS by focusing on systemic problems.

Individual administrative or management issues are generally referred to postal management, depending on the seriousness of the allegation or the grade level of the alleged offender. In selected cases, we request management reports outlining remedial actions taken or planned. We reserve the right to conduct any inquiry involving particularly egregious or significant matters.

OIG Accomplishments in the USPS Workplace

Question 4

As part of your list of accomplishments that accompanies your testimony, please share in greater detail the work your office is doing in the following areas:

a. Review of USPS efforts to eliminate drugs in the workplace.
b. Completed several labor management fact-finding reviews.
c. Performed work on workplace violence issues.

Response

USPS Management Efforts towards a Drug-Free Workplace

At the request of the Board of Governors, we completed a review of the USPS drug-free workplace program. As part of this review, we formulated two objectives: (1) evaluation of management's efforts to identify and eliminate drugs in the workplace; and (2) review of the Postal Inspection Service efforts in investigating the use and sale of drugs on postal premises.

The USPS has a strong policy statement on illicit use of drugs in the workplace. Programs such as pre-employment drug screening, random drug testing for Department of Transportation regulated positions and armed Inspection Service

employees, and the employee assistance programs support this policy. However, management generally does not obtain or maintain data that would indicate the extent of drug-related problems in the workplace.

We also concluded that investigative efforts relating to the use and sale of drugs on USPS premises have declined significantly since 1992. In FY 1992, the Inspection Service arrested 448 people and used 139,935 work-hours in internal drug cases. During the first 9 months of FY 1997, they arrested 34 people and used 8,316 work-hours in internal drug cases.

We believe that improvement in the USPS drug-free workplace program is warranted. We offered seven suggestions to management to improve its drug-free workplace program, and they were generally responsive to the issues and suggestions in our report. However, they disagreed with our suggestion to establish definitive guidelines for violations of the drug-free workplace policy. Management cited "significant legal concerns" relating to this suggestion. We are continuing to work with them to resolve this issue.

In addition to management comments, we invited comments from seven USPS management associations and unions regarding the effectiveness of the USPS drug-free workplace policy and our suggestions for improvement. Six of the organizations responded to our request for comments. While all of their responses did not agree with our evaluation, their remarks were generally constructive, and provided us with additional insight into the problem of drugs in the USPS workplace.

Labor Management Fact Finding Reviews

During FY 1998, we completed 28 Congressionally-requested labor relations reviews. The reviews addressed concerns submitted by individual USPS employees as well as petitions signed by groups of employees. Generally, allegations were in four areas:

- harassment and/or retaliation;
- timeliness and fairness in processing workers' compensation claims, equal employment cases, and grievances;
- compliance with USPS and Union labor relations methods and procedures regarding transfers, terminations, and fitness-for-duty decisions; and
- denial of requests for transfers and general mismanagement.

We have completed our reviews and the results have been mixed, in terms of validating the allegations. For example, we received petitions from 97 letter carriers from a post office in Arizona and from 26 employees at a post office in South Carolina. The correspondence from both groups alleged harassment, violation of labor relations procedures, and hostile work environment. However, the Arizona complainants would not discuss or substantiate the allegations. The

employees at the South Carolina post office did not agree with many of the allegations attached to the petition submitted by a co-worker, and could not substantiate others.

We substantiated some of the individual allegations made by seven USPS employees from different facilities in New York. For example, we validated an employee's allegation that the USPS failed to comply with terms and conditions of an equal employment settlement, did not comply with the terms of a Merit System Protection Board agreement, and improperly rejected an equal employment ruling.

Specifically, our reviews revealed opportunities for USPS improvement in such areas as: (1) personnel and management training on diversity and inter-personal skills; (2) timeliness and accuracy of processing of worker's compensation, equal employment, and grievance issues; and (3) compliance with USPS methods and procedures regarding labor management issues.

Strategies to Counter Workplace Violence

We have completed three reviews of Postal Service workplace violence issues as a result of the 1997 USPS violence instances. In August 1998, we completed a review of the effectiveness of postal strategies and methodologies used to identify work sites and facilities where violent behavior may erupt. Our review found that USPS has taken numerous steps to prevent work place violence, including establishing a headquarters threat assessment team and identifying potential area "hot spots." However, USPS management has not clearly defined what constitutes a hot spot and did not provide sufficient criteria to area officials for the designation of these locations

We issued two draft reports on the Milwaukee District's program for diversity and human relations training and their violence prevention policies and procedures. The Milwaukee District developed a training program to include diversity, human relations, and leadership training, which began in November 1995. However, the District did not ensure that all managers and supervisors attend, and the training provided did not ensure that all managers and supervisors would improve their human relations skills. Almost one-third of the supervisors and managers had not attended any diversity training.

The Milwaukee District Threat Assessment Team did not follow many of the violence prevention policies and procedures outlined in the May 1997 Threat Assessment Team Guide issued by USPS headquarters. We identified three areas needing improvement: work room environment; case management or risk abatement plans; and violence prevention training.

West Virginia External First-Class Measurement System Investigation

Question 5

Newspaper accounts in January of this year reported that West Virginia postal managers were caught cheating on the Postal Service mail delivery survey in order to increase first-class mail delivery scores.

a) What role did your office play in investigating this scheme?
b) Exactly how widespread was this mail measurement fraud?
c) Are you aware of the full extent of bonuses paid to postal managers, based upon fraudulent and inflated mail delivery scores? If not, please look into this matter and report your findings to the Subcommittee.

Can we in Congress be assured that action is being taken to uncover other incidences of mail measurement fraud and that proper procedures are in place to guard against future such incidences? If you are not aware of how widespread the fraud extends, the full extent of the bonuses paid upon the fraudulent activity, or whether proper steps have been taken to guard against future action, please investigate the incident and report back to the Subcommittee.

Response

Investigation Was Conducted by Postal Inspectors

The investigation of allegations in West Virginia was limited to the district level and therefore, was conducted by postal inspectors. The Inspection Service briefed us on all issues identified.

Complaints Are Widespread

The Inspection Service is currently conducting several investigations based upon complaints about external first class tampering. Our hotline complaints, union and management association contacts, and other sources allege that other districts have refocused resources to enhance their overnight service scores.

Economic Value Added Bonuses Withheld

Bonuses earned in FY 1997 were initially withheld from all concerned managers in the subject West Virginia case immediately following the release of the Inspection Service report. Upon final review of each employee's individual involvement in the case, postal management formally withdrew the economic value added bonuses associated with FY 1997 performance for 12 managers and restored the previously withheld bonuses for 3 managers. However, all 15 of

these employees were able to draw on their bonuses earned in the prior year (this was the "at risk" amount from FY 1996).

We share your concern about the integrity of this program. In the coming year, we will do a systemic review of the overall process, including the measurement contract, bonuses paid, and efforts to improve internal controls. In addition, we will continue to monitor our hotline complaints and discuss the issue with unions, management associations, and other sources to identify emerging trends. When we complete this review, we will share the results with the Subcommittee.

OIG Audit of International Mail Revenue

Question 6

Last week, Senator Cochran held a hearing on S. 2082, legislation he introduced that would place the setting of international postal rates under the authority of the Postal Rate Commission (PRC) in the same manner that domestic postal rates are established. During the hearing, it was announced by the new PMG, that the postal service had requested that the IG conduct an audit of international mail revenue.

a) Can you tell me more about the request in terms of the scope and timeframe?
b) Specifically, what have you been asked to investigate and what will your report contain?

Response

OIG Review of International Mail Cost

The Board of Governors requested that the OIG perform an audit of the allocation of costs between the USPS' domestic and international products and services. The audit will determine whether: (1) domestic revenues are used to subsidize international products and services; (2) revenues from "profitable" classes of these products and services are used to subsidize losing classes of international products and services; and (3) management controls are adequate over financial transactions. Our target date to report on this issue is December 1998.

USPS Year 2000 Computer Compliance

Question 7

On Wednesday, June 10, 1998, the GAO testified before the Subcommittee on Government Management, Information and Technology, on "Year 2000 Computing Crisis" - Actions must be taken now to address the slow pace of

Federal progress. On page 12 of GAO's testimony, they state "...the report submitted by the U.S. Postal Service shows that it plans to spend over $500 million on its Year 2000 effort and intends to implement its mission-critical projects by September 1998. However, the report also indicates that 21 percent of its 335 mission-critical systems are still in the assessment phase. This raises questions about whether the Postal Service's own target of this September is realistic."

Please comment on USPS Year 2000 compliance.

Response

OIG Continues to Monitor Year 2000 Progress in USPS

The USPS faces a great challenge in solving the Year 2000 (Y2K) problem. USPS has identified over 600 systems for potential remediation. We have been monitoring the USPS effort for the past year. During that time, we issued several reports detailing the progress USPS is making in solving the Y2K problem. Some of the issues identified were:

- USPS did not initially assess the size of the Y2K challenge accurately;
- all organizational areas were not involved from the beginning;
- a corporate-wide integrated plan was not developed and documented initially;
- application systems and components were not initially prioritized for remediation;
- contingency plans were not developed promptly;
- systems were not effectively tested for Y2K compliance;
- application system status was not accurately reported; and
- the Y2K program management contractor declined to sign their contract without an indemnification clause.

USPS agreed with our findings and recommendations and has initiated corrective actions to correct the deficiencies, as follows:

- assigned Vice Presidents and line managers responsibility and accountability for ensuring their systems are Y2K compliant;
- hired a contractor with Y2K experience to help manage the project;
- completed business impact assessments of all critical and severe systems;
- instituted a post-implementation verification process for quality assurance purposes; and
- reached agreement with the project management contractor regarding the indemnification clause, preventing disruption of the Y2K project.

Despite these actions, serious challenges remain in terms of USPS remediation of its Y2K problem. According to USPS management, they expect to complete

remediation of their critical/and non-critical systems by next summer. We plan to monitor their progress closely.

We are continuing our review efforts and will issue additional reports. In addition, we are partnering with the General Accounting Office on a review of the Y2K program. Specifically, we will jointly review the reporting level of the Y2K project office, remediation efforts, and contingency planning. This report should be completed early in 1999.

OIG Review of the Postal Inspection Service

Question 8

One of the reasons Congress established an independent Inspector General in the Postal Service was its concern over serious abuses by Postal Inspectors that have occurred. Have you looked at past abuses by the Inspection Service, and are proper standards and procedures in place to ensure against future investigative abuses and problems? Can you provide this subcommittee with any reports on investigations of misconduct by postal inspectors?

Response

Inspection Service Oversight

Our Inspection Service Oversight Division has looked into selected complaints against the Inspection Service regarding abuses by inspectors. For example, a mailing business was investigated regarding its invoicing practices. The business alleged that the investigation resulted from improper motives by the Inspection Service. In this instance, we found the allegations against the Inspection Service were unsubstantiated. We have also conducted several systemic reviews of Inspection Service operations. These reviews include the Confidential Informant/Controlled Substance Funds Program, the Crime Laboratories Accreditation Process and the Inspection Service System Tracking Network.

In addition, we reviewed a situation where a Postal Inspector was placed on paid administrative leave for 18 months pending management's decision on a disciplinary issue. This review identified opportunities for improvement in the handling of internal affairs cases in the Inspection Service and the monitoring of administrative leave. Based on our work, we identified "disciplinary actions" within the Inspection Service as a planned review.

Investigations of alleged misconduct by Postal Inspectors are conducted by either the Inspection Service Internal Affairs Division or us, depending on the grade level of the alleged offender. We will be happy to provide the

Subcommittee with the information necessary to perform its oversight responsibilities of the Inspection Service.

Review of Standards and Procedures

Our first step in evaluating allegations is to review the Inspection Service Manual, which identifies investigative procedures to follow during the conduct of an investigation. This review determines whether the applicable manual procedures were followed and whether they were adequate. When appropriate, we also recommend that procedures be changed. These procedures and standards, when followed, should ensure against abuses and problems.

Authority and Procedures of the USPS to Withhold Customer Mail

Question 9

What power does the Postal Service require to cut off a customer's mail as provided under Title 39, §3007? What procedures are in place to ensure that this power is not abused?

Response

Detaining Customer Mail

Title 39, United States Code, §3007, authorizes a Federal district court to enter a temporary restraining order and preliminary injunction detaining a specific portion of customer's mail under certain circumstances. There are several procedural safeguards in place to ensure that a customer receives due process before mail is detained under §3007. First, the Postal Service must be preparing for, or in the pendency of, proceedings under Title 39, United States Code, §3005 (mail schemes involving false representations or certain kinds of lotteries). Second, the Postal Service must make a showing of probable cause that §3005 is being violated before the court will consider issuing a temporary restraining order or preliminary injunction.

In practical terms, this means that a Postal Inspector prepares an affidavit setting forth probable cause. This affidavit is first reviewed by a Postal Service attorney and then by an Assistant United States Attorney before an action is filed in Federal court. According to the USPS law department, the Postal Service limits §3007 applications to cases involving a large dollar amount and a large number of potential victims.

There are similar procedural safeguards involving the Postal Service's use of §3005 to detain a customer's mail. Title 39 of the Code of Federal Regulations, Part 952, sets forth the rules of practice in proceedings under §3005. These

rules are consistent with the administrative procedures followed by other Federal agencies, including a hearing before an independent Administrative Law Judge.

In order to initiate a proceeding under Part 952, the Law Department must file an administrative complaint alleging that an individual has violated §3005. That individual is given the opportunity to answer the complaint. Both parties can engage in discovery, including production of documents and taking of depositions. A hearing is held before the Administrative Law Judge, who then issues an initial decision. Either party may appeal the Administrative Law Judge's decision to the Judicial Officer; otherwise, the Administrative Law Judge's decision becomes final. If either party files an appeal, the Judicial Officer is authorized to conduct a review of the entire record. The Judicial Officer's decision constitutes final agency action. This process is almost the same as the administrative process followed by most other Federal agencies.

September 29, 1998

ENCLOSURE

GAO RESPONSES TO QUESTIONS FROM HOUSE SUBCOMMITTEE ON THE POSTAL SERVICE RELATED TO JUNE 10, 1998 HEARINGS CONCERNING POSTAL OVERSIGHT ISSUES

Question 1. There have been concerns raised about unfair competition in the international mail market. The testimony you provided indicates that nearly all Global Package Link (GPL) packages are going to Japan, and that GAO was unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because essential data was unavailable.

a. Why was GAO unable to determine whether duties and taxes were assessed on GPL packages? Was the reason because the Japanese do not collect the duties or because the Japanese do not want to provide the data to GAO? Why was GAO unable to determine whether duties and taxes were assessed from the direct mailers?

GAO Response:

We were unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because Japan Customs told us that it did not maintain specific statistics reflecting the amount of duties collected on GPL parcels or the number of dutiable parcels. In addition, USPS did not have records on payment of duties and taxes on GPL parcels shipped to Japan because the recipients of postal parcels in Japan are responsible for paying applicable duties and taxes.

We questioned some direct mailers about whether duties were being collected on their parcels imported into Japan, but we were not informed that duties were not being collected on dutiable GPL parcels being shipped to Japan. We did not have access to the records of Japan Customs or direct mailers to verify collection of customs duties.

Question 2. The Subcommittee had asked GAO and the Inspector General (IG) to look into the issue of whether international mail is covering costs not only as a whole, but for particular international mail products as well.

a. How would you assess these issues? Given that GAO has been looking into the area of international mail, as well as being involved in the data quality study, what observations might you have regarding the simplicity or complexity of evaluating whether the Service is covering its costs in the international mail arena? What type of expertise must be brought to bear?

ENCLOSURE

GAO Response:

An evaluation of whether the USPS' international mail is covering its costs as a whole or for particular international products and services involves additional complexities not found in the costing of domestic products. These complexities would include the reliability of costs estimates for international products from domestic cost systems; how to impute terminal dues, the international system of compensation for the delivery of items across international borders; how to predict exchange rates at time of settlement; how to design rate categories and groups; and how to separate costs between inbound and outbound mail. Given these complexities, expertise in the application of economic costing theory to ratemaking and understanding of domestic and international costing systems would be needed.

b. Do you believe there is a role for the expertise of the Rate Commission in these matters?

GAO Response:

Although the Commission has not dealt with all of the complexities noted above, we believe there is a role for the Commission in this area. It has the expertise needed to apply economic costing theory to appropriately attribute costs to international products and services. In addition, the Commission is familiar with the Postal Service's domestic costing systems that estimate a portion of the attributable costs for international products. However, in order to do such analysis, the Commission would need to have access to estimates of cost, revenue, and volumes for international products at the product level.

Question 3. GAO has found that differences in foreign customs treatment of Postal Service shipments using the GPL program and private express carriers were greatest in Japan, where most GPL shipments are sent.

a. How do these additional requirements in Japan add to the costs of private express carrier shipments? What costs have been reported to GAO for these additional requirements?

GAO Response:

We did not assess or verify any cost data during this review. However, according to data provided to GAO by DHL, Fed Ex, and UPS via the Air Courier Conference of America (ACCA), the three carriers spent approximately $110 million per year to comply with customs requirements for importing parcels into Japan.

ENCLOSURE

b. In light of the fact that the Japanese government applies different requirements to private carriers and the Postal Service, would you say that they compete on a level playing field?

GAO Response:

Both the Postal Service and the carriers had certain advantages and disadvantages with regard to importing parcels into Japan. Although the private carriers were subject to more costs and requirements than the Postal Service for importing parcels into Japan, the private carriers enjoyed considerably faster customs clearance for their parcels. We did not make a judgement as to whether unfair competition exists in the Japanese package delivery market, because there may be many relevant factors, including other governmental restrictions and obligations, that may be imposed on private carriers or the Postal Service that we did not consider in the context of this review.

c. What is the Postal Service doing to promote the adoption of "best practices" for customs treatment of international shipments? In your view, how could the Postal Service work with the U.S. Customs Service in finding ways to improve and simplify customs requirements and processes?

GAO Response:

The Postal Service is negotiating with the U.S. Customs Service regarding customs treatment of future GPL service incoming to the United States. In so doing, the Postal Service should continue to explore with the U.S. Customs Service potential methods of expediting customs clearance by implementing procedures similar to those used to clear GPL packages in Canada or in Great Britain, including the use of electronic transmission of shipping data and prepayment of customs duties.

Question 4. GAO has mentioned that it will be assessing the Postal Service's efforts to introduce new postal products, particularly electronic commerce services.

a. What issues have arisen in your examination of new nonpostal products to date?

GAO Response:

We are currently drafting our report on new postal products. The report covers (1) the statutory and regulatory authorities and constraints for all major groups of new products, as well as the potential impact from enactment of H.R. 22 and the Postal Service's proposed legislation, (2) the Marketing Department's new product development process, which governs the introduction of most new electronic

products, and (3) summary information, including financial data, on all new non-philatelic products the Service marketed and/or had under development during fiscal years 1995, 1996, and 1997. We expect to issue our report in November 1998. We do not anticipate making any recommendations in the report.

The biggest controversy regarding the Service's introduction of new nonpostal products is whether or not these products are outside the scope of products which the U.S. Postal Service should be marketing. Some members of Congress and some private sector companies have complained that the Service has a competitive advantage over private sector companies when it introduces nonpostal products. such as retail products and packaging services.

b. How does the Service's process for introducing nonpostal products compare with the process for introducing new postal products? Do you believe that improvements are needed in either of these processes, based on your work to date?

GAO's Response:

The primary difference between the two processes for introducing postal and nonpostal products lies in the role played by the Postal Rate Commission (PRC). For new domestic postal products, the Service is required, by statute, to request a recommended decision from the PRC before introducing the product. The PRC has the authority to hold hearings and issue a recommended decision to the Service regarding the establishment of a new product as a classification of mail and the propriety of the proposed rates or fees for the new product. For new nonpostal and international postal products, the Service is not required to go through the PRC–it has broad authority to introduce such products and set prices. However, the Postal Service is required, by statute, for both postal and nonpostal products, to consider how each new product will further its basic function of providing postal services to bind the nation together. The Service is also required to consider how it can provide those services in a prompt, reliable, and efficient manner, at reasonable rates, to all communities and patrons.

The scope of our legislative and regulatory review was limited to identifying the statutory and regulatory authorities and constraints for all major groups of new products and assessing how those authorities and constraints would be affected by enactment of H.R. 22 or the Postal Service's proposed reform legislation. This work did not include an analysis of the Service's processes for introducing new postal and nonpostal products. Consequently, we are not in a position to suggest any improvements to these processes.

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Question 5. Last year, GAO issued a report to the Subcommittee that evaluated the governing structure of the Board. Some of the Board members raised the issue of whether qualifications are needed, and whether the qualifications would help clarify their role as Board members.

a. What issues should Congress consider when assessing whether more specific qualifications are appropriate for the Board of Governors? What might those qualifications be?

GAO Response:

Qualification was one of the four areas cited by a majority of Board members as needing legislative attention. Eight of 15 current and former Board members interviewed believed the statutes governing Board appointments were too general and needed to be more precisely defined. Seven of the interviewees, however, said no legislative change should be made in the appointment process. They were generally of the opinion that the current process, which requires Senate confirmation, ensures that highly qualified candidates are appointed to the Board.

The eight interviewees who favored more precisely defined qualification requirements believed that, historically, appointments to the Board have not always been based on an individual's demonstrated ability to govern large corporations like the Postal Service. Examples of specific qualification requirements offered as suggestions included (1) requiring that appointees have corporate experience, (2) requiring a mix of geographic representation on the Board, and (3) requiring labor and mailing industry representation on the Board. Some concerns were also raised about the fairness of specifying representation of certain groups while excluding representation of other major interested parties.

Question 6. What GAO recommendations made to the Postal Service have not yet been implemented? Has the Postal Service agreed to take action on these recommendations? Are you satisfied with the Postal Service's progress to date with your recommendations being carried out?

GAO Response:

Although the Postal Service has generally been responsive to our recommendations, we are especially concerned about the lack of substantive progress in resolving the Service's long-standing labor-management relations problems that we initially reported on in 1994. In our report entitled U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-210A/B; September 29, 1994), we recommended that the Postal Service, along with its unions and management associations, take various actions to try to improve employees' working

conditions and its overall performance. The key action that GAO recommended involved the development and signing of a long-term (at least 10 years) framework agreement that would establish the overall objectives and approaches for demonstrating improvements in the workplace climate. Also, to facilitate the development of such an agreement and help ensure that it could be reached in a timely manner, we recommended that the Service consider arranging for outside assistance, possibly from the Federal Mediation and Conciliation Service (FMCS).

In his comments on our 1994 report and in hearings held in November 1994, after our report was issued, the PMG stated that he agreed with the report's recommendations and indicated his willingness to work with the unions and management associations to try to address long-standing labor-management relations problems. He suggested that a summit be convened that would involve officials from the Service, the four major labor unions, and three management associations. The summit's purpose would be to explore our 1994 report recommendations, set up pilot projects, and move forward to accelerate change in the Service's corporate attitudes and culture.

Since our 1994 report was issued, some progress in addressing labor-management relations problems has occurred. Officials from the Service, the four major postal labor unions, and the three management associations have convened summit meetings to discuss labor-management relations issues and determine how persistent problems could be addressed. The first summit meeting occurred in October 1997, and according to an FMCS official, three additional meetings have been held since that time, one in March 1998, one in May 1998, and one in September 1998. These meetings were facilitated with assistance from FMCS, which was in keeping with one of our recommendations. As a result of the meetings, two of the four unions—the American Postal Workers Union (APWU) and the National Association of Letter Carriers (NALC)—have entered into agreements with the Service to try to reduce the backlog of employee grievances awaiting arbitration decisions and test revised procedures for employees to use in filing grievances.

We believe that the summit meetings can be a useful forum for the Service, the four unions, and three management associations to make progress in trying to address persistent labor-management relations problems. We recognize that many of these problems involve complex and sensitive issues and achieving consensus on how to address such problems does not come quickly or easily. However, we continue to believe that it is most important for the Service, the unions, and the management associations to collectively reach agreement on how to address persistent labor-management relations problems. Such an agreement can serve as a solid basis from which the eight organizations can establish a common understanding of the problems and the actions needed to move forward to implement desired improvements. As we recommended in 1994, a framework agreement signed by the eight organizations could clearly establish such an understanding. However, if the organizations

determine that a framework agreement is not feasible, we believe that other avenues to reaching collective agreement could be explored. For example, efforts to implement the Service's strategic and performance plans under the Results Act could provide opportunities for the Service, the unions, and the management associations to identify progress made in addressing labor-management relations problems and develop plans for future improvement initiatives.

Question 7. In your April 1998 report titled, Progress Made in Implementing Automated Letter Sequencing, but Some Issues Remain, it was reported that the Delivery Point Sequencing (DPS) program failed to achieve its targets for estimated savings. The program fell behind schedule again, and created additional problems in labor-management relations. For example, actual reductions of carrier workhours fell short of 4 million in what the Service had budgeted.

a. GAO found that the Service pushed back its barcoding and DPS timetable in 1994 and again in 1996. According to the April 1998 GAO report, the Service had extended the DPS completion date to the end of fiscal year 1998 and revised associated goals and benchmarks. Based on your review, how likely is the Service to meet its revised goals for this September?

GAO Response:

In our report, we noted that the Postal Service has made progress toward achieving its DPS goals by fiscal-year-end 1998. Specifically, the Service has achieved two of its DPS goals–DPS equipment deployment and DPS implementation in delivery zones–and was making progress toward achieving its four remaining goals–increased barcoded letter volume, full DPS implementation on carrier routes, increased DPS letter volume to carrier routes, and increased carrier workhour savings. In addition, the Service identified and was addressing the remaining issues that have impeded its efforts to achieve its DPS goals. These issues included both operational and labor-management relations issues. The Service has achieved some success in its effort to resolve operational issues but has been less successful with labor-management relations issues. Although the Service appears to have been making good progress recently, it has not yet provided data to us for fiscal year 1998. Thus, we are uncertain as to whether the Service achieved all of its remaining DPS goals by fiscal year end.

Question 8. The Postal Service's preliminary Annual Performance Plan, which is required by the Government Performance Results Act, had significant deficiencies, according to GAO's recently released report.

a. Do you believe the preliminary Performance Plan contains clear definitions of all postal service performance measures? For example, the Postal Service's "ease of use" indexes are supposed to represent key indicators of customer satisfaction, but the draft plan

gives little description of how these indexes are defined. Why is it important for the Postal Service to adequately describe the basis it uses to compare actual results with the established goals?

GAO Response:

We would agree that the definitions of some of the performance measures were not clear in the preliminary annual performance plan, particularly the ease of use indexes. It would be helpful to provide a description of the performance indicators so that Congress, postal stakeholders, and other interested parties can better understand the basis for measuring performance and gauge the Postal Service's progress in meeting its goals.

b. Your review found that the preliminary plan did not adequately make the connection between the Postal Service's goals, strategies and resources with the Postal Service's plans to reach its goals. Please give examples of how the preliminary plan failed to make this connection.

GAO Response:

Some examples where linkages were not clear that we mentioned in our report included the goals for timely delivery of specific classes of mail. Although the preliminary plan included specific targets and indicators for these goals, it was not clear what strategies would be used to achieve the goals or what resources, such as capital or human resources, would be needed. In the final version of the Postal Service's FY 1999 Annual Performance Plan, the Service did include more specificity on the personnel and non-personnel costs that would be needed to achieve the various timely delivery performance targets. Further development of this type of linkage would also be useful in future annual performance plans for the other major goals included in the annual performance plan.

c. Why did GAO recommend that the Postal Service's budget be redesigned to be compatible with the Service's performance plan? How could we ensure that this is not a paper exercise, but rather would improve the usefulness of the Postal Service's budget as well as the Service's performance plan?

GAO Response:

We did not recommend that the Service's budget should be redesigned to be compatible with its performance plan. Rather, we recommended that the Service's performance plan should more clearly communicate the linkages between resource deployment, as indicated in the Postal Service's budget, and the connection to meeting specific performance goals that are discussed in the performance plan. This

linkage should be important to the Service's stakeholders because it should show the results the Service intends to achieve with the resources it intends to expend.

ENCLOSURE

Responses to Questions from the Ranking Minority Member Chaka Fattah

Question 1. Could you please provide the status of my request to GAO with regard to equal employment opportunity (EEO) data? Also, could you provide an update on my request for information on U.S. Postal Service (USPS) sexual harassment and EEO training?[1]

In March of this year, Chairman McHugh and I wrote to Postmaster General (PMG) Marvin Runyon requesting information regarding the status of women and minorities in senior and executive level positions at postal headquarters. Were you aware of this request, especially in light of your work on behalf of Congressman Davis' diversity inquiry and have you had an opportunity to review the data sent by the Postal Service? If not, we would be pleased to share this information with you.

In our March letter, we asked the Postal Service to, "detail to what extent and the method of measurement, diversity in executive employment and promotion is included in the performance evaluation of senior level executives." Do you know whether senior executives in the Postal Service are evaluated on diversity?

GAO Response:

In our July 15, 1998, letter to you, we discussed our objectives for responding to your November 1997, request for information on various postal labor-management relations matters. Among other things, you requested that we obtain information on (1) the Postal Service's efforts to provide its employees with sexual harassment and EEO training and (2) available Service data on postal employees' EEO complaints. As mentioned in our letter, due to the complex and sensitive nature of sexual harassment and EEO matters, we needed to proceed with a separate design phase of this work. We are currently working with Service officials to obtain as much information as possible on these issues that can help us determine an appropriate means for reviewing and assessing this information. We plan to complete our design phase by the end of October 1998.

Also, we mentioned in our letter that in response to the first part of your November 1997, request, we provided you information on the steel industry's employee grievance process, the results of which were sent to you in March 1998. Generally, based on information we obtained from steel industry officials and appropriate union representatives, we believed that there were no "best practices" currently being used by various companies in the steel industry that could provide additional insights for

[1]GAO received a request for information on these topics from Congressman Chaka Fattah, Ranking Minority Member of the House Subcommittee on the Postal Service, Committee on Government Reform and Oversight.

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the Postal Service and its labor unions in attempting to address concerns about the employee grievance process.

We were not aware of your and Chairman McHugh's request to the Postal Service for information on the status of women and minorities in senior and executive level positions and would be interested in seeing the information that the Service provided you. Also, in response to Congressman Danny Davis' request, we recently issued to him a report that included information we had obtained about selected promotions of women and minorities to Executive and Administrative Schedule (EAS) management-level positions (GAO/GGD-98-200R, September 21, 1998). Our objectives for this work did not include obtaining information on evaluations for senior postal executives. However, in the report, we noted that in responding to the Aguirre International study on postal workforce diversity,[2] the Postal Service developed an action plan for dealing with diversity issues cited in the Aguirre International study. Among other things, the Postal Service plans to ensure that Service managers understand the importance of diversity by providing that no later than fiscal year 2000, diversity goals will be a performance indicator used in determining the total compensation of managers.

Question 2. On page 4 of your testimony, you mention that questions have been raised about the "means by which the Postal Service determines the need" for postal rate increases, "including the use of specific data to justify the rate increase request." Could you elaborate on some concerns expressed by many that the Postal Service chose to file its rate request before cost data that reflected the positive effects of reclassification was available, and sought a Postal Rate Commission (PRC) decision before such updated cost information could be supplied?

GAO Response:

In February 1998, the Chairman of the Postal Rate Commission expressed concern that the data supplied by the Postal Service for the recent omnibus rate case were based on FY 1996 costs, and many operations associated with reclassification were not implemented until the last quarter of 1996. Consequently, he was concerned that extrapolations from 1996 financial data would not sufficiently reflect actual events, thereby causing many mailers to pay inappropriate rates. He requested that the Postal Service provide the Commission with actual FY 1997 financial data and that

[2] In November 1996, the Postal Service Board of Governors contracted withAguirre International to study workforce diversity at the Service. After completing the work, Aguirre issued its report and briefed the Board of Governors in January 1998 on its study results. Although Aguirre concluded that the Service was a leader in meeting affirmative action goals and in striving for EEO parity between the civilian labor force and its own workforce, Aguirre identified opportunities for the Service to strengthen its diversity efforts.

the completion of the rate case be delayed beyond the 10-month statutory timeframe. The Postal Service Board of Governors rejected the Commission's request. In April 1998, Chairman Burton of the House Committee on Government Reform and Oversight expressed his concern to the Postal Service that it had rejected the Commission's request for updated FY 1997 cost and revenue data. Further, he suggested that the any action on the rate case should be deferred until a final profit/loss statement for FY 1997 was available to help maintain public confidence in the system for setting postal rates. The Postal Service responded that continuous updates were not possible when there was a deadline to be met, that basic financial reports would go to the PRC as soon as they became available, and that it was in everyone's best interest for the rate case to be completed within the allotted 10-month timeframe.

Question 3. On page 19 of your testimony, you state that, "the Postal Service could benefit from defining the concept of universal service," which the proposed revisions (H.R. 22 revised) would require. Based on your prior work in this area, please share any information relative to the impact the Telecommunications Act of 1996 has had on the idea of "universal service." Could you also comment upon universal service reform as it relates to urban and rural telephone service and rates? How might we learn from the ongoing universal service debates currently taking place in the telecommunications industry?

GAO Response:

Defining and maintaining universal service in the telecommunications sector was one of the main goals of the Telecommunications Act of 1996. Based on recommendations from the public and the Federal-State Joint Board on Universal Service, as mandated by the Act, the Federal Communications Commission (FCC) defined basic packages of essential services included in universal service, identified its beneficiaries, and discussed cost information such as who will be responsible for paying for universal service and funding mechanisms for universal service. We have not studied the process by which FCC developed the universal service definition and adopted rules for implementation, nor have we evaluated implementation efforts. While the Postal Service has a general definition of universal service, this definition does not identify specific categories of mail or other services, such as retail and collection services, that could be part of universal service.

We believe the experience of examining similar public policy issues in the telecommunications sector may be beneficial to ongoing efforts to develop a more comprehensive definition of universal service in the postal sector. As was the case in the telecommunications sector, universal service for postal services needs to be defined with input by the public and postal stakeholders. In addition, the costing of universal service and development or designation of a funding mechanism, which may include an appropriate level of monopoly protection for the Postal Service, are

some of the key issues relevant to considering universal service in the postal sector.

Question 4. Last week, PMG William Henderson[1] announced that the Postal Service IG had been requested to conduct an investigation into USPS international mail activities. Given your work on GPL, do you expect to assist or work with the IG on the issue of international mail? If so, please explain. Have you uncovered any evidence that domestic mail services are subsidizing international rates?

GAO Response:

We have coordinated with the IG on audits related to USPS international mail activities and shared information with the IG. The IG is focusing on issues related to potential cross-subsidization of international mail rates by domestic ratepayers. We have been focusing on, and will soon issue a report, comparing U.S. representation for the postal and telecommunications sectors in international organizations. Although the Subcommittee has asked us to address the subsidization issue, we have delayed our work, in consultation with the Subcommittee, in view of the request to the IG. However, after the scope of the IG's work is clear, we would be pleased to discuss additional GAO work in this area. In the meantime, we agreed to continue coordinating with the IG and to assist the IG where possible.

Question 5. What do you see as the key factors to the Postal Service's successful implementation of the Results Act?

GAO Response:

Some of the factors that we believe are key to the Postal Service's successful implementation of the Results Act include (1) defining clear strategies for achieving the desired results set forth in the Service's plan, (2) ensuring reliable data are collected and analyzed to measure performance, (3) continuous monitoring and involvement by top Service managers, and (4) progress in resolving long-standing labor-management relations problems.

Question 6. What could Congress do to support the Postal Service's successful implementation of its strategic and performance plans?

GAO Response:

Congress could support implementation of the Results Act by closely monitoring the

[1]In May 1998, Mr. Marvin Runyon retired as PMG and was replaced by Mr. William Henderson, former Chief Operating Officer and Executive Vice President for the Postal Service.

Postal Service's progress and including discussion of the Service's goals, strategies. and performance in regular oversight activities. In addition, Congress can encourage further refinement of the linkages between the Service's goals, strategies, and resource allocations.

Question 7. What do you believe are the major issues facing the Postal Service within the next 5-10 years?

GAO Response:

As indicated in our June 10, 1998, testimony, we believe that although the Postal Service has achieved improved performance in some areas, such as on-time delivery of overnight mail and increased net income, challenges in four key areas remain. These areas include (1) labor-management relations, (2) competition, (3) postal reform, and (4) followup on the implementation of strategic and performance plans developed under the Results Act.

The first issue of labor-management relations has been and continues to be a major concern for the Service, the four major labor unions, and the three management associations. During fiscal year 1998, these eight organizations convened summit meetings at which they discussed approaches for dealing with some labor-management relations problems that have plagued the Service for several years, such as employee grievances. According to an FMCS official who helped facilitate the summit meetings, the eight organizations have generally agreed to continue such meetings on a quarterly basis. However, in recent months, contract negotiations began between the Service and three of the four major labor unions, including APWU, NALC, and the National Postal Mail Handlers Union (Mail Handlers) whose contracts are due to expire in November 1998.[1]

In past contract negotiations, which usually occurred every 3 to 4 years, we noted in our work that discussions have sometimes resulted in bargaining deadlocks, and interest arbitration was used to reach settlements. Over the years, issues that required interest arbitration oftentimes for the unions focused on increased wages and benefits and employee job security in contrast to the Postal Service's push for cost-cutting and flexibility in hiring practices. According to a postal official, negotiations over old issues that continually resurface have at times been bitter and damaging to the ongoing relationship between the Service and union leadership at the national level. Thus, the challenge to negotiate new contracts with the three unions without using interest arbitration remains a significant one. Soon after he was

[1] The contract for the fourth major postal labor union—the National Rural Letter Carriers' Association (Rural Carriers)—is not due to expire until November 1999.

appointed, PMG Henderson stated that he believed that progress in improving postal labor-management relations called for negotiated union contracts as the cornerstone. It remains to be seen whether current negotiations result in agreements that can help set a more positive tone in such relations.

The second issue--competition--continues to be a matter of major importance for many postal stakeholders for various reasons. Such reasons involve concerns about rapidly changing technological developments that may threaten Postal Service revenues, lingering questions as to which markets the Postal Service should be competing in, and actions that may be needed to ensure that the terms of competition are fair. These issues are being addressed in the recently proposed postal reform legislation. It is anticipated that they will be further discussed in the next session of Congress.

A third issue--postal reform efforts--involves fundamental questions about the Postal Service's role and legal status, as well as related complex matters that have been discussed frequently in recent years by Congress, the Postal Service, and its stakeholders. Such matters include the Service's ability to continue to fulfill its primary mission of providing universal postal service at reasonable rates while remaining self-supporting. It will also be important to balance such diverse stakeholders' needs as the Service's needs for additional flexibility to meet the challenge of growing competition in a constantly changing communications market, private competitors' needs for fair competition, postal labor unions' concerns about the Service and its employees, customers' needs for service quality and for choices among products and services, and the public's needs for accountability and oversight to ensure that the Service meets it public service obligations and minimizes potential risk to the taxpayer. As previously stated, these matters have been and, in all likelihood, will continue to be included in future congressional discussions on postal reform.

The fourth issue deals with efforts to followup on the Service's implementation of strategic and performance plans under the Results Act. As mentioned previously, we believe that some of the factors that are key to the Service's successful implementation of the Results Act include (1) defining clear strategies for achieving the desired results set forth in the Service's plan, (2) ensuring reliable data are collected and analyzed to measure performance, (3) continuous monitoring and involvement by top Service managers, and (4) progress in resolving long-standing labor-management relations problems. In addition, as mentioned previously, Congress could support the implementation of the Results Act by closely monitoring the Postal Service's progress as reported in its annual performance reports and including discussions of the Service's goals, strategies, and performance in regular oversight activities. Also, Congress can encourage further refinement of the linkages between the Service's goals, strategies, and resource allocations.

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Question 8. On Wednesday, June 10, 1998, GAO testified before the Subcommittee on Government Management, Information and Technology, on "Year 2000 Computing Crisis: Actions Must Be Taken Now to Address Slow Pace of Federal Progress." On page 12 of GAO's testimony, they state "...the report submitted by the U.S. Postal Service shows that it plans to spend over $500 million on its Year 2000 (Y2K) effort and intends to implement its mission-critical projects by September 1998. However, the report also indicates that 21 percent of its 335 mission-critical systems are still in the assessment phase. This raises questions about whether the Postal Service's own target of this September is realistic."

Has GAO specifically looked at the Postal Service's Y2 compliance efforts? If not, please do so. May I suggest that this Subcommittee may need to focus attention on the Postal Service with regard to Y2 compliance

GAO Response:

We are currently working with the Postal Service's IG to perform an assessment of the Service's efforts to remediate the Y2K problems. In conducting this work, we will use various guidance, some of which we prepared, that is designed to assist federal agencies in determining appropriate methods for addressing Y2K issues. The guidance includes (1) Year 2000 Computing Crisis: An Assessment Guide (GAO/AIMD-10.1.14, September 1997); (2) Year 2000 Computing Crisis: A Testing Guide Exposure Draft (GAO/AIMD-10.1.21, June 1998); and (3) Year 2000 Computing Crisis: Business Continuity and Contingency Planning (GAO/AIMD-10.1.19, August 1998). The initial phase of our work will run through December 1998, and focus on systems' risk analysis and prioritization, continuity and contingency plan development and testing, and remediated systems testing.

Also, during the last year, the Postal Service IG has completed three audits dealing with Y2K compliance issues, which resulted in reports that focused on systems' inventory, interface, data exchange, and post implementation and verification problems. The Postal Service has agreed to take action to correct the problems identified. Followup work on these actions will also be performed during our joint review with the Postal Service IG.

Mr. MCHUGH. If we could—I understand we have a lot of movement here, but the sooner we could have everyone find their places, we can begin with our much-anticipated second panel.

As I noted, we are very, very honored to have with us today for his inaugural appearance before the House of Representatives, in a formal setting, the 71st Postmaster General of the United States of America, most of whom have been personally known by Moe Biller, who is back in the audience. How are you?

But, General Henderson, we do welcome you and, as you have heard through the first panel, there are some very specific and also general concerns that this subcommittee and its members have with respect to what I know we all view to be an enormously important service, an enormously important department that you have now assumed to lead into the 21st century. We look forward to your comments and to your observations.

Before we do that and swear you in, Mr. Fattah has graciously agreed to let our great colleague from New York, Mr. Gilman, make a statement. As we all understand, he has another appointment, but he wanted to make some comments. I would be happy to yield to the gentleman for that purpose.

Mr. GILMAN. Thank you, Chairman McHugh. I want to thank our ranking member for allowing me to proceed out of order.

I welcome Postmaster General Henderson. We look forward to working with you. It is good that you come to this job with a lot of experience in the Postal Service, and we want to work closely with you as this committee continues its oversight responsibilities.

The Postal Service, under your predecessor, Marvin Runyon, has built, I think, a strong foundation which should assist the Service as it proceeds into the next millennium and in addressing the issues that the Postal Service is going to have to confront in the coming years. I endorse the efforts to enable the Postal Service to effectively compete in the changing communications environment by allowing the Service to efficiently set prices and introduce new communication products, as long as you don't put a hot dog stand in the postal facilities.

I read your statement, and it sounds like you are off to a good start. As you were seated here during our discussions with the inspectors general and GAO, I hope that you will address the improvement of labor-management problems. There are morale problems out there, and I think the quicker you get to that the better off you will be in your new post.

This hearing, of course, provides this committee the opportunity to discuss, learn, and engage in a constructive dialog with you to try to find better ways to improve the efficiency in customer service of what I consider to be an indispensable agency. We have long commended the Postal Service for the good work it has done over the years and in addressing the needs of millions upon millions of postal patrons throughout this Nation and throughout the world.

I am confident that efficiency can be improved while keeping service intact in maintaining universal service and honoring the commitments that should be made to our postal employees.

So I know that our committee welcomes hearing from you concerning your thoughts on postal modernization, your view on the Postal Service's role in the new millennium. While I can't be here

for your testimony I do have staff here who will be advising me of what you have to say.

I would welcome your thoughts about why we may have to increase the postal rate at a time when you have a surplus and how you intend to use your surplus in the days ahead and what you plan to do to improve labor management relations.

Thank you, Mr. Chairman, and welcome Postmaster General Henderson. We look forward to working with you.

Mr. MCHUGH. I thank the gentleman.

Again, I thank the ranking member for his agreeing to allow the gentleman from New York to go out of order.

With that, Mr. Postmaster General, and I would ask you, and if your two companions are going to testify, to raise your right hand.

[Witnesses sworn.]

Mr. MCHUGH. Let the record show that all three of the witnesses have responded in the affirmative.

Mr. MCHUGH. And with one more word of welcome and thanks for being here, Mr. Henderson, our attention is yours.

STATEMENTS OF WILLIAM J. HENDERSON, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE, ACCOMPANIED BY MICHAEL COUGHLIN, DEPUTY POSTMASTER GENERAL; AND CLARENCE LEWIS, CHIEF OPERATING OFFICER

Mr. HENDERSON. Thank you, Mr. Chairman and members of the subcommittee. I have with me today Deputy Postmaster General Mike Coughlin on my right and the new Chief Operating Officer of the Postal Service, Clarence Lewis, on my left. I might add that Clarence inherited a very well-running ship.

I am not going to read back to you the text of my opening statement that you have already read. What I will do is try to highlight the philosophy of what we are trying to accomplish here.

The Postal Service has been a very performance-oriented organization. We define performance, really, in terms of three voices. We are not hearing voices but it is a model, a business model, that we use that is modeled after Baldrige. It is the voice of the business, the voice of the customer, and the voice of the employee.

In looking at the Postal Service, we have done a pretty good job with the voice of the customer and voice of the business, and I think your criticism and those of others is accurate. The voice of the employee we have not done as good a job. We have really had voice of management.

So we, I think, need to take a new direction to continue to emphasize performance. That is very important, and we can't get away from that. Without performance, we don't have a reason to exist.

But we need to emphasize people, and when you look at people we need to establish some values around people. I think the cornerstone is fairness, it's opportunity, it's pride, and it is safety.

By safety I mean a violence-free environment in the Postal Service. That has to be a high priority for our organization. So this people-focus is very important.

It also has a business connotation to it. There are a lot of studies that have been done that show—demonstrate very clearly that your

employee satisfaction can't get too far from your customer satisfaction. So if you don't get your employee satisfaction high, what you do in effect is you put a glass ceiling on your customer satisfaction. So there is a business reason for doing this also.

As we perform better, which we have been and for the record, surpluses are $4.6 billion for last 3 years, and record levels of service, with dramatic improvements in 2- and 3-day service. Currently, we spend $100 million this year trying to get our 2- and 3-day service up. As we do that, competitors, who in my 26 years in the Postal Service have been relatively silent for the most part, begin to question your role when you start to get a product that starts to really be competitive in the marketplace. And that is why public policy is so important and that is why I emphasized it in my opening statement.

Public policy around the Postal Service is very important. It is important in understanding our role and our success, and it is also important to understand our role in the community, which we are very active in.

It is important to understand our role in the future. While the Postal Service is very healthy today, if we had an erosion of remittance mail, that is the courtesy reply mail that you pay bills with, if everyone did that electronically, it would take $12 billion in revenue out of the Postal Service. I think you would have a crisis on your hands in terms of postage rates.

So public policy is very important, and I welcome the opportunity to talk to this subcommittee about the role of the Postal Service and its future, and we are very open to any ideas that you might have.

We thank you, Mr. Chairman.

Mr. MCHUGH. Thank you, sir.

[The prepared statement of Mr. Henderson follows:]

STATEMENT OF
WILLIAM J. HENDERSON
POSTMASTER GENERAL/CHIEF EXECUTIVE OFFICER
UNITED STATES POSTAL SERVICE
BEFORE THE
SUBCOMMITTEE ON THE POSTAL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
JUNE 10, 1998

Good morning, Mr. Chairman and members of the Subcommittee. With me is Deputy Postmaster General Mike Coughlin. I would also like to acknowledge our new Chief Operating Officer, Clarence Lewis, who is with us today.

I appreciate the opportunity to report that the Postal Service continues to provide reliable and affordable delivery service to everyone, everywhere, every day. I want to thank you, Chairman McHugh, and all the members of the Postal Service Subcommittee, for your oversight and input. You have helped define those postal issues and principles that are important to the American people. I want to work closely with you to define more precisely the future of our organization.

Let me first tell you where we stand today. With one quarter to go, 1998 looks to be one of our best years. Service is up. The final audited performance shows that 94 percent of local First-Class Mail arrived overnight last quarter, another record performance. Just as importantly, we've made great strides in improving the rest of our First-Class service. Two- and three-day service is at 85 percent. That's a six-point increase over last year, and meets a tough target for the quarter. Priority Mail service is also improving. And we are working with customers to improve service for advertising mail and publications. Our focus on delivering the mail is paying off.

Financially, revenue and mail volume are roughly three percent ahead of last year. Net income is ahead of budget. As a result, we expect to further reduce our negative equity this year. Since 1994, we have cut our accumulated losses from $9 billion to $4.4 billion at the close of Fiscal Year 1997. We have done this while keeping postage rates steady for the past three and a half years.

Performance

We are a performance-driven organization, and that has made us competitive in recent years. The focus on service, on delivering the 630 million letters and packages we handle every day, will continue. Our employees and managers are proud of our service and financial record. We will continue to improve in every area. The bottom line, we intend to provide increased value in our products and our services.

Our operational team is targeting specific areas to increase our efficiency and effectiveness. The best practices will be shared nationwide. We are investing billions in technology and infrastructure. With technology continuing to change, it provides opportunities that were not even operationally imaginable 15 years ago. What does it all mean? It means we are committed to better reliability, better accuracy, and better value for our customers.

For the Postal Service to continue to provide universal service at affordable prices, we have to expand our focus beyond Performance and apply the same energy and resources in two other areas: People and Public Policy.

People

For several years we have referred to the Voice of the Business, Voice of the Customer, and Voice of the Employee. Frankly, too often, the Voice of the Employee has in reality been the "Voice of Management." That has to change.

I want the Postal Service to be a place where our employees take pride and ownership in their work. A place where they can feel they are part of the Postal Service's success and where they are valued for their contributions. Employee satisfaction and customer satisfaction must go hand-in-hand. Without both, our success will be short-lived.

To improve our "people" skills, we have to clearly define our strategies and values. I see four as key: fairness, opportunity, safety, and pride. I want to make sure employees are treated fairly. As managers, we must do what we say. We need to build mutual respect into all our relationships--manager to manager, supervisor to employee, and craft employee to craft employee. There has to be opportunity for employees to grow and advance. We are committed to world-class training, improved succession planning, and firm support for diversity.

We must also continue to create a safe and secure work environment. When I speak of safety, I am speaking in broad terms, not just improving motor vehicle accidents or lost workday rates. We have to do more to find solutions to workplace threats and workplace violence. It's unconscionable that any worker—Postal Service or otherwise—should fear or be apprehensive about their workplace.

The upcoming negotiations with our unions provide an opportunity to advance labor/management relations. Labor contracts with three of our largest unions expire on November 20. Talks open in August. We have not walked away from the table with a contract in more than a decade. I want to assure this Subcommittee that we will work hard to negotiate agreements. Our best hope for building a twenty-first century Postal Service lies in building it ourselves. These talks give us the chance to show our commitment to work together as a team to forge our future. At the same time, we must deliver a contract that works for customers and lays a strong financial foundation for the future.

Public Policy

The final area I want to address is Public Policy. The Postal Service is a major public institution. That puts a lot of responsibility on us. I know this Subcommittee has invested a lot of time on that question. Our challenge, yours and mine, is to carry out an historic mission in a modern age.

It's universal service at affordable prices on the one hand. It's changing customer demands in a competitive marketplace on the other. We need the right mix of public policy that allows us to do both. I'm not here to tell you what that should be. But I want to work with you to figure it out.

The Postal Service has shown that government can work better. We need to define how it can work best of all. By defining strategy and values, by putting in place strong processes, by taking advantage of technology, and by measuring what we manage across People, Performance, and Public Policy, the Postal Service will remain a respected and effective organization providing its customers valued services.

Thank you, Mr. Chairman.

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Mr. MCHUGH. Again, we all wish you the best. We know for you it will be a very exciting time, certainly a very challenging time, but for all of us it will be a critically important time for the future of a very, very important organization.

Let me start with a really broad question and one that has been referred to at various times here today, and that is the issue of rate increases. I understand that, technically, the Board of Governors is the body with the legal authority to rule on the Postal Rate Commission's findings to accept them or not. But in your position, in your view, do you believe they will accept that or will they, in some way, respond uniquely to it?

Second of all, how do you respond to those who say you are running a profit? You mentioned it yourself. You are doing well. How do you justify a 1-cent increase and to do it now rather than later?

There will be, I suspect, on the floor of the House, in the not-too-distant future, a sense of Congress resolution calling upon the Board of Governors not to implement that now because of those circumstances. I can't tell you how that is going to be viewed, if it will pass. Legally, it has no effect, but I think it does reflect very clearly on the concerns certainly the Members of the House have, and I think they have them because when they go back home they have to answer the question, $1.3 billion, $1.4 billion in revenues, and yet we are having a rate increase. What gives?

Mr. HENDERSON. Well, at the time the rate increase was proposed, we had planned a pretty significant capital infrastructure spending program. That capital infrastructure spending program, we felt, was necessary to modernize the Postal Service.

This fiscal year, most of the surplus is a result of not meeting those capital expense plans. There is a lot of expense money associated with those capital expenditures, and we simply haven't kept up with what our plans were. So rather than spend the money, the money has gone to the bottom line.

We have increased our spending in the capital program area. If you will notice, our current expenses are running about 8.3 percent over last year, which is significantly higher than they have been. That is not a field issue in the sense that it is not the field performing differently. It is our capital headquarters expense plan.

As far as the outcome of the rate increase, we are trying to predict now where we are going to end the fiscal year, and I can assure you that we have heard all of the concerns of the customers and the Congress, and we will recommend responsibly to the Board of Governors, who I literally have been talking to every day about this rate issue.

Mr. MCHUGH. I can well imagine.

The capital plan then is, in your opinion, your expert opinion, the reason that this year's surplus is so substantial, the revenues? What was the reason you fell behind the capital plan? Was it too ambitious? You were unable to keep up with it?

Mr. HENDERSON. I think it was too ambitious.

Mr. MCHUGH. Well, if that is the case, why would you continue along a line that builds up more and more surplus instead of just readjusting the plan to a more realistic level that apparently would not require the kind of increase you sought?

Mr. HENDERSON. Well, we are adjusting the plan, but we will have to spend those capital moneys, if not this year next year, for needed infrastructure changes. These are not optional-type capital expenditures. They are necessary for us to——

Mr. MCHUGH. Well, what would you estimate the total pool of money associated with that shortfall that will be spent next year to be? How much?

Mr. HENDERSON. I prefer not to give a number off the top of my head, but it would probably in the neighborhood of $1 billion.

Mr. MCHUGH. A billion dollars?

Mr. HENDERSON. A billion, yes. We have a $4 billion capital plan, so it is $3.5 billion.

Mr. MCHUGH. Over what period?

Mr. HENDERSON. Over the next couple of years. You mean what period for the $3.5 billion?

Mr. MCHUGH. Either way.

Mr. HENDERSON. Well, $17 billion over 5 years. It is a $17 billion capital plan over 5 years. So about $3.5 billion this year.

Mr. MCHUGH. Let's talk a bit about something that virtually everyone on this panel has touched on in one way or another today, and that is employee relationships. And I should note that you come to this job with a great deal of hope and optimism held toward you by the unions, but at least by those with whom I have spoken. I think that is a very positive thing and it reflects very well upon the job that you have done in your time with the Postal Service. You have repeatedly said, both in your comments for publication and in your statement today, that this is a No. 1 priority.

I believe you heard my exchange with particularly the GAO with respect to your strategic plan and perhaps it not taking advantage of the opportunity that document represents to bring labor and management closer together. Is it your intention to try to refocus on the plan as you refocus on that issue?

Also, as a follow-on to that, what about the summit meetings and the other initiatives that GAO had mentioned that they said they were waiting to see how those progressed?

Mr. HENDERSON. Well, it is my intention to focus on the issue, and then the outcome of focusing on the issue hopefully will be better-agreed-to plans for the future. I think the cornerstone of labor-management relationships is a contract, a negotiated agreement between the parties. That is very important.

There is another issue, in my opinion. The grievance procedure that we now use in the Postal Service is broken. It lacks accountability for both sides. It has too many steps in it. Issues should not go out of facilities to a third level—to management and union representatives at a higher level. They ought to be resolved there one way or the other, within the four walls of that facility. It will take collective bargaining with the unions in order to achieve that.

There are some system design problems, like GAO mentioned carrier design. We do have an agreement with the National Association of Letter Carriers—it is signed by myself and President Sombrotto—to redesign the way city carriers do their work. So it is not so contentious. I think that is the biggest single source of worker unrest in the city delivery ranks, and we are both committed to solving that problem.

So I think we have made some progress, but it will take more work. Progress needs to include a negotiated settlement as a cornerstone.

Mr. MCHUGH. Are you going to try to rework the strategic plan to bring in specific goals, objectives and points that perhaps your organized unions and the members of your service can agree upon and participate in?

Mr. HENDERSON. That would be ideal if we could do that.

Mr. MCHUGH. Are we going to try to be ideal here?

Mr. COUGHLIN. We have already tried—we have already.

Mr. MCHUGH. Let me, because we are going to be bouncing back and forth and the members have been very gracious in being here, so I am going to have to come back to you, but I want to yield to the ranking member, Mr. Fattah, for at least the first question or two before we have to go vote. We have two votes, I am told.

Mr. FATTAH. Let me thank the chairman for his generosity.

To the new Postmaster General, welcome on board.

Mr. HENDERSON. Thank you.

Mr. FATTAH. And to the new Chief Operating Officer and to your Deputy, Mr. Coughlin, it is a pleasure to have you before us. I want to applaud your early steps in this process in terms of improving relationships here on the Hill and also in getting your reins around the Postal Service operation. Your fingerprints have been seen far and wide here.

I just want to let you know that, even though the Congress has been criticized in the past as not being the most efficient organization itself, it is not a perfect institution but we still nonetheless have a perfect mission, which is oversight. Your agency doesn't receive any taxpayer dollars but is still covered under the responsibilities of this committee for oversight purposes because you do have a special role in our society in terms of universal service.

It is interesting when we talk about other people who are in this business of transporting packages, but the one entity, since its inception in Philadelphia a long, long time ago, that has the actual responsibility to make sure that the mail is delivered by the Postal Service, and the Congress' interest in that will continue. So we look forward to working with you as you go forward.

I am very happy to see your well-stated, consistent commitment to try and improve labor relations. Your comments about the grievance procedures could have been my own verbatim comments I think a year or so ago when we had a similar hearing like this. So I would like to see us work together to see how that can be improved.

But I think you are right, that, in reality, it has to be worked out between management and labor at the Postal Service; and there is not much that we probably can do from where we sit.

But we look forward to working with you, and we do have some votes, and I am now getting—I was younger earlier on the first round. I am getting older now, so I will start out sooner, and we will reconvene when the chairman has us.

Mr. MCHUGH. Right. Well, I thank the gentleman, and we will be back with his opportunity again. And I apologize, gentlemen and ladies in the audience, but this is the way of democracy at times.

We do have two votes, so we will return as soon as those are over. Thank you.

[Recess.]

Mr. MCHUGH. If we could resume our places, and we appreciate your patience. Before we recessed, the ranking member had the time and we want to yield back to him for any questions, comments he may wish to make.

Mr. FATTAH. Well, I would like the Postmaster General to have an opportunity to lay out to whatever degree he likes and as candidly as the issue would permit what his initial game plan is in reference labor-management relations and improvement therein, since you've indicated that is your No. 1 priority?

Mr. HENDERSON. Well, the first thing that I did—have done is kind of open the dialog with the unions to make sure that there was a good, straight, eyeball-to-eyeball communication so that we could air differences. And, as the GAO mentioned, the differences amongst the unions are different.

I mean there is not—there is only one issue that I believe is systemic to all of our unions and that happens to be the grievance process. Also in viewing labor relations, you see the Postal Service is kind of a continuum. There's some places that have poorer labor relations, but there are also places that have excellent labor relations. We will be working on intervention policies and teams to go into those poorer labor relations offices to see what we can do.

It's not always—and I just mentioned this, and I know you know this—it's not just one side here at the deal. It take an interest on both parties. I think both or all of the unions have expressed an interest.

So we are very optimistic that going into this labor negotiations, albeit tough, that if the parties want a contract, they can get a contract that's fair to the customer and fair to the employee. That's our initial goal.

Mr. FATTAH. Well, this may be even for you slightly above your pay grade, but in H.R. 22, as part of the reform package, I may have an interest in seeking to enlarge the Board of Governors to include some representative of the labor pool at the Postal Service on the Board of Governors. If you would care to comment on whether or not you thought that would enhance the voice of the employees in the process of the operations of the Postal Service, I would be interested in your comment.

Mr. HENDERSON. That's an interesting thought. I think it would depend largely on the caliber of the individuals that you proposed. Certainly, members of the labor unions——

Mr. FATTAH. I mean, in terms of statutorily—not necessarily in terms of making individual selection but in terms of the form itself.

Mr. HENDERSON. Well, that certainly has been an interesting event in the private sector and organizations such as Chrysler. We'd like to talk about it.

Mr. FATTAH. I look forward to another one of our small get-togethers. Thank you very much.

I yield back to the majority chairman.

Mr. MCHUGH. Thank you very much. We'll be talking about a lot of things I suspect.

From your earlier comment, labor relations, you mentioned the contract. I detect a note of optimism in your perspective with respect to the opportunity, even the ability, to actually negotiate and complete a contract. I believe it's been over a decade since that's happened. I can't imagine—if you can't be optimistic, I don't know who can be, so I don't question that. But I'm curious. Is there any particular reason for optimism this year other than a new attitude, as important as that is? I don't want to minimize that.

Mr. HENDERSON. I think all the parties really believe that it is very important for the institution to have a negotiated settlement. You can't—it's very difficult to preach good labor-management relations throughout an organization that can't at the top exemplify good labor-management relations by reaching an agreement.

That's not to say that any deal is doable. That's not true. I mean, we still have to be very vigilant in our costs and their impact on customers. But I think everyone recognizes, labor and management, that this institution needs a negotiated contract if it's going to change its attitude toward people. If we don't get one, that doesn't mean that the world comes to an end, but it starts with a negotiated agreement. I think everybody is on board with that.

Mr. MCHUGH. Have you had a chance to talk about your perspective on the grievance procedure with any of the unions in a formal setting or even an informal setting as yet?

Mr. HENDERSON. Informally, we've had these discussions, yes.

Mr. MCHUGH. Have you been encouraged that perhaps there's an opportunity there as well to make some changes?

Mr. HENDERSON. I am encouraged there. I think there are some issues that are unique to the end they have a large infrastructure that handles grievances at steps III and IV. But I think there are better uses both from management and the union's infrastructure in terms of solving problems and training than trying to deal with problems after they occurred.

Mr. MCHUGH. Well, let me yield to the gentleman from Ohio, Mr. LaTourette, at this time.

Mr. LATOURETTE. Thank you, Mr. Chairman; and, General, I want to add my congratulations to you. And, again, I hope you have a long and storied tenure in your new post.

I want to talk a little bit about a Washington Post article that I read on May 22 that talks about this Auto Day that I talked about in my opening remarks. And I don't want to sound ignorant, but I do that just about every time I talk, and I didn't know much about this plan until I read about it, and since then I learned a lot more.

I was struck in your statement, the observation about public policy and how also competitors don't seem to pay much attention until they have something that competes. There are a couple of things that bother me about this, and I want to lay those out and then leave plenty of time for you to respond.

One is the idea of—and you've heard it from the package people before, and that's been brought up—that the U.S. Postal Service is in a unique position to unfairly or compete not in a level playing field and that would apply to ad mail, I suppose, as it does to packages.

When this was unveiled up in Milwaukee, though, Mr. Devar, who is the manager of the ad mail program, if I understand it, sent out a notice to the business owners in Milwaukee and, bullet No. 3, basically what you get if you participate in Auto Day is your direct mail advertising message will not get lost in a clutter of other unrelated advertising messages. What occurs to me is that that clutter is—what they're talking about is everybody else, one, who uses the Postal Service to mail; and, two, anybody else who uses the Postal Service to send anything. It would appear that the auto dealers are getting a leg up, if you will.

There's an issue of cost. Some allegations have been made that they will be able to reach a household for 10 cents a direct—get a day certain delivery for 10 cents a pop. I don't think I could walk down to the Rayburn Post Office and get for 10 cents a letter delivered to a household on a date certain.

Then Mr. Devar's observation in the Post article, because it first it didn't bother me at all, but he basically went on to say that the intent of the plan isn't to take away anyone else's advertising business. They maintained that overall service will not be sacrificed—that's the Postal Service—and they're not after anyone else's advertising business.

Someone gave to me a marketing plan for the Postal Service dated October 1997, and it appears that that is exactly what's intended to occur with an Auto Day or an enhanced direct mail program. The marketing plan, which has, again, Mr. Devar's name on it—and I suppose we could have him here sometime—but indicates that auto dealers participated in a 68-percent growth in advertising in newspapers. If you took out the growth that auto dealers had in newspapers, newspapers would have actually had a negative growth of 17 percent. By providing reliable, scheduled day delivery, ad mail could shift a substantial portion of this mail from newspapers, a strategy which would apply to other categories such as yourself.

I guess if Auto Day goes well in Milwaukee and later in Baltimore when it's unveiled in July, and then it's expanded, then we can have Electronics Day, and then we can have Real Estate Day and so forth and so on. I think those are the things that bother me. And I'll stop talking.

I think, in a public policy context, should the U.S. Postal Service be engaging in this type of direct competition, one; and, if yes, should the Postal Service have the ability to give a slashed rate price to create an unfair competition for advertising dollars?

Mr. HENDERSON. Well, let me begin by talking about the first part of the question and that is the level playing field. The Postal Service doesn't view itself with a competitive advantage. It is a Government agency that has a universal service requirement. A good portion of its infrastructure includes post offices—20,000 post offices don't take in enough revenue to cover their costs. So there is a great public service that we perform, and it has some tradeoffs in it.

The future of the Postal Service is very much dependent on it being competitive. It is in a marketplace where there's all sorts of competition. There's direct competitors, like other package providers. There's technology that's eroding its mail base. So it has to

have an opportunity to raise revenues in a fashion to substitute for those revenues that it loses in erosion.

All that being said, I don't want really agree with Auto Mail. I'm not interested in taking on the newspapers. Every time the Postal Service has taken on the newspapers, it has lost. There is enough room in this marketplace for the Postal Service and the newspapers to be successful. And we're not going to promote Auto Mail. That's not going to go anywhere.

I think that got blown out of proportion, and the watchdogs in the newspaper industry saw that, and we said that's not what we want to do. We're not interested in fighting with newspapers. We think print medium has plenty of opportunity to grow without Auto Mail type products.

Mr. LATOURETTE. I appreciate that very much, and I have no further questions. Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you.

Besides moving more slowing as I get older, my hearing isn't quite what it used to be, and I want to make sure I heard what I just think I heard. Your intention then is not to continue with the Auto Day program?

Mr. HENDERSON. That's correct.

Mr. MCHUGH. Are you going to finish the program that was begun in Milwaukee?

Mr. HENDERSON. I think the Milwaukee program is completed, and the Baltimore—we're going to back off with the Baltimore test.

Mr. MCHUGH. OK. Thank you very much.

Mr. LATOURETTE. Mr. Chairman, can I take credit for all of that?

Mr. MCHUGH. It depends who you're talking to.

Mr. Fattah.

Mr. FATTAH. I make a motion to let our colleague take credit for it.

Mr. MCHUGH. No second? OK.

Mr. FATTAH. Let's just walk through this, because enough has been said about it, perhaps, but just in terms of the broad picture. Because I'm still learning about the Postal Service. Notwithstanding the responsibility that's been thrust upon me, I didn't come to the Congress with any great deal of expertise in postal matters. My interest was in higher education policy.

But, nonetheless, the Postal Service has a responsibility given to it to provide universal coverage, universal postal delivery to everyone in this country, notwithstanding the economics of it; is that correct?

Mr. HENDERSON. That's correct.

Mr. FATTAH. Second, in assuming that there is some differential that puts the Postal Service in a deficit position in a particular area in terms of delivering the mail, you have to make that up either in your postal rate for mail delivery or in some other revenue-generating operation that you might be involved in?

Mr. HENDERSON. That's correct.

Mr. FATTAH. So at the time when those people in the Congress like myself and many of my colleagues who don't want to see rate increases in postal stamps, right, that the reason why we have seen for a very long time no increase, and in this one sense that is modest, to say the least, but still probably not needed in most

of our opinions of late, is because you have become a much more efficient organization.

Mr. HENDERSON. That's correct.

Mr. FATTAH. So that if we handcuff your ability to continue to generate revenue in competitive areas where you are, in fact, competing with entities, that the only result of that could be is that we would have to raise postal stamps for everyday American taxpayers and consumers if we wanted to continue to have universal service?

Mr. HENDERSON. That's correct. International mail is a great example of that. It contributes about $234 million to the bottom line of the Postal Service. If we get regulated out of the market, that's just 234 million we have to make up somewhere else.

Mr. FATTAH. So we can't have it both ways?

Mr. HENDERSON. That's right.

Mr. FATTAH. In reality, we can't on one hand want you to keep down the rate on stamps, have universal service and not participate in some of the more lucrative package delivery efforts that you have been successful at? We can't have all of that?

Mr. HENDERSON. That's right.

Mr. FATTAH. Thank you, sir.

Mr. MCHUGH. Let me just, before I go to Mr. Davis, get a clarification on that comment. You said, if you get regulated out of the market. Precisely what kinds of things did you mean by that that would take you out of the international market?

Mr. HENDERSON. We would lose our ability to set our own prices.

Because price flexibility and the ability to negotiate prices in the international market is critical to our success. So we just wouldn't be a market player, if we had—for example, the rate commission set our prices as opposed to being able to negotiate prices with people like L.L. Bean. You're just not a player if you don't have pricing flexibility in the international market.

Mr. MCHUGH. So I assume from that you oppose Senator Cochran's bill that would subject international mail to regulation of an oversight of the PRC?

Mr. HENDERSON. Yes. In fact, we offered an alternative. Though there is, I think, a valid issue in the cross-subsidy question. That is, is domestic subsidizing international? Our Board of Governors asked the inspector general to take a look at that issue, and that should resolve the concerns of individuals. It's not our intention to have that cross-subsidy.

Mr. MCHUGH. You presented that to Senator Cochran?

Mr. HENDERSON. Yes.

Mr. MCHUGH. Has he had an opportunity to look at it and respond as yet?

Mr. HENDERSON. He hasn't responded. I did it in a hearing.

Mr. MCHUGH. So then when you say regulated out of the market, you're interested in maintaining pricing flexibility, which, as you know, has been a key interest of mine, but you're not necessarily saying that your intent is to preserve some either unfair or artificial advantage, whether it be inappropriate cross-subsidies or whether it be inequitable treatment under Customs laws and such? As I understand it, certainly your predecessor denied the existence, in any event.

Mr. HENDERSON. That's right, if you're a $60 billion organization, you have to have some oversight; and that's a given. What we're asking is not have the oversight impede our ability to compete.

Mr. MCHUGH. I understand. Thank you for that clarification.

Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

And Mr. Henderson, Mr. Coughlin, and Mr. Lewis, let me congratulate each one of you and welcome you to the positions, as well as to this particular hearing.

In your opening statement, Mr. Henderson, you indicated that a great deal of your focus was going to be oriented toward employees, the workers in the system, that we had done well in other areas. Can you elaborate a bit on exactly what that means?

Mr. HENDERSON. Yes. I see it as four core values, the first one being fairness, that is, following our rules, holding people accountable for following our policies. Opportunity, that covers a whole range of things. That is people think of our organization as an organization of opportunity, where you can move through the organization without regard to ethnicity of any type. Also, I see violence, employees in the Postal Service are frightened at times because of violence. Postal Service ought to be a safe place. We're going to work toward that.

Finally, I think the cornerstone of everything—and this just doesn't apply to craft employees; this applies to everybody—is pride. Pride comes from performance, and the postal pride is very important for continued postal success.

So those core values I see as being cornerstones of the future in dealing with people in the Postal Service.

Mr. DAVIS. So you're suggesting that those individuals who have great concerns about race, ethnicity, gender, that in terms of promotion and opportunity to move that those factors will not be the cornerstone of what things are based upon but, instead, merit, performance, how well you do your work and what you've demonstrated in terms of your own effectiveness? And that each individual really has an opportunity to grow, to develop and to move based upon what they produce?

Mr. HENDERSON. That's correct. We do not promote people because of their race. People who get those jobs got there because they earned them.

Mr. DAVIS. I'm certain that all of the rank and file workers throughout the system are just delighted to hear what you've just suggested.

There's been a lot of conversation about proposed rate increases and what those might mean. Let me ask, are there any—what are the timetables? Do we have timetables in the event that there are increases?

Mr. HENDERSON. Yes, we're working on a series of recommendations right now for the Governors at the end of this month to try to resolve the issue of implementation of the rate case.

Part of the issue that they have asked us about and we're working diligently on is the determination of where we will end this fiscal year, exactly what kind of net surplus we will have. As soon as we develop that number and have that conversation they will make a decision on when to implement the rate case.

Mr. DAVIS. I would hope that the Governors would do it, if it's going to be done, as time consciously as possible, given the fact that many of the union contracts are going to be up for negotiation, renegotiation. I think some of the unions are somewhat concerned that, if decisions have not been made, then it's difficult to know what the lay of the land is going to actually be, and, therefore, it's not the best environment in which to negotiate. If you can negotiate on the basis of what is as opposed to what's yet to come, then, of course, you're in a much better position, I would think.

Mr. HENDERSON. Yes, I think when we open negotiations, the union will know the "what is".

Mr. DAVIS. I'm sure I appreciate that, and I'm certain that they also would be.

I've heard that there are some facilities, two of them in—outside the United States. I do not fully understand that. Is that accurate?

Mr. HENDERSON. I'm not familiar with that if it is.

Mr. DAVIS. Because I had heard and someone suggested to me that the Postal Service had opened two facilities across the border and that would——

Mr. HENDERSON. I'm unaware of that.

Mr. DAVIS. All right. Then I'm glad to know that that's part of the rumor mill, you know, and there are always things that you hear, and they're not quite accurate. I'm sure that those who have expressed concerns about it are also pleased to know it.

The question of diversity continues to be a question, and I guess it's going to continue to be questioned. In terms of contracting out services or outside procurement, what is our plan? What are our goals? How are we fixed in terms of that big arena of external opportunities for diverse businesses and individuals to do business with us?

Mr. HENDERSON. We had an outside study done of diversity in the Postal Service, and we took this study and formed a task force internally headed up by Clarence Lewis and Richard Porras, who is our controller. Clarence has made several recommendations to the Postal Service that we are going to adopt. Now that he's COO, he can actually implement his own study. I'd like to ask Clarence to comment on that.

Mr. LEWIS. We looked at the report from the Aquirre International Committee that the Board had commissioned to look at our diversity programs and to give us some feedback as to how we could improve.

First of all, let me say that the Postal Service has a good diversity program, but there are plenty of opportunities for improvement. One of the opportunities that we looked at was in the area of supplier diversity. We have a lot of opportunities there.

We've asked Keith Strange, who is the Vice President for Purchasing, to look at some improvements that were recommended by the task force. Such things as increasing the number of workshops, looking at the regulations, trying to lower the regulations or make improvements, that whatever regulations that we use as far as the red tape involved in trying to procure contracts, so when we have some opportunities for contracting out that we can level that playing field, and the small businesses, the minority businesses, the female-owned businesses will have an opportunity—equal oppor-

tunity—to obtain a contract. That is part of our 23 recommendations. It's our diversity action plan to improve our diversity programs and processes in the Postal Service.

Mr. DAVIS. I certainly would appreciate that and appreciate hearing what the plans are.

I'd also just like to ask if you would take a look at the bulk rate. I've gotten a lot of complaints recently from truckers who pretend that they have difficulty getting an opportunity at the bulk rate facilities around the Chicago area and that, for some reason, they're just not getting the opportunity to make those runs or to secure the contracts.

Mr. FATTAH. Would the gentleman yield for 1 second just on the diversity point? If I could raise an issue with the Postmaster General.

It is true that you have a very diverse work force. There is a level at which, however, as you move up the hierarchy—I think it's the PC and above?

Mr. HENDERSON. Yes.

Mr. FATTAH. We have tens of thousands of employees who have been selected to move into those ranks from a very diverse group underneath them in which the diversity seems to disappear and that is that at the levels in which there are merit considerations, testing, so forth and so on, you seem to be very diverse. This group at the upper echelon that are selected by the VP's, as I understand it, the vice presidents with no merit, at least empirical or objective merit, these are just personal interviews, is where all of the diversity seems to come to a standstill.

So it would be different if you had a pool underneath in which there wasn't a great diversity of people to pick from, but that's not the case. There seems to be a large number of people in various high percentages, both in terms of racial minorities, women and others, but when you get to this escalator here that moves you into the upper echelon of the Postal Service, that seems to come to an end.

So it would seem to be that either the vice presidents in terms of—under your predecessor, the notion was that in the performance and incentive analysis at the end of the year that this would be something that would be—that the level of diversity would be part of the evaluation. But, in reality, it seemed to have had no weight in terms of whether these people got bonuses or anything else.

So I'm wondering whether or not—wouldn't it be much preferable to add some more objective merit considerations to this matter? Since, seemingly, this objective criteria doesn't seem to bring forth crucial diversity elements inside the Postal Service employee group.

And to the degree that you can respond to that, I'd be very interested in listening.

Mr. HENDERSON. I think there's two responses that I have; and Clarence, who headed up the task force, wants to respond.

First, is that we had this discussion earlier. I think one of the keys to this is to drive succession planning, which creates these pools, and you know who are in the pools, down through the organization; and we absolutely plan on doing that.

The second thing will be interesting, and this is a recommendation of the task force, a part of our performance—merit performance program, in other words, how you get your money will be a diversity issue. So we're going to add that to the program as a way of focusing management's attention on the diversity of the work force that they manage.

And you wanted to comment?

Mr. LEWIS. Just one further comment, the 23 actions and advice that we received from the task force was presented to all of the vice presidents by Mike Coughlin a few months back. They are well aware that we're moving forward with the diversity plan, and they're well aware that a diversity target will be coming out to measure their performance in this area. That includes getting through that invisible seal.

Mr. FATTAH. Thank you, and let me thank the gentleman from Illinois for yielding.

Mr. DAVIS. Thank you very much. And I only have one additional question, Mr. Chairman, if I might.

Mr. MCHUGH. The gentleman has the time.

Mr. DAVIS. Is it true that we've started to privatize the custodial services?

Mr. HENDERSON. Not to my knowledge. We do use outside contractors, and we have a criteria published—it's been around for years—that decides when we use outside contractors for custodial services or when we use inside postal folks. I used to know what it was, but I've forgotten it.

Mr. COUGHLIN. I think it's 39 hours a week or less, as I recall, of custodial work. From that point on down, I think we have, by and large, contract custodians, and it's been that way before I was in the Postal Service which was 31 years ago.

Mr. DAVIS. So we do not have a grand plan to privatize those services?

Mr. HENDERSON. No.

Mr. DAVIS. I'm glad to hear that.

Finally, what do we hope to accomplish—I mean, workers are always afraid, there's always concern, we see privatization in many places taking place which oftentimes result in individuals who do the work earning less with fewer benefits and opportunities. What do we hope to accomplish by privatization when we talk about it within the Postal Service?

Mr. HENDERSON. Well, I think that's an interesting question. The world around us is privatizing. All foreign postal administrations are getting more and more commercial. That is why we put public policy on the agenda for the organization. I think there needs to be a strong public debate on what America wants in its Postal Service.

Today. It's largely Government. It's very heavily regulated. What it'll look like in the future is, I think, a public debate that'll, in essence, be determined by the Congress. We have a voice in that, but there are a whole lot of other voices, too.

Mr. DAVIS. Let me just say that your answers are refreshing. I certainly would wish for each one of you the very best of success in your new positions and look forward to working with you.

Mr. HENDERSON. Thank you.

Mr. LEWIS. Thank you.

Mr. MCHUGH. Can you spell honeymoon?

Mr. HENDERSON. I thought I was doing a good job. You tell me it's my honeymoon.

Mr. MCHUGH. You're absolutely right.

Mr. HENDERSON. Can we go for a couple more years?

Mr. MCHUGH. It depends on—well, I associate myself with the gentleman from Illinois' remarks. I didn't mean to be facetious.

The gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Thank you, Mr. Chairman.

General Henderson, welcome. I want to pile on like everybody else and welcome you and your team. I will tell you that I like your answers, I like your style, I like the way you do things, and you've got a tough job. You knew when you were accepting this job that it was one that was full of testimony before Congress and dealing with unions and other employee work groups that may or may not agree with the direction you're trying to go.

I have several questions, but the first one—I'd like to go back to your testimony, and I'm sorry that I'm doing this, but at the bottom of page 1, it says—and I just need you to clarify it for me. It says, as a result, we expect to further reduce our negative equity this year. Since 1994, we have cut our accumulated losses from $9 billion to $4.4 billion at the close of fiscal year 1997.

Help me out here. Operating loss, debt, negative equity. Say that—tell me what you're really saying here.

Mr. HENDERSON. The negative equity is the accumulation of profits and losses over a period of time, and we have lost more money than we have made until 4 years ago when we started making money. We've reduced that negative net equity down. It is our hope that in the next couple of years that we will go into the positive side of that ledger. That's the simple arithmetic.

Mr. SESSIONS. So it's debt?

Mr. HENDERSON. No, it's debt equity. It's your profit and losses over a period of time. Debt is the amount of money you borrow.

Mr. COUGHLIN. It's net worth, essentially, or lack of net worth in this case, at this point.

Mr. SESSIONS. See, I don't know why I understood equity or at least I thought I did and I forgot about it in terms of negative.

Mr. HENDERSON. You don't want to be in a negative situation.

Mr. SESSIONS. Oh, I understand. It's like finding out the day after the election you were at 49.9 percent or something like that.

Well, I guess what I'm saying, it kind of goes back to this question that we have been talking about. I understand or I thought I have understood that the first year of a new year that you've got where you increase your rates, you make money; the second year, you break even; the third year, you theoretically lose. Now that's what I've understood how it basically works out over a 3- or 4-year timeframe.

I just—I found it interesting to see that your accumulated losses have gone from $9 billion to $4 billion and——

Mr. HENDERSON. It's because of the surpluses we've made over the last few years.

Mr. SESSIONS. Like with the UPS strike where you made more money?

Mr. HENDERSON. We made about $150 million in the UPS strike, but we ended up making over $1 billion, so that was a small piece of it. The advantage of the UPS strike, it occurred at a time when our volume was down, and we needed the money. That was a good part.

Mr. SESSIONS. So better utilization of your resources?

Mr. HENDERSON. That's right. More efficiency.

Mr. SESSIONS. More efficiency. The discussions that have taken place today I believe from almost the entire committee have focused us on a discussion of employee relations, those relationships. I do understand that resolution of issues is important. What I'm intensely interested in is, and I believe that I've heard you say that this is one of the most important things, that you're going to intensify your efforts in your first, whatever, year or until it gets down at resolving the problems that you have internally in your own organization.

Mr. HENDERSON. That's right.

Mr. SESSIONS. That you're going to work mostly at that and you're going to resolve these problems. I am very interested, and I believe, at least Danny Davis is—I don't know if that was Danny that was leaving—Congressman Davis and I are interested in how you're going to do it and that you be successful with those people who may not always agree with you, meaning employee groups and others.

But I would like to see that resolution be done, because I believe that any time you've got people who feel like one way or another that the answer has not been decided on a grievance process or procedure that it just harms the entire organization. So I guess, you know I really wanted to get into some of the other areas, you know, where you're going to find new lines of business and new revenue and all that. I've really kind of heard you say—I heard when I was gone that you had made a decision that the Auto Day trial is on hold.

Mr. HENDERSON. That's correct.

Mr. SESSIONS. I would like for at least your first opportunity to be before us to hear from you rather than us just grill you about all the things you're going to do. I've heard you say today and your team that resolution of internal problems is what you're going to spend your time doing, and I would like to not take your eye off of that ball, and I would like to see you make progress.

I am intensely interested and I will just publicly say this, and when you come to Dallas, TX, or a member of your team here, I would like to walk with you, be with you. General Runyon was well thought of, and I would like for you to be successful. Because I believe that there's a perception in America that post offices are a problem area for our country.

So rather than getting into anything more, I now understand a little more about negative equity, which I did not understand as much before I started. But I'm intensely interested in monitoring and working with you, as I know Congressman Davis is, on how you're doing and how the other sides are reacting. Mr. Lewis, I hope that we will work with you rather extensively, and I look forward being with you and working with you on that issue.

Mr. LEWIS. Thank you.

Mr. SESSIONS. Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

Before I yield, I just wanted to make a statement, and if you want to comment, that's fine. But from what we've heard from the IG and GAO, these are issues that technically you've addressed with a variety of actions and rules and procedures, and I would hope that they're followed through.

On the case of the whistleblower and the landscaping, I have a letter. I think it's an excellent one.

In the case of the cost overruns, as GAO said, the lack of planning, you've put in procedures. The issue that I think most people felt as an inappropriate and excessive amount of money on a postmaster installation, you developed responses. And, so far, so good.

I just want to urge you to remain vigilant on the followup of those responses, because I think they were appropriate and adequate and well-taken. But there has—as I mentioned before, they're only as good as the follow-through on them. So I wanted to make that comment.

Mr. FATTAH. Would the gentleman yield?

Mr. MCHUGH. I would be happy to yield.

Mr. FATTAH. Before we recognize my colleague from Oregon, I just want to say that I've cosponsored a piece of legislation with him. I think that his work is going to be important to contributing to have the Postal Service's integrated with local communities and their planning, and I didn't get a chance to earlier indicate when he was speaking to the inspector general my support for his activities, and I want to welcome him again to the subcommittee.

Thank you.

Mr. MCHUGH. I thank the gentleman. Very appropriate comments and ones with which I fully agree.

With that, I would be happy to yield to the gentleman from Oregon for some time and comments he may wish to make.

Mr. BLUMENAUER. Thank you, Mr. Chairman and ranking member. I appreciate your courtesy in allowing me to join with you today. I am sorry the schedule got a little fractured here with the votes and whatnot, because I would have wished to have been a part of what has been to me a fascinating discussion.

The more I look into the operations of the Postal Service, the greater my appreciation for its very important role. It's multifaceted and makes a big difference to America's communities.

I had hoped to just touch briefly, if I could, on two items, Mr. Henderson, and get your reactions. One I had raised earlier with the previous panel. My concern, surprise and disappointment that the postal authorities I had visited with in our community were disengaged from a very extensive, and thoughtful process that we have been involved with for over 3 years with very high public profile involving Government at all levels and nearly 20,000 citizens. Disengaged from the creation of the blueprint for how our community is going to grow over the next 50 years.

I hear from postal managers who are complaining about playing catchup with 500 facilities, just in our little corner of the world and issues of negative equity; and they were completely removed from the process of how our region will develop changing in a way that

could conceivably make a big difference in more efficient Postal operations.

It raises the question in my mind what the Postal Service is doing to be linked with communities like mine and a number across the country that are trying to plan for the future, to try and direct growth, to try and get the most out of government and private investments. Where do you see the post office in these operations?

Mr. HENDERSON. Well, it's been our experience that we're very much integrated across the country to the planning commissions and where they're going. We have a notice in the Federal Register right now on our expansion, relocation and construction of new post office rules, which mandate postmasters and local managers to develop plans, coordinate those with the communities and that sort of thing. That's critical.

The Postal Service, as we all know, is a very public institution, and any time we do anything everybody watches us. So if you're not in the throes of local city planning, you're really out in left field.

Mr. BLUMENAUER. I would urge you to look at how they missed the mark in metropolitan Portland——

Mr. HENDERSON. I'm going to look at that.

Mr. BLUMENAUER [continuing]. Where we have just completed a 50-year plan and where your people were unaware of it and not involved.

Mr. HENDERSON. I will get back to you. I will look at that.

Mr. BLUMENAUER. I appreciate your reference to the current proposed rule on relocation of facilities. You have somewhere—amidst a huge stack of congratulatory correspondence and the day-to-day activities, you have two pieces of correspondence that I'm aware of; one from Senator Baucus, Senator Jeffords, and myself as the principal sponsors of legislation in Congress now that would deal with these relocation issues. Another that was sent on behalf of the American Planning Association, the International Downtown Association, the National Association of Postmasters, the National Conference of State Historic Preservation Officers, the National League of Cities, the Natural Trust for Historic Preservation, and Preservation Action that raise some very important questions about the nature of these rules and what they anticipate for the role that the local community is going to have under them.

Your comments a few moments ago talked about the different environment in which you're operating that is increasingly less regulatory, less governmental. You have some competitors internationally and in this country that have different ground rules. But one of the areas that I think they would envy the Postal Service is the ability to ignore local planning and zoning laws through the vestiges of the right of imminent domain which the Postal Service still maintains.

In the correspondence, there are questions about an appeals process, which appears to be lacking, and a timeframe that may not guarantee an orderly consideration of facilities decisions. There are issues concerning at what point the Postal Service decides that it is not going to play by the same rules as everybody else in terms of codes, zoning, and transportation initiatives.

I would not ask today for a response to a fairly detailed and thoughtful set of letters that gets to the heart of it, but I would make two requests. One is, I would hope, Mr. Chairman, that it would be possible for the subcommittee to have an opportunity to make part of the record the response to those letters, to be able to at some point to analyze this and discuss it further.

Second, I would hope that there would be a way that we could have a discussion about the role that the Postal Service is going to play prospectively with these partnerships that you mentioned. Because I have some examples that are spectacular successes, where people have rolled up their sleeves and have been able to solve problems. And there appear to be some others where there is some frustration, where we appear to be missing the mark.

Your willingness to help us have a full discussion of the nature of the future of that partnership, I think, would be very useful. I would appreciate your written response at some point that might be a part of the record.

Mr. MCHUGH. If the gentleman will yield.

Mr. BLUMENAUER. Yes.

Mr. MCHUGH. We, in fact, will be making a number of inquiries, as we have in the past traditionally in a written form.

I have a couple of very specific questions, one having to do with a pilot program. You had, last year, proposed to allow you to access home-based PC's that are participating in the Information-Based Indica Program, the IBIP program, and others. I'm sure that the subcommittee would welcome the opportunity to include that document as part of the written submissions so that you can consider them and respond as you complete your thoughts on that.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you.

Mr. BLUMENAUER. I wondered, sir, if you had some sense of how we would build on these successes and develop a future set of policies that communities across the country could count upon when they are dealing with something that is as important to their vitality, particularly, of smaller American communities as the Postal Service?

Mr. HENDERSON. Well, as I said earlier, I think it is very important that local post offices collaborate with local communities. I mean, we want to add value, be a positive part of America, not a contentious part.

What concerns me about that collaboration is that there are limited capital funds available to the Postal Service. We have a—there are limits on what we can spend.

If the community gets into a contentious issue and it's not resolvable, many times in the past the solution has been to go spend moneys where there is no contentious issue. So it is important that we not rob rural America by putting in an infrastructure that requires complaints to come all the way to Washington to be resolved. Because any time there's a community disagreement, it will put a standstill to capital improvements.

I would like to come talk to you about this on a personal level and go over in some detail our concerns with you and hope that we can resolve your issues and, at the same time, have freedom to build the infrastructure that we need.

Mr. BLUMENAUER. Thank you, sir. I look forward to it, and, again, I want to extend my deep appreciation to the chairman and the committee for their indulgence.

Mr. MCHUGH. I appreciate the gentleman's participation. Helpful hint, use some of that billion dollar surplus.

I understand Mr. Davis—absolutely would be happy to yield to the gentleman from Illinois.

Mr. DAVIS. Thank you very much, Mr. Chairman. I wanted to thank Mr. Sessions for his request as I was leaving in terms of the information that he was asking that we receive.

But I also wanted to ask two additional questions, Mr. Henderson. One, when we talk about increased use of technology, of course, it frightens many people to death. Because the first thing that comes into mind as you're talking about reducing the need for actual man or woman power, that is you're talking about laying people off.

Do we have any displacement planning going on as we know the technology is, in fact, improving and may indeed result in not having as many individuals in the work force?

Mr. HENDERSON. We're doing scenario planning, but that's just a natural management planning process, to say, if you lost *x* amount of mail, what would you do? If you grew at this rate, what would you do? I think that's the normal planning process. There are no legitimate plans that we have ready to implement what would be a massive layoff of any type as a result of technology.

I might also add that it's not clear in anybody's mind whether or not technology is going to be a zero sum gain for mail. In other words, every additional technology that allows you to communicate—e-mail, whatever—is necessarily a deduct from the mail stream. That hasn't been the case thus far, even though we have lost mail volume from business to business due to EDI, people just changing their habits of communicating. But whether or not technology is a zero sum gain for hard copying, messaging is not something that anyone can predict at this point, in my opinion.

Mr. DAVIS. Well, I would certainly hope that we don't reach the point where it becomes a real problem. But I guess my daddy always told us to try and prepare for war in the time of peace, and that is to start looking just in terms of knowing what is likely to happen. I think that technology in many instances has, in fact, resulted in not necessarily having as many individual bodies in the work place, but I'm certainly pleased to be aware of that.

And the last question, there seems to be a lot of difficulty around the issue of trying to get the name Paul Robeson on a stamp. Are you familiar with that?

Mr. HENDERSON. No, fortunately, I'm not.

Mr. DAVIS. Well, the commission has certainly—I've gotten hundreds of letters and petitions; and, for some reason, the commission has not found it in its purview to put on a postage stamp. I mean, there are all kinds of people on there—Orphan Annie, I guess you know, Bugs Bunny, and all kinds of—maybe we will just try and interact with them and see if we can get an answer from them as to why it's been so difficult to get Paul Robeson's name put on one of those stamps. If you could inquire for us, too——

Mr. HENDERSON. I would be happy to.

Mr. DAVIS [continuing]. We would certainly appreciate it. Thank you very much.

And I certainly thank you, Mr. Chairman, for your indulgence.

[Followup questions and responses follow:]

QUESTIONS SUBMITTED TO POSTMASTER GENERAL WILLIAM J. HENDERSON IN FOLLOW-UP TO THE OVERSIGHT HEARING ON JUNE 10, 1998

1.) The Postal Service has acknowledged that some Postal Service employees have sought to undermine the integrity of Postal Service data (EXFC Measures) on the timeliness of First-Class Mail that is supposed to be delivered overnight. In some locations, mail used in EXFC tests has reportedly been identified by postal employees and targeted for more rapid delivery. EXFC is crucial to the Postal Service and its customers as the Service strives to improve the timeliness and consistency of mail delivery. What procedures are in place to ensure that EXFC data are valid and not subject to manipulation? Are independent audits of Arthur Andersen and the EXFC program conducted? If so, how often and by whom? Please provide copies of these audits for the record.

Answer: Ensuring quality in PricewaterhouseCoopers' (PwC) mail measurement studies consists of two parts: built-in checks within each process conducted by the members of the group responsible for the process; and quality verification checks conducted by the Quality Control team. We have attached a document which focuses on seven categories of checks performed to ensure the quality of PwC's studies:

- Sample Design
- Test Mail Fabrication
- Test Mail Distribution
- Test Mail Induction
- Test Mail Reporting
- Data Analysis
- Report Generation

Also, we have increased the number of postage meters and changed the test mailpieces to help prevent manipulation of the data.

With the increased induction points required in the new External First-Class (EXFC) Statement of Work, the 97 postage meters did not give PwC the ability to induct test mailpieces in the same city as the city which appears in the meter indicia. Thus, we needed to add 292 postage meters to EXFC to cover all 3-digit ZIP Codes being tested. To give an example of how this improves the induction process, PwC would no longer drop mail in Arlington, VA which is metered for Merrifield, VA.

When the return addresses on the test mailpieces and the meter indicia do not correspond with the induction city, the mail carrier collecting mail from the collection boxes may be able to identify the test mail. Thus, the return addresses on test mailpieces were changed so that they are in close proximity to the 3-Digit ZIP Code of induction shown in the meter strip.

The Inspection Service completed two national audits on the EXFC program. One, a National Coordination Audit on EXFC/Collection Box Management System (CBMS), was reported to postal management on April 30, 1998. The report focused on determining whether EXFC and non-EXFC candidate mail volumes were given the same attention in collection, processing and delivery operations, and whether EXFC accurately measured the service postal customers received. The other audit, on the External First-Class Measurement System, was issued to postal management in February 1996. The objectives of this audit were: to ensure the results of the measurement process fairly represent the Postal Service's actual performance; to identify internal service performance indicators and initiatives developed by Postal Service field units to improve their mail flow systems and service to customers as measured by EXFC; and to assess how EXFC scores are interpreted by EXFC information users. These audits help to ensure the integrity of EXFC data. Copies of both reports are attached for the record.

The operations of the External Measurement system and the files used to produce results are generated by and under the control of PwC, a world-class vendor. PwC publishes 'official' results for postal and non-postal use. Postal users 'read' these data using the postal Corporate Information System and put programs and processes in place to improve on-time performance of First-Class Mail.

Audits are conducted annually by Ernst & Young, as part of the financial audit process, since PwC results are a portion of the variable-based pay compensation package. The Office of the Inspector General contributes to these audits, and is responsible for auditing Postal Service programs and operations.

Note that several indicators are used to compute the variable-based pay program; the results are monitored to insure the integrity and sanctity of the program.

2.) To the Service's credit, you testified that overnight delivery of First-Class mail improved to 94 percent. In contrast, although you state that 2-day and 3-day service is up to 85 percent for the quarter, GAO testified that on-time delivery of 2-day and 3-day First-Class mail declined last year, for the second consecutive year, to 76 and 77 percent respectively, even though the Postal Service testified a year ago that 2-day and 3-day delivery would improve.

Are the latest quarter numbers here to stay? Will the numbers continue upward? What have been the causes of this continuing problem? What specific actions are being taken to improve the delivery of this mail?

Answer: Apart from seasonal and normal statistical fluctuations, we believe that the current levels of service for two- and three-day mail will continue upward. Additional transportation infrastructure has helped improve service performance.

The two- and three-day service numbers for First-Class Mail that were provided to the Postal Service Subcommittee on June 10, 1998, have continued to hold in the current quarter. We believe that these service levels are here to stay, assuming no major systemic disruptions. Indications are that service levels will continue upward, and we have a target of an additional two percentage point increase in fiscal year 1999. We continued to experience problems with second- and third-day service primarily because of declining commercial air capacity and inadequate process measures. We are also preparing to meet next year's higher targets by adding additional dedicated air transportation, adding air mail facility personnel, and improving our mail collection tracking and routing. In addition to national efforts, each local facility is empowered to use quality tools to provide solutions to their specific delivery problems.

a. Please update us on the status of each of the following actions the Postal Service said it was taking last year to improve the delivery of 2-day and 3-day mail, and give specific examples of whether they contributed to improving timely delivery of 2-day and 3-day mail, including 1) analysis of operations at mail processing plants to provide feedback to local operations managers on steps they can take immediately; 2) evaluating existing commercial air transportation and the potential for some mail to be converted to ground transportation; and 3) identifying critical points in the process where additional measurement is needed to focus Postal Service efforts.

Answer: The Postal Service has taken action on each of the areas that you have mentioned, as evidenced by our improved two- and three-day First-Class delivery scores. Prior to the beginning of this fiscal year, we mapped our two- and three-day First-Class Mail and Priority Mail processes to identify critical points where mail flow could fail. This led to selecting 12 indicators that would be monitored nationally. Of these 12, nine are used to monitor two- and three-day mail. We have improved on eight of these indicators with the last one remaining steady.

At the beginning of the fiscal year, the new indicators were sent to operations managers. They were told to use the tools of process management developed as part of *CustomerPerfect!* to improve these indicators. Biweekly teleconferences were established to track progress on these indicators and other operating conditions. Problem sites were identified for corrective actions. Each Area was provided with their five poorest performing pairs of origin to destination cities. Root causes were identified and solutions were implemented. Nationally, delayed mail at origin mail processing operations has decreased by 51 percent since the first two quarters. Likewise, delayed mail at destination mail processing operations has decreased by 42 percent since the first two quarters.

We have implemented three ground transportation hubs in our hub and spoke program (HASP) within the last two years. Mail volumes now average about two million pounds per day, much of which was previously transported by air carriers. One additional HASP is being planned to open in the Dallas, TX, area in July 1999. It is expected to remove an additional 500 thousand pounds from air transportation. In addition to these efforts, this year we implemented dedicated air transportation that moves about 1.2 million pounds of mail daily. This reduced our commercial transportation volume by about 10 percent.

As part of our analysis of existing commercial air transportation, we conducted our first nationwide effort to assess mail delays at our major mail transfer hubs. In May 1998, we scanned all potentially delayed mail for three days. Using process management, we are investigating likely root causes of delayed mail on commercial air transportation. We are investigating our own tracking and assignment systems, training needs, and carrier contract issues. Our indicators of delayed mail at our air mail centers and missent mail between cities are showing improvement as a result of these efforts.

3.) In its preliminary Annual Performance Plan for FY99, the Service did not disclose its target for on-time delivery of Priority Mail, labeling the target as "proprietary information." Why has the Service stopped disclosing its goals for on-time delivery of Priority Mail? Is the previous 95 percent goal for Priority Mail still a goal? If not, what is the goal? When and how will it be achieved?

Answer: Our goal for Priority Mail is set through our *CustomerPerfect!* Process, the Malcolm Baldrige Award criteria-based performance management system. On an annual basis, our objective is to satisfy our customers' requirements as judged by the marketplace.

Priority Mail is a competitive product. Our competitors do not disclose their service achievements or targets, nor do we. We are achieving our Priority Mail target for the current accounting period. We think we have achieved this level of performance through our innovative approaches, using outside vendors, and enhancing our dedicated transportation.

Process indicators of performance have been developed for Priority Mail which will work hand-in-hand with our current external measure of performance. These process indicators already have targets in place; there are no plans to publish process indicator performance externally.

a. The Postal Service also said in its plan that it would develop a new indicator for Priority Mail on-time performance during this spring and set FY 1999 targets for this indicator. Why is a new indicator needed? What was wrong with the previous indicator? Was past data inaccurate? Has the new indicator been developed? Have targets been set?

Answer: The Postal Service currently uses a system administered by PwC called Priority Mail End-To-End measurement (PETE). In the spring of 1999, we will have fully deployed the Delivery Confirmation system and, at that time, additional performance information will be at our disposal. With this additional data, we will continue to evaluate the performance of Priority Mail and make decisions based upon the information gathered from these sources.

4.) The Postal Service has indicated that it will stop the Auto Day program. Does this mean that the Postal Service will not move forward with any program that offers and promotes day-certain delivery for standard mail?

Answer: We will continue as always to work closely with our Standard A Mail customers to get their mail into the mailbox on the day they want it delivered. The producers of weekly community newspapers, church newsletters, and school bulletins routinely work with local postmasters to get what is essentially day certain delivery of their mail.

The Postal Service has the same kind of relationship with many local, regional and national advertisers who use Standard A Mail. Through up-front planning, proper mail preparation and ongoing dialog with the Postal Service, advertisers can optimize their chances of getting their Standard A Mail delivered on the day(s) they request. Through better management processes and technology, we will continuously improve the quality of our service and focus on cost efficiencies.

5.) Deputy Postmaster General Michael Coughlin reportedly said he is encouraged by early results from the Emery contract. Yet Mr. Coughlin acknowledged that in moving more items to ground transportation, one-day service for some regional Priority Mail would be lost. Is this the case? How many Priority Mail items are estimated to move more slowly under the Emery contract?

Answer: Priority Mail that is capable of receiving one-day service continues to travel on surface transportation as it did prior to the implementation of the Priority Mail Network. The expansive reach of this integrated pilot program network increases the number of Priority Mail one-day service commitments. The implementation of this pilot program has just recently (August 1998) been completed and the operating systems continue to be adjusted to improve service performance. In some cases, Priority Mail has been moved from surface to air transportation in order to protect overnight service capabilities. Such surface to air changes have occurred in Panama City, FL, Bangor and Houlton, ME, and Plattsburgh, NY.

a. A senior Postal Service official told the press that the Emery contract has recorded on-time delivery scores over 90 percent in some weeks this spring, compared to about 70 percent for the rest of the country. Please submit performance statistics regarding on-time delivery of Priority Mail for the record, including statistics involving delivery involving the Emery contract and other delivery of Priority Mail.

Answer: The Postal Service considers all Priority Mail service performance data to be proprietary. It is intended only for internal monitoring and diagnostic purposes and not for public disclosure. We would be pleased to share this information with you confidentially.

The external measurement system used to estimate Priority Mail performance was designed to be statistically accurate on a quarterly basis. Although we view the data for diagnostic purposes on a weekly or accounting period basis, it is only reliable on a quarterly basis.

b. The Service official said both Emery and the Service were to blame for delays in opening the last of the 10 centers to handle Priority Mail processing. He said that "Christmas was very tough and they were forced to handle far more volume than predicted." What problems were experienced and what was done to correct them?

Answer: Because we activated the pilot sites just before our busiest time of the year, we experienced problems that compounded the normal bumps accompanying any start-up operation of this magnitude. As a result of the difficulties we experienced in the first five pilot sites, we are implementing a plan to address the lessons learned in the following areas:

- Staffing and Personnel Management
- Transportation Management
- Distribution and Operations Planning
- Contingency Activation

Despite the difficulties experienced, which varied in both intensity and duration by site, all Priority Mail facilities were current with distribution before Christmas, and all available packages were delivered to our customers in time for the holiday.

In order to avoid any repeat of last year's difficulties, the Postal Service and Emery are just completing months of detailed planning for the upcoming holiday season. The newly developed plan addresses all of the issues that existed in last year's operation, with the exception of contingency activation. Contingency planning, which cannot be completed until the operations plans for staffing, distribution and transportation have been completed, will be finished well before Thanksgiving.

c. The official also predicted that Phase II expansion for Priority Mail outsourcing will happen a lot sooner than originally planned, with the hope of having a plan before the Board of Governors by the end of the summer. About 25 centers are reportedly being considered. What are the Service's current plans and timetable for outsourcing the handling of Priority Mail? Is the Service developing or considering proposals to accelerate this timetable?

Answer: As previously indicated, the activation for the last of the Priority Mail Processing Centers has just been completed. The preliminary results of this test of a new concept are encouraging. The group that manages the contract for the Postal Service is putting information together that will allow the officers and Board of Governors of the Postal Service to make an informed decision on any further network expansion. There is no time table for any future expansion at this time.

d. What are the Service's plans and timetable to add additional features to Priority Mail, such as tracking, tracing and delivery confirmation?

Answer: The Postal Service plans to offer Delivery Confirmation service to Priority Mail beginning in March 1999. The implementation date is dependent on the successful deployment of hand-held scanners to all delivery employees. Deployment is on track for completion in February 1999. There are no current plans to offer Track and Trace service to Priority Mail. We do plan to offer an electronic signature service for Priority Mail in late spring 1999.

6.) When will the Postal Service release the first draft of a new proposed service contract between airlines and the Postal Service? Is the Postal Service negotiating to extend provisions that U.S. mail gets first loading priority to cover USPS expedited mail or same-day service if the Postal Service obtains approval to offer such service in the future? Please submit copies of the draft and final service contracts for the record.

Answer: The Postal Service has been working with the airline industry on the formulation of a new service contract (solicitation numbers ASYS-99-01 and ASYS-R-99-01). On March 24 and 25, 1998, we met with the industry associations and their members here in Washington. An initial draft solicitation was issued, dated June 2, 1998. It was discussed with the airlines at another large meeting in Indianapolis on June 8 and 9, 1998. Several revisions to the proposed contract resulted from that constructive dialog, and a *final draft* solicitation was issued on June 29, 1998. On July 17, 1998, the final solicitation was issued. Throughout the above time period, individual consultations, meetings, and negotiation sessions have been held between airline and Postal Service representatives.

There are several new and important features of the new contract, but specifically, ASYS-99-01 allows an airline to board up to 200 pounds of a cargo product of their choice ahead of mail. Also, they may request an increase to this allotment in writing on a flight by flight basis. Attached are copies of the solicitations.

7.) Has the Service recognized that there is a problem with periodicals delivery? If so, what is the nature of the problem? What is being done to correct it? How soon will improvements be made?

Answer: The Postal Service acknowledges that there have been some problems with Periodicals delivery; we have taken several actions to improve service. While feedback from the smaller publications indicates the nature of the problem is with out-of-county and out-of-state delivery, the actions we have taken are intended to improve delivery for all Periodical mail.

Senior management has communicated the importance of timely delivery for Periodicals to field sites; and Standard Operating Procedures (SOPs) for the processing of Periodicals mail are being refined to ensure timely delivery. In addition, we are working to improve communications at the national, area, and local levels between postal managers and Periodicals mailers, including state newspaper associations, in order to foster better working relationships. The intention is to build these relationships and work with mailers on any service concerns they may have, as well as help them in their preparation of Periodicals mailings to ensure timely delivery. Likewise, a joint postal/industry Mailers Technical Advisory Committee (MTAC) Periodicals Service Improvement Work Group has been actively working throughout the past year on several initiatives to help improve delivery.

Although many of our efforts are ongoing, many mailers are indicating they have already noticed service improvements and are pleased with the attention we are giving Periodicals. Senior management within the Postal Service will continue to place emphasis on timely delivery of Periodicals.

a. How does the Service intend to monitor Periodicals delivery, given that the Service discontinued the EX2C Mail Monitoring System and there appears to be no other performance measure for delivery of periodicals? Does the Postal Service collect data on the speed with which community newspapers are delivered?

Answer: Several approaches are being considered in cooperation with selected mailers. One of them is participation in the ADVANCE Notification and Monitoring System. We are implementing an external "quality check" later this year to insure information provided is a reflection of the customer's experience. These types of cooperative efforts lay the groundwork for future testing methodologies.

ADVANCE reports when a Periodical arrives at a delivery unit, when delivery began and when delivery was completed. For those mailers who participate, specific service information is monitored and provided using our web site. ADVANCE has been operational since October 1997; however, mailer participation has been limited. The tracking of Periodicals through the ADVANCE System requires the use of our Intranet. As of today, the tracking of Periodicals is limited to 56 of the 85 performance clusters. We expect full coverage by the end of Calendar Year 1998.

The Postal Service does not have a specific delivery performance measurement system for community newspapers. However, community newspapers are eligible to participate in the ADVANCE System.

b. Why did the Service not include plans to develop a performance measure for Periodicals delivery in its preliminary Annual Performance Plan for FY 1999? Will the Service reconsider its position and develop a valid measure of periodicals delivery?

Answer: Using our CustomerPerfect! management system, over the past three years the Postal Service has been systematically adding measures of on-time delivery performance to our list of management priorities -- at first for overnight First-Class mail in FY96-97, then for two- and three-day First-Class Mail and Priority Mail in FY98. For FY99, new performance measures for First-Class remittance mail and for advertising mail are being developed. Performance measures for our remaining products, including Periodicals, will be developed as soon as possible. We recognize the need to provide our customers with specific measures of delivery performance for all our products and services. However, we have found that a phased approach to adding measures produces better overall results.

c. In the recent rate case, the Postal Service, through witness O'Hara, stated that the Postal Service is undertaking an analysis to understand what factors may have contributed to increases in flats mail processing costs, especially for periodicals. What is the status of this analysis? Are poor management and "automation refugees" contributing to the increases in cost?

Answer: The Postal Service and representatives of the publications industry, including the Magazine Publishers Association, met on July 17 to define the requirements for a joint study of issues relating to costs of handling publications mail in Postal Service plants and delivery units. At that meeting, issues of operating management and "automation refugees" were discussed, to ensure that the Postal Service fully understood the concerns of the industry. As a result of that meeting, a joint Postal Service-publications industry team arranged to visit a number of postal facilities to identify possible opportunities for cost reduction measures. The opportunities may include changes in mailer preparation of periodicals mail, or changes in postal processes. The visits began after Labor Day. It should be noted that the "Automation Refugee" issue has already been refuted in testimony during the R-97 Rate Case by Jon Steele, Vice President, Area Operations.

d. Witness O'Hara asked the Postal Rate Commission to mitigate the increase in Periodicals rates to give the Service time to see if unfavorable cost trends can be reversed as a result of the additional equipment deployment and operational changes that are expected over the next several years. What specific actions are planned? Will these actions be sufficient to reverse cost trends, especially for periodicals? Should postal customers who rely on periodicals expect to wait several years before they see improvements in periodicals service?

Answer: The Postal Service and Magazine Publishers agreed to a joint team to study issues relating to costs and to explore steps that both industry and the Postal Service might be able to take to control cost increases in periodicals mail.

In addition to the information that the joint team will develop, the Postal Service continues to deploy both material handling and flats sortation equipment that will further mechanize and automate the processing of the publication mail. In the near term, the deployment of the FSM 1000 has increased both the system capacity to sort the flats, and the physical characteristics of flats that can be handled on the equipment. The Postal Service's engineering organization is considering development and acquisition of next-generation equipment that would further increase the capacity and capability of mechanization and automation equipment.

While the context of discussion here has been cost control, the same equipment will add to the system capacity and its ability to provide consistent and timely service in our publications products. In addition, there is a periodicals service team currently working to improve service in this mail class. The efforts of the periodicals service team and the joint industry-Postal Service periodicals cost team should result in a better understanding of what needs to be done to improve service and cost relationships in the periodicals class of mail.

8.) Why has the Service failed to provide more detailed customer satisfaction data including trend information in the Annual Report or Comprehensive Statement?

Answer: We consider our customer satisfaction measurement system data proprietary due to the extent of our survey processes. Our customers expect these data to be used in a confidential manner, and in fact, respond to our surveys with this expectation. Information that is gathered through other processes, such as the Pew Study or the Roper Report, is considered public information. These studies also include an assessment of various agencies and private sector companies' performance, not just the Postal Service. Of course, top line or summary trend information is provided upon request.

a. The 1997 Annual Report said that the Postal Service's employees are focused on customer satisfaction and are equipped to deliver it. Yet, we understand that overall residential customer satisfaction failed to improve significantly, despite rising scores for on-time delivery of overnight mail. Why has residential customer satisfaction failed to improve as much as overnight delivery scores? What specific actions are planned to improve residential customer satisfaction?

Answer: Customer Satisfaction Measurement (CSM) measures a variety of aspects of interaction with the Postal Service, whereas EXFC measures service transit time only.

Nationally, residential customer satisfaction (overall) has improved to a 91 percent favorable rating (Excellent, Very Good, and Good) and has held at this level or higher for eight quarters. This represents an improvement of at least five points versus the four quarter average of 86 percent ending in Postal Quarter (PQ) 3, FY95, (PQ 4, FY94 through PQ 3, FY95).

Also, the favorable ratings are "migrating up." The higher-end ratings (Excellent and Very Good) have held at 69 percent or better for the last eight quarters, with a record high 73 percent in PQ2, FY98 and 72 percent in PQ 3, FY98, compared with an average of 54 percent for the four quarters ending PQ 3, FY95, representing an improvement of at least 15 points.

In the most recent quarter PQ 3, FY98, 160 of 169 metropolitan areas and 78 of 85 performance clusters received favorable ratings of 90 percent or higher.

The CSM process is focused on overall customer satisfaction. CSM supports the corporate Voice of the Customer goal of improving customer satisfaction. CSM is driven by important customer issues and provides independent measures of customer experience with postal products and services.

Summary and detailed rating and diagnostic survey results are made available through the Corporate Information System (CIS). As a proactive management tool, CSM identifies opportunities for improvement and promotes positive change by linking management actions with customer satisfaction. Results indicators of success such as the Ease of Use (EOU) Index have been developed using direct customer feedback from CSM.

During FY 97, a results indicator of success for EOU, one of the five sub-goals in the Voice of the Customer, was developed and implemented for our residential and business customers. EOU is defined as providing products and services that are simple, convenient, understandable and accessible. EOU Index scores are tracked against performance targets with a focus on improving customer satisfaction.

b. For years, the Postal Service publicly reported on residential customer satisfaction in many metropolitan areas. This data is no longer reported. In the future, will data on customer satisfaction in metropolitan areas be reported to the public?

Answer: We consider these data proprietary/competitive and no longer publish them externally. However, these data are made available to the committee.

c. The Postal Service sets targets in its preliminary Annual Performance Plan for FY 1999 to increase various residential and business "ease-of-use" indexes based on specific questions asked in surveys of residential and business customer satisfaction. Yet the Postal Service has not publicly disclosed these questions. Will the Postal Service disclose these questions in its final performance plan, so that Congress and the public can understand what standards the Service is setting for itself?

Answer: The EOU Index is an indicator of performance that is disclosed to the public. However, the questions used to comprise the index are considered proprietary. The questions selected to drive EOU are important to our customers; these data are updated periodically based on customer feedback.

d. Does the Postal Service plan to include baseline data and trend data for its "ease of use" indexes in its final performance plan, so that Congress and the public can understand the Service's past performance and judge whether the improvement targets are modest or ambitious goals?

Answer: During the August 3, 1998, Board of Governors presentation in Harrisburg, PA, the Vice President and Consumer Advocate briefed the public on EOU performance. National top line EOU trends were shared, including a five year trend for business EOU and a two-year trend for residential EOU, coinciding with the period for which comparable data is available.

e. How much has the Postal Service spent on measuring residential and business customer satisfaction to date? Please supply a copy of the most recent contracts for the record.

Answer: The Postal Service is spending approximately $7.4 million over a two-year period for the basic CSM contract. The Postal Service also funds the postage for mailing of surveys and receiving responses to those surveys, with an estimated annual postage cost of $4-5 million. A copy of the contract is attached. The Postal Service respectfully requests that the contract details not be made public, as there may be proprietary, business-sensitive language included therein.

9.) A 1995 GAO report recommended that the Postal Service determine, in cooperation with unions and management associations, the feasibility of incorporating available measures of mail delivery service, along with customer satisfaction and other performance data, into employee pay incentive plans to encourage a stronger commitment to prompt and reliable mail delivery and, as appropriate, use these performance data in incentive plans. However, measures of customer satisfaction account for 10 percent of one-third of the measures factored into the formula for bonuses paid to Postal Service managers -- a weight that is less than four percent of the total.

a. Does the Postal Service plan on increasing the importance of customer satisfaction measures in computing future bonuses?

Answer: Internally, the Postal Service refers to its corporate goal categories as voices: Voice of the Customer, Voice of the Employee, and Voice of the Business. Each voice carries an equal one-third weight in the EVA Variable Pay Incentive Program. This provides a balanced approach. There are no

plans to change the one-third weight for each voice. Under each voice, there may be more than one subgoal, indicator, and target. These change year to year depending on how we need to focus efforts.

b. In the upcoming labor-management negotiations, does the Postal Service plan to propose employee pay incentive plans that use customer satisfaction and other performance data?

Answer: The Postal Service is exploring a number of different options in the area of pay-for-performance for bargaining unit employees. We believe this form of compensation can serve to motivate employees, enabling them to share in the overall success of the Postal Service, at the same time that they help lead the organization to higher-performance levels.

10.) A 1995 GAO report recommended that the Postal Service implement cost-effective procedures for headquarters to use in monitoring and reporting the implementation and results of national service improvement initiatives to ensure that they are implemented as intended.

a. Has the Postal Service followed this recommendation? If so, please list national service improvement initiatives and summarize the procedures used to monitor and report on the implementation of each initiative.

Answer: As indicated in the GAO report, the Postal Service in 1995 was in the very early stages of development of a new management system. Since then, the Postal Service has implemented the *CustomerPerfect!* Management System. *CustomerPerfect!* was developed after a thorough self-evaluation using the Malcolm Baldrige Award criteria, which entails four phases:

- Establishing goals, subgoals, indicators and targets;
- Deploying resources to achieve goals;
- Implementing improved actions, and
- Reviewing performance and adjusting actions accordingly.

Service performance is monitored through the Transit Time Measurement System (TTMS) which measures service performance from the time mail is entered into the system at a collection box or office building mail chute until the time it is received in the home or business. This initiative was expanded to include PETE. Additionally, CSM was implemented with distinct processes to measure residential and business customers satisfaction with postal products and services.

11.) GAO reported in a 1995 study that the Postal Service had collected data on business customer satisfaction but not disseminated it internally. GAO recommended that the Service establish a plan, safeguards, and timetable for distributing business customer satisfaction results to all appropriate levels of the Postal Service. We understand that this recommendation has been implemented. Please summarize how the business customer satisfaction results are distributed to all appropriate levels of the Postal Service.

Answer: Results are maintained in a centralized electronic format on the Postal Service's Corporate Information System (CIS). Managers at the local level can access this information in summary or detail reports. Much reporting and analysis from these sources is converted to hard copy for further dissemination to field locations. Formal reports are sent quarterly to the Board of Governors and the Postmaster General.

12.) In a 1996 GAO report, the Postal Inspection Service has said that theft of mail from mailboxes is a very serious problem. How serious is the problem of theft of mail from mailboxes? What is being done to reduce the problem of mailbox theft? What progress has been made?

Answer: Volume attacks (any breach, compromise or theft from one of several objects containing "volumes" of mail, such as apartment panels, neighborhood delivery collection box units (NDCBU), collection boxes, or relay boxes), have totaled 4,147 incidents Fiscal Year To Date (FYTD) (October 1997 through July 1998). This is an increase of 420 incidents over Same Period Last Year (SPLY). However, this does not totally reflect the problem of mail theft. PS Form 1510, Mail Loss/Rifling Report, is completed when a customer feels his or her mail may have been stolen or lost. Although it cannot be determined the exact number of complaints that relate to theft of mail from mailboxes, it is safe to assume a large percentage of the 1.5 million PS Forms 1510 completed per year relate to theft. Postal inspectors arrested 4,304 non-employees in FY97 for theft of mail. A large portion of the attacks are on NDCBUs. In the areas where criminal attacks are a problem, the Postal Service is replacing older, less secure NDCBUs with a newer, more secure version. Thefts due to attacks on NDCBUs are declining in these areas.

a. Postal Inspection Service officials in some areas have advised that postal customers not leave mail in collection boxes located in public areas after the last scheduled time for pickup, in order to ensure the safety of their mail. Please provide a list of jurisdictions where the Postal Inspection Service advises customers not to leave mail in collection boxes after the last scheduled time for pickup. Should customers avoid leaving mail in collection boxes after the last scheduled time for pickup? What is the general guidance?

Answer: Customers are encouraged to deposit mail in collection boxes rather than in central delivery boxes, especially when mail will be left in the boxes overnight. Collection boxes are designed to be the more secure place for customers to deposit outgoing mail. Occasionally, in high-crime areas, it becomes necessary to reinforce collection boxes and change locks as a result of criminal attacks. During ongoing investigations, customers may be given guidance to temporarily refrain from depositing mail in some collection boxes in an effort to protect themselves from becoming victims of crime. Customers are sometimes advised not to deposit mail in collection boxes after pickup if recent collection box attacks have occurred in the area. No lists of where this information was disseminated are maintained.

b. The Postal Service notifies all prospective rural route customers that letter carriers will accept packages at the mailbox without a customer being present, provided that the postage is fully prepaid. Customers are told they can eliminate almost all trips to the post office and can purchase special services by leaving a note and the appropriate payment in their mailbox, such as certified, registered, Express Mail, and COD. However, rural route customers are apparently not cautioned about the risks of leaving payments or valuable items in unattended mailboxes. Has the Postal Inspection Service advised rural route customers in any areas or jurisdictions not to leave payments in their mailbox, or not to leave the flag up if they do? Similarly, have any rural route customers been advised to go to a post office to obtain certified, registered, Express Mail or COD? If so, please provide a list of the applicable areas or jurisdictions. What is your advice to rural customers in response to this situation?

Answer: The Postal Service would never advise a customer to leave something of value unattended in their mailbox. Customers are expected to meet with the carrier (at their mailbox) to request that an item be handled via registered mail. Customers can leave a note in their mailbox advising they have an item they would like to send via registered mail and request that the carrier honk their horn so the customer meets the carrier. The Postal Service does expect the carrier to assist the customer in this way. (PO603, Section 314.4 of the Rural Carriers Duties and Responsibilities Handbook)

Where problems are identified, the Postal Inspection Service advises rural customers of the risks involved in leaving mail and payments for services in their mailboxes via local area news articles, and they are advised of steps to safeguard against mail theft. Our recommendations to customers include:

- retrieving mail as soon as possible after delivery
- not putting outgoing checks in an unlocked rural mailbox
- using collection boxes or letter slots at the post office or malls instead of leaving mail in their mailbox
- picking up packages at the post office
- requesting your local post office to hold your mail while absent from home a long period of time
- reporting suspicious activity to the Postal Inspection Service

Headquarters Delivery officials surveyed the field to determine if requesting customers not to leave money in their mail box was a common practice. The following responses were received:

ORLANDO DISTRICT - It has been the history in Stuart, Florida to ask rural route customers to leave checks for stamps rather than money due to security concerns. Also, the St. Cloud, Florida office advised that they had recently seen a story on check washing on a TV station in the Orlando area advising people to not leave mail in their mailbox and to go to the post office to mail their letters.

PROVIDENCE DISTRICT - An article was placed in one of the Cape Cod newspapers by the Postal Inspection Service telling customers that they should avoid placing cash or checks in mailboxes to avoid theft. A copy of the article was not available, but one of the postmasters on the Cape remembers seeing it. Evidently the article was not specific concerning rural delivery, but was just a general warning.

13.) The 1992 Energy Policy Act mandates federal agencies reduce energy consumption by 20 percent by the year 2000, based on 1985 levels. In 1993, President Clinton ordered federal agencies to pursue a 30% reduction in energy costs by 2005, also based on 1985 levels.

a. Does the Postal Service expect to achieve these targets? What action is the Service planning to reach these goals? Please provide relevant information on the Service's progress, including the Service's annual energy consumption and energy costs from 1985 to last year.

Answer: We expect to meet the goals of the Energy Policy Act and Executive Order 12902. We have reduced energy consumption in Postal Service facilities by over 12 percent since 1985. The reduction includes actual facility energy reduction of 4.3 percent, and an 8 percent reduction in process energy exemption, the amount of energy consumed for automation and mechanization, for FY97. The process energy exemption will be recalculated and coordinated each year with the Department of Energy to allow accurate accounting of facility versus operational energy consumption. The attached draft *Energy Management Strategy and Implementation Plan* outlines our strategies and actions designed to reduce energy consumption and meet legislative mandates. The Postal Service energy consumption from 1985 to 1997 also is illustrated in the plan.

14.) In 1994, GAO recommended that the Postal Service address major labor-management problems by reaching a framework agreement with employee organizations and unions. The Service agreed with this recommendation, but a "summit" meeting took years to convene and has been unable to reach a framework. Last November, GAO said it continued to believe that a framework agreement is needed to help the Service, the unions, and the management associations reach consensus on appropriate goals and approaches for dealing with persistent labor-management problems and improving the postal work environment.

What is the status of efforts to reach a framework agreement? Is this a high priority?

Answer: The parties have discussed a framework agreement. Such an agreement is difficult to achieve because our unions and employee organizations are diverse groups with differing perspectives and competing interests. Although a framework agreement between the Postal Service and all of its unions and employee organizations has not been achieved, summit meetings involving all parties are continuing under the auspices of the Federal Mediation and Conciliation Service (FMCS). In addition, the Postal Service is working with each union on an individual basis to address the concerns raised by the General Accounting Office (GAO). Our immediate goal is to build trust through productive activity. We have been extremely effective in reaching individual agreements with our unions that focus on reducing conflict in the workplace, identifying and eliminating root causes of labor disputes and improving the effectiveness of grievance-arbitration procedures. We will continue to build upon these successes in the coming months. Eventually, it may be possible to pursue a framework agreement encompassing all organizations once there is increased trust among the parties.

a. Last November, GAO reiterated the suggestion made in its 1994 report that the use of Federal Mediation and Conciliation Service (FMCS) as a third-party facilitator could be useful in helping the Postal Service, its unions, and its management associations in their efforts to reach agreement on common approaches for addressing labor-management relations problems. Has the Postal Service continued to use FMCS as a third-party facilitator? What has been the Service's experience in using FMCS?

Answer: The Postal Service has used the FMCS as a third-party facilitator to address labor-management relations issues since the fall of 1996 when it began "pre-Summit" discussions with the American Postal Workers Union, AFL-CIO (APWU) and the National Association of Letter Carriers, AFL-CIO (NALC). Those discussions led to formation of contract administration subcommittees with both unions, again facilitated by the FMCS throughout 1997 and continuing to the present. In addition, the Postal Service has recently formed a contract committee with the National Postal Mail Handlers Union with FMCS support. In the Postal Service's view, the support by FMCS over the past two years has been very beneficial and has been instrumental in helping the parties to work through disagreements and formulate action plans which are having a positive impact on labor-management relations throughout the Postal Service.

The FMCS is also facilitating an effort to improve relations between the Postal Service and Fraternal Order of Police/National Labor Council #2 (FOP/NLC #2), the representative of our Postal Police Officers. A joint training session, run by the FMCS, was held in July 1998.

b. GAO reported in 1994 that the Postal Service suffered from a culture of autocratic management, resulting in an "us versus them" relationship between unions and management. GAO said many employees reported working in an atmosphere of intimidation and tension. What is being done to improve the quality of Postal Service management? Are unions justified in believing that employees must be continually protected against abuse by management?

Answer: Several initiatives are under way to improve the quality of Postal Service management. One of the strongest efforts is the implementation of the Associate Supervisor Program (ASP), which is designed to attract, select, and train the best possible candidates for first-line supervisory positions. An Advanced Leadership Program (ALP) was developed to focus on enhancing the skills and abilities of mid-level managers. A third program is currently being developed to deliver additional skills training to existing front-line supervisors, who are not presently participating in either the ASP or ALP courses. Additionally, minimum training requirements for management are established as one of the corporate *CustomerPerfect!* goals each fiscal year. In FY99, labor relations training will be offered and is expected to reach 30,000 managers, with emphasis on enhancing relationships with employees and with organizational representatives. The Postal Service is placing increased attention on improving workplace relationships. While there may be occasional instances where an individual manager acts inappropriately, there is little evidence to support the perception that such behavior is widespread or continuous.

c. GAO also reported that most postal managers and supervisors believed that poor performance was usually tolerated in the Postal Service. What has been done to deal with poor performers?

Answer: The GAO's conclusions on this issue were based largely on the Postal Service Employee Opinion Survey which was last conducted in 1995. The recurring opinion that poor performance is tolerated has prompted the Postal Service to take a number of initiatives to sharpen our performance focus, especially for management employees.

Most importantly, individual objective setting and performance evaluation for managers and supervisors was reestablished in FY 97, with guidance about linking individual objectives to overall Postal Service and unit objectives. The linkage between individual performance evaluation and pay is established in that no movement of basic salaries for this group occurs except based on individual performance. Likewise, the variable pay program, which produces group lump sum awards based on the achievement of national and performance cluster goals, allows the exclusion of poor performers from sharing in the group award.

On the issue of craft employee performance, we have made performance management training an integral part of our management curriculum. In addition, we are developing craft proficiencies and ways to measure their demonstration on the job. This will both sharpen the focus on what performance is expected from craft employees and give managers new tools to address this issue positively.

15.) One of the key labor management complaints is that managers and executives are held to a different standard of accountability than the rank and file, in that executives and managers are simply transferred to another position within the USPS for a serious infraction, whereas a rank and file employee is usually suspended or fired for minor mistakes.

a. How do you intend to address the strong perception that there are differing levels of accountability in the Postal Service between the management and the rank and file?

Answer: We understand that this perception exists; it is also a difficult one to address. For one thing, we do not publicly announce discipline taken against managers. We treat serious misconduct by our managers and supervisors very seriously. Postal management acts at its peril if it unjustifiably disciplines any employee. In the case of craft employees, discipline must meet a standard of "just cause." The just cause standard includes an analysis of how similar conduct has been handled with other craft employees and non-craft employees. The only way we can address the perception is to be as even-handed as we can in assessing comparable situations.

16.) In response to an incident where a postal supervisor retaliated against an employee for filing a complaint with the IG, the Deputy Postmaster General, Michael Coughlin, wrote a March 19, 1998 memo to Officers of the Postal Service stating that no retaliatory action is to be taken against a postal employee for alleging wrongdoing in a complaint to the IG or making similar disclosures to responsible members of Postal Service management and the Inspection Service. Coughlin suggested that each of the officers share the importance of this message to managers and supervisors.

a. Do you know if the officers shared this message with managers and supervisors? If so, what means of communication was used to share the importance of this message?

Answer: No systematic attempt was made to document the extent to which the officers shared the message of the March 19 memorandum with subordinate managers and supervisors within their respective organizations. We are fully confident that the March 19 message has been effectively communicated down within the various management and supervisory levels of the Headquarters and field organizations. While the communication vehicles might have taken various forms, past experience suggests that the most common form would have been the reproduction and distribution of the March 19 memorandum.

b. What effort does the Postal Service make to ensure confidentiality for employees who make complaints to the Inspection Service or responsible members of Postal Service management, as well as the IG?

Answer: There are a variety of ways for employees to file complaints with Postal Service management. The Inspector General Act specifically prohibits retaliation against any employee for complaining or disclosing information to a representative of the Office of the Inspector General (OIG). The OIG operates a national toll-free hotline number (1-888-USPS-OIG) which is staffed from 7 a.m. to 7 p.m., Monday through Friday. Most of the inquiries involve employee and labor-management issues. The OIG is very careful to respect the confidences of employee complaints. Moreover, in a March 19, 1998 memorandum to Postal Service Officers, Deputy Postmaster General Michael S. Coughlin specifically stated that "no retaliatory action is to be taken against any postal employee for alleging to the Office of the Inspector General wrongdoing of any sort within the organization." We expect our managers and supervisors to be fully aware of this policy and to act accordingly.

Information provided to the Inspection Service by a postal employee, whether it pertains to criminal or noncriminal activities, is protected from unauthorized disclosure by the federal Privacy and Freedom of Information Acts, as well as by Part 266 of Title 39, Code of Federal Regulations. In addition, as a law enforcement agency, the Inspection Service can assert the federal law enforcement privilege when disclosure would interfere with an ongoing criminal investigation. In both criminal and noncriminal matters, it can grant a pledge of confidentiality to the individual. Employees providing information concerning criminal acts may also be treated as informants under the confidential informant program. Information obtained from confidential informants is not disclosed unless required by law.

Employees may also maintain confidentiality through contact with the Employee Assistance Program (EAP), which provides counseling and referral services by mental health professionals with master's degrees. It is a formal, non-disciplinary program that is free, voluntary and confidential. Our EAP Support Line is staffed by professionals who make every effort to maintain the confidentiality of each caller. Callers may choose to remain anonymous and their calls are not traced. In the event that the EAP Support Line professional feels that he/she cannot properly address the caller's concerns, the professional may submit a Support Line Inquiry Report to the appropriate district Human Resources office to recommend further inquiry. At the discretion of the caller, this report may be submitted confidentially. However, if the caller makes reference to any threats of harm to self or others, the EAP professional is bound by law to report these threats. This message is reiterated to all callers who use the Support Line.

c. Do you believe fear of retaliation by management is a serious concern among Postal employees?

Answer: If only one employee fears retaliation, that is one employee too many. Nonetheless, in correspondence directed to management at the national level, there has been little indication that retaliation is a serious concern among employees. The Office of Inspector General (OIG) reports that two employees have specifically asked for confidentiality in contacts there. The OIG is committed to investigating any allegations of retaliation against employees for reporting fraud, waste, and abuse.

Also, postal employees avail themselves of several different avenues of appeal when they feel aggrieved, including the grievance-arbitration process, the Equal Employment Opportunity (EEO) process, and the Merit Systems Protection Board (MSPB) process. Given the access and use of these procedures, it would not appear that retaliation is a serious concern among employees pursuing these avenues of appeal.

17.) I understand all of the other federal agencies use the "Douglas factors" for all of its civilian employees including non-military personnel at the Department of Defense. Douglas factors can be best described as a check off list that is considered by management prior to deciding how a disciplinary action should be handled. The 12 points addressed in the Douglas factors may weigh in the employee's *favor,* yet may also cause management to view the situation more seriously, resulting in a stiff penalty. To what extent does the Postal Service consistently use the "Douglas factors" as its guidelines in determining the manner that employees and managers are disciplined for infractions of laws? Please expand on the pros and cons of the use of the "Douglas factors" and explain if this criteria is a tool worth implementing.

Answer: The "Douglas Factors" arose out of a decision issued by the U.S. Merit Systems Protection Board. The Board required agencies to apply these factors through its precedent decision in Douglas v. VA, 5 M.S.P.R. 280 (1981). Hence, the term "Douglas Factors" was coined as a result of that decision An agency is required to carefully weigh each of the relevant Douglas Factors when determining the appropriate penalty in a specific situation. Instead of a "checklist," these factors require deciding officials to engage in a deliberative process, evaluating mitigating or aggravating conditions involved in each case. The Board always reviews the agency's consideration of these factors and determines whether the agency official making the decision has carefully considered those factors when choosing a penalty.

As clarification, Postal Service employees who are veteran preference eligibles can appeal adverse actions to the MSPB. In addition, certain nonbargaining employees have the right to appeal adverse actions to the MSPB, depending on the position they hold. For employees in these categories, the Douglas Factors are applied by the management officials taking the disciplinary action. As a matter of policy, the Postal Service references the Douglas Factors as guidance when taking disciplinary actions involving nonbargaining unit employees who do not have access to the MSPB.

For bargaining unit employees who are not veteran preference eligibles and do not have access to the MSPB for adverse actions, the collective bargaining agreements provide that discipline must be based on "just cause." It is that standard which is followed when discipline is initiated. These actions are reviewable by third-party arbitrators who apply this contractual standard to the cases they review.

18.) In Marvin Runyon's response to our follow up question to the November, 1997 hearing, he stated that as of Accounting Period 4, Fiscal Year 1998, there were 26,335 contractual grievances and 5,089 disciplinary grievances pending at the Step 3 of the grievance arbitration procedure. What are the most recent figures? In your view, what is the cause of the rising number of unresolved grievances?

Answer: Presently, we are experiencing a decline in overall grievances at the Step 3 Level. As of Accounting Period (AP) 13, FY98, there were 20,187 contractual grievances pending at Step 3, which is a 13.4 percent decrease from the AP 11 figures. There were 3407 disciplinary grievances , which represents a 23.3 percent decrease from AP 11 figures. The decrease can be attributed to the joint efforts of the two major unions and the Postal Service, all of whom are working to reduce the number of cases. In these joint efforts, which are mediated by the Federal Mediation Conciliation Services (FMCS), we are examining the grievance-arbitration process itself to determine whether there are inherent flaws in the process that inhibit the settlement of disputes at the lowest possible levels.

a. What approaches are being tried to resolve the backlog of grievances and reduce the number filed? Which approaches appear to be the most promising? What has been the experience with alternative dispute resolution techniques such as mediation?

Answer: In the past year and one-half, the Postal Service has worked with the APWU and the NALC to explore and implement various approaches to resolving the grievance backlog and reducing the number of new grievances. We recently began meeting with the Mail Handlers' Union as well.

In May 1997, the Postal Service and the APWU signed an agreement outlining three initiatives to eliminate the grievance/arbitration backlog and to prevent future recurrences through improvement of the labor-management relationship and addressing root causes that generate grievances.

One is the accelerated arbitration initiative, which was applied in the 21 performance clusters nationwide that constituted the largest docket of cases. In this process, management and the union work together to review and complete arbitration hearings of all cases pending arbitration in those locations. Between June 1997 and September 1998, over 20,604 cases were adjudicated through this process. However, the total number of APWU grievances pending arbitration increased during this period, indicating that additional efforts to identify root causes of grievance activity were necessary. Accordingly, beginning in March 1998, meetings were convened with area and local union and management representatives of six of the accelerated arbitration sites in order to further probe the underlying causes of grievance activity. These meetings resulted in action plan agreements between the local parties to resolve specific local obstacles to improved relationships. The results of these meetings have been positive. The parties at the national level recently agreed that the area management and regional union parties would conduct similar interventions in seven additional offices.

A second initiative was the implementation of a co-mediation process in 13 offices. The co-mediation process is still evolving at present, and additional experience with the process is necessary to determine whether this process can directly and positively impact labor-management relationships. On August 5, 1998, the parties agreed at the national level to consider requests from any office where local management and union representatives are mutually interested in participating in co-mediation.

The third initiative with the APWU provided for mediation by FMCS on two sites. One site reports a high degree of success in improving communications and relationships to date. The second site is still in the process of finalizing the parameters for co-mediation.

A fourth initiative was undertaken in May 1998 with the APWU, involving a pilot to test a modification to Step 3 of the grievance procedure. The objectives of the pilot were to streamline the grievance procedure, to resolve employee issues in a more timely fashion, and to allow more local control and accountability for existing grievances.

In October 1997, the Postal Service and the NALC signed a comprehensive agreement to address grievance backlogs, the causes of grievances, and the procedure for resolving grievances and union-management relationships. Pursuant to that agreement, the parties have reviewed and resolved many pending grievances; developed and distributed throughout the country a joint contract administration manual which provides guidance to the field on various contract issues; conducted joint training; and implemented a test of a revised dispute resolution process in 19 districts in the Postal Service. The efforts have been well received and the results from the first four months of the dispute resolution process test are very promising.

b. What is the status of ongoing efforts to improve the employee dispute resolution process that involves employee organizations and unions? Have the Postal Service and the employee organizations and unions reached a mutual understanding of the causes of employee disputes and what needs to be done to improve the employee dispute resolution process?

Answer: The Postal Service-NALC dispute resolution process test has been underway for four months, and the results from the 19 districts participating in the test are very encouraging in terms of its success as a dispute resolution process. The test is also furthering the parties' understanding of the issues which drive grievances in the Postal Service. Pursuant to the parties' October 1997 agreement, the test will continue for one year unless the parties agree otherwise. The Postal Service and the NALC hope the new dispute-resolution process will more effectively address conflicts in the workplace.

Quarterly meetings are held with national and area management and union representatives to evaluate the outcomes of the accelerated arbitration, on site joint interventions, co-mediation and FMCS mediation, and the Step 3 initiatives noted above. The meetings held with area and local management and APWU representatives to discuss root causes of grievances were beneficial in understanding the nature of disputes at the local levels that can drive grievance activity.

Contract negotiations provide a unique opportunity to address issues contributing to grievance activity, as well as to explore opportunities to improve the employee dispute resolution process.

19.) The Postal Service Strategic Plan barely mentioned the need to improve labor-management relations in the executive summary, and the preliminary Annual Performance Plan contained little discussion of how improving labor-management relations could contribute to the Service achieving its performance goals.

In light of your renewed focus on labor-management relations, how will the Postal Service address labor-management relations in the final Annual Performance Plan that it is preparing to comply with the Government Performance and Results Act?

Answer: Our Annual Performance Plan reflects the fact that improving workplace relationships with employees and the unions and management associations that represent them is a key objective of the Postal Service. Initiatives and key programs will focus on reducing conflict in the workplace, on identifying and eliminating root causes of labor disputes, on building knowledge of the contents of labor contracts, and on improving the effectiveness of grievance-arbitration procedures to resolve labor disputes.

Significant efforts already underway as a result of the postal "summit" facilitated by the FMCS include joint meetings of union and management representatives from the national and field levels, review and resolution of pending grievances, accelerated arbitration, development and testing of alternative dispute resolution procedures, joint training on contract issues, and development and issuance of joint contract interpretation manuals designed to provide guidance to union and management representatives throughout the organization.

The forthcoming negotiations with three of the Postal Service's four major unions also present a unique opportunity for the parties to address workplace relations issues of mutual concern and to build upon ongoing efforts to improve our union-management relationships. Finally, ongoing quality of work life processes with our postal unions will continue to explore ways in which relationships with employees and unions can be strengthened.

20.) The Postal Service's Strategic Plan indicated that it would measure progress toward a key goal--enhancing the workplace environment to improve relationships with employees--through an employee survey. We understand that the Postal Service has finalized plans for the employees to be conducted quarterly, starting this summer with a mailing to letter carriers.

a. Why does the Service intend to survey all employees even if APWU is opposed? Won't this lead to biased results and another failed survey?

Answer: The Postal Service is implementing the new Voice of the Employee (VOE) survey because it feels that a direct "voice of the employee" is a critical input to its decision-making. All the major unions and management associations were invited to participate in development of the survey process. The three management associations and two of the four unions are cooperating in the survey process. We expect that a significant number of employees will respond to the survey, and we believe the survey will result in useful, unbiased information.

b. Were all postal unions and employees' associations consulted about the employee survey? If so, when? What information was shared? Have all of the unions received a copy of the draft questions? Which unions provided comments? Please submit any written comments on the survey for the record.

Answer: To provide expertise and guidance, the Postal Service hired an outside contractor, Booz Allen & Hamilton, to perform a "best practices" study of companies using employee surveys and to recommend a course of action for the Postal Service. In September and October of 1997, a briefing of these findings was offered to the four major unions and three management associations. Each of the seven organizations appointed a person to represent that group in developing the survey. Each group's representative was then interviewed by the project manager from the Gallup Organization, the firm contracted to implement the survey process. Interview summaries as well as the draft questions were shared with all the representatives from the organizations. Written comments on the draft questions were submitted only by the National Association of Letter Carriers (NALC) and the National Postal Mail Handlers Union.

c. What will the survey cost? What will the methodology be? Has it been pre-tested? Please submit a copy of the final questionnaire and any contracts to develop, administer, or analyze the survey for the record.

Answer: The contract for surveys for the last two quarters of FY98 is in the amount of $576,267 with a requested addition of $65,398. With the exception of the city letter carriers, one-quarter of the remainder of the postal career employees will be surveyed each quarter. All city letter carriers were given a survey in the July 1998 administration. Most of the questions have been pre-tested in that they have been used in previous surveys. Only a few new questions are being used in the 1998 survey administration for the first time. Attached is a copy of the questionnaire.

d. Why did the Service add questions by the National Association of Letter Carriers (NALC) to the draft employees survey? Who will pay the expense for developing, tabulating, analyzing, and reporting on the NALC questions? Who will receive the results?

Answer: In addition to the three management associations, two of the four unions, the NALC and the National Rural Letter Carriers' Association agreed to cooperate with the survey process. Of these five groups, only the NALC submitted additional questions. After receiving the NALC questions, the other unions were asked if they wanted the additional questions on the surveys for their members; they responded they did not. Consequently, only city letter carriers received the additional NALC submitted questions. Approximately $20,000 was added to the survey contract to provide a survey to city letter carriers that contained the additional questions. Distribution of the results from these additional NALC-added questions will be jointly decided by the Postal Service and the NALC.

e. GAO's 1994 report on labor-management relations (GAO/GGD-94-201 B) reported that the postal workforce generally gave the Service low marks in its 1992 and 1993 employee surveys. Less than 50 percent rated the Service favorably on 15 of 20 questions regarding matters the Service believed were under the control of unit management and for which it was to hold supervisors, managers, and executives accountable. The Service considered these questions so important that it created a special index to summarize the results. However, most of the 20 questions were deleted or revised in this year's draft survey, including all 8 items that generated the lowest ratings. Why was the survey changed in this way? To what extent has the Service created a biased survey?

Answer: Questions were included in the VOE survey to cover all the major areas of the workplace environment. These questions included items on discrimination, harassment, and violence in addition to questions on reward and recognition, communications and supervision. These are all areas that were covered on earlier surveys even though the total number of questions on the current survey is about half that of the 1995 survey. The project manager from the Gallup Organization assisted the Postal Service in developing the draft set of questions which was then reviewed by interested parties and revised to account for suggested changes. The majority of the 20 questions used as an index in the earlier Employee Opinion Surveys were kept in the present survey. Only slight wording changes were made in some of these questions. We do not believe the VOE survey is biased.

f. How will the Service use the survey results? Will they be used in upcoming labor negotiations? Will results be made available to all Service employees and the public?

Answer: The Postal Service will use the results to help identify workplace environment issues needing special attention. The Postal Service has indicated that results from the survey will not be used in collective bargaining unless all parties agree. National results will be published in national postal publications and local management is encouraged to disseminate local results to employees. There are no plans to release results to the public. Any distribution of the results from the NALC-added questions will be jointly decided by the Postal Service and the NALC.

21.) One case where the Service has failed to reach a labor agreement involves a three-year-old wage dispute between the Postal Service and pilots who fly Express and Priority Mail under the ANET contract. The Labor Department sets wages under the Service Contract Act based on the prevailing wage. However, the Postal Service refuses to implement Labor's 1996 decision, insisting that wages paid to UPS and Federal Express pilots should not count because these carriers operate in a different "market."

The Service has unilaterally imposed far lower 1989 wage rates, and settlement negotiations are languishing with no end in sight. We are concerned that the Postal Service is engaging in foot-dragging to save money, pay unfairly low wages, and gain an unfair competitive advantage in the expedited delivery market.

a. In light of Postmaster General Henderson's statement that he is giving top priority to reaching wage agreements, when will this lingering dispute be resolved? Why won't the Postal Service pay prevailing wages? Aren't 1989 wages unfair and anti-competitive? What specific steps is the Service taking to reach an agreement? Will any wage increase be retroactive to avoid penalizing hard-working pilots?

Answer: The Postal Service does not employ pilots, and does not negotiate "labor agreements" with pilots. Rather, pilots are employed by the private commercial air carriers that perform postal contracts for dedicated air cargo transportation service for mail, including Express and Priority Mail. We are advised by the carriers that the pilots are paid the same wages for flying aircraft carrying mail that they are paid for transporting the commercial cargoes which constitute the bulk of the contract air cargo carriers' work. However, the Postal Service is a party, along with a number of individual contract air carriers, two trade associations representing numerous other affected carriers, and the Department of Defense Air Mobility Command (AMC), in ongoing administrative proceedings at the Department of Labor (DOL), involving the appropriateness of certain wage determinations issued in 1996 by the DOL Wage and Hour Division (WHD) under the McNamara-O'Hara Service Contract Act, as amended, 41 U.S.C. § 351 et seq. (SCA). The challenged wage determinations impose two separate wage scales. These scales are based upon different methodologies and result in substantially different wages for the same pilots flying for the same carriers, depending solely upon the size and duration of the particular postal contract. Moreover, the challenged wage determinations abandoned the methodology which WHD had consistently applied in numerous instances over several prior years, resulting in huge increases far outstripping the modest 9.7 - 13.1 percent increase in the all-carrier median wage rates for Flight Captains and First Officers between 1989 and 1995. A brief history follows:

At the time the Postal Service initiated its competitive solicitation for dedicated contract air cargo carriage for the overnight transportation of Express and Priority Mail (ANET) in the spring of 1992, WHD directed the Postal Service to include in the resulting contract a wage determination (No. 92-0397, issued 5/29/92) which we understand was based upon a 1989 study by DOL's Bureau of Labor Statistics (BLS). That wage determination, while specifying minimum wages above what many of the contract air cargo carriers were then paying their commercial pilots, was not challenged by any carrier and was incorporated in the ANET contract and other later postal contracts as directed by WHD. These same wage rates were adopted again by WHD in two subsequent revisions to that original wage determination in 1993 (No. 92-0397 Rev. 1, issued 2/11/93, and No. 92-0397 Rev. 2, issued 10/26/93), and again in March 1995 in a brand new wage determination (No. 95-0229, issued 3/22/95).

In June 1996, as part of a periodic review of wages under the ANET contract, WHD issued a new revision (No. 95-0229 Rev. 1, issued 5/15/96), based upon a totally new and anomalous methodology, which resulted in increasing the mandated minimum wages by an astounding 104.4 percent for Flight Captains and 60.1 percent for First Officers over the wage rates issued less than 15 months earlier. Among other things, WHD's methodology anomalously included extra duty pay (i.e., overtime), and ignored industry seasonality, in establishing minimum or base monthly pay. WHD's methodology also failed to consider the differences in pilot seniority, aircraft type, required flight hours and carrier size, which were expressly identified by BLS as the key determinants in setting pilot pay.

These new minimum wages were so far above the prevailing wages generally paid in the dedicated contract air transportation industry that the Postal Service, for the first time ever, found it necessary to avail itself of the reconsideration and appeal process available under

DOL Regulations (29 C.F.R. § 4.56(a)), to challenge a wage determination. The ANET contractor separately challenged the proposed new wages, as did numerous other carriers, two industry trade associations and AMC.

In a decision issued on December 13, 1996, the DOL's Wage-Hour Administration (WHA) sustained in part the challenges to the May 1996 wage determination and rejected in part the methodology used therein. Instead, WHA, based upon a further new methodology inconsistent with DOL's announced preference for use of median data, directed a new, two-tier schedule of wages based upon the magnitude and duration of the particular postal contract. While the resulting wages were less than those announced by WHD in June, the result was still to effect huge increases of up to 69.1 percent for Captains and 39 percent for First Officers over the prior established minimums.

The Postal Service and other interested parties, including one of the affected pilots, appealed this decision to the DOL's Administrative Review Board (ARB). In late July 1997, the ARB remanded the matter to WHA for a preliminary determination as to whether the subject pilots are "exempt professional employees" outside DOL's jurisdiction under the SCA. The ARB specifically inquired whether there is any basis for differentiating the subject multi-engine commercial jet pilots from the small turbo-prop company aircraft pilot who was held to be an exempt professional by the United States Court of Appeals for the Fifth Circuit in Paul v. Petroleum Equipment Tools Co., 708 F.2d 168 (5th Cir.), reh. en banc den., 714 F.2d 137 (1983) (Paul). WHA's decision on this issue is still pending, but is anticipated to be issued very soon. A DOL Administrative Law Judge (ALJ) recently ruled, in an unrelated proceeding, that pilots operating under postal air taxi contracts are exempt professionals (Suburban Air Freight, Inc., DOL Case No. 97-SCA-4, decided July 23, 1998).

If WHA rules that the subject pilots are professionals, that will conclude the litigation from the Postal Service's standpoint. If WHA rules that the pilots are not professionals, issues such as the appropriate prevailing wages, as well as the professional exemption, will be considered by the ARB. Subsequent court appeals may be filed by any interested party.

Question: Why won't the Postal Service pay prevailing wages?

Answer: As noted at the outset, the Postal Service does not pay the subject pilots; rather, they are paid by the respective employing carriers. However, under the SCA, the Postal Service is required to include DOL wage determinations in service contracts when directed by DOL. These wage determinations specify minimum wages and benefits required to be paid by the contractors to service employees under the subject contracts. The specified minimum wages are supposed to reflect the appropriate prevailing wage in relevant locality. However, in the event that any interested party, including the contracting agency (here, the Postal Service), does not believe that the specified wages correctly reflect the prevailing wages or are otherwise invalid, the DOL regulations expressly provide a procedure for review of such issues. The Postal Service and numerous other interested parties have availed themselves of this administrative review process, and such process is ongoing. The Postal Service will incorporate any wage determination which may be determined applicable to postal contracts once the review process, including any court appeals, is completed.

Question: Aren't 1989 wages unfair and anti-competitive?

Answer: Pilots under postal contracts are not paid 1989 wages. Pilot pay is determined by the various contracting carriers based upon current, competitive market conditions and, in some cases, pursuant to freely negotiated collective bargaining agreements. The wage determinations incorporated in current postal contracts were issued in 1992 and later. They merely establish minimum wages and benefits which must be paid. In addition, under the long-term ANET contract, the Postal Service has paid for, and the pilots have received, annual increases in pilot pay based upon the Consumer Price Index for

Wages (CPI-W). Additionally, the subcontractors which employ the ANET pilots have chosen to pay the pilots for extra duty time and bonuses in excess of the minimum pay required by the SCA.

What would be anti-competitive would be to require the commercial providers of contract air cargo transportation services to have to pay, and the Postal Service to have to reimburse, extraordinarily higher wages to pilots flying under Postal Service contracts than the same or comparable pilots receive when the carriers contract with UPS, Federal Express, or their other customers. Some of the key carriers which provide dedicated cargo contract service have stated that, if postal contracts require them to pay pilots so much more than the prevailing rates, these carriers may be forced to forego competing for future postal contracts.

Question: What specific steps is the Postal Service taking to reach an agreement?

Answer: The Postal Service does not employ pilots, and does not negotiate labor agreements with pilots. The Postal Service has made good faith efforts to settle the SCA pilot wage litigation described above. Postal representatives have had numerous discussions with the attorneys representing a group of the ANET pilots. The Postal Service has made what it believes to be a very generous proposal of wage determination amounts which the Postal Service, its ANET contractor and the pilots, if in agreement, would jointly recommend to the DOL. The pilots' attorneys have not responded to the Postal Service's last letter discussing this proposal.

Question: Will any wage increase be retroactive to avoid penalizing hard working pilots?

Answer: The Postal Service believes it likely that the litigation ultimately will determine, as previously ruled by the Fifth Circuit in the Paul case and by DOL's ALJ in the Suburban Air Freight case, that the subject pilots are exempt professionals who are not covered by the SCA. However, the Postal Service has indicated both to WHD and to the pilots' attorneys the Postal Service's willingness to adjust pilot pay retroactively if the ultimate result of the litigation is the application of wage determinations to the ANET pilots, or, alternatively, if the parties negotiate mutually acceptable minimum wages which are adopted by the WHD.

22.) Unlike other federal entities, the Occupational Safety and Health Administration (OSHA) conducts over 200 inspections per year in Postal Service facilities. Although the USPS must comply with OSHA standards, it is exempt from penalties for health and safety violations because it enjoys federal agency status under the OSHA laws. It has been reported by the Bureau of Labor statistics that 78,671 cases have been filed related to injury or illness due to the workplace environment of the Postal Service.

What are your views about mandating the Postal Service to abide by OSHA regulations as is currently done in the private sector?

Answer: On September 28, 1998, the President signed into law S. 2112, which applies private sector OSHA regulations to the Postal Service.

23.) The Postal Service has offered to pay judgment in a case involving three Colorado postal workers whose sexual harassment complaints have been ignored by management for more than a decade, according to a recent news article. What were the specifics of this case? What was the problem, and what disciplinary action was taken? How much will the Postal Service pay to remedy the situation? Does this case reflect on the Postal Service's ability to maintain a workplace environment free of sexual harassment?

Answer: We believe you are referring to the case of Harrigan, et al v. Runyon in the U.S. District Court for the District of Colorado, Civil Action No.96-8-384. The case arose out of the Alamosa, Colorado Post Office. The case involved allegations of a hostile work environment perpetrated by John Walsh, who was the president of the local American Postal Workers Union (APWU) branch. Mr. Walsh was a clerk at Alamosa as were two of the three females involved in the litigation. The third female was a contract employee.

When allegations regarding Mr. Walsh's activities were called to the attention of the Denver District Office, an investigation was initiated resulting in the emergency suspension and subsequent removal of Mr. Walsh. Mr. Walsh's grievance of his emergency suspension was sustained by an arbitrator. The grievance filed regarding his removal, however, was denied by the arbitrator and Mr. Walsh was separated from the Postal Service. In assessing the facts in this case, the Postal Service decided to resolve the court litigation. The resolution provided for the payment of $180,000 to the three plaintiffs and an additional $80,000 in attorney fees and costs.

The Postal Service has developed a very aggressive approach to deal with allegations of sexual harassment in the workplace as reflected by the action taken by the Denver District Office in this case.

a. How many sexual harassment claims have been filed against the Postal Service in recent years, and what was the outcome? How much has the Postal Service paid in damages and legal fees in sexual harassment cases? How many cases are pending? Please list citations of sexual harassment decisions involving the Postal Service and provide documentation of any court orders or written agreements the Service has entered into as a result of sexual harassment cases.

Answer: This response is based on data for FY96 and FY97. The response reflects two categories of cases: administrative claims in the federal EEO complaint process, and claims in the federal court system.

The first category reported covers formal EEO complaint activity which involved sexual harassment claims. For FY96 and FY97, there were 615 formal complaints filed. Of those 615 cases, 210 are still pending in the process at either the investigative, hearing, or appeal stages. Fourteen cases were settled for $1,132,000 in backpay/compensatory damages, and $210,000 in attorneys' fees. There were six findings of discrimination by the EEOC, resulting in $30,300 in backpay/compensatory damages, and $8,800 in attorneys' fees. The second category reports cases in federal court which involved sexual harassment claims. For FY96 and FY97, there were 160 such cases filed against the Postal Service. Of those, 41 are still pending. During FY96 and FY97, 60 of the sexual harassment cases were settled for a total amount of $3,898,747.00 in backpay and compensatory damages, and a total of $562,241.00 in attorneys' fees. In addition, during that same FY96 and FY97 time period, the Postal Service received adverse decisions in eight cases, resulting in $417,400 in backpay and compensatory damages, and $229,356 in attorneys' fees. Also during FY96 and FY97, the Postal Service received favorable decisions in 51 cases. Attached are lists of the sexual harassment cases the Postal Service has had pending, filed against it, or disposed of in the past few years, including some cases from FY98. In addition, copies of settlement agreements which do not contain confidentiality clauses are also attached.

b. What are the current Postal Service policies regarding sexual harassment? Is the Postal Service considering changes in its policies regarding sexual harassment?

Answer: Included with these responses for the record is the Postal Service policy on sexual harassment which was issued in the August 13, 1998 *Postal Bulletin*. The policy is disseminated to all postal facilities. Poster size format of the policy is also displayed in every facility. The policy reflects the position of the Postal Service as well as the current status of the law, and is reviewed and updated by the leadership of the Postal Service every two years.

c. What formal training have Postal Service employees received regarding sexual harassment? What written guidance has been distributed? Please submit a copy of this guidance for the record.

Answer: In FY98, the Postal Service hired about 40,000 new employees. As part of the orientation process, these employees received an overview of the Postal Service's policy on sexual harassment and what to do if they have reason to believe that they have been sexually harassed. Out of roughly 74,000 supervisors and managers, approximately 50,000 received training on sexual harassment awareness and prevention.

An *Employees' Guide to Understanding Sexual Harassment*, was mailed home to every employee during July and August of 1998. A copy of the Postal Service policy statement on sexual harassment is also included in the guide. An updated version of the *Managers' Guide to Understanding Sexual Harassment* is being completed and will be mailed to the homes of all supervisors and managers by the end of the fiscal year. Further, managers and supervisors give periodic "stand-up talks" to craft employees on the subject of sexual harassment. Other forms of internal media tools that are used to communicate the Postal Service policy on sexual harassment are: Direct Line, Postal Vision, Area Updates, and *Postal Life* magazine.

Finally, the Postal Service developed a new sexual harassment awareness and prevention video entitled, "It's an Issue of Respect... and it's the Law!" in both English and Spanish. The video is a part of the new training program for all levels of employees.

The Postal Service has offered sexual harassment prevention training to its employees for several years. In the spring of 1998, training was given to 229 facilitators to teach them how to present a new eight-hour sexual harassment prevention and education course to all managers and supervisors. This week-long course was designed to ensure uniform dissemination of information. In addition, this course introduced and taught the Management Inquiry Process (MIP) to all the facilitators.

The MIP is the tool that managers and supervisors will use to start an inquiry into allegations of sexual harassment. This will provide employees with a system for reporting and hopefully resolving many complaints of sexual harassment. The MIP, coupled with a new tracking system that is under development now, will allow the Postal Service to track allegations and to initiate early intervention in areas where there are several complaints.

The new 8-hour course has been customized into two four-hour modules. Part one consists of definitions, statistics, and general information that teaches the employee how to recognize and prevent sexual harassment in the workplace. Part two teaches the MIP. This training design allows employees to take the modules on separate occasions. It also allows the facilitator greater flexibility in expanding the information in either area.

24.) In an August, 1993 hearing before the Post Office and Civil Service Committee, Mr. Runyon defended the Postal Service's action in contracting out for background checks on postal career and non-career applicants because he believed this was one method that could help deal with workplace violence. And, in response to a follow-up question to our February 1995 hearing, Mr. Runyon stated that the contract was being renewed for another year in order to assess whether other changes in the Service's employment screening process would improve the overall quality of hires. Yet, Mr. Runyon described the problems the Postal Service had been experiencing with the timeliness and lack of completeness with the information received by the contractor.

a. Does the Postal Service presently contract out for help with completing background checks? If so, have the responsibilities of the contractor(s) changed? How often is the contractor involved in conducting background checks? Is the Postal Service still experiencing problems? If so, what problems currently persist?

Answer: The Postal Service terminated the contract for background checks on postal career and non-career applicants in 1995. We concluded that contracting out nationally with an outside vendor to obtain background information on postal applicants is not a viable option. The problems we experienced during this contract period would be faced by any vendor attempting to respond to the Postal Service's hiring

volume and turnaround time. We also determined that the information being gathered during the background check process rarely provided any new or different information than what is reflected on the application.

b. Does the Postal Service complete the full background check as required for all postal career and non-career applicants? Is the local law enforcement check and the FBI record check still required and completed in all cases? Who is responsible for arranging the local law enforcement check and the FBI record check? Please submit copies of recent Inspection Service reports on this subject for the record.

Answer: A criminal records check is conducted at the local Human Resources (hiring) level for postal career and noncareer employees. Fingerprints are submitted to the FBI for a record check through the Office of Personnel Management's Special Agreement Check (SAC) process. Derogatory information developed as a result of the FBI record check is returned to the Inspection Service for review.

Although an Inspection Service sampling of employee hiring records revealed that appropriate record checks were not completed in all cases, Human Resources officials have been monitoring this process to ensure record checks are completed properly. A copy of the Postal Service Hiring Practices National Coordination Audit (NCA) report is attached as requested.

In conjunction with the termination of the contract, we restructured the overall hiring process to place the emphasis on making hiring decisions using local criminal records check and employment and criminal history background reflected on the application and probed during the interview. Our overall strategy was to strengthen the application review and interview process to ensure that a conscious decision is made regarding who to select and who to screen out. Instructional guidance on application review and interviewing were deployed nationally during face-to-face training sessions.

With this new approach, prior employment and additional criminal records checks are obtained only on those individuals who are actually hired. For all newly hired postal employees, our human resources personnel must request OPM Special Agreement Checks (SAC) which currently include checks of OPM's Security/Suitability Investigations Index; Defense Clearance and Investigations Index; FBI Fingerprint Classification; checks of employment history (except postal employment) for the last five years and criminal conviction history in locations where the employee resided, worked and went to school within the last five years. This provides a safety net and security check for those situations where falsification of information was involved. A copy of the current SAC procedures is attached.

c. Has the Postal Service made other changes in its employee screening process to prevent workplace violence and improve the quality of its hires? Please provide documentation of the information that is currently required to be obtained during the employee screening process.

Answer: We are continually working to improve our screening and hiring procedures. In conjunction with an overall review of our systems and processes to improve the overall safety of our workplace, we have several initiatives underway. The most significant is the application of process management to our Special Agreement Checks (SAC) process, our fundamental suitability screening safety net.

We are also examining and redeploying other key elements of our process including the employment interview and the probationary period. As mentioned above, we are also increasing our partnering with the Inspection Service to assure that our field Human Resources staffs get the benefit of Inspection Service hiring audit findings and that we use information on problem hires to assess our processes. A copy of the current OPM SAC procedures, which documents the information required to be obtained during the employee screening process, is attached.

25.) The 1970 Act that created the Postal Service states that "The Postal Service shall have as its basic function with the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities." For more than 200 years, the Postal Service has fulfilled its universal service mission by delivering the mail and providing retail services at post offices.

a. In its Strategic Plan, the Postal Service stated "the mission of the Postal Service continues to evolve in anticipation of a changing communications marketplace in the 21st century." What is the meaning of this statement? How is the mission of the Postal Service evolving today? Does the Postal Service expect its mission to evolve and change in the future? If so, what is your vision for the future of the Postal Service?

Answer: We expect the mission of the Postal Service to continue to evolve in the 21st century in response to the changing requirements of our customers, just as it has for the past two centuries. Just as the delivery infrastructure has changed to accommodate new technologies such as air mail, so too have the services that customers expect from the Postal Service evolved over time. While the Post Office as town meeting place may still be a reality in some communities, in other locations, speed and convenience are attributes that are highly valued by postal customers.

In a changing marketplace in which electronic communications are becoming more important to customers, we may find that the value of the mail can be enhanced by making its connection to electronic communications more easily accomplished. A new age of smart envelopes is already anticipated by the envelope manufacturers. Remittance mailers are experimenting with the Planet Code. The postal infrastructure includes a larger installed base of optical character readers than any other institution in the world. Perhaps in future years, our customers will find new uses for the infrastructure.

Similarly, the access that the Postal Service provides to all Americans may become even more important to our customers in an age in which the distinction between information haves and have nots is increasingly stark. In future years, the Postal Service looks forward to working with Congress as we adjust our services to fulfill a mission that is grounded in American history and at the same time dynamic and relevant.

b. The Postal Service's Strategic Plan also states that "The Postal Service will evolve into a premier provider of 21st century postal communications." Does this statement suggest that the Postal Service intends to fulfill its mandate to bind the nation together by becoming a premier provider of electronic communications services? Will the Postal Service's focus on providing universal delivery of hard copy mail and universal access to postal retail services be negatively affected by venturing into this new realm of communication?

Answer: There will not be any negative impact on hard copy and retail services. Certainly in other posts around the world, electronic services have already been defined to be postal communications as well as telecommunications. Indeed, electronic services now substitute and enhance banking services, transportation, education and so forth. In Australia, the post provides electronic commerce services to its customers. In Sweden, the post maintains an electronic marketplace. In Canada, the post has been developing electronic courier services.

Today, postal customers already seek to do business with the Postal Service by electronic means as well as by traditional paper communications. For example, large mailers now often consult the postal Web Site for information or use smart forms to enter bulk mail. These examples of the way in which electronic communications are now being defined as postal services will only grow as customers demand of their service providers that new electronic media be employed to create service that is convenient. In contrast with the often-repeated notion that development of electronic services might detract from the Postal Service's ability to carry out its core mission, the convenience, speed and accuracy of electronic services are likely to help the Postal Service be more effective in performing its mission in the future.

c. Deputy Postmaster General Michael Coughlin recently announced that the Postal Service will test a new global electronic communications service that uses the Internet. Mr. Coughlin said that the Postal Service is working to sell electronic communications services as "a logical evolution of our original charter to provide seamless communications to our customers." Why is the Postal Service changing its original charter without consulting the Congress or the American people? Isn't the Postal Service charged by law to provide postal services rather than communication services in general? Does the Postal Service desire to change its charter and provide communication services over the Internet represent the desire to justify its existence and to grow for the sake of growth?

Answer: The question implies that the Postal Service has not consulted with Congress about the introduction of new services. In fact, the opposite is true. Former Postmaster General Marvin Runyon outlined a vision for the Postal Service's contribution to the information superhighway as early as 1993. In March 1994, he testified before the oversight committees that the Postal Service could provide an "on ramp" to the information superhighway.

Mr. Runyon frequently spoke of the Postal Service as America's first communications company. Certainly the Postal Service, which is owned by the American people, has an opportunity to create dividends for its stakeholders by creating value for its customers in new ways. To fail to recognize new opportunities to serve postal customers through seamless and secure communications would be to fail in our responsibilities to the American people, our stakeholders. This recognition of our responsibility to continue to adapt our services to changing customer requirements does not, however, mean that we will dissipate their resources by entering new non-postal businesses or losing sight of our core mission. We have the responsibility to continue to improve postal services, including using new technologies where appropriate.

26.) As you know, the Postal Rate Commission has the authority to recommend rates for domestic mail to ensure that they cover costs and fairly contribute to overhead. However, given that international mail was not addressed in the 1970 amendments, the Postal Service unilaterally sets international postage rates. Some domestic mailers, particularly the captive customers, as well as competitors have long maintained that some international postal rates fail to cover costs, but have no recourse because the Postal Rate Commission has no authority in this area.

For example, in the recently issued Cost and Revenue Analysis Report for fiscal year 1997, International Mail has a cost coverage of 127.6 percent - compared with the systemwide cost coverage of 179 percent for all mail. One can understand that competitors and users of international mail may be concerned that some categories of international mail may be below cost, even though total international mail may be above cost.

a. Why must the American public take it on faith that international mail is fairly priced? Isn't this a case of "trust us, we're the government?" If, as a matter of public policy, it is appropriate that the Postal Service does not unilaterally set domestic mail rates (which includes very competitive products like Priority Mail), why should the Postal Service set rates with no oversight for international mail?

Answer: The authority for setting international postage rates has been vested with the Postal Service since 1970 under the Postal Reorganization Act. This conforms to the rate setting authority vested in the Post Office Department nearly a century earlier. While cost coverage comparisons between domestic mail and international mail do not lead to the conclusion that international mail is offered below cost, it does show that the Postal Service and its predecessor have exercised their responsibilities in a manner deserving public trust and confidence. International mail does cover its attributable cost. International mail has consistently generated contributions for the Postal Service, and in particular, has done so in every year following the suspense of the private express statute on outbound international mail traffic

from the United States. Increases in international traffic since 1988 substantiate the trust established between the mailing public and the Postal Service during a period of intense competition, which includes private sector providers and the foreign postal administrations of Denmark, France, Germany, Great Britain, the Netherlands, and Switzerland.

The Postal Service does not see a conflict in public policy regarding current regulatory oversight of domestic services, and the authority the Service has for international mail. In the first instance there are issues that properly deal with domestic monopoly conditions, while comparable conditions no longer apply to international mail. The market and competition provide de facto regulation of what international prices should be set. In addition, there is the dimension of time dependencies that requires flexibility to quickly respond to customer needs in a changing global environment where a given regulatory process may be insufficient.

b. Would you agree that it would be improper for the revenue from any category of International Mail cost to be below attributable costs?

Answer: It is the intention of the Postal Service to provide compensatory rates for all of its services. Therefore, we would agree that, generally speaking, it would be inappropriate for the revenues of any type of mail or class of mail service to be below costs over some period of time. However, the introduction of a new service may not be fully compensatory because initial traffic levels may not generate sufficient revenues in the short term to cover specific levels of investment, and attendant start-up costs as volume and revenue begin to grow.

27.) I know that you have asked the Inspector General to assess the international mail matter, and in fact, the Subcommittee had asked the IG to begin looking into this matter earlier this year. However, a one year snapshot review, particularly of a very complex, statistical arena as rate-setting, probably requires an agency such as the Postal Rate Commission since it has on-going expertise in this area.

a. I'm not suggesting that we institute the same lengthy rate-setting process that we have for domestic mail, but why hasn't the time come for Congress to give the Postal Rate Commission some authority over international rates? Does the Postal Service believe that the PRC should not be able to make an independent determination of international mail costs, in order to ensure that domestic ratepayers are not cross-subsidizing international mail, and equally important, that specific international mail products cover their costs?

Answer: Domestic rate payers are not cross subsidizing international mail users. Information has always been provided to the Postal Rate Commission as part of omnibus rate filings from which this determination can be made. Indeed, Commission Recommended Decisions provide de facto evidence that a cross subsidy between the two mail classes does not exist. The competence of the Commission is not at issue. Rather the ability of foreign posts and other competitors intervening in international regulatory proceeding is a serious concern which places at risk the long term viability of a class of mail that produces about $300 million a year in contribution.

b. Since the Service uses the Postal Rate Commission's costing methods for domestic mail, but doesn't use the same methodology for International Mail (i.e., different definitions of attributable costs), isn't there literally a double standard?

Answer: The Postal Service uses the same data systems and procedures to develop international costs as it does for domestic costs. There is no difference that could be considered as creating a double standard. The Postal Rate Commission makes its own estimation of postal costs, using its own costing methodology. But as far as the Postal Service is aware, there is no inconsistency in its estimation of domestic and international costs.

28.) During the rate case, the PRC questioned the accuracy of the underlying information used as the basis to justify higher postal rates, expressing strong concern that extrapolations from 1996 data were inaccurate. PRC offered to work cooperatively with the Service to resolve the case using better, more up-to-date information, but the Service refused to provide more recent data and gave virtually no explanation for its decision.

a. PRC Chairman Ed Gleiman has said the Postal Service's refusal to work cooperatively and provide better data reflected a preference for form over substance, to the detriment of the mailing public. What is your response?

Answer: The Postal Service does not view its response to the Commission's suggestions regarding submission of additional data as reflecting either an unwillingness to cooperate, or a preference for form over substance. As prior communications with this Committee have discussed, the Postal Service's response had a substantial basis. First, in every general rate proceeding, the Postal Service submits a vast amount of data, data that are more than sufficient to enable the Commission to carry out its statutory function of recommending postal rates and classifications. Furthermore, in each case, to the extent permitted by the 10-month time limit on Commission rate proceedings set out in the Postal Reorganization Act, the Postal Service submits supplemental data on its revenues, costs, program changes and other key factors. The most recent rate proceeding was no exception to this practice. Second, given the adequacy of the information already provided to the Commission, the Postal Service considered the Commission's suggestion that its proceedings be delayed by several months, to allow additional data to be developed and incorporated into its deliberations, to involve an unnecessary and ill-advised conflict with the statutory ratemaking scheme. Finally, to the extent that the Commission raised concerns regarding the size and timing of the most recent recommended rate changes, the Governors were mindful of their discretion, under the Act, to defer implementation until the appropriate moment. The result of the Postal Service's actions in the most recent rate proceeding will be a set of very moderate rate increases, which will not take effect until next year.

b. Why did the Postal Service fail to explain its refusal to provide more accurate data for setting postal rates? Was the data outdated, inaccurate, and unrepresentative? If you continue to believe the data was sufficiently accurate, please provide detailed comparisons of the 1996 projections and actual data from 1997 to support your view that the data the Postal Service submitted were sufficiently accurate and representative to establish new rates.

Answer: The Postal Service did not refuse to provide more accurate data. The FY97 Cost Review Analysis Report (CRA) requested by the Commission was completed and audited in June of 1998. As such the 1997 cost data sought by the Commission was not available when requested, and could not have been produced during the Congressionally-mandated 10-month span of the proceeding.

Furthermore, it would be an error to conclude that the 1996 projections of 1997 costs ultimately relied upon by the Commission were inaccurate or unrepresentative. The attached table shows a detailed comparison of the projected and the actual 1997 costs, and the small percentage differences between them. The table shows that the data the Postal Service submitted were sufficiently accurate and representative to establish new rates. Furthermore, it must be borne in mind that although the Commission lacked the time to incorporate the FY97 CRA into its calculations, it nevertheless reduced the Postal Service's revenue requirement by nearly $750 million, based on financial information voluntarily provided by the Postal Service in rebuttal testimony.

c. Has the Postal Service initiated any efforts on its own or in cooperation with the Postal Rate Commission to determine how the information for ratemaking could be made available in a more timely manner?

Answer: The Postal Service continues to research means for speeding up the production of reliable cost information. The Postal Service is currently conducting a review of the procedures used to organize data from the costs systems into the CRA.

On July 17, the Postal Service received a request from Congressmen Burton and McHugh to provide the Postal Rate Commission (PRC) with any data or information needed to recast the results reported in the FY97 CRA using the attribution methodologies employed in the PRC's R97-1 decision. Working with the PRC staff, we developed a plan to provide the PRC not only with the requested data but to provide a PRC version of the FY97 CRA report itself. We delivered the data and the report to the PRC on August 17. We will meet with the PRC to ensure that the report conforms to their methods.

d. Would the USPS under your leadership continue to resist subpoena power for relevant data being granted to the Postal Rate Commission?

Answer: The Postal Service continues to believe that past experience does not demonstrate a need or justification for subpoena authority. The Commission has extensive rules governing the supporting material that must be provided with the Postal Service's rate request. These rules have been developed over years of experience in rate litigation and are reviewed and revised between rate cases as necessary in order to adapt to new circumstances and to changes in perceived needs for information. The Postal Service makes a good faith effort to comply with these rules and provides tens of thousands of pages of material to support its proposals in every rate request, at considerable expense. To the extent information is not required by the rules to be filed initially, moreover, it is typically requested by parties during a lengthy discovery period in every case. In recent rate cases, the Commission has effectively extended by several months the period for discovery of information which could only be provided by the Postal Service, in order to assist the other parties in developing their affirmative cases. The Commission itself also issues requests for further and updated information from the Postal Service, especially when it appears to be needed for clarification of matters put at issue in the litigation or to complete the record.

We believe that the records in recent cases, including the most recent general rate case, demonstrate an extremely high level of cooperation by the Postal Service. Obviously, differences of opinion may arise among the parties to the case over exactly what information is relevant, whether the value of certain information justifies the burden of providing it, and whether the information is commercially sensitive. These questions have been ably handled by the Commission in the normal course of the rate proceedings, and we believe that the Commission in past cases has had full records on which to base its recommended decisions.

Furthermore, the existing statute already authorizes the Commission to extend its ten-month deadline in rate cases when it finds that its deliberations have been delayed by failure of the Postal Service to comply with a lawful order of the Commission. Although from time to time parties in Commission proceedings have suggested that it would be appropriate for the Commission to invoke this extension authority, the Commission has only once, over fifteen years ago, concluded that it was necessary to do so.

Finally, in considering the issue of subpoena authority, it must be noted that, typically, subpoenas are directed at the disclosure of existing data or information. In the circumstances in Docket No. R97-1 referred to above, the Commission was seeking an extension of time past the statutory 10-month deadline to consider analyses that were still being developed. There was never any question that the Commission would be provided the requested CRA Report for FY97, and, in fact, it was transmitted to the Commission when it was completed. Furthermore, while subpoenas typically reach only existing documentation, in the course of Commission cases, the Postal Service frequently performs analyses pursuant to Commission rules or in response to Presiding Officer's Information Requests or Commission Notices of Inquiry. For example, in Docket No. R97-1, the Postal Service provided analyses responding to a new Commission rule requiring a presentation of costs employing Commission-approved methodologies.

29.) What are the Service's latest projections for its capital spending in FY 1998 and FY 1999? Will the Service spend what it had budgeted on capital spending for this fiscal year? If not, what can the Service estimate the effect it will have on revenues, cost, productivity, and customer satisfaction? Please list budgeted capital spending that did not occur and that was added to the budget, and explain the reasons for the changes.

Answer: The latest capital commitments projections for FY98 and FY99 are $3.7 billion and $4.4 billion, respectively.

Although the $3.7 billion projection is less than our original budget, there will be no long or short term impact on revenues, cost, and productivity. Funding for recertified programs that underrun the FY98 plan due to delays or timing issues are carried over to FY99 and beyond for completion. Additionally, some of the underrun is attributable to favorable contract awards. Customer satisfaction will continue to be enhanced by such programs as the Delivery Confirmation System, PostOffice Online and the addition of more carrier route vans.

30.) The Postal Service noted in its 1997 annual report that the real cost of a First-Class stamp, relative to the Consumer Price Index (CPI), has declined by seven percent since 1991 and that its proposed increase in the stamp price was less than half the rate of inflation. Yet in its comments on proposed revisions to H.R. 22, the Postal Service has expressed concern that a price cap index based on the Consumer Price Index (CPI) with a productivity offset would represent an "ambitious target" for the Service to meet. What is the rationale for this statement?

Answer: In reviewing H.R. 22 and its proposed revisions, the Postal Service conducted a number of analyses of historical cost trends. These analyses were designed to assess retroactively the financial consequences, that would have resulted from various alternative price caps. As we discussed on page 34 in our detailed comments on the proposed revisions, our analyses concluded that a CPI-based price cap with no productivity offset would have produced $9.2 billion in net losses (including $2.7 billion in OBRA payments) during the years 1987 to 1997. The analysis further concluded:

> "With an adjustment factor of 0.5 percent, the losses increased to $22.6 billion. With an adjustment factor of 1.0 percent, the losses were $35.6 billion."

The Postal Service is proud that it has bettered inflation with regard to increases in the price of the First-Class stamp. This stamp is, as you know, only one of thousands of rates for postal services. Other rates typically increase at faster rates. For example, as a result of the 1994 rate case, the First-Class stamp increased 10.3 percent. Rates for second-, third-, and fourth-class commercial mailers were increased 14 percent or more. The rate changes recently approved by the Governors included increases of 3.1 percent for the First-Class stamp, but more for Priority Mail (5.6 percent) and Periodicals (4.6 percent).

The Postal Service continues to believe that to be successful, any pricing reform proposal that includes a price cap formula must explicitly account for the labor-intensive nature of postal operations. A CPI-based proposal simply would not meet this standard, and almost certainly would imperil the financial health of the Postal Service.

31.) In order to meet customer expectations, does the Postal Service plan to follow through with its own findings that if a future rate increase must occur, the rate increase should be a small, predictable increase below the rate of inflation? What are your views related to future rate increases?

Answer: The Postal Service believes that smaller, more predictable rate adjustments are in the best interest of its customers and ultimately the Postal Service. These kinds of increases permit our customers to better plan their expenses and preclude the kind of "sticker shocks" that compel them to seek other alternatives. At the same time, our price levels are dictated by costs. Unexpected changes in the economy, labor or other costs can affect our prices in much the same as these factors affect the prices of other segments of the economy.

32.) In 1996, Postmaster General Marvin Runyon held out the possibility of keeping the 32-cent stamp until the year 2000 provided that the Postal Service can make "some fundamental changes" in the way it operates.

a. In light of the recent proposal to increase the postage, what "fundamental changes" do you believe failed to occur?

Answer: The rate change that is going into effect demonstrates that fundamental changes for the better have occurred. The rate change that is going into effect on January 10 averages 2.9 percent across all classes and subclasses of mail. During the period from January 1995, when postal rates last increased, through January 1999, the increase in inflation is 9.8 percent. It is unprecedented in the history of the Postal Service to increase rates by less than one-third the rate of inflation. During this same period we have dramatically increased service performance. At the same time we have increased our responsiveness to customers by offering new services, reforming our rate and classification structure, and making investments in infrastructure and technology which will continue to benefit our customers for years to come. Our investments and expenditures in improved customer service, and in building and maintaining our infrastructure, are funded by the rate change.

33.) In addition to the review of international mail rates that the Postal Board of Governors has recently requested, do you plan to regularly ask the Office of Inspector General to do reviews and investigations, and if so, what types?

Answer: Reviews and investigations are regularly conducted by the Office of Inspector General and the Postal Inspection Service to ensure the integrity of the mail and the Postal Service.

The Office of Inspector General has the audit responsibility for financial statements, including overall opinion audits and quality reviews of Inspection Service work; Postal Service-wide performance reviews; contract audits, except pre-award and post-award audits; facility audits, including construction contracts of $10 million or more (this includes the right of first choice on contracts between $5-$10 million), and leases, repairs, and alterations of $1 million or more; and revenue focused audits such as the international mail review.

The Postal Inspection Service supports the IG in audits of financial statements by conducting installation and district audits; area, district, and local performance reviews and service investigations; pre-award and post-award contract audits; and facility audits, including construction contracts of $5 million or less, contracts between $5-$10 million not performed by IG, and leases, repairs, and alterations under $1 million.

The Office of Inspector General takes the investigative lead on revenue and expenditure cases, including bribery, kickbacks, conflicts of interest, and systemic reviews; workers' compensation cases, including program monitoring; tort claims, including serious incidents and liability reports; embezzlements of $100,000 or more; cases involving Postal Service executives; Inspection Service internal affairs for executives; computer forensics; and the Inspector General hotline.

The Postal Inspection Service conducts investigations on revenue cases, including revenue loss detection and working with the Inspector General; primary responsibility for investigating workers' compensation cases; tort claims; embezzlements under $100,000; expenditure cases, including cases referred by the Inspector General, International Merchant Purchase Authorization Card (IMPAC) cases, and local purchases or procurements; emergency responses on cases involving executives; internal and external crimes; employee protection; security; fraud and prohibited mailings; Inspection Service internal affairs for non-executives; forensic and technical services.

Additionally, the Office of Inspector General conducts oversight responsibility for the Postal Inspection Service.

34.) Do you agree that the Inspector General has the authority to conduct, supervise, and coordinate all Postal Service audits, including the Inspection Service audits, and that management must go through the Inspector General for all audit work? If so, how are you going to assure that management abides by that?

Answer: Under the 1996 Inspector General amendments, the Inspector General is specifically empowered to "initiate, conduct and supervise such audits and investigations in the Postal Service as the Inspector General considers appropriate. Under section 4(a)(1) of the Inspector General Act, moreover, it is the duty and responsibility of each Inspector General "to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations" of that Inspector General's Federal establishment. Section 6(a)(1) of the Act further authorizes each Inspector General to have access to all records, audits, and other materials relating to the programs within that Inspector General's jurisdiction; while section 6(b) requires the head of each federal agency to furnish information or assistance to that agency's Inspector General upon request. Under these provisions, the Inspector General of the Postal Service clearly exercises extremely broad auditing authority.

Without discounting the breadth of investigative and audit authority granted to the Inspector General by these statutes, it should also be noted that other provisions of law recognize the unique character of the Postal Service, and its particular need for additional flexibility with regard to such matters. The 1996 amendments, for example, direct the Inspector General of the Postal Service to "give particular regard to the activities of the Postal Inspection Service with a view toward avoiding duplication and insuring effective coordination and cooperation." Section 2008 of Title 39, moreover, shows the specific intent of Congress that the accounts and operations of the Postal Service should be reviewed from both a government and a business perspective. With regard to government concerns, section 2008(a) directs the Comptroller General to audit the accounts and operations of the Postal Service "to the extent and at such times as he may determine." With regard to the Postal Service's business needs, section 2008(b) requires the Postal Service to maintain an adequate internal audit of its financial transactions, while section 2008(d) authorizes the Postal Service to obtain audits of its accounts, as well as reports concerning its financial condition and operations, by certified public accounting firms. Recognizing the need to assure postal customers of the accuracy of the data supporting changes in postal rates, section 2008(e) additionally requires an annual certification of the Postal Service's financial statements by an independent, certified public accounting firm.

The Office of the Inspector General and the Postal Inspection Service have been working together to define the functions and responsibilities of both groups. The Memorandum of Understanding between the Inspector General and the Chief Postal Inspector (dated January 8, 1997), the Designations of Functions Chart from the OIG's Semiannual Report, and the OIG's presentation to the Governors at the September 1998 meeting describe these efforts, and are provided for the record. In addition, the Postal Service's Administrative Support Manual is being updated to reflect the authorities, role, and mission of each.

35.) At the Subcommittee's request, the Inspector General reviewed allegations concerning the alleged misconduct of Postal Inspection Service managers in Atlanta, Georgia, with respect to disciplinary action taken against a Postal Inspector. In December 1995, the Inspection Service's Atlanta Division opened an internal investigation of the Inspector. The investigation remained open for 19 months until July, 1997 (one month after the Inspector General began its investigation), at which time the charges were significantly mitigated and the Inspector returned to duty. The Inspector had been on paid administrative leave for nearly a year and a half at a cost to the Postal Service of at least $124,000.

The Inspector General found that 1) the Inspection Service failed to conduct an independent investigation of the Postal Inspector, 2) the Inspection Service's investigation did not support the proposed action, and 3) Inspection Service management oversight of the internal investigation needed improvement. As a result, the Inspector General made several suggestions to improve the Inspection Service's disciplinary process.

a. How will the Postmaster General hold the Chief Postal Inspector accountable for ensuring that:

1.) the Inspection Service's Internal Affairs Division either conducts or oversees internal affairs cases in a manner which assures adequate independence, investigative results support the proposed action, and investigative techniques used are commensurate with the seriousness of the issue being investigated; and

2.) on serious internal affairs cases, Internal Affairs Division assures independence by not allowing a direct reporting relationship between the investigating, proposing, and deciding officials?

Answer: The investigation of the inspector in Atlanta was not properly handled. This was discovered by the Chief Inspector through the use of a reporting system implemented by the Chief Inspector a few years ago. The situation was reported to the Inspector General by the Inspection Service before the Subcommittee's request. An additional report has been put in place to help assure internal investigations are assigned and tracked properly to avoid a recurrence of what occurred in Atlanta

Processes have been put in place to ensure independent investigations are conducted in all cases of alleged impropriety. In cases where there is a question as to whether the Internal Affairs Division (IAD) or some other independent investigative team should conduct an investigation, the Inspector in Charge of the IAD must confer with the Deputy Chief Inspector responsible for oversight of field operations in that geographic area. In cases where personnel outside the IAD are assigned an investigation, the Inspector in Charge of the IAD has been instructed never to allow an individual with a direct reporting relationship to the subject of the allegation be assigned to conduct the investigation. The Inspection Service Counsel's office and the Human Resources Manager consult closely with Inspection Service field managers on proposed disciplinary actions resulting from IAD investigations. IAD reports matters of a criminal nature involving postal inspectors to the Public Integrity Office of the Department of Justice for prosecutorial consideration.

These topics will be discussed during regularly scheduled meetings between the Postmaster General and the Chief Postal Inspector. We also expect that the Office of the Inspector General will report any apparent deviations from this policy as they perform their oversight duties.

b. What actions has the Chief Postal Inspector taken to date on initiating the changes as noted in question a?

Answer: In addition to the information provided in the response to question, a second report has been implemented to help assure the proper assignment and timely completion of internal investigations. These two reports are used by the Chief Inspector, Deputy Chief Inspector for Administration, and Deputy Chief Inspectors for Field Operations. These officials meet regularly to review the status of cases about which there are questions.

c The Inspector General suggested that the Chief Inspector implement at least quarterly reviews of the Inspection Service's administrative leave cases. The Inspection Service currently produces an ad hoc report that lists all Inspection Service employees who are not present for duty, which includes persons on administrative leave. Has the Chief Postal Inspector required that this report be generated as a standard report for review by himself or his designees? If so, when did this change occur? If not, why has the Chief Inspector failed to implement this suggestion, and when does he plan to do so?

Answer: The Chief Inspector requires a quarterly status report as described in the previous responses to questions a and b. The report mentioned in this question not only concerns employees absent due to internal investigations, it includes employees who "are not present for duty" for various reasons, including administrative leave, extended sick leave, injury incurred on duty, etc. Copies of quarterly reports are also provided to the Office of Inspector General in conjunction with their oversight responsibilities.

d. Has the Chief Inspector required that he receive, at least quarterly, a listing of Inspection Service personnel under investigation? If so, when did this change occur? If not, why has the Chief Inspector failed to implement this suggestion, and when does he plan to do so?

Answer: The Chief Inspector is advised of all internal investigations initiated by the IAD every month. This monthly report was implemented in April 1998 and includes the name of the subject of the investigation, a brief description of the allegation, the location of the alleged incident, and the name of the assigned investigator. This report also provides the Chief Inspector the status of the investigation and the subject employee's work status.

36.) What concern if any does the Postal Service have with the Office of the Inspector General including the Inspection Service's work in its semiannual report? Please explain.

Answer: The Inspector General and the Chief Inspector are personally working together in an effort to achieve an appropriate means of attribution for work reported in the report. It is their mutual goal to serve the Postal Service and its customers effectively and report accomplishments in a clear manner.

37.) Do you believe the Postal community understands the difference between an independent Inspector General, as established in January 1997 for the Postal Service, and the role played by the Inspection Service prior to the establishment of the Office of the Inspector General? Do the current policy manuals of the Postal Service reflect the difference between the Inspection Service and the Office of the Inspector General?

Answer: The legislation creating an OIG for the Postal Service, separate and apart from the Postal Inspection Service, which reports to the Postal Service Board of Governors, is understood within Postal Service management. The transfer of functions between the Office of the Inspector General and the Inspection Service is progressing. Efforts to inform Postal Service employees and customers of the changes will continue. Any confusion which may exist should be cleared up by the time the transition is completed. Postal Service policy manuals are currently being revised with input from the Inspector General and the Inspection Service.

38.) Why does the Postal Service take the position that financial audits completed by the Office of the Inspector General would not provide the same level of assurance as audits completed by certified public accounting firms?

Answer: The issue is not one solely of level of assurance, but rather one of checks and balances. We see the roles of the external auditor/certified public accounting firm and the Inspector General/internal auditor as separate and complimentary, but with important distinctions. It is also a good business practice to require an outside independent certification of one's financial statements. This is particularly true for an organization the size and complexity of the Postal Service which finances its business through ratepayers and federal financing. It is also critical that the Postal Service have audited financial statements from a CPA firm if ever financing from outside the Treasury is considered. Additionally, it is a requirement of the Postal Reorganization Act, Title 39 U.S.C. 2008 (e), which is strongly supported by the nine Presidentially appointed Governors who oversee postal operations.

39.) The U.S. Postal Service manual for contractors states the Service's commitment to reaching out to minority-owned businesses. How does the Postal Service seek to establish contractor relationships with minority-owned businesses? What effort is made to work with minority-owned businesses when problems arise or changes made in specifications that are under consideration?

Answer: We strive to reach out to minority and women-owned businesses on a number of fronts. We hold memberships in, and meet regularly, with more than a dozen national organizations representing minority and woman-owned businesses. These memberships provide a vehicle for constant interaction through consultations, workshops, joint problem solving, and education. The memberships also allow us to share in their data bases.

We actively participate in more than 200 business opportunity fairs, conferences, and meetings, each year that are focused on bringing firms and organizations into face-to-face contact with prospective suppliers. At those conferences, we distribute our *Let's Do Business* pamphlet, which is intended to guide current and prospective suppliers on how to best approach us.

We maintain a presence on the Internet devoted to communicating with the business community, and particularly, minority and woman-owned firms. That site currently includes an interactive supplier registration utility, a listing of our key buying sites together with names, telephone and FAX numbers for the site and contact links to our supplier diversity coordinators. It also includes a downloadable version of our *Let's Do Business* pamphlet. We are beginning to activate a dynamic and interactive bulletin board of buying opportunities, which will include downloadable Requests For Quotations and attendant documents. The site also includes a compilation of Frequently Asked Questions.

As part of our purchasing process, we actively seek to include minority and woman-owned businesses in our purchasing planning activities to insure that these firms are specifically invited to compete. We identify and then work with selected firms to help them improve their processes and capabilities to compete for postal business.

40.) How does the U.S. Postal Service consult with U.S. industry and existing contractors to determine the capabilities of American firms when considering changes in the specifications for items contracted out to the private sector?

Answer: Postal Service purchasing policy encourages purchase teams to consult with the American supplier community whenever doing so will make specifications and the products resulting from them more effective. This is primarily done during the purchasing planning phase of the purchasing process (although, as with any other competitive business, Postal Service buyers and their customers must also be aware of the state of the marketplace at all times).

Several methods are used to consult with the supplier community. Depending on the particular purchase, market research efforts include holding briefings with industry representatives to discuss upcoming requirements; testing new technology in our operating environments; providing draft solicitations for industry review; and holding preproposal conferences with potential suppliers to ensure effective two-way communication.

These methods work. When the Postal Service first established the remote barcoding system network, we worked extensively with industry to configure the technology and ensure effective performance. More recently, we have consulted with industry regarding requirements for alternative fuel vehicles. We intend to increase this sort of consultation and coordination, and use these means to establish effective supplier relations with more of our suppliers.

41.) *I am sure that most Americans would agree that the U.S. Postal Service should make every effort to* procure products from American companies to enhance job opportunities for Americans. The use of mail bags within the U.S. Postal Service plays an important role in facilitating the transportation of mail. The *procurement of mail bags is reported to be larger than the procurement of postal uniforms.* We know the Postal Service has a domestic procurement rule with postal uniforms. Yet, the same principle does not apply to mail bags. I understand that manufacturing of mail bags is taking place in Mexico, and costing American jobs because the Postal Service has denied issuing contracts to American companies. Is the Postal Service making any effort to initiate a similar domestic procurement policy rule with mail bags?

Answer: The Postal Service buys a large number of mail bags each year; by the end of FY98, we expect to have purchased more than $29 million worth of bags. The bags are bought from various sources, including Federal Prison Industries. Of the private sources currently providing mail bags, two use subcontractors who manufacture the bags in Mexico. Our Buy American policy requires that when we evaluate proposals from foreign companies, or proposals from American companies offering a foreign made product, a preference be given to companies offering American made products. In cases where the award will be based on price, a six percent price differential is applied to foreign offers. When the award will be based on other factors (in addition to price), and the American made offer matches the quality and delivery of the foreign made, preference is given to the domestic offer.

In the case in question, quality and delivery were the deciding factors, as they generally are in the purchase of mail bags. However, price was an important factor - as it will be for any purchase - and the price offered by the successful offeror was significantly lower than that offered by its competitors. Indeed, had this been a price-based award, and the price differential had therefore been applied, the successful offeror would still have received the contract. We would also like to note that our Buy American policy is somewhat stricter than that of the federal government in that we are covered by the North American Free Trade Agreement (NAFTA). Therefore, we treat offers from Mexican companies - and offers from American companies offering a product made in Mexico - as foreign. Under NAFTA, such offers are treated as domestic by the federal government.

We believe that our current Buy American policy protects the interests of American businesses and American workers. This policy also ensures that the Postal Service receives the quality products that it needs at a reasonable price.

42.) What is the function of the Diversity Department of the United States Postal Service? What is the staff size of this department? Has the Diversity Department updated the Diversity Development Strategic Plan? If not, will the plan be completed by the end of July? Do you believe that confusion still exists among postal employees and supervisors over the Service's diversity policies and goals? How do you plan to communicate the Diversity Development Strategic Plan?

Answer: The Diversity Development Department was created in the Postal Service to foster a business environment that is all-inclusive. Diversity also creates a work setting geared to the success and contributions of all people, recognizing and valuing their differences.

Diversity Development is committed to support business goals and our competitive edge by working with customer and supplier populations. We intend to improve the image of the Postal Service as an organization with a conscience and a clear sense of purpose. Internally, we are also committed to maximizing the use of our human capital by strengthening leadership and empowerment, supporting dignity and respect for everyone, and making each employee a contributing member of the organization.

The headquarters department has an authorized work force complement of 24 employees. There are 60 authorized field Diversity Development Specialists positions and 33 Hispanic Program Specialists positions. Additional Diversity Development Specialists positions have been approved to ensure one for each district office and one for each area office. A team is also evaluating the structure and staff at the headquarters level and will outline recommendations for review by the Vice President, Diversity Development later this year.

A revision of the Diversity Development Strategic Plan is underway and will be completed later this year. The basis for the Plan is driven by the Postal Service's corporate policy statement for diversity. The policy was recently completed and was published in the August 27, 1998 *Postal Bulletin*. Although diversity is still a developing concept and an emerging discipline in this industry, the statement provides guidelines and a universal understanding of diversity within the Postal Service.

It is unrealistic to put in place strategies designed to change behaviors and attitudes about diversity without a corresponding strategy that communicates our expectations. Therefore, we are also developing a strong and effective communications plan to promote and disseminate a clear diversity message to all levels of the organization. We plan to have this completed by the end of December.

43.) Please provide the number and percentage of women and different minority groups that hold executive or top management positions within the Postal Headquarters? Do you believe a glass ceiling exists in this category? Does the Postal Service have any goals to improve in this area? If so, what strategic recruitment initiatives are being implemented?

Answer: Number and percentage of women and different minority groups holding executive or top management positions at Postal Headquarters:

EXECUTIVES (PCES 1)											
Women		Blacks		Hispanics		Asian Americans/ Pacific Islanders		American Indians/ Alaskan Natives		Total HQ PCES1	
#	%	#	%	#	%	#	%	#	%	#	%
81	20.0	36	8.9	15	3.7	5	1.2	1	0.2	405	100.0

VICE PRESIDENTS (PCES 2)											
Women		Blacks		Hispanics		Asian Americans/ Pacific Islanders		American Indians/ Alaskan Natives		Total HQ PCES 2	
#	%	#	%	#	%	#	%	#	%	#	%
6	20.7	1	3.4	1	3.4	0	0.0	0	0.0	29	100.0

White males comprise 69.4 percent of executives in level PCES 1. All minorities and women are represented in this level with the exception of American Indian/Alaskan Native males. Currently, there are 29 vice presidents in level PCES 2 at Postal Headquarters. Of these positions, eight are women or minorities; however, there is no representation in the categories of black female, Hispanic female, Asian American/Pacific Islander male and female, and American Indian/Alaskan Native male and female. The absence of minorities or females in both these categories may give a perception that a glass ceiling exists in these positions. While we might take issue with some aspects of that characterization, there is no question that we must have more effective developmental and career progression strategies. Our goals in this area are being developed and will be incorporated through the merit system for FY 99.

44.) Has a successor been named for Bob Harris, the former Vice President for the Diversity Development Department? Will the role and function of the successor be different than in the past? If so, how will the role be different? Who will the successor be reporting to?

Answer: Suzanne Medvidovich was appointed Vice President, Diversity Development, on June 13, 1998. Prior to her appointment she served as a special assistant to the Chief Operating Officer, and District Manager of the Harrisburg District. The role and function of the Diversity Development Vice President will not change. As Vice President, Ms. Medvidovich serves as the key senior management liaison to build collaborative relationships, and to create alliances and support between employees and managers at all levels of the organization. She is tasked with ensuring that the organization provides all employees with an atmosphere that values continuous learning, diversity, empowerment, and creativity. Her responsibilities also include actively supporting recruitment, retention, and the upward mobility of women, minorities, and people with disabilities. Ms. Medvidovich reports to the Deputy Postmaster General.

45.) In response to questions submitted for the record during the summer of 1997, the Postal Service provided details about the Postal Service's Purchasing Assessment Program. The Postal Service stated that the Purchasing Assessment Program is a new oversight tool that provides a more concise form of measurement for purchasing performance, improving internal controls, and providing management with the information necessary to ensure optimum performance. What have been the results of the Purchasing Assessment program to date? Has the Purchasing Assessment Program found any areas where the Postal Service can improve upon? If so, what improvements were made?

Answer: The Purchasing Assessment Report (PAR) is intended to annually report on the Purchasing Assessment Program. The PAR is a comprehensive source of information about the Purchasing and Materials (P&M) organization and serves as the focal point for measuring purchasing performance. In the FY97 PAR, we measured supplier diversity, noncompetitive contracts, and cost per contract dollar and action. We also began collecting measures on customer satisfaction, negotiated savings, cycle time and professionalism.

The Purchasing Assessment Program also has the following general responsibilities:

Establishing the use of mandatory contract file checklists for contracts valued at more than $250,000.

Analyzing protest decisions for lessons learned and sharing the information with the Postal Service purchasing community.

Reviewing policy deviations to determine if there is a need to change purchasing policy.

Conducting on-demand reviews of purchase card use and areas identified by P&M management. These reviews typically identify areas for improvement.

We are using review information from the Inspector General and the Inspection Service. We are working with them to develop a comprehensive on-site review plan. Currently, most review efforts are tied to those and other Postal Service and external organizations (our Finance organization, and the General Accounting Office). In these cases, Process Assessment acts as the P&M liaison. To date, Process Assessment staff has conducted numerous purchase card reviews that outline several areas needing improvement.

Based on purchase card review results, new and more effective policies have been established, while others have been simplified or changed. Purchase card training is also being updated and oversight responsibilities are being expanded. A recent review of our subcontracting policy, which is an essential part of our supplier diversity business plan, showed the need for policy changes in this area, and these are in progress. Contracting officers will also use the results of this review to bring their contracts into compliance.

To further improve our review capability, Purchasing Assessment is also currently developing a Purchasing Review for Excellence Program (PREP). With its deployment, there will be a higher degree of opportunity identification within P&M.

46.) The GAO has reported on ethical lapses on the part of the Postal Service in the past, including conflicts of interest and ethics violations in the Service's purchasing process. Does the Postal Service now have strong internal controls in place to ensure that it maintains high ethical standards? Are these standards being followed?

Answer: In 1996, the Postal Service implemented a comprehensive Ethics Program for 1997 to enhance ethics awareness, improve training and education, and monitor compliance. Sponsored by the General Counsel, annual ethics training is conducted via satellite broadcast across the country. In 1996, 7,472 employees received this training, compared to 4,346 in 1995. In 1997, 7,560 employees were

trained. The Law Department also routinely provides one-on-one ethics briefings for all new officers. A Management Instruction was issued in January 1997, which provides written guidance for avoiding conflicts of interest and the proper procedures for filing financial disclosure reports. In addition, the Law Department has put in place systems to review, certify, and conduct follow-up on the financial disclosure reports, all in an effort to closely monitor compliance. Finally, prior to each Board of Governors meeting, the Law Department and other key postal staff conduct a formal conflicts check to determine whether matters are on the agenda for the Board meeting or a meeting of one of its subcommittees that might require recusal of any Governor.

The Postal Service has devoted more resources to ethics than ever before. The Law Department has been restructured, and new positions added, to allow for a full-time ethics staff of three attorneys and two paralegals to assist in providing ethics training and advice to employees. In addition, there are ethics coordinators throughout the Law Department and in Postal Service field offices available to provide immediate, practical advice and monitor and document compliance with the disclosure and training requirements.

Purchasing and Materials has implemented and carefully monitors several strong internal controls to ensure that it maintains high ethical standards for purchasing professionals system wide. A system is in place to ensure that all Purchasing and Materials employees designated as confidential filers complete Form OGE-450, Executive Branch Confidential Financial Disclosure Report, on an annual basis. A master listing of all designated filers is updated annually and is maintained for tracking and monitoring to ensure compliance. At the close of the annual reporting cycle, a report of the Purchasing and Materials employees who have complied and submitted Forms OGE-450 is prepared and forwarded to the Postal Service General Counsel's office.

All OGE-450 Filers receive mandatory annual ethics briefings in compliance with the Standards of Ethical Conduct for Employees of the Executive Branch. Different training methodologies are used to ensure that OGE-450 Filers receive mandatory ethics training to include: interactive classroom seminars, videotapes, and computer-based training. Each year, a report of employees who have received annual ethics training is also reported to the General Counsel's office. In addition, new employees to the Purchasing and Materials function receive mandatory ethics training as part of their orientation program.

Lastly, Purchasing and Materials has a curriculum of purchasing and material management courses which provides job skills training for our employees. Each of the eight purchasing-related courses includes a one-hour lesson covering the subject of ethics.

47.) What was the total contribution toward institutional costs made by new products and services in the past year? Which new products and services made the greatest contribution?

Answer: The total contribution from new products and services to institutional costs for the past year is a negative $22.9 million. Included in this is First-Class PhoneCard, Retail Merchandise, and Celebrate the Century and Looney Tunes philatelic stamp programs. This negative contribution is the result of one-time start up costs associated with the development and production of promotional materials to be used over the two-year life of the Celebrate the Century Program. In addition, expenses for Retail Merchandise include the cost of inventory held at individual post offices. This overstates expenses for Retail Merchandise and results in a net loss for the program. In the last year, First-Class PhoneCard has generated $5.3 million and Looney Tunes has generated $20.7 million in contribution toward institutional costs.

48.) The Postal Service plans to increase the net income from new products and services by $300 million in Fiscal Year 1999, according to the preliminary Annual Performance Plan. How does the Service plan to achieve this target? Which new products and services will make the greatest contribution toward this goal?

Answer: The $300 million target referenced in the preliminary Annual Performance Plan was reduced to $92 million after further analysis. The Postal Service plans to achieve this target through the sale of Retail Merchandise, Phone Cards, and Celebrate the Century philatelic stamps. Celebrate the Century philatelic stamps are planned to make the greatest contribution to this target, followed by Retail Merchandise and Phone Cards.

49.) The Postal Service listed $247.0 million in net income from "other" special services in the year ending September 30, 1997, according to the 1997 Annual Report. What products and services were included in this total? Please show the revenues and expenses for each product and service for 1997 and provide available figures for 1998 to date.

Answer: Attached is a table showing the FY97 and year-to-date revenue (The Annual Report lists Revenue, not net income) of items in "other" special services along with an abbreviated description of each of the items. We do not have year-to-date expenses for these items. We do have FY97 expenses for several, but not each, of these items. Below is the cost information for FY97:

FY97 U. S. Passport Application Expenses - $12,726,000.00
FY97 Migratory Bird Stamps Expenses - $241,128.00

50.) Using the following definition of a postal product, "The Postal Service shall provide services and products which pertain to the accepting, handling, and delivery of letters, printed matter, and packages weighing up to 70 pounds, and incidental services ancillary to such services or products," please list all nonpostal products and services currently offered by the Postal Service, including those that are being offered on a trial or test basis. Please provide the Subcommittee with a list of the revenues and expenses for each nonpostal product and service for 1997 and 1998 to date.

Answer: Below are revenues and costs for nonpostal products and services described in the *Report On Postal Service Activities*, which was issued in compliance with the conference report on Public Law No. 105-61. A copy of that report is attached. Some of the cost and revenue data is not available since we only collect it for some of the products and services in the year we are filing a rate case. Other costs, such as those for Money Orders and Packaging Products have not been calculated, so they are not shown here.

In Millions	FY 1997		FY 1998*	
	Revenue	**Costs**	**Revenue**	**Costs**
Migratory Bird Stamps	$ 0.4	$ 0.2	N/A	N/A
Money Orders	$ 212.2	N/A	$ 123.9	N/A
Dinero Seguro	$ 1.4	$ 9.6	$ 4.6	$ 10.0
Packaging Supplies	$ 53.1	N/A	$ 39.8	N/A
Passport Applications	$ 26.6	$ 12.7	N/A	N/A
Philatelic Products	$ 26.7	N/A	$ 17.8	N/A
Phone Cards	$ 10.0	$ 12.5	$ 14.8	$ 8.0
Retail Merchandise	$ 25.9	$ 23.7	$ 31.5	$ 42.7

*Through Quarter III, or A/P 9.

51.) What is the Postal Service's rationale and need for developing new products, particularly nonpostal items that compete directly with similar products offered by the private sector?

Answer: First and foremost, it should be understood that we develop products and product features in response to the needs of our customers. It is also important to remember that the Postal Service is completely self-supporting and receives no funding from the federal government for operations. In order

to respond effectively to the needs of our customers, and also meet our mandate to provide universal service, we must pursue innovative opportunities that bring value to our customers and enhance our ability to provide universal service.

a) How is it fair for the Postal Service to leverage its existing national network of post offices, which are primarily financed through revenues protected by the postal monopoly, to offer new products that compete against the private sector?

Answer: The Postal Service does not feel it is offering products that compete against the private sector. It is limited to merchandise items that have their own philatelic or intellectual property connected to Postal themes. However, recognizing the sensitivity of some merchandise, the Postal Service has determined it will no longer sell apparel merchandise in post offices. Once current inventories are sold, items such as mugs, ties, T-shirts, and earrings will no longer be sold in post offices. Customers interested in postal or stamp themed apparel merchandise will still be able to purchase it at our Postmark America Store in the Mall of America, through our website, through our catalogue programs, and at special events such as First Day Ceremonies.

We will focus our merchandising program primarily on mailing-related products (e.g. packaging products and supplies, stamp theme cards and notes, etc.) and limited collectible based on stamp images.

b. New products often incur substantial development costs and then lose money when they are introduced. In your view, how long should the Postal Service be given to test a new product before it breaks even? How long should the Postal Service have to repay the initial costs to develop and test a new product?

Answer: The time it takes for a new product or service to break even depends on the nature of the product or service. This variation depends on the different types of businesses that are being developed and the experience and unique capabilities that management brings to the project. The time frame for achieving the expected break even point is typically laid out in the beginning of the project and revised based on experience as the project is tested and rolled out.

c. When the Postal Service tests new products that are initially priced below cost, what safeguards exist to ensure the rates for these products do not unintentionally or unwittingly destroy small businesses, or even a whole segment of an industry? What steps has the Postal Service taken to avoid such impacts?

Answer: The impact on private businesses of any new Postal Service initiative is one of the factors that the Postal Service takes into consideration in evaluating such initiatives. In addition, where a new product may compete with a private business currently offering a similar product or where the exact costs of offering the product can not be determined in advance, the Postal Service generally applies a policy of setting the prices for such products at or above the level that is currently being charged by private businesses in order to avoid unintentionally or unwittingly harming the private business.

d. Why is the Postal Service getting involved in remittance processing? What have been the revenues, costs, and contribution to institutional costs to date?

Answer: The Postal Service's goal for their remittance processing project, REMITCO, is to protect First-Class Mail volume by encouraging customers to pay their bills via mail. The Postal Service will use REMITCO to improve remittance mail service. It will share these improvements with all other processors, in-house or third party. As of the conclusion of Postal Service Quarter III, REMITCO has reported revenue of $5.0 million, expenses of $14.9 million, resulting in a net contribution of negative $9.9 million. Included in expenses are one time non-recurring costs of $4.6 million associated with the start-up of the project.

e. Is the Postal Service considering developing new products and services that would compete against companies that have traditionally worked closely with the Postal Service, such as mail preparation firms?

A. **Answer:** When developing new postal products and services, we listen to the growing and changing needs of our customers. This may involve using new technology to help our customers communicate, as we have done throughout our more than 200 years of service. The Postal Service will work with the private sector to take advantage of existing capabilities in the marketplace and to develop new solutions to the requirements of postal customers. Our expectation is that this approach will promote growth for postal services, our mailing customers' businesses, and other private sector companies.

f. In 1995, the Postmaster General stated in response to the subcommittee's follow-up question from a June 28 hearing that the Strategic Growth Plan was an initiative the Postal Service had implemented to evaluate and possibly withdraw a new product that has not reached its performance threshold. What has been the outcome of this program? Is the Strategic Growth Plan still being implemented? If yes, what improvements need to be made?

Answer: The 1995 Strategic Growth Plan has evolved and is now best represented by the Five-Year Strategic Plan (1998-2002). That plan has been developed in accordance with the requirements of the Government Performance and Results Act. It outlines the specific goals for growth and the indicators to be used to measure performance against those goals.

A part of this plan was the refinement of the New Product Development process, established as part of the Postal Service's *CustomerPerfect!* management system. This process was modeled after industry "best practices," and includes a requirement for new products to develop a business case and to track performance on a profit/loss basis. All major new product introductions are required to follow a specific reporting format, and are tracked regularly by senior management.

g. In order to avoid future rate increases, it is important for the Postal Service to identify potential revenue sources and to determine what are appropriate marketing activities. Placing consumer vending machines and ATMs in Post Office lobbies have been suggested in the past as examples of services for the customer with little or no overhead for the Postal Service. Given the controversy surrounding a soft drink proposal considered by the Postal Service last year, there is obviously a need for guidelines or a process to determine what marketing activities are appropriate for the Postal Service and how the business is to be conducted. The soft drink vending machine proposal was seen as a way for the Postal Service to raise up to $100 million but it was done in such a way as to cause criticism. What are your thoughts on pursuing such marketing opportunities in the future?

Answer: The Postal Service continually reviews ways to better and more completely use all of our assets. We will be pleased to consider a process where major marketing opportunities will be presented and examined freely and openly by all interested parties capable of making a serious contribution to this discussion.

52.) What is the current status of the Service's efforts to establish Mobile Services Antennas on postal property. Last year, the Service said it had allowed UniSite Inc. of Richardson, Texas, to erect three "monopolies/towers" on postal property with 3 antennas plus 20 rooftop antennas. The Service said it had contracted for 150 monopolies and that there were plans to erect 86 monopolies by the end of calendar year 1997. How many Mobile Services Antennas have been erected in 1997; in 1998? How many more do you expect to install?

Answer: The Postal Service has two agreements with UniSite, Inc., a Site Management Agreement ("SMA") and a Limited Partnership Agreement ("LPA"). Under the SMA, UniSite manages primarily single operator towers or monopoles and rooftop installations. (A monopole is an oversized flag pole 80 to 160 feet high.) The Postal Service entered into the LPA in order to construct antenna towers or monopoles having the capability or accommodating (or collocating) the antennas ("attachments") of several wireless communication operators on the same tower or monopole.

By the end of 1997, the LPA had constructed 14 towers/monopoles with 22 attachments. So far in 1998, two additional towers/monopoles have been constructed with five additional attachments. In May 1996, 16 pre-existing rooftop antenna licenses and two pre-existing towers leases were assigned to UniSite to be managed by the SMA In 1997, two rooftop installations were completed and two towers/monopoles were added to the SMA inventory No sites have been added as yet in 1998 to the SMA inventory.

This year, under the LPA, two sites are currently under construction and four more sites are likely to be constructed, as the zoning and permitting processes are likely to be completed shortly. We cannot predict how the market will respond in the future. If the same pace were maintained, we estimate that there could be between five and ten new sites built annually.

a. Please give a detailed summary of the feedback that the Postal Service has received to date from the affected communities.

Answer:

1. 2400 Orange Avenue, Cleveland, OH - Went through zoning process and received permit.
2. North Royalton, OH – Received Federal Exemption after meeting with town council
3. West Lake, OH – Zoning originally denied. Assisted city in revision of zoning laws for towers, and were able to build Flagpole Design on Post Office site after we went through zoning process.
4. West Chester, NY – Denied in zoning. The town's mayor favored placing the tower on City property.
5. West Berlin, NJ – Received Federal Exemption, never built on site.
6. West Deptford, NJ – Received Federal Exemption, never built on site.
7. Warrendale, PA - Went through zoning process and received building permit in 18 months.
8. Crofton, MD – Site built in July 1998 after completing zoning and building process.
9. Gaithersburg, MD - Site was built after we completed zoning and building process.
10. GW Parkway, VA – All permitting agencies covered from the County to the NCPC. Environmental Assessment completed as well as archaeological dig. Also, Sec. 106 of the Historical Preservation Act was complied with. In process of obtaining a Building Permit from the County.
11. Leander, TX - Local permits secured.
12. Firestone/Memphis, TN - Local zoning/permitting granted.
13. West Bloomfield, MI - Application withdrawn after City Zoning Manager asked for details on Postal Service use. City later issued permits to carriers for alternate site after they agreed to support construction of a multi-million dollar recreation center.
14. Glendale, AZ - Site denied in City Council due to opposition by an adjacent college.
15. Lake Mary, FL - Site denied in discussions with city over location and setbacks.
16. Fountain Hills, AZ - Site zoning discontinued due to city staff recommendation to deny.
17. Barrington, IL - Site dropped after threat from citizens to file lawsuit. They had previously sued and won on another issue.
18. Aurora, OH - Dropped after city created moratorium and told operators to look at city water towers.
19. Schaumburg, IL – Site constructed without zoning/building permit. Lawsuit by village ensued, zoning and building permit's subsequently applied for and approved.
20 Madison WI – 3902 Milwaukee Street – Building permit and conditional use permit applied for and granted for anchor tenant; second building permit applied for and granted to second tenant (anticipate same for the third tenant shortly).

21. Madison, WI/773 Struck Street – Building permit and zoning applied for and granted.
22. Baton Rouge, LA - Site constructed without zoning. No building permit required as site was constructed for the USPS Inspection Service; additional tenants have had to apply for electrical permits and inspection by county. Permits issued without incident.
23. Brooklyn Center, MN – Municipality determined that staff level plan review was only requirement. This was received for both anchor tenant and second tenant.
24. Brentwood, CA – County of Los Angeles issued letter refusing subdivision stating property was exempt.
25. San Francisco, CA – Hyde Street Station. Building permit applied for and granted (rooftop install).
26. Naperville, IL – Site denied by city council. New zoning excludes use of USPS property for tower.
27. Glen Ellyn, IL – Plan Commission Application withdrawn after USPS opposed the City's request to change the location from side yard to the rear parking lot.
28. Lake Zurich, IL – Zoning applied for and denied.
29. St. Charles, IL – Zoning applied for and denied.
30. Kansas City, MO – Executive Park Station, and
31. Vernon City, IL – Both sites appeared "zoned" but UniSite was unable to apply for zoning as both properties were subject to the Covenants, Conditions and Restrictions of their respective business parks.

b. Has the Postal Service complied with all local ordinances and zoning laws? Has the Postal Service obtained a building permit prior to construction in all cases? Please provide copies of all building permits obtained to date and the dates that construction began for the corresponding sites.

Answer: Since October of 1996, the Postal Service has submitted sites for compliance with all local ordinances and zoning laws by requiring building permits prior to the construction of all sites. Prior to October of 1996, all of the rooftop installations were achieved without local concurrence and building permits. Presently, building permits are required to be obtained by UniSite for all towers and most rooftop antenna installations.

Attached are copies of all of the available building permits. Those not included were for operator built sites where UniSite and the Postal Service do not have the building permit.

53.) The Information Based Indicia Program is a new form of postage that can be best described as a digital signature on the envelope which is encoded by a bar code in place of a stamp. Last year, the Postal Service confirmed it was considering a proposal to remotely access some home based PC meters participating in the Information Based Indicia Program (IBIP). The advantage of this IBIP concept is that this mechanism would increase customer access to convenient forms of postage. However, one concern that has arisen with the IBIP is that the Postal Service can collect a great deal of information about an individual by the encoding process through the bar codes. With the IBIP, the Postal Service has the power to program its machines to know when, where, and whom each letter has been mailed by an individual.

a. Please provide the current status of the IBIP proposal.

Answer: The Information Based Indicia Program (IBIP) is part of a postage revenue security strategy that encompasses physical security requirements for metering devices (both open and closed systems), a new form of postage, and centralized data management. The new form of postage is the Information Based Indicia (IBI) that can best be described as a digital signature on the envelope which is encoded in a bar code. It takes the place of a stamp. IBIP is the only solution we have found after four years of study to the problem of being unable to detect counterfeit postage meter imprints. However, IBIP offers our customers the convenience of being able to purchase postage through their PCs at any time, and

we expect that information desired by customers will become part of the IBIP bar code. PC Postage products - under development by commercial enterprises to print the IBI - bring seven day/24 hour access to purchase and print postage to the customer. It is not a proposal to remotely access home based PC meters participating in the IBIP.

Based upon experience the Postal Service is gaining in this rapidly developing area, IBIP continues to develop advice we are receiving from proposed product developers and other interested members of the public. We also continue to evaluate our own proposed products and those proposed by independent National Institute of Standards and Technology (NIST) certified laboratories. The intent to develop IBIP was announced in 1995 The first draft specifications were published in 1996. By 1997, prototype PC Postage products were being submitted by commercial developers for evaluation. In March 1998, we authorized placement of a limited number of units of a PC postage product with actual postal customers in tightly controlled "Beta" test studies. These studies are designed to show how PC Postage meets our customers' needs and how mail bearing PC postage is processed by the Postal Service.

We anticipate that additional PC postage products will enter upon "Beta" testing in the near future and additional refinements of our specifications will also be published.

b. The Postal Service is prevented from selling information received from the IBIP program, but what measures exist to prevent the Postal Service to collect and store sensitive information?

Answer: Apart from the digital signature, which is required for verification and authentication purposes, IBIP does not require mailers to provide any information that is not already known to the Postal Service with respect to traditional metered mail. The Postal Service will ensure that whatever information is collected will be controlled by existing law. As with other information, it will be controlled consistent with the Privacy Act.

Section 412 of Title 39 prohibits the Postal Service from making available to the public any mailing list or list of names or addresses of postal patrons or other persons. In addition, the Privacy Act contains applicable constraints against undeclared uses of information obtained by the Postal Service, and other postal regulations and statutes restrict use by the Postal Service of data contained on mail matter.

Centralized data management systems have been put in place in response to a 1994 GAO audit which cited the Postal Service for failure to maintain audit and control data on postage meters. Most of the information in the IBIP indicia is present in human readable form on the face of the envelope. Data which provide a sequential count of the mail, such as register values or piece counts, are not presented in human readable form. The balances at resetting on all meters are reflected in a data base maintained by the Postal Service. To our knowledge, there is no constraint upon the ability of the Postal Service to collect and store this information. The integrity and security of any IBIP mailing process would seem to demand that information contained in the bar code be stored and, in suspicious circumstances, later compared with other mailings to make sure that duplicates, i.e., likely counterfeit mailings, have not been presented in an effort to defraud the Postal Service of postage.

c. The information the Postal Service collects from the IBIP could lead to the Postal Service having an advantage of knowing private data about its customers. Do you agree that the playing field would no longer be level with the information the Postal Service receives from the IBIP program in its marketing strategy compared to its competitors?

Answer: The information presented in IBIP is already available to the Postal Service either in human readable form on the envelope or in data bases maintained for the purpose of metered postage revenue security. We cannot address the question of competitive advantage adequately because the Postal Service does not know the type of information our competitors maintain with respect to their customers or how that information is used.

d. If a customer using the IBIP Postal Service system experienced problems with the program, would the customer need to authorize physical inspection of the PC and its home-based meter, or would the Service have already authorized such authorization? Will the Postal Service validate the integrity of the data such as the meter balance each time the meter is reset?

Answer: The proposed PC based systems and our draft specifications anticipate that, unlike current postage meters, inspections of the PC products and diagnosis of any problems they may develop can be accomplished by remote, electronic contact with the manufacturers' resetting systems. Our specifications also provide that both the software and the postal security devices used in IBIP systems will be owned by the manufacturer, not their customers - in much the same way that traditional meters must be leased by the manufacturer to their customers. These requirements are intended to place upon the manufacturers the burden of correcting any identified security or operating failures in the systems. Accordingly, the manufacturers would be in position to examine or replace defective products and under existing postal regulations regarding meter licensing, any postage metering device must be made available to the Postal Service or the meter manufacturer upon request.

Under a data base established by the Postal Service to account for meter placements and metered postage (the Meter Accounting and Tracking System or MATS) the Postal Service is able to compare the amount of postage printed by a meter with the amount of postage purchased for use on that meter. This process will also apply in the case of the PC postage systems.

54.) You have been quoted in a 01-19-98 Time magazine article stating, "We know who skis, who fly-fishes, who goes to the movies." Please explain who are you are referring to as you say "we" in this statement. How is such information compiled by the Postal Service? Who at the Postal Service Headquarters has access to these records? What security precautions are being taken?

Answer: *Time* magazine took a quote out of context made by Postmaster General Henderson, who was then the Chief Operating Officer, in a January 19, 1998, feature story on the Postal Service. Mr. Henderson was talking to the *Time* reporter about our close working relationship with one of our major business partners—the direct mailing industry. He was explaining that 'we deliver mail' for the marketers who keep tabs on 'who skis, who fly-fishes, who goes to the movies.'

Prior to publication, a *Time* fact-checker was told that the Postal Service is prohibited by law from compiling private customer information. Immediately after the story was published, we responded with the attached letter to the *Time* editor.

The Postal Service will ensure that whatever information is collected will be controlled by existing law. As with other information, it will be controlled consistent with the Privacy Act.

55.) Last year, the Postal Service reported it had a number of initiatives in progress to respond to the 1996 GAO report that said weaknesses in the Postal Service's controls for accepting bulk business mail prevented it from having reasonable assurance that all significant amounts of postal revenue due are received when mailers claim presort or barcode discounts. We would appreciate an update on the status of the Service's initiatives to implement GAO's recommendations.

Answer: We implemented a Process Management initiative to identify unpaid permit imprint mail. Our goal is to capture at least 75 percent of unpaid mail entering the mailstream. We are also developing a verification process that insures that "risk" becomes the dominant factor in determining which mailings are verified.

We implemented the Automated Barcode Evaluator (ABE) program on May 4, 1998, which validates customer barcodes. This insures the quality of barcodes entering the mailstream meets our specifications.

We also developed an evaluation program of vendor-supplied manifest mailing software to certify the accuracy of software packages used by mailers to calculate postage. We improved our presort software certification program by developing electronic grading solutions for vendors' test files. We also implemented a total quality management program for mailings produced on commercial multi-line optical character readers by presort service bureaus.

We automated the process for reporting presort verifications, thereby eliminating cumbersome manual reports. Reports are now available on the Internet at the national, district, and unit levels.

Currently, we are providing 4,600 business mail entry unit employees with 16 hours of customized technical training largely focused on the verification processes.

a. After our previous oversight hearing last April, the Service told the Subcommittee that the Service was currently sponsoring a process management team that was collecting data to identify improvement opportunities in the acceptance of permit imprint mail at Bulk Mail Entry Units. What improvement opportunities were identified by the team? What follow-up action has been taken?

Answer: Two major types of improvement opportunities were identified. The first calls for better controls to prevent unpaid permit mail from entering our mail processing stream. In April 1998, new procedures and training videos were sent to all 85 districts for implementation at 285 processing plants. Implementation is underway and controls have been applied to ensure continuous improvement. Revenue Assurance officials are conducting audits at the plants and the collected data are being compared against the plants' average days. Gaps and targets are identified from the difference and reported nationally beginning in PQ 1, FY99.

The second improvement opportunity concerns the quality of bulk presort mail as it enters the mail processing stream. Process management data showed much improvement potential in both mail presorting and barcode quality. Mail presorting problems are being addressed through the design of new verification procedures to be rolled out within the next six months. Barcode quality problems are being addressed through the deployment of 290 Automatic Barcode Evaluation (ABE) machines. National level data currently are being collected on barcode quality through the ABE process.

b. GAO recommended that the Service take steps to be reasonably assured that required mail verifications are completed and documented as required. In response to our questions last year, the Service reported that in-depth verifications were performed on 12 percent of the mailings subject to Two Pass verification, which was consistent with the Service's overall expectations. However, GAO reported that given the criteria for selecting mailings for in-depth verification, each acceptance location should have done in-depth verification on 14 to 18 percent of mailings received. Further, GAO reported wide variation from the national average in the percentage of in-depth verifications, with the percentage of mailings that were verified in-depth in 77 districts ranging from less than two percent to more than 30 percent. Please present additional data to assure the Subcommittee that required verifications are being performed at all acceptance units.

Answer: In-depth verifications are randomly selected by an automated system based on a mailer's history. The Business Mail Entry Report currently roles up data on verifications completed. A review of this report over the last 14 months indicates that 12.5 percent of the mailings, subject to two pass verification, have had in-depth verifications completed.

c. The Service said last year it was focusing on identifying systemwide opportunities to improve revenue protection processes. Have additional systemwide opportunities been identified to improve these revenue protection processes? What is being done to address these opportunities?

Answer: In the past two fiscal years (FY97 and FY98 to date), the Inspection Service, through its financial and revenue audits and investigations, reported to postal management numerous opportunities to increase the protection of postal revenues. Postal management agreed to oversee the full or partial implementation of recommendations that affect national programs, including the control of customer postage meters, the acceptance of mailings claiming nonprofit postage rates, the collection of revenues from U.S. originating mailings posted abroad, and the control of stamps sold by contractors via a consignment program. Other systemwide opportunities are being discussed with postal managers.

The Chief Postal Inspector, in coordination with postal vice presidents responsible for revenue protection, heads a Process Management Team. This team focuses on mapping revenue protection systems, especially bulk business mail acceptance and accounting procedures.

In January 1997, the Postal Service filled its 36 Revenue Assurance Analyst (RAA) positions. Training focused on skills needed to perform reviews and effectively communicate findings to management. The orientation also included extensive focus on team building and networking for the RAAs. The RAAs also focus on Business Mail Acceptance, Private Express Statutes, Benchmarking, and Process Improvement.

Revenue Assurance will continue to focus on the Official Mail Accounting System (OMAS), Express Mail Corporate Accounts, Business Mail Entry Units, opening unit operations, postage meters, and other high potential areas of opportunity.

At the June 1997 meeting of the Management Committee, a request for 67 more RAA positions was presented. This brings the total RAA complement to 104. At the same time, a request to increase area staffing by 11 full-time Financial Systems Analyst (FSA) positions was made. Their primary responsibility is to coordinate Revenue Assurance activities. The Management Committee accepted this proposal.

Revenue Assurance has partnered with the Inspection Service in a number of areas. We have jointly performed OMAS, Periodicals (including the Austin Project), and Bulk Mail Entry Unit (BMEU) Reviews. Attached is a summary of FY98 Revenue Assurance activity.

d. Last year, the Service said it had certified ten products in its first round of Manifest and Certification (MAC) program testing which was underway and expected to be completed by December, 1997. The Service also said it was planning to certify products by many of its major presort service bureaus under the second round of Manifest and Certification (MAC) program testing, which was to begin in fall 1997. In this round of MAC testing, the Service expected to certify software that produces batch manifests. What were the results of the first and second rounds of program testing? Has the Service certified commercial manifest software that produces batch manifests?

Answer: The Manifest Analysis and Certification (MAC) program is a voluntary program developed to analyze and certify the accuracy of vendor-supplied manifest mailing software used to calculate postage payment and generate facsimile postage statements and other documentation for domestic and international permit imprint mail. The Postal Service has completed the first testing and certification cycle which was for single-piece rate mailings only. Eight vendors had 11 software versions for both domestic and international mail manifests certified under this first test cycle MAC-certified manifest software vendors, the names and versions of their certified software products, and the category or categories for which each version is certified can be found on the Internet at *http://ribbs.usps.com/files/vendors/*. Then select *macvend.doc*. The list was last published in hard copy in the November 11, 1997 issue of the *Postal Bulletin*.

The second test cycle will begin during the first quarter of FY99. This cycle will include single-piece rate domestic and international mail, including special services, as well as new tests for bulk rate First-Class and Standard Mail (A) batch manifests. Initial certification under the second cycle will be completed by the end of calendar year 1998. The second cycle was delayed to allow for testing of software incorporating changes in the R-97 rate case to ensure that quality software is available to the mailing industry when the new rates are implemented on January 10, 1999.

e. Based on the results of a pilot project with six presort bureaus, the Service said last year that it was finalizing national quality standards for mail produced by the presort bureau industry for implementation in July. Have these national quality standards been fully implemented? Please summarize the actions taken to implement the national quality standards, the benefits to date, and provide a copy of the standards for the record.

Answer: The national quality standards for mail produced by the presort bureau industry were implemented in March 1998.

This is a voluntary program which is made available to individual companies in the presort bureau industry. At this time, five companies have been certified. The data are insufficient to quantify the benefits. However, through this program we are improving the quality of mail preparation further up the line. A copy of the program guidelines are attached.

f. The Service said last year that it had completed development of national staffing standards for acceptance units and began field roll-out in July. Has field roll-out of national staffing standards for acceptance units been completed? What was the impact on overall staffing? How many acceptance units increased their staffing? Please provide a copy of the national staffing standards for the record.

Answer: The Postal Service developed and rolled out a Staffing and Scheduling Review process in 1997. Area level reviews are currently underway at the district level. These reviews are targeted for completion later this year. Initial analysis of the reviews completed to date indicate that some BMEU's are overstaffed and some are understaffed, and recommendations have been made to adjust clerk schedules to better meet mail arrival times. National staffing standards are currently being developed in conjunction with this effort.

g. The Service said last year that its FY 1998 goals included improving the proficiencies of the Service's Business Mail Entry Units (BMEUs). Specifically, the Service reported that it was building the measurement systems and identifying the components of BMEU proficiency from which the Service was to develop a training and certification program for BMEU employees. What is the current status of this initiative? What measurement systems for BMEU proficiency have been developed or are under development? What key components of BMEU proficiency have been identified for training and certification purposes? Has the Service developed and implemented a training and certification program for employees in bulk mail entry units? Does the Service require BMEU employees to meet certain certification requirements? How many employees have been trained and certified?

Answer: The BMEU Proficiency Program is well on its way with two measurement systems, three training programs and a certification test. The Mystery Caller Program was piloted during the summer of 1997 and fully implemented in February 1998. Currently, there are 250 calls to each District every quarter. The BMEU Survey focuses on the customer's perception of how well our employees respond to their needs according to their most recent visit to the BMEU. Currently, we have responses from over 7,000 customers. These two systems are used in calculating the BMEU Proficiency Index.

There are four components combined to make up the BMEU Proficiency Index. They are Technical Knowledge, Consistency, Helpfulness, and Facility Appearance. These results' indicators continuously measure proficiency and influence the training and certification program.

There are four programs developed and implemented for BMEU Employees. The four programs with the number of employees trained in each as of July 31, 1998, are as follows:

1. Performance Management Training for Managers and Supervisors - 425 managers/supervisors
2. Interpersonal/Telephone Skills Training - 4,414 employees
3. Technical Training - 1,337 employees
4. Certification Test - Started in August 1998

The certification programs consist of Interpersonal Skills Training and Technical Training, followed by a two-month waiting period before taking a written test. A score of 70 percent is passing.

h. The Service reported last year it had encountered two problems with its program to deploy Automated Barcode Evaluators (ABEs), one of which had been resolved. Has the Service resolved the problem that had been identified regarding ABE processing of cards and lightweight pieces? Have any additional ABE problems been identified? To what extent can ABE equipment now verify barcodes on mailing that receive automation discounts?

Answer: The problem involving processing of cards and lightweight pieces has been reduced with proper maintenance of the ABE equipment. Another problem identified was the glare caused by high gloss window material, and improper attachment of window patch and glassine windows. Procedures have been given to the field to address this issue. ABE is deployed in 263 sites in the country and is being used to verify barcodes on letter size mailings receiving the automation discount.

i. Last year, the Service reported that less than nine percent of ABE mail did not meet the target score, and that the figure was expected to drop significantly as soon as the hardware problem mentioned above was fixed. What are the most recent available results for the percentage of mail tested by ABE that meets the target score?

Answer: The ABE failure rate have dropped significantly. On a weekly basis over 2,800 automated letter size mailings are tested on ABE. As of July 22, 1998, only 2.4 percent of these mailings have failed to meet the acceptance criteria.

j. The Service said last year that it did not yet have results to share from the proof-of-concept procurement which was to automate many of the verification processes performed at acceptance units. The Service reported that one device was being deployed and national deployment was to begin in calendar year 1998 if testing was successful. What were the results of the testing of this device? What machines have been tested and deployed, and what are the results to date? What are the Service's plans for continuing the proof-of-concept procurement and automating verification processes performed at acceptance units?

Answer: The MERLIN proof-of-concept verification system testing has been completed. Test results indicated that the concept was feasible and a statement of work has been drafted for a prototype system. Purchasing is currently in the process of finalizing the award contract for the system. Prototype testing is expected to begin by March 1999.

56.) Nonprofit mailers were hit with a large increase in the recent rate case. Have the costs of processing nonprofit mail really increased much faster than comparable categories of regular rate mail? What are the causes for the large increase in nonprofit rates? Does the increase in nonprofit rates reflect flawed Postal Service data and projections as some mailers allege?

Answer: Many nonprofits will experience relatively large rate increases on January 10, 1999. In this rate case, the measured costs for Standard A Nonprofit increased more than for commercial, which led to greater rate increases for nonprofits. It is important to note, however, that despite their faster growth in recent years, the costs for nonprofits are still *lower* than for commercial. These historically lower costs for

for nonprofits led to lower rate increases for nonprofits than for commercial in past cases. In Classification Reform, nonprofit rates decreased 4.6 percent, while commercial rates were unchanged on average. In the 1994 rate case, nonprofit rates increased 3.9 percent but commercial rates increased 14 percent. When the effect of these two cases and the January 10 increase are combined, the overall Standard Nonprofit increase is 8.6 percent versus 15.4 percent for commercial.

In Periodicals, in order to mitigate the rate effect due to the rapid cost growth, the Postal Service proposed a reduction in the markup for the subclass. This option was not available in Standard A Nonprofit since the markup is calculated using a formula from the Revenue Forgone Reform Act of 1993 (RFRA). Therefore, the higher measured costs translated directly into higher rates.

The rate increase does not reflect flawed data and projections in this rate case. As noted above, despite the fact that the commercial and nonprofit categories comprise comparable mail, the costs for nonprofit are lower than for commercial.

57.) In an August, 1997 GAO report titled Issues Related to Governance of the Postal Service, the report provided an overview of the numerous responsibilities under the Board of Governors jurisdiction. Given the challenges facing the Postal Service in the 21st century, do you believe a part-time board of governors is still an appropriate body to direct the Postal Service?

Answer: Yes. The Board's role, as it has been since Postal Reorganization, is that of oversight. The Board of Governors' functions are very similar to those performed by boards in private industry who are also part-time. The Postmaster General and the Deputy Postmaster General, who are selected by the Governors, also serve as members of the Board. The Postmaster General serves as the Chief Executive Officer and is responsible for the day-to-day operations. The Board provides the necessary oversight through four committees of the Board and the regularly scheduled monthly meetings.

58.) Former Postmaster General Runyon has predicted that the Postal Service's monopoly over the delivery of letter mail will no longer be relevant by 2020 because of growing competition by electronic media including the Internet. Do you agree with his statement?

Answer: The market for services that the Postal Service provides has begun to change and will evolve. Electronic links to business and government are growing daily. Banking by mail is becoming more commonplace. There is also electronic filing for taxes and electronic fund transfer for benefit payments. In this environment, the Postal Service will be expected to respond to the new correspondence needs of our customers.

We are already seeing not only increasing numbers of electronic service options and providers, but also a behavioral shift among consumers regarding the convenience and speed of electronic message and payment options. As computer usage becomes more widespread among the American people over the next 20 years, we expect the use of hard copy mail in certain business sectors to decline substantially. However, in 2020 there will still be a need for a system that can provide universal delivery of hard copy messages, publications and packages to all Americans, regardless of their usage of electronic alternatives. The existence of the monopoly is a key factor driving the cost and performance of that universal delivery system.

59.)The Postal Service has said it is planning to undertake a major multi-year initiative to develop a definition of universal service and specify its meaning with respect to service requirements. The Service has said that initial findings will be summarized in its final Annual Performance Plan for FY 1999, which is scheduled to be published this September. What process is the Postal Service using to develop a definition of universal service, and what progress has been made to date?

Answer: During FY98, the Postal Service has begun a review of the experience of other industries and posts that have sought to define universal service concepts (such as the telecommunications industry subsequent to the Telecommunications Reform Act of 1996 and the electric utility industry). During FY99, the Postal Service will begin consulting with stakeholders, policy makers, regulators, and experts to define terms and methods that may be appropriate in the context of universal service discussions.

a. What opportunities will stakeholders including the public have to offer comments on universal service and how it should be defined?
b. How is the Postal Service involving its management and employees as it develops a definition of universal service?

Answer: During FY99 we plan to launch a stakeholder outreach effort on universal service. While our plans have not been finalized, we would expect to use a process similar to the one we employed when seeking stakeholder inputs on our Five-Year Strategic Plan, which was published last year. That process, which involved inputs from Congress, our Board of Governors, residential and business customers, competitors, individual employees at all levels of the Postal Service, and unions and management associations, is described in Chapter VII and Appendix A of our Strategic Plan.

c. Please outline the type of initial findings that the Service expects to publish on universal service this September.

Answer: We have just begun a review of universal service concepts in other industries and posts. We have no findings as yet.

60.) During FY 1997, 145 post offices were closed or consolidated. Recently, the Postal Service has announced a moratorium on post office closings citing that local post offices are essential elements in the Postal Service's ability to provide the nation with universal postal service. Please share with me your thoughts concerning the moratorium, and if you plan on continuing to uphold this decision.

Answer: Small post offices are a major part of our universal service network. While we have a very comprehensive closing process, it has not actively involved our postmaster organizations. We are now working with the postmaster organizations to review cases in a collaborative effort to meet our business and community needs.

a. Why was this decision made? Did the decision affect any proposed post office closings? Does the moratorium cover contract post offices? How long will the moratorium remain in effect?

Answer: The moratorium did not affect post office closings where a final determination had been made to close a post office or post office closings that were waiting announcement in the *Postal Bulletin*. Proposed closings that were substantially completed will be reviewed by a Headquarters review team consisting of Headquarters personnel and representatives from the Postmaster organizations to determine the feasibility of these proposed closings. The moratorium applies only to independent post offices, not to contract stations. The moratorium will remain in effect until it is determined it is no longer needed.

b. As you know, concerns have been raised in communities about the impact of post office relocations within a community on the health of the downtown area. Will the Postal Service moratorium on post office closings affect Postal Service policy toward the relocation or consolidation of post offices?

Answer: Relocations are not covered by the moratorium, since the community will continue to be served by a postal facility. We have issued new procedures on relocating post offices to ensure the community and elected officials are involved in the process. Consolidation of two independent post offices is considered a closing and will be covered by the moratorium.

c. How often does the Postal Service permanently replace a retiring postmaster with a non-postmaster position? To what extent is this standard policy?

Answer: It is standard Postal Service policy to fill vacant postmaster positions. Almost all vacant postmaster positions are filled initially by an Officer-in-Charge until the disposition of the post office is determined. However, considering the Postal Service has approximately 28,000 Post Offices and only 145 were closed or consolidated in 1997, the vast majority of offices are filled when a vacancy occurs. The decision to fill a postmaster vacancy is made at the field level. Some positions remain vacant for a period of time for training or developmental purposes. Our policy is to review each office as it becomes vacant. Currently, we will review any recommended closures/consolidations with the postmaster organizations.

61.) Has the Postal Service met with representatives of the National Association of Postmasters and the National League of Postmasters to further discuss emergency post office closings? If so, what has been the outcome of the meeting?

Answer: Yes. To date, Labor Relations and Retail Operations have had two meetings with the postmaster associations to discuss this issue and to begin setting up new procedures to provide ongoing involvement of the associations.

The parties met to develop a review process for those post offices already in suspension prior to the March 17 Post Office Closing Moratorium. Lists of those suspended post offices have been provided to the postmaster associations. It was agreed that the parties would meet again to jointly review those offices suspended for three years or less, and to address any issues that the postmasters identified during their review of the lists. At a subsequent meeting, the postmasters were asked to identify those offices which they felt merited further review based on the elapsed time. A group of post offices were identified by both postmaster associations and they will be discussed at future meetings.

The Postal Service will continue to meet with the postmaster associations on an ongoing basis to solicit their input and address their concerns on this important issue.

62.) Last year, I asked the Postal Service to report on its efforts to reduce the backlog of 470 post offices that GAO found remaining in emergency suspension status. The Postal Service reported that new resources have been focused on the accumulation of cases where the Service had closed a post office for a long time following the emergency suspension of operations, such as when a lease was canceled, a building was damaged, or the postmaster retired. The Service said that Area Managers have been asked to prioritize processing of the 150-plus post offices where operations had been suspended for five or more years.

a. How many post offices have been on emergency suspension status more than 180 days without entering the normal closing process, so that the community has access to the full notice, comment, and appeal process? How many post offices have been on emergency suspension status for more than 10 years; more than five years?

Answer: The field is required to notify Headquarters of their intention to propose discontinuance of a suspended post office or to reopen the office within 180 days of the time of the suspension. There are 452 post offices that are presently under an emergency suspension status. Headquarters has received notification of the field's intention on 451 of these post offices. There are 48 post offices that have been suspended for more than 10 years and 171 post offices that have been suspended for more than five years. Subsequent to the GAO audit, 88 of the suspensions have been officially closed, 60 offices have moved to different age categories, and Headquarters has received notification of 70 new emergency suspensions.

b. What is being done to resolve any remaining suspensions? When will they be resolved? How many of these post offices are expected to be closed permanently?

Answer: The field has been working diligently to resolve these emergency suspensions. Status reports are issued to the Areas on a quarterly basis. Of the 48 suspensions over ten years old, 31 of the records have been completed by the field and submitted to headquarters for review, 17 remain in the field. Of the 171 suspensions over five years old, 115 of the records have been completed by the field and submitted to headquarters; 56 remain in the field. An exact number that will be closed cannot be projected, since we are in the process of reviewing them. We are actively working with the Postmaster organizations to clean up those suspensions three years and older.

63.) Vice President Al Gore recently announced the formation of a new Web site that would allow consumers to remove their names and addresses from direct mail and telemarketing lists.

a. Does the Postal Service plan to participate in this government-wide effort?

Answer: The Postal Service has not been advised of plans for such a web site, and, therefore, we are not in a position to answer this question specifically. The Postal Service's own web site already provides consumers with information and access to the Direct Marketing Association's process to have names and addresses removed from such lists. Consumers may access this information on the postal site from the "Frequently Asked Questions" section. Moreover, the White House web site provides access to that same process.

b. Will consumers be able to request that their names and addresses cannot be given out by the Postal Service? For example, will consumers be able to request that their name and address will remain confidential if they file a change of address?

Answer: The Postal Service has opposed efforts in the past that would have required it by law to provide an "opt-out" procedure to customers who file change of address orders because such a procedure would unduly hinder its address correction efforts. The Postal Service does not disclose addresses of its customers, except for the correction of pre-existing address lists. Currently, postal regulations provide such confidentiality when the customer submits a court order.

64.) The Courtesy Envelope Mail concept has been recommended again by the PRC to the Board of Governors in its recent rate proposal package in May. What are the reasons for the Postal Service to reject the CEM proposal again? What roadblocks do you believe are present with this proposal? Under what conditions would you like to use this option?

Answer: The Governors of the Postal Service issued a decision on June 29, 1998, in which they exercised their statutory option to reject the Docket No. R97-1 Courtesy Envelope Mail (CEM) "shell" classification recommended by the Postal Rate Commission. (A copy of the Governors' Decision is attached.) The Governors' decision reflects their concurrence with postal management on this issue.

The advantage of Courtesy Envelope Mail (CEM) perceived by its proponents is that it would permit a much broader base of First-Class Mail users -- particularly household mailers -- to directly benefit from automation through the reduced postage they would pay on some of their qualified CEM letters. However, CEM proponents continue to overlook the fact that household mailers are already benefiting significantly from automation.

When household mailers use preprinted, prebarcoded courtesy reply envelopes provided by others, the courtesy reply letters they mail have a relatively low cost. For the rest of their letters, however, sent in their own envelopes, often with handwritten addresses, household mailers continue to deposit relatively high-cost mail. Under the current "one-stamp" rate structure for basic First-Class Mail, where household

mailers pay the same rate of postage for their high-cost and low cost letters, the savings realized from the automated processing of courtesy reply envelopes are averaged with other costs of First-Class Mail to mitigate overall increases in the basic First-Class Mail letter rate.

As was the case in Docket Nos. MC95-1, R90-1 and R87-1, the Postal Service in Docket No. R97-1 provided expert testimony by operations and cost witnesses demonstrating that the perceived benefits of CEM are accompanied by very significant administrative and enforcement challenges and costs which would result from the application of different denominations of postage stamps to similar basic one-ounce First-Class Mail letters. The Postal Service's testimony on these issues explained the public's preference for simplicity in basic postal transactions and the potential for public confusion from a "two stamp" system (one basic rate of postage for qualified CEM letters, another basic rate for all other letters). That testimony also highlighted the adverse consequences from the return to sender of short-paid basic rate mail pieces on which lower CEM postage was improperly affixed.

The Postal Service also presented a detailed cost study which estimated the additional cost of educating the public concerning the application of proper postage in a "two-stamp" environment as well as the additional cost of enforcing the proper application of postage and the handling of shortpaid pieces. In our view, this evidence persuasively demonstrated that the costs of CEM could outweigh the relatively modest automation benefits intended to be distributed more directly to single-piece First-Class Mail users. Analysis of CEM requires that postal management balance the very limited (if any) net financial gain to the mailing public resulting from the implementation of CEM against the significant loss of goodwill that could result from our need to strictly enforce return-to-sender policies on shortpaid First-Class Mail pieces on which reduced rate CEM postage was improperly applied. We continue to believe that the implementation of CEM would put at risk too much of the public goodwill we have worked so hard to generate in recent years through improvements to the quality of First-Class Mail service.

Our belief is reinforced by extensive consumer market research we conducted to determine the public's reaction to the CEM proposal. That research, which we also presented to the Commission in Docket No. R97-1, suggested that, even if given the option of using a reduced-rate CEM stamp on qualifying letters, a substantial majority of household mailers (the principal intended beneficiaries of CEM) continue to prefer the current "one-stamp" system, instead of having to administer two different denominations of postage stamps for their most common postal transaction, the mailing of one-ounce First-Class Mail letters.

While CEM will not be implemented, the Postal Service will be implementing a new classification for Qualified Business Reply Mail (QBRM), which provides the first-ever discounted postage rate of $0.30 to single-piece First-Class Mail. QBRM will consist of preprinted prebarcoded, single-piece reply mail for which the recipient pays the postage and associated fees. This mail costs less for us to process than non-barcoded mail does; accordingly, the 30-cent rate will apply, rather than the soon-to-be-implemented basic rate of 33 cents.

The QBRM proposal invites a broader base of customers to share more directly in the benefits of automation. The advantage of QBRM is that it avoids the "two-stamp" problem altogether, since no postage is affixed to the qualifying piece by the sender. This fundamental difference means that the significant costs and problems associated with the misapplication of postage to non-qualifying pieces which would result from CEM are avoided.

The Postal Service is committed to evaluating ways in which our household customers can more directly share in the benefits of automation, in accordance with their preferences and Postal Service revenue protection standards. Advances in technology are resulting in new capabilities such as on-line purchase of postage and household access to address-management software. These developments may create new mailing alternatives and new opportunities to offer discounts that will need our evaluation.

65.) The Postal Service spent over $45,000 to inaugurate the new Atlanta postmaster general. How do you feel the community of Atlanta benefited by this event?

Answer: We believe that both the Postal Service and the community benefit from such ceremonies since they provide an opportunity to introduce the new postmaster, who plays a key role in postal operations, to both the community and the employees.

a. In a letter to Karla Corcoran, you stated that in response to the complaints surrounding this issue of the amount of money spent on this event, you will amend postal rules for such ceremonies "to avoid misunderstandings." Have you amended these rules? If so, how?

Answer: On June 18, 1998, we amended our Administrative Support Manual (ASM) to provide guidance on expenditures associated with events such as postmaster installations. The guidance, which was carried in the *Postal Bulletin*, outlines what kind of expenditures (for publicity, refreshments, and program elements) are appropriate and establishes that such expenditures should be reasonable. The ASM change also provides for the capturing of all related expenses in appropriate budget categories.

66.) According to the Postal Service's 1997 Comprehensive Statement, the growth in the Postal Service's total factor productivity (TFP) lagged behind the private sector for the fourth straight year. What were the reasons for this occurrence? When does the Postal Service expect to achieve its objective in improving productivity to be similar to the rates as the private sector?

Answer: Total Factor Productivity (TFP) compares Postal Service workload (i.e. the services provided by the Postal Service) to resource usage (i.e. the total amount of labor, materials, and capital used to provide those services). It is a measurement that takes into account all factors of production. Over the most recent five-year period (1992-1997) Postal Service TFP has increased at an average annual rate of 0.3 percent.

The Bureau of Labor Statistics (BLS) publishes total factor productivity measures (which they call multifactor productivity) for broad sectors of the U.S. economy. The sector which is most comparable to the Postal Service is the private nonfarm business sector. Currently, the BLS has published multifactor productivity through 1996, but Standard & Poor's DRI has used other published government data to approximate multifactor productivity through 1997. Using the BLS and DRI data, it is estimated that private nonfarm business multifactor productivity increased at an average annual rate of 0.7 percent over the 1992-1997 period. Over a longer period, from 1987 to 1997, Postal Service TFP has increased at an average annual rate of 0.3 percent, comparable to the average gain of 0.3 percent reported for private sector nonfarm business MFP in the same period.

Labor Productivity is one of the components of TFP and it compares Postal Service workload to labor input. Over the 1992-1997 period, Postal Service labor productivity increased at an average annual rate of 1.0 percent. Comparable output per unit of labor input for the private nonfarm business sector has increased at an average annual rate of 0.8 percent over the 1992-1997 period.

The Postal Service's objective is to improve TFP over time consistent with or exceeding the private sector improvement of MFP. This objective is balanced against service improvements that are necessary to improve customer satisfaction and maintain a competitive position in the marketplace. For example, in order to boost customer satisfaction the Postal Service has extended window service hours and placed more "customer friendly" self-service equipment in the postal lobbies. Additionally, the Postal Service made significant investments in FY97 to improve on-time delivery performance of the overnight mail. As a result, on-time delivery performance of the overnight mail improved to a record 91.6 percent in FY97 from 89.3 percent in FY96. Expenditures to enhance service may cause a short-term decline in the growth of TFP because Postal Service TFP does not currently include a measure of service quality.

In addition to service enhancement expenditures, the Postal Service has also made significant investments in new technologies to control labor costs. These investments, though consistent with our long-term strategy of substituting capital for labor, may have a short-term negative impact on TFP due to implementation costs and the difference between the timing of costs and the realization of savings.

In summary, TFP growth in the Postal Service has been comparable to growth in private sector nonfarm business MFP. Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. It is important to look not only at annual TFP growth, but also at the factors, such as improvements in service quality, affecting annual TFP growth and TFP growth over time, when reviewing productivity performance.

67.) GAO has reported that every federal agency is at risk of widespread computer system failures because of the "Year 2000 Problem" which is rooted in the way dates are recorded and computed in many computer systems. In the June 10, 1998 GAO testimony before the Subcommittee on Government Management Information and Technology of the Government Reform and Oversight Committee, GAO stated that the Postal Service submitted a report which indicated that the Postal Service plans to spend over $500 million on its Year 2000 computer problem effort and intends to implement its mission-critical projects by September 1998. Yet, the report states that 21 percent of the Service's 335 mission-critical systems are still in the assessment phase.

a. What is the current status of the Postal Service's Year 2000 program? What are the resources that have been devoted to this program to date and what resources are budgeted for the future? Is the Service confident its program will make enough progress to avoid the Year 2000 problem?

Answer: The Postal Service has made substantial progress. The Program Management Office (PMO) has the committed support of Postal Service personnel from programmers to the most senior, core business managers. The Postal Service Year 2000 Initiative PMO is led by a full-time Executive Program Director who reports to the Management Committee through the Chief Information Officer. The PMO is staffed by other full-time Postal Service personnel, complemented by dedicated support from recognized industry leaders in large-scale program management. Additional contractor support personnel are working today at key systems development sites nationwide. The total estimated cost of the Initiative through the Year 2000 is approximately $500 million. The Postal Service is confident that the initiative will make the progress needed to avoid serious problems.

b. GAO has prepared a guide for federal agencies which provides a framework and a checklist of assessing readiness to achieve Year 2000 compliance. It provides information on the scope of the challenge and offers a structured approach for reviewing the adequacy of agency planning and management of the Year 2000 program. Please complete the attached copy of GAO's Year 2000 Program Assessment Checklist for the record. (Year 2000 Computing Crisis: An Assessment Guide, U.S. General Accounting Office, September 1997, GAO/AIMD-10.1.I4, pages 22-27)

Answer: Please see the attached checklist.

68.) The Postal Service has been conducting limited tests of new products and services that have been offered through the internet. We understand that senior Postal Service management made a formal presentation to the Board of Governors' on the Service's plans to develop new electronic commerce services, including services that are currently being tested on the Internet. What actions have been taken by the Board of Governors with respect to approving development or testing of new electronic commerce services?

Answer: The Board, primarily through the Strategic Planning Committee, has been monitoring the progress of the Postal Service's efforts in the electronic commerce environment. The Committee as well as the full Board have been briefed on the evolution of the project into a concept referred to as PostOffice Online. One element of this concept, Mailing Online, was approved by the Board at the July 1998 Board meeting to file for an experimental rate with the Postal Rate Commission. Electronic commerce is an integral part of the Strategic Plan approved by the Board and transmitted to Congress last September.

a. How much has the Postal Service spent planning, developing, and testing new electronic services? What have been the nature of these tests? How have participants been identified in these tests? Please report the total amount spent to date for each major initiative and the amount budgeted for FY 1998 and FY 1999. Has this spending and expanded testing of new electronic services been approved by the Board of Governors?

Answer: The Postal Service began its research and development (R&D) work in electronic commerce during FY93 with approval of $8.3 million to be spent through calendar year 1994. At the January 1995 Board meeting, the Board approved additional R&D money to bring the total approved amount to $12.6 million. In August 1995, the Board approved an additional $9.5 million for Phase II of the R&D project which brought the total approved amount to $22.1 million.

As of the conclusion of Postal Service Quarter III, actual spending against the approved $22.1 million R&D project totaled $20.3 million. Additionally, $5.3 million has been spent on the development of PostOffice Online. FY98 Board-approved budgeted operating expenses for PostOffice Online are $7.3 million. FY99 operating expense budgets are pending Board approval.

b. Which new electronic services is the Service considering for national roll-out? Does the Postal Service plan on asking the PRC for authority to test new internet product and services? What is the current timetable for implementation? Does the Postal Service consider the PostOffice OnLine service, the Mailing OnLine Service, and other electronic services to be postal or nonpostal services? Does the Postal Service plan to seek an experimental classification to offer any of these services from the Postal Rate Commission? If so, please provide details for the record.

Answer: All new electronic services under consideration by the Postal Service are in the testing phase. PostOffice Online and PostECS, if successful in pilot, could be ready for a national rollout over the next several months. Those products and services that require consideration by the PRC will be taken before this body. All new services are developed in response to the needs of our customers.

Yes, the Postal Service is seeking an experimental classification for Mailing Online and has already filed with the PRC. The case is now pending. Attached is a summary of the filing.

c. What has the Postal Service learned to date from its tests of PostOffice OnLine and Mailing OnLine services?

Answer: PostOffice Online, including its Mailing Online and Shipping Online component applications, began its Operations Test in Tampa, Florida on March 9, 1998, and expanded to Hartford, CT on May 1, 1998. Approximately 115 customers are registered to participate in the Operations Test. We have learned that there is a market need for these services and that our customers encourage the Postal Service to use the Internet for providing services that are convenient and easily accessible. Test customers appreciate the efficiency that the PostOffice Online brings to the way they use the mail in their businesses.

d. As you know, the Mailing Online service would allow small businesses to create their mailing electronically and then have a Service-approved printing and mailing service take care of the rest. Is the Service considering using contractors to offer mail preparation services to small businesses? If so, would this arrangement compete with existing services offered by many firms in the private sector? How will the Service select companies to handle printing and mailing services? Will there be goals for contracting with small businesses, minority-owned businesses, and women-owned businesses? Please submit documentation of selection requirements and procedures for the record.

Answer: The Postal Service has developed a bidding process for Mailing Online that is fully consistent with our normal purchasing guidelines which offer opportunities for small businesses, minority-owned businesses and women-owned businesses.

As to the competition issue, we anticipate that Mailing Online customers will appreciate the additional choice for their printing requirements that we offer, and they will enjoy the convenience of this service. Moreover, we expect they will increase their printing and mailing volume, thereby creating added demand for printing services.

Headquarters Purchasing used our established contacts with the Digital Printing Council (DPC), a part of Printing Industries of America (PIA), and CAP Ventures to establish a list of qualified printers in the New England area. These organizations are considered experts in the digital printing marketplace. This list, along with organizations responding to the *Commerce Business Daily* announcement, made up the mailing list for the first Mailing Online printer contract.

The solicitation was sent to over 80 potential offerors, which included small, minority and women-owned businesses. The pre-proposal conference held on July 1 in Windsor, Connecticut, gave the offerors an opportunity to receive answers to their questions and network and team together to provide a proposal for the printing contract to support the Mailing Online pilot in New England. The Postal Service has specific yearly goals for amounts of purchases awarded to small, minority and women-owned businesses for each purchasing specialist. The Postal Service does require prime contractors doing specified amounts of business to submit subcontracting plans for small, minority and woman-owned business programs, and quarterly reports.

e. How does the Postal Service intend to ensure the privacy and security of electronic documents, electronic payments or e-mail handled by the Postal Service? Is the Postal Service planning to accept credit card numbers or electronic payments over the Internet? Is the Postal Service planning to move sensitive documents over the Internet? If so, how does the Service plan to ensure this vital information will be secure? If the security of its electronic services is compromised, what will be the liability for the customer, the financial institution, and the Postal Service? Will electronic documents, electronic payments, and e-mail handled by the Service be made available to law enforcement agencies or to other government agencies that may request access to the information? If so, under what circumstances and with what process? Would customers be notified? Has the Service coordinated its policy on access to electronic information with the Justice Department and other federal agencies? Please provide any memorandums of agreement or understanding for the record.

Answer: The Postal Service is currently accepting credit card and electronic payments over the Internet in pilot tests of our various electronic communications products. We plan to offer services to our customers that allow them to move sensitive documents via the Internet. Services are being created to ensure the privacy and security of these transactions.

One such service, PostECS, is an Internet-based electronic courier service that delivers important documents from subscriber companies, publishers and individuals to anyone with an e-mail account and Web access. To send a PostECS document, the user uploads a file to the dedicated PostECS server using either the PostECS Desktop software or a Web browser. The PostECS server then sends an e-mail to the recipient advising that a PostECS document is available at a designated URL, which was automatically generated by the server. To receive the document, the recipient clicks on the Web address directly from their e-mail application or copies it into a Web browser. Another service, Electronic Postmark (EPM), provides our customers with a legal framework similar to that the Postal Service provides for hard copy mail today by allowing the agency to affix a time/date stamp and digital signature within a secure environment. With the Postal Service's electronic postmark, we will be providing our Internet customers with security and document integrity.

As to the question of releasing any electronic materials to other government agencies, the Postal Service intends to treat electronic documents, electronic payments and e-mail the same way we treat hard copy mail. That is, the Postal Service does not release mail to any agency, including law enforcement agencies, except upon receipt of a valid federal search warrant.

The liability of each party to a transaction is largely dependent on the terms and conditions of the services being offered. The Postal Service is still exploring whether or not to offer such services, and under what terms and conditions of service, or with what warranties or guaranties. Our decisions on these subjects will be based on the needs of our customers as well as the efficient and economical management of postal resources.

Electronic documents, payments, and e-mail are neither the property of nor considered to be in the custody of the Postal Service. Federal law determines access to these communications, whether they are placed in storage by the Postal Service prior or subsequent to delivery or delivered to the addressee without storage by the Postal Service. For electronic communications that the Postal Service would maintain as a class of mail sealed against inspection, only the execution of a federal search warrant would permit access to the communication by a law enforcement officer. For stored electronic communications not deemed to be a sealed class of mail, Title 18, United States Code, Sections 2702 and 2703, defines the ways to obtain access to these communications. Title 18, United States Code, Section 2516, controls interception of nonstored communications.

The Postal Service established policy and procedures to ensure that sensitive postal information systems and applications met acceptable security and privacy standards mandated by federal statutes. To comply with federal statutes, postal procedures require sensitive systems to go through a certification and accreditation process before the system or application can be placed into production. The certification and accreditation are not permanent. Recertification must be performed whenever certain system changes occur or at least once every three years.

The Postal Service has coordinated its policy on access to electronic information with the Department of Justice, the Federal Bureau of Investigation (FBI), and the Secret Service. The Postal Inspection Service, the Federal Bureau of Investigation, and the Secret Service have, in the spirit of cooperation, established and signed memoranda of understanding that define the limited jurisdiction to be delegated, by the Attorney General, to each of the law enforcement agencies. These memoranda of understanding are in the hands of the Attorney General awaiting approval and signature. Upon approval, the Attorney General will issue a delegation of authority to the law enforcement agencies.

f. What laws protect consumers who use electronic services provided by Postal Service? Which law enforcement agency or agencies would have jurisdiction to investigate and prosecute violations, such as abuses of consumer privacy? Specifically, could consumers ask the Postal Inspection Service to investigate a violation? What if consumers use electronic services that are not provided by the Postal Service? Could they also ask the Inspection Service to investigate violations?

Answer: Federal law contained in Parts 119 and 121 of Title 39 of the Code of Federal Regulations, protects electronic communications. Title 39, United States Code, may also provide protection to the electronic communications offered by the Postal Service if the form of communication is established as a class of mail.

The FBI and Secret Service have authority to investigate violations of Title 18 that pertain to electronic communications. The Department of Justice has authority to prosecute these violations. The Postal Inspection Service has authority to investigate postal offenses, which are generally defined as criminal acts directed at personnel, property, and services of the Postal Service, as well as the safety and sanctity of mail in the custody of the Postal Service and the use of mail transported by the Postal Service or when the mails are used for criminal purposes.

The Inspection Service has executed Memoranda of Understanding (MOU) with the FBI and the U.S. Secret Service for the enforcement of Sections 1029, 1030, 1343, and 2701 of Title 18. These MOUs were obtained as preliminary requirements for requesting from the Attorney General the authority to enforce these statutes when the criminal conduct is directed at the Postal Service or involves communications conveyed by the Postal Service. The request for the delegation from the Attorney General has been submitted to her office.

g. What laws protect financial institutions if they incur liabilities as a result of misuse of Postal Service electronic services? Which law enforcement agency or agencies would handle investigation and prosecution of violations?

Answer: The laws protecting financial institutions or other users of electronic services if they incur liabilities as a result of misuse of Postal Service electronic services would depend upon the ways in which the service was misused. Acts which in no way compromised the integrity of a Postal Service-operated electronic service would be subject to the same laws that apply to any such acts over other electronic services; for example, the Electronic Communication Privacy Act (ECPA), 18. U.S.C. §2701 et. seq., (which prohibits the interception or access of all electronic communications – telephone voice communications as well as computer-to-computer digital communications). On the other hand, Postal Service operations are supported by many federal laws and regulations prohibiting improprieties by postal employees in the performance of their duties and protecting the operations of the Postal Service; this enhances customer confidence in Postal Service services. The unauthorized taking, destruction or conversion of the computer hardware being used, if it was government property, would be a violation of 18 U.S.C. §641. If the system is only being used by the Postal Service, as opposed to being owned (i.e. leased equipment), the theft would be covered under 18 U.S.C. §1707. If a postal employee embezzles funds or fees as a part of a electronic transaction, 18 U.S.C. §1711 would apply. The assault on any postal employee while in the performance of official duties related to an electronic service would be covered by 18 U.S.C. §111. In addition, the criminal statutes applicable to bribery, 18 U.S.C. §201, and financial conflict of interest, 18 U.S.C. §208, would cover any employee who compromised the integrity of an electronic service for personal gain.

In general, telecommunications enforcement activities are primarily the responsibility of the FBI or Secret Service. The Chief Postal Inspector is exploring a Memorandum of Understanding with the Attorney General to allow the Inspection Service to also have enforcement authority over electronic communications products offered by the Postal Service.

The Secret Service, the Postal Inspection Service and, in certain circumstances the FBI, would have jurisdiction over financial transactions conducted by an electronic service offered by the Postal Service. Depending upon the matter, jurisdiction may reside solely with only one of the agencies, or it may be concurrent.

h. What process is the Postal Service using to develop its strategy with respect to the Internet? What group in the Postal Service is responsible for developing new Internet products and services? Which internal and external stakeholders have been consulted? Does the Postal Service have any plans to gain input from specific stakeholders and the public?

Answer: The Postal Service views the Internet as another channel to serve our customers. We have a formal process to review and support corporate Internet initiatives. The Corporate Internet Management Team is an ad-hoc committee with representatives from Information Systems, Corporate Relations, Marketing, Finance, Inspection Service, Legal and Consumer Affairs. This group enables web-based initiatives throughout the organization and ensures that each initiative conforms to the guidelines set forth in an *Internet Management Instruction and Internet Style Guide*.

The New Business Group has taken the lead to develop an overall Internet strategy. It is currently surveying the needs of its external customers, internal product managers and channel drivers to develop a short- and long-term Internet strategy.

Internal and external stakeholders whom we are able to identify are consulted during the development of new Internet products and services. Internal stakeholders include the Board of Governors, senior management, postal unions and associations, and the Postal Rate Commission for those products and services requiring their oversight. External stakeholders include Congress, mailers' associations, security and law enforcement agencies, small and home-based businesses and their associations, and technical experts.

For Mailing Online, the Postal Service made it a point to consult with large technology companies such as Microsoft and Lotus Notes to secure their input on development. We also contacted numerous industry groups such as printers' associations, particularly the Printing Industries of America (PIA). We provided the PIA with an outline of our requirements for the project's Request for Proposal. This was then referred to the organization's Digital Printing Council (DPC) for their input.

The Postal Service uses a multi-functional approach to developing its Internet strategy, ensuring that all stakeholder departments are involved. The primary strategy developer is the Marketing Department, because it is closest to the Postal Service's customer base and is most aware of their requirements for online products and services. Information Systems provides the technical direction, while the General Counsel, Corporate Relations, and the Consumer Advocate exercises oversight responsibility.

Marketing is primarily responsible for defining new products and services to offer to Postal Service customers via the Internet, although other departments have done so as well. For example, the National Customer Support Center has produced the ZIP+4 lookup and other addressing products. The actual development is done through a combination of Postal Information Systems and contracted resources.

Internal stakeholders have been included in the process though participation on the multifunctional Corporate Internet Management Team. Marketing is leading an effort to review the needs of all internal stakeholders, and to review and update the Internet strategy based on the input from as many functional areas as possible. External stakeholders are regularly consulted through the regular Postal Forum meetings and demonstrations, Postal Customer Council meetings, and user group reviews of potential products and services. Comments submitted to the Postal Service Webmaster from site users are analyzed to determine customer needs for products, services, or changes to the site to permit easier access to site content.

69.) The Postal Service is considering taking over management of internet addresses ending with ".us" and assigning new internet addresses so it could handle e-mail for millions of business and individuals.

a. Does the Postal Service have the authority to define any electronic matter--e-mail, electronic documents, electronic postmarks, electronic commerce, or other electronic material--as a "letter" or as "mailable matter"? Is any electronic matter covered by postal laws (1818 U.S.C. 1693-1999,39 U.S.C. 601-606, or other postal law)? Could "hybrid mail" be considered a "letter" or "mailable matter" when it is transported electronically before being printed and delivered? Could hybrid mail be covered by the postal monopoly or other postal laws? What about e-mail and electronic documents sent to an Internet address managed by the Postal Service?

Answer: Subject to a number of exceptions, the Postal Service has defined a letter as "a message directed to a specific person or address and recorded in or on a tangible object." 39 C.F.R. § 310.1(a). The Postal Service has ruled in the past that the Private Express Statutes do not apply to the transmission of messages electronically or by wire for the reason that "the messages are not recorded on tangible objects, and so do not constitute 'letters.' " Private Express Statute Ruling No. 85-3 (May 17, 1985). This applies with equal force to the electronic portion of any hybrid mail service, assuming that hybrid mail refers to messages that are sent electronically and then printed in some fashion and delivered.

70.) As you may recall, the GAO reported in 1996 that the Postal Service paid $12.5 million for a building in St. Louis that the seller purchased for only $4 million on the same day. GAO found that a breakdown in the Postal Service's review and approval process caused procurement safeguards to be circumvented in this case. It has been reported that the Postal Service was about to sell this building after asking only $4.25 million for the purchase price.

a. Has this building been sold? If so, what was the asking price and the selling price?

Answer: The Postal Service still owns, but does not occupy, the building at 555 Washington Avenue. The Postal Service contracted with Colliers Turley Martin, a respected commercial broker in St. Louis, to exclusively market the building for lease and sale. After some time and considerable effort, we leased 42,000 square feet, out of the available 162,000 square feet, to an advertising firm, thus placing the building in a marketable position for purchase by an investor or user.

Turley Martin has been actively marketing the property at an asking price of $4.25 million versus the $2.29 million estimate of value in an appraisal dated September 2, 1997. The first step of this process in a non-binding "Letter of Intent" which outlines the business terms of the transaction, from which the parties negotiate an "Agreement of Purchase and Sale." To date, the Postal Service has accepted three separate Letters of Intent. The first two were withdrawn by the buyers for various reasons, such as dissatisfaction with the lease agreement, or discovering that the property's age and lack of on-site parking did not fit the buyer's investment criteria.

Presently, the building remains unsold and our third interested buyer is in the process of examining the property and investigating the title and zoning. The price in the Letter of Intent we accepted is $3.65 million. If the buyer proceeds, we expect an October 1998 closing.

b. It has been reported that the seller admitted that it lied to the government when the firm told the Postal Service it had a back-up buyer for the building, was fined $250,000, and paid $3 million in a separate settlement. Please report the events in this case for the record. Did the Postal Service collect the $3 million settlement, or was it paid to someone else?

Answer: The Forsytne Group, Inc. has paid its criminal fine of $250,000 and, in accordance with an agreed schedule, the corporation and its president, David Wilhelm is paying between $3 and $4 million in the civil settlement. Payment is made initially to the Department of Justice, which forwards 90 percent of all payments to the Postal Service.

October 1991: During negotiations for the acquisition of 555 Washington Avenue, The Forsythe Group's president David Wilhelm represented that he had a back-up buyer for the building and we must conclude the transaction by mid-December of that year. This representation, both written and oral, was passed up through the Postal Service approval chain, to and including the Board of Governors, as the reason why prompt action was necessary to complete the transaction and, later, why internal procedures were disregarded.

December 1991: Forsythe exercised an option it had held on the building for six months (at $5 million, including satisfying outstanding liens) and sold the building to the Postal Service (for $12.5 million). St. Louis newspapers reported the transaction as one in which Forsythe made a quick and improper profit at the expense of the Postal Service.

January 1992: Congressman William Clay began an investigation of Postal Service's acquisition of the building and real estate acquisition practices generally. The Postal Inspection Service also began an investigation of the transaction.

September 1992 The Forsythe Group, Inc. pled guilty to two counts of making false statements to the government

November 1992: The sentencing judge imposed a $250,000 criminal fine, expressly leaving payment of any restitution to civil action by the government. The fine was duly paid.

February 1994: Forsythe and Wilhelm sued the Postal Service and the United States for $36 million based on intentional and negligent infliction of emotional distress and for a declaratory judgment that the Postal Service suffered no harm by virtue of Forsythe/Wilhelm's conduct and that the plaintiffs did not violate the False Claims Act.

March 1994: The Government sued Wilhelm and Forsythe (1) under the civil False Claims Act,. seeking treble damages and penalties; (2) to nullify the purchase contract because it was induced by fraud and order restitution of the $12.5 million purchase price to the Postal Service; and (3) for other common law remedies to restore to the Postal Service the purchase price of the building.

1994-1995: Both parties took depositions, exchanged documents, and filed motions to dismiss or narrow the issues in the case. The Court's rulings on various motions resulted in no significant net change in either side's legal position.

February 1996 The Court dismissed Wilhelm's emotional distress claim to the extent it was based on the government's threat to file and the actual filing of the civil action. However, the Court left standing the emotional distress claim to the extent it was based on the Wilhelm's allegations that the Postal Service frequently, publicly and falsely claimed that it had relied on his false statements only for the purpose of diverting political criticism of the Postal Service.

June 1996: After two days' mediation conducted by a former district court judge, the parties agreed to settle the pending cases with the Postal Service retaining ownership of the 555 Washington building, and Forsythe/Wilhelm paying $3 million in one lump sum or $4 million over four years. The agreed payments were secured by the personal guarantee of David Wilhelm and his wife.

September 1996: The first payment under the settlement was made to the Department of Justice.

September 1997: The second payment under the settlement was made. Under our agreement with the Department of Justice, 90 percent of all amounts received under this settlement are forwarded to the Postal Service.

c. What lessons has the Postal Service learned from this case?

Answer: The primary lesson is that neither a compelling operational need nor the possibility of losing a preferred site should result in a violation of our established review and approval processes. Deviations from procedures require specific approval, in advance, from the Vice President, Controller, and are only allowed in rare instances. Facilities management felt they were acting in the best interests of the Postal Service when they bypassed the normal review and approval process in order to purchase the site before the owner's stated deadline passed. Finance and Facilities have restated the need to honor the process and have reemphasized policies concerning how projects are submitted to the Board of Governors. In addition, within Facilities, we have strengthened supporting documentation in Decision Analysis Reports to include the appraisal method used to value the property and the price of the property the last time it was sold (if sold within the past 10 years).

71.) Please describe the Postal Service's "Dinero Seguro" (Safe Money) program. What have been the results of market testing to date? What are the Postal Service's plans to expand this program to additional Latin American countries? What safeguards does the Postal Service apply to the Dinero Seguro program to prevent possible misuse? Is the Postal Service required to report wire transfers made outside the U.S. to federal authorities if they exceed $10,000? The Postal Service has stated that an analysis system/audit exists to detect any activity of money laundering. Has this system been audited to insure the internal controls are working? When, and how often are audits planned? What have been the audit results?

Answer: Dinero Seguro is a natural extension of the Postal Service's Money Order Service, which was established more than 130 years ago. Our objective is to offer customers a variety of reliable and secure money transfer options. The Dinero Seguro program provides a broad customer base with a safe and reliable way to send convertible funds to Mexico. This wire transfer service is based on a partnership between Bancomer of Mexico and the Postal Service. Currently, the program is offered only in limited markets as part of an overall market test.

Research conducted during the market test shows that the service is very attractive to the Mexican-American community. The vast majority of Dinero Seguro customers (94 percent) stated that they would use the service again, and 64 percent are repeat users of the service. Our surveys of customer needs and expectations for a wire service indicated that reliable delivery and fast service at the counter are the two most important requirements. Based on customer research, better than 80 percent of Dinero Seguro customers feel that their expectations in these two areas have been met or exceeded by Dinero Seguro.

This demonstrates that particularly unbanked populations in the U.S. will use electronic money wire transfer services and that there is room in the market for the Postal Service to expand this service. We are examining customer demand data to identify our future markets.

The Postal Inspection Service oversees the strong safeguards we have in place to prevent misuse, including a strong anti-laundering system to comply with Bank Secrecy Act (BSA) requirements. Details of all cash transactions, including those relating to money transmittals, are provided routinely by the BSA Compliance Officer of the Postal Service to the Treasury Department's Financial Crimes Enforcement Network (FinCEN).

Furthermore, the Postal Inspection Service (PIS) is taking the following steps to prevent money laundering:

- works with Postal Service management to ensure that the agency's financial services comply with the BSA;
- ensures that new financial services possess anti-money laundering security measures;
- participates in BSA training programs for postal employees involved in the sale of financial services;

- maintains a National Postal Money Order Intelligence Center at FinCEN to better coordinate its enforcement activities with other agencies;
- monitors electronic money transmittals between the U.S. and Mexico with money transfers of up to $3,000.

The PIS has created an analysis system to help identify money-laundering activity. It contains information gleaned from all money order transactions in the US as they are processed through the Federal Reserve Bank of St. Louis. This database has contained or will contain:

- information from Funds Transaction/Transfer Forms completed by postal clerks for the cash sale of money transmittals;
- information from Suspicious Transactions Reports completed by window clerks for any suspicious cash transaction;
- information from Currency Transaction Reports and Suspicious Activity Report Forms filed with FinCEN by financial institutions around the U.S.

In FY97, postal inspectors, working with other law enforcement agencies, arrested almost 2,000 individuals for drug trafficking and money laundering offenses and seized more than $25 million in cash, monetary instruments and bank accounts.

The Postal Service has an analysis system in place and we continue to enhance it. The agency's Inspector General has audit responsibilities and has been monitoring the system's development. A preliminary assessment is underway with a full audit expected in FY99.

High level Justice and Treasury officials have lauded the Postal Service's BSA compliance system as "state of the art" and a model to be followed by the private sector.

72.) Why is the Postal Service becoming involved in providing money-by-wire products, given that these products are available from banks and other institutions in the private sector?

Answer: The Postal Service has been issuing international money orders for more than 100 years. "Dinero Seguro" is an evolution of this service and was created in response to requests from our customers. The Postal Service has a growing customer base in the Hispanic community that uses money wire services to forward funds to family members back home in their country of origin. "Dinero Seguro" is a refinement of our current money order product and provides a faster service that is also safe and convenient. "Dinero Seguro" gives these customers the ability to better help their families back home.

Customers in the Hispanic community already rely on the agency to take care of bills, payments and other very sensitive materials safely. Therefore, the Postal Service is recognized and trusted by these different customer groups.

In response to customers stated needs for a more secure system to transfer funds to Mexico, the Postal Service initiated the Dinero Seguro Project. The Postal Service expects that this will result in reduced costs for customers wanting to transfer money. Customers have told the Postal Service that Dinero Seguro provides a consistently reliable, fast and secure way to send money to Mexico.

73.) Private express carriers have long maintained that they do not compete on a level playing field because they are subject to different and more costly customs requirements than those that apply to postal shipments. On the other hand, the Postal Service has suggested that they do not compete on a level playing field because they are subject to more lengthy customs clearance times and have certain universal service obligations.

The GAO investigated the differences in customs requirements in its report on the Postal Service's Global Package Link (GPL) program. GAO testified that it found that different customs requirements apply to postal and private shipments, particularly with respect to Japan, where nearly all GPL packages are sent. In fact, GAO could not verify whether GPL parcels to Japan had any duties actually assessed, according to GAO. 99% of GPL goes to Japan, where USPS has captured 60% of the U.S. to Japan direct marketing business. Also, GAO reported that of the three destination markets reviewed, it found that Japan is the market where USPS enjoys the most substantial advantages in customs treatment Also, the report notes that private carriers must incur substantial costs to comply with requirements that do not apply to USPS. At GAO's request, DHL, FedEx, and UPS calculated that they incurred more than $110 million in costs to comply with customs requirements that do not apply to USPS.

a. How do you respond to the concern that the Postal Service, by using Global Package Link, has diverted business on comparable packages from private carriers to Japan by taking advantage of custom preferences that are available to the Postal Service only because of its position as the government post office?

Answer: The June 1998 GAO study, "Competitive Concerns about Global Package Link Service," identified differences in customs clearance procedures for postal and private express traffic, but did not label either as having advantages or disadvantages. Differences in customs clearance procedures that the GAO examined included speed of clearance, assessment of duties and taxes, and documentation requirements.

First, regarding speed of customs clearance, page five of the Executive Summary clearly states that the GAO found no evidence that Global Package Link (GPL) parcels receive preferential treatment over private express parcels in Japan. Furthermore, it determined that GPL parcels take an average of 2.17 days to clear customs in Japan, while private express parcels normally clear Customs within two hours. This discrepancy is at least in part due to the fact that private express parcels clear customs at the Tokyo airport, while postal parcels must go to a facility in downtown Tokyo, about two hours from the airport, for customs clearance.

Second, regarding the assessment of duties and taxes in Japan, the GAO reported that "Japan Customs said that GPL and private express parcels receive the same customs treatment. In addition, officials said that duties and taxes were being assessed on all dutiable parcels from the United States." However, the GAO was unable to confirm whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because: (1) Postal Service did not have records on payment of duties and taxes of GPL parcels shipped to Japan, because the recipients of postal parcels are responsible for paying applicable duties and taxes; and (2) Japan Customs did not provide statistics on the amount of duties and taxes that recipients paid on GPL parcels. Therefore, it could not make an assessment of customs preferences for Global Package Link or private express parcels. This is one strong example of how the Postal Service's position as a government agency puts it at a disadvantage. As a government agency, the Postal Service is also unable to negotiate directly with Japan Customs and must go through the Japanese postal administration.

Third, while the GAO did note differences in documentation requirements for GPL and private express parcels, direct comparisons between GPL and private express customs clearance costs are difficult to make because of significant differences in the composition of the traffic handled by postal and private operators and cost factors which may not be comparable. Additionally, the information provided by private operators for customs clearance may be of little additional cost as this information is already collected for operational and marketing purposes.

While private carriers do incur costs for licensed customs brokers, significant operating expenses are avoided because, unlike the requirements for postal clearance, all shipments do not have to be physically provided to Customs for examination. These shipments may be cleared on the basis of the documentation provided by the broker. Only those shipments designated for inspection must be

tendered to customs. Customs clearance services outside of regular business hours are strictly optional and demonstrate the value placed on speedy clearance services not available with postal clearance procedures. Records retention costs are minimal in the electronic era, while fines and penalties apply primarily to bulk shipments of freight and cargo which the Postal Service does not handle.

In sum, GPL has been successful in large part because of its customer-friendly software feature which enables customers to link directly into its data system to produce shipping documentation and track shipments. The customers who use GPL have found this system more suited to their needs than the systems of the private operators, which were designed for a different customer-base shipping mainly cargo and high-value items. Additionally, the success of GPL can be attributed to the lower costs associated with serving a customer base which does not require an extremely high speed of delivery.

Finally, to give an additional perspective on the private operators' claims, GPL has been a success with Japan, if not with other countries, because of a number of factors, only one of which may relate to the simplified documentation associated with postal clearance. Other factors include the 1994-95 strength of Japan's economy and the favorable exchange rate of 90-95 yen to the dollar. These advantages have substantially disappeared with the recent recession in Japan and exchange rates of 140-145 yen to the dollar.

In summary, private operators' claims of significant cost disadvantages appear misleading. The GAO report itself acknowledges that these claims have not been substantiated by the private operators or verified by the GAO. Through GPL, the Postal Service has been able to provide new service offerings to U.S. customers that can meet certain volume requirements, and who are more concerned with price than with speed of delivery. The result has been the promotion of U.S. business overseas.

b. Given that the U.S. Postal Service offers competitive international mail services that are comparable to private carriers services, why does it make sense to have two different customs procedures ("postal" customs vs. "regular" customs) for comparable shipments? Shouldn't comparable and competitive international mail services have the same customs procedures available?

Answer: The different customs procedures that exist today for postal and private operators traffic are rooted in the traditionally different nature of postal versus commercial traffic, which has necessitated negotiations with national Customs authorities for different clearance procedures. In fact, another set of procedures exists for customs clearance of cargo and air passenger entries, which have even different characteristics. These distinctions in procedures are based upon differences between postal traffic, which is derived from a universal service obligation, and commercial traffic, which serves a more profitable market segment. To label commercial customs clearance procedures as "regular" would imply that postal procedures are in some way exceptional, which is not the case.

Postal traffic generally tends to consist of low-volume, low-value mailings received from a large number of individual consumers or small businesses, for delivery to multiple addresses. These items are mainly for personal rather than business use, and therefore speedy customs clearance is not essential. Furthermore, by law, postal administrations do not bear responsibility for verifying the contents of their shipments. Therefore, they cannot take responsibility for paying duties and taxes, which must be paid by the addressee upon delivery, due to the large number of individual mailers. All postal merchandise must bear a CN 22 or CN 23 customs declaration, which are forms standardized by the Universal Postal Union to conform with customs clearance procedures developed for postal traffic with the World Customs Organization. Postal administrations must incur the operational expense of presenting all mail received from other countries to customs for individual physical examination. For their outbound mail, postal administrations have no guarantee of how long it will take for their items to clear customs.

Private operators, on the other hand, typically handle high-volume, high-value, profitable commercial shipments from a single sender to a single address for which speedy delivery and rapid customs clearance are crucial factors. Private operators have relations with their customers, again mainly single

mailers with multiple mailings, which make it more feasible for them to verify the contents of their shipments. For this reason, the private operators have negotiated arrangements with national customs authorities in which they have agreed to provide preadvised customs documentation electronically before arrival in the airport of destination and to pay duties up front in exchange for expedited customs clearance. More specifically, in 1987, private operators in the U.S. negotiated arrangements with U.S. Customs which recognized the special nature of the courier industry and the importance of expedited customs clearance. These negotiations culminated in special express guidelines, or Part 128, of U.S. Customs Regulations, and were published in the *Federal Register*. Part 128 outlines the specific requirements negotiated for clearance of private operator traffic in exchange for expedited customs clearance.

Private operators avoid the expense of having to present all items to customs for individual physical examination; they can present only selected items requested by customs for examination. While the private operators publicly contend that having to pay duties and taxes up front for their customers puts them at a competitive disadvantage, in reality the ability to provide customers such a service is critical in the commercial marketplace.

Yet, over recent years, the boundaries between public and private operator traffic have become blurred as postal operators develop commercial services such as Global Package Link to meet changing consumer needs, and as private operators move into the market for low-value, household traffic. In principle, the Postal Service supports the concept of comparable customs clearance procedures for comparable traffic, as long as postal clearance is maintained for mail, and mailers are not unduly burdened with additional requirements for rapid customs clearance which are not important to them.

In this regard, commercial clearance procedures should not be imposed on postal traffic simply to match the requirements of the private express operators, who have freely chosen and agreed to these requirements in order to expedite clearance. The biggest obstacle to customs treatment of equal benefit to both public and private operators for comparable traffic is to come from national Customs authorities, who view traffic in terms of the nature of the operators, rather than in terms of the nature of the traffic itself.

c. Would the Postal Service support efforts to simplify and expedite customs clearance procedures worldwide- such as reducing paperwork, simplifying payment of duties and taxes, and increasing the dutiable de minimis? Couldn't such changes benefit both the Postal Service and the private express carriers?

Answer: The Postal Service supports any efforts to simplify and expedite customs procedures worldwide, as long as the procedures take account of the nature of the traffic and the customer base being served, such that Customs authorities have the appropriate information to ensure proper law enforcement and revenue collection. Such efforts benefit not only the Postal Service and the private express carriers, but most significantly will benefit U.S. consumers.

In fact, efforts to simplify and expedite customs procedures worldwide are already underway within the World Customs Organization (WCO). The WCO has decided to reexamine postal and commercial customs clearance procedures worldwide to accommodate the changing marketplace and services offered by public and private operators. It is therefore currently undertaking a study, with the participation of public and private operators, including the Postal Service, to determine what type of mail will warrant what type of clearance procedures. The results of this study will identify more efficient customs clearance procedures that will benefit postal administrations and private express carriers, along with consumers and national customs authorities.

d. Did the Postal Service negotiate with Japanese authorities to use similar customs procedures as the private sector, such as electronic manifesting? If so, what is the status of any negotiations?

Answer: Following negotiations between the Postal Service and Japan Post, Japan Post has been negotiating with its Ministry of Finance, which oversees its Customs, on the use of electronic manifesting for GPL shipments to Japan. The Japanese Ministry of Finance has agreed to accept electronic manifesting for GPL. Furthermore, the Postal Service has agreed with Japan Post that the process should initially be tested with two U.S. mail order companies as soon as Japanese Customs authorities are ready. Before such a test can occur, however, Japanese Customs authorities require software modifications to their systems and the catalogues of these mail-order companies must be harmonized. For this reason, the test will not take place until the spring of 1999 at the latest.

It is important to point out that GPL, even with electronic manifesting, will still not enjoy the benefits of preclearance afforded to private express parcels. Rather, Japanese Customs authorities will still have to scan each individual package, which will still be subject to physical customs inspection, while private express parcels clear customs prior to arrival in Japan and need not undergo individual physical handling by Customs. Therefore, GPL shipments will still not be guaranteed the expedited customs clearance granted to private express parcels.

e. Is the Postal Service participating in any international efforts to renegotiate custom procedures and requirements with respect to international mail and international postal shipments? Please list relevant meetings where the Postal Service has been represented with organizations such as the World Trade Organization (WTO), the World Customs Organization (WCO), and the Universal Postal Union (UPU). Please list Postal Service participants for each meeting and summarize the status of negotiations. Please submit relevant Postal Service correspondence with the WTO, WCO, and UPU for the record.

Answer: The Postal Service has participated in meetings of the WCO-UPU Contact Committee and the WCO-UPU Working Party, which carries out the work of the Contact Committee between meetings. The WCO-UPU Contact Committee was established to promote dialogue between postal administrations and Customs authorities worldwide on the facilitation of customs clearance. Through the Contact Committee, postal administrations have worked with the WCO to revise annex F4 of the WCO Kyoto Convention, which outlines customs clearance procedures for postal traffic. This annex was approved by the Permanent Technical Committee of the WCO in March 1998. The entire the revised Kyoto Convention is due to be approved in June 1999.

The WCO-UPU Contact Committee meets every October. The Working Party met in January and October of 1997. The following Postal Service representatives have participated in these meetings: Mr. Philip Warker, International Operations; Mr. Timothy Gribben, International Postal Affairs; and Mr. Peter Chandler, International Postal Affairs. Attached is a copy of the WCO/UPU Contact Committee Report.

f. Has the Postal Service worked with the U.S. Customs Service in efforts to simplify customs procedures that apply to international mail and postal shipments? How often have Service and Customs officials met in the past year? Please submit any relevant correspondence for the record, such as any memoranda of agreements reached between the Service and Customs.

Answer: The Postal Service and U.S. Customs have been involved in an ongoing dialog to facilitate customs clearance procedures for international mail. Over the past year, approximately five meetings have taken place.

Attached are two memoranda of understanding signed between the Postal Service and U.S. Customs. One pertains to the opening of letter mail, which was signed in 1978. The other pertains to the use of the Military and International Dispatch and Accountability System (MIDAS) for Express Mail tracking, which was signed in 1994.

The Postal Service International Business Unit has worked closely with U.S. Customs over the past year to develop a Memorandum of Understanding on Customs' inspections of international mail. The process began at the annual Customs Inspectors national meeting two years ago in Florida, which was attended by representatives of the Inspection Service. Customs and the Postal Service agreed to work towards an agreement.

Last year, managers of International Mail Facilities, Customs managers of International Mail Inspections Units, postal inspectors, and other representatives from International Mails and Customs Headquarters met in San Diego to further develop this agreement. Over the past year, representatives of the Postal Service and Customs have met many times working cooperatively to finalize an agreement. A proposed agreement was completed and provided at this year's meeting, again held in San Diego, and attended by Postal Service and Customs Managers of International Mail Facilities along with postal inspectors. The agreement was approved by both Postal Service and Customs attendees.

Furthermore, postal inspectors and the Postal Service International Mails Department have an ongoing dialogue with Customs Headquarters to iron out any problems that surface in Customs inspections of the mails. Additionally, an Audit team from Newark has been looking into any problems Customs encounters in inspecting the mails.

74.) It has been reported that the Postal Service has teamed up with the Direct Marketing Association (DMA) to arrange for Global Package Link service, catalog translation services for order forms, consulting advice on foreign pricing and cultures, inbound telemarketing services, and access to rental list opportunities. DMA President Bob Wientzen has said that the Postal Service and DMA are "prepared to subsidize catalogers' test" through the program, called the New Market Opportunities Program (NMOP), according to the May issue of Catalog Age. Does the Postal Service offer discount rates for mailing catalogs to foreign countries if the participating company agrees to mail a minimum number of catalogs and participate in the GPL program? If so, do the rates cover costs? How many companies have agreed to participate?

Answer: The pricing of the New Market Opportunities Program (NMOP) is designed to encourage direct mailers to conduct a test. The rates for the program will cover its costs and make a contribution to institutional costs. Mailers can only use the program once per country and must complete all mailings within six months of the first mailing. Customers are required to mail a minimum of 25,000 catalogs per market, with each catalog weighing a maximum of six ounces. Mailings can be made to 11 countries. In contrast, ISAL mailers are required to mail a minimum of 50 pounds, with a maximum weight of four pounds and is available to 125 countries. As of July 31, 1998, there are no companies mailing under the NMOP program.

a. Please describe the NMOP program. How long has it been offered? What services are being offered, and for which countries? Please submit documentation of the program and of the Service's arrangements with the DMA.

Answer: NMOP is designed to help American direct mailers go global by testing whether their products will sell in a specific country. It is similar to a store test in the retail industry. The program includes catalog delivery with value-added services. The value-added services include translation of order form, ordering instructions and company background information sheet (if appropriate), market profile to target market; assistance with catalog format; assistance with cost analysis and projections; assistance with tracking of sales results; invitation to participate in a post-test trade mission; names of direct marketing service suppliers; and international letter shop services for catalogers that have not used ISAL or VALUEPOST/Canada in the previous 12 months. As part of this program, the mailer must agree to use GPL for merchandise fulfillment. This program is offered where GPL is available. Attached is a brochure describing the program. It has been offered since March 12, 1998.

b. Who offers NMOP services, the Postal Service or DMA? Does the Postal Service or the DMA contract with others to provide translation, letter shop, or telemarketing services for the NMOP program? If so, what are the eligibility requirements? Are contracts awarded competitively?

Answer: The Postal Service offers the NMOP. The DMA supports the program and has agreed to allow its name to be used in connection with the program. The DMA provides no funding of any kind to the Postal Service in connection with this program. The Postal Service contracts for translation services, lettershop services as needed (restricted to those that have not used ISAL or VALUEPOST/Canada within the past year). Telemarketing services are not part of the program and the Postal Service does not contract for these services. Translation of order form and instructions as well as company information sheet are available to all participants in NMOP program. The Postal Service will pay for lettershop services if the direct mailer has not used ISAL or VALUEPOST/Canada within the past year). Translation services will be obtained under an existing blanket purchase agreement. Contracts for lettershop services will be awarded competitively to Prequalified Wholesalers.

c. Who is eligible to participate in the NMOP program? How many companies are participating? Are all participating firms also contracted to participate in the GPL program? Are all participating firms required to participate in GPL and/or mail a certain minimum volume of catalogs using USPS?

Answer: Any company that has a catalog or other direct mail offer may participate in the NMOP program, provided they meet all requirements. There are no participating firms at present. Companies that participate in the future must agree to use GPL service. They must pay for a minimum of 25,000 catalogs shipped in one mailing per country.

d. What fees are charged to companies if they wish to participate in the NMOP?

Answer: Pricing for a minimum of 25,000 catalogs is:

Price per market:	$22,000
Price for Canada:	17,000
Discount per market	2,000
(3 or more markets)	Add $.80 for each catalog over 25,000

e. What have been the revenues and costs of this program to date? Is the Postal Service prepared to subsidize catalogers' tests through this program?

Answer: There are no customers, and therefore no revenue, to date for the NMOP program. The Postal Service will not subsidize catalogers' tests through this program. Pricing for the program is designed to cover all of its costs and make a contribution to institutional costs.

75.) In the May 21, 1998 Postal Bulletin Edition, the Postal Service has acknowledged that the Canadian postal service has been receiving significant numbers of parcels originating in the United States that were either missing a customs declaration form or that had a customs declaration form that did not specify the value of the contents.

a. Did this problem involve parcels handled by the U.S. Postal Service? If so, how many USPS parcels did not have the required documentation? What was the cause of this problem?

Answer: The Postal Service was informed by Canada Post Corporation that Canadian Customs received parcels worldwide which either did not have attached to them a customs declaration form or that a customs form was attached but no value was declared. This also included parcels originating from the U.S. In response to this communication from Canada Post and to address inconsistent acceptance

procedures, the International Business Unit prepared a *Postal Bulletin* notice to remind acceptance personnel that they must ensure that a properly completed PS Form 2976-A, Customs Declaration and Dispatch Note CP 72, be affixed to each air or surface parcel that is mailed to Canada and other foreign countries. The communication from Canada Post did not quantify how many parcels originating from the U.S. were in non-compliance.

b. The Service has said that delivery was often delayed for items missing customs declaration forms that failed to comply with the requirements. How were these parcels handled? How many were returned to the sender?

Answer: Since all parcels referred to in Canada Post's communication were handled by Canada Post from origins around the world, including the U.S., the Postal Service does not know how these parcels were handled. The Postal Service has no record of how many of these parcels were returned to the sender.

c. What measures have the Postal Service taken to ensure its international shipments comply with applicable customs requirements, regardless of what country they are being sent to, including collection of duties?

Answer: The Postal Service facilitates this for its Global Package Link (GPL) service to all GPL countries. GPL service includes the preparation and affixing of a customs declaration for each parcel. For all other parcels, the Postal Service requires that a properly completed customs declaration is affixed to the parcel by the customer.

76.) In its 1997 Comprehensive Statement, the Postal Service said it was establishing Global Direct, a new service for large-volume commercial publication mailers. The new service was to offer a way for these customers to enter large volumes into the United States and foreign destinations with domestic postage indicia at reduced rates. Has this service been implemented, and to which foreign countries? What are its revenues and costs? Is Global Direct a remail service? Does the Postal Service offer remail services to customers?

Answer: Global Direct is a service that enables customers to send volume mailings through the Postal Service that have the appearance of domestic mailings in the destination country. Mail pieces bear the postal indicia and a return address of that country. This contrasts with traditional international mail in which mail pieces bear U.S. postage indicia and return address.

Rates for Global Direct are not necessarily lower than our traditional international bulk mail service, known as International Surface Air Lift. In fact, Global Direct rates are often higher. The actual rate is a function of the size and weight of the mail piece, as well as the domestic bulk mail rates in the destination country.

To date, the service has been implemented on an International Customized Mail (ICM) basis to Australia, Brazil, Canada, and Mexico. Through A/P 10, YTD revenue is $2,259,000 while costs are $1,920,000.

Global Direct is not a remail service. The Postal Service does not offer remail services to customers.

77.) There have been some concerns expressed on how the Postal Service is beginning to shift its advertising strategy to a corporate-like behavior. Do you believe the Postal Service has benefited by this more aggressive approach? What has been the budget for advertising in FY 1998 and FY 1999? What measures are currently being implemented to prevent overspending on advertising as occurred in 1996?

Answer: Advertising is just one tool along with service and price, to offer customers choices in the marketplace. The Postal Service has seen growth in many products over the last few years and advertising, along with other factors, has played a role.

The advertising expenses for FY97 were $266 million, budgeted for FY98 is $319.2 million and FY99 has not been approved as yet by the Board of Governors.

The Marketing Department has implemented several procedural and operational changes to prevent future overspending of the advertising budget. Important procedural changes include restructuring the oversight of all advertising agency spending under one executive. Previously three executives shared this responsibility. Next, we have taken measures to ensure that postal managers working with the agencies understand the contract requirements as well as potential personal liability resulting from verbal authorizations of work by advertising agencies. Finally, we have reiterated with advertising agencies that contracts require formal approval of estimates in advance of performing work. As such, proposals which are not properly authorized are not valid and, therefore, will not be paid.

Operationally, we are implementing a web-to-database application which will provide one-time data entry of information, tracking of budget and costs, and workflow solutions to support timely selection and approval of proposals. This internet tool will reject proposals that exceed their established budgets.

78.) The Postal Service proposed that Commercial Mail Receiving Agencies sign forms which state that failure to comply with all applicable postal rules and proposed regulations will subject the CMRA to withholding of mail until corrective action is taken. What is the status of this proposal, and how soon will a decision be made? What postal rules and regulations are being referred to for this proposal?

Answer: No decision has been made on the Postal Service's proposal to require Commercial Mail Receiving Agencies (CMRA) to sign forms to comply with postal regulations regarding withholding of mail.

The Postal Service proposed changes in the Domestic Mail Manual (DMM) concerning delivery of mail to CMRAs in a *Federal Register* notice published on August 27, 1997. The comment period was extended as a result of requests from a CMRA trade association, and is now closed. The rulemaking remains under consideration; affected parties will be given sufficient time to make changes needed under any standards which are adopted.

The proposed DMM provision authorizing suspension of service to CMRAs which do not comply with the requirements is not new; it simply codifies the DMM existing Postal Service policy. The Postal Service will provide CMRAs written notice of any infractions discovered and an opportunity to remedy those irregularities or demonstrate that the infractions do not exist before service would be suspended. Under these procedures it is expected that the authority to suspend service would rarely, if ever, be needed, much as is the case currently.

a. Under this proposal, could the information be disclosed to anyone when the delivery address is being used for the purpose of doing or soliciting business with the public. Could the Postal Service disclose any names or addresses of CMRA customers for selling purposes?

Answer: The CMRA customer will be required, through a new question on the Form 1583 completed by all CMRA customers, to indicate whether the CMRA address will be used for such businesses purposes and, if so, the information on the form may be made available to members of the public, upon their request. (If nothing else, this allows a member of the public contemplating doing business with a business using a CMRA address to "check it out" before committing dollars to the transaction.) This policy is identical to that which has long been in effect for post office box customers. That is, applicants for post office box service must disclose, on Form 1093, whether the box will be used for the purpose of doing or soliciting business and, if so, information on the form may be released to the public upon request. The Postal Service will not be authorized to "sell" the information on the Form 1583s. Further, 39 U.S.C. 412 would prohibit the Postal Service from making available to the public lists of CMRA customers.

Under the new regulations, when the address is used to conduct business, the CMRA would be allowed to release information to the public just as the Postal Service does with Post Office Box application information.

b. Would the Postal Service have the authority to sell names, addresses, telephone numbers, and other to companies that are marketing their products and services? If so, would the Service allow CMRAs or individuals to "opt-out" of such disclosure?

Answer: The Postal Service would have no such authority.

79.) In the Summer of 1997, the Postal Service in response to our question concerning improving the management of major purchases stated the following: "Supplier diversity has received heightened attention as a major strategic initiative, and our new policy mandates that contracting officers ensure that our supplier base reflects the diversity found in the American supplier community." In making an effort to understand the Postal Service's response more clearly, how is the Postal Service using diversity as a factor in determining whether a contract should be provided with a business? How is diversity defined and monitored in the supplier base? What reports have been prepared for management? Please submit documentation of quantitative diversity goals and provide the Subcommittee with statistics relative to those goals.

Answer: During 1997, the Purchasing and Materials organization adopted a Supplier Diversity Operating Plan (SDOP) that spans a five-year horizon and reflects year-to-year organizational goals. The plan is formulated on *continuous improvement* premises, and will be revised and updated from time to time. We are currently revising and expanding the plan to cover all of Postal Service buying activities with this revision targeted for FY99.

Performance against the plan is monitored routinely at each buying location, and higher level oversight is provided with quarterly reviews at the vice-presidential level. The plan reflects (and incorporates) organizational and individual objectives to promote and track results flowing from our policy to insure that minority and woman-owned businesses are included in our supplier base and that the supplier base reflect the diversity of customer base.

Fundamentally, we are committed to buying *best value* and in doing business with the best of the suppliers. In our sourcing efforts, we are actively seeking out the best suppliers, with a strong focus on minority and woman-owned firms. From an operating perspective, we require that every purchase plan list the efforts to include minority and woman-owned firms as potential sources. Attached is a copy of our Supplier Diversity Operating Plan.

80.) The Postal Service has reported that it achieved significant savings by contracting with private sector printers to produce postage stamps. The Service has said it has turned to the private sector to an increasing extent and expected this trend to continue because the Bureau of Engraving and Printing (BEP) had not produced self-adhesive stamps. The Comprehensive Statement noted that the percentage of self-adhesive stamps increased from over 60 percent by the end of FY 1996 to 81 percent in FY 1997.

a. What percentage of stamps are currently produced by the private sector?

Answer: In FY98, the private sector is scheduled to produce 50 percent of our regular stamp program, with the BEP producing the other 50 percent.

b. What procedure is currently in place to ensure fair and open competition for this business? How many companies are currently contracted to produce stamps?

Answer: We are currently in the first year of our new Multi-Print contracts with our private supplier base. Prior to the contracts being awarded to the selected suppliers, an open solicitation was put forward for all interested parties. After a standard review and comment period, the proposals submitted by six potential suppliers were reviewed by a postal team with regard to technical capabilities and pricing. The team consisted of technical experts from the Stamp Services branch of the Postal Service and procurement experts of the Postal Service who evaluated the pricing proposals tendered by the interested parties.

Of the six proposals from the interested private companies, four private-sector companies were selected and placed under contract to produce U.S. postage stamps: Ashton-Potter, USA, Buffalo, NY; Avery-Dennison, Clinton, SC; Banknote Corporation of America, Browns Summit, NC; and Sennett Security Printers, Chantilly, VA.

c. What are the estimated savings from using the private sector to print stamps? Have the "Multi-print" contracts achieved the savings that were anticipated?

Answer: It would be difficult to provide a figure that would capture the total estimated savings for the entire stamp program since we started using the services of the private sector. Calculating a direct comparison would require us to go back several years and re-price each stamp using BEP prices. We can, however, provide samples of cost differences for certain product mixes of stamps that comprise a large annual percentage of our stamp program.

The self-adhesive stamp booklet was the first peel-and-stick stamp product offered by the Postal Service. With approximately 1 billion booklets produced annually, it is probably the most popular stamp product of U.S. households for their day-to-day postage needs. The private sector was able to meet our customer demands for self-adhesive booklets two to three years before the BEP was first able to demonstrate an ability to manufacture self-adhesives. The self-adhesive Holiday stamp booklets are a good example of a cost savings from the Multi-Print contract. The cost of having the Bureau produce self-adhesive Holiday stamp booklets in 1996 and 1997 was $5.08 per thousand stamps. The Holiday stamp booklets produced by the private sector cost $3.34 in 1996 and $3.19 in 1997. With an annual program of approximately 20 billion stamps produced in booklets, using the private sector saves the Postal Service approximately $5 million a year in the self-adhesive booklet product line. Competition from the private sector is forcing the BEP to find ways of becoming more cost competitive.

Another stamp product, the stamp sheet, became so costly for the BEP to produce that we have been forced to direct almost all of our production of this item to the private sector. Prices quoted by the BEP for stamp sheets were between 30 percent and 80 percent higher than those quoted by the private sector. This translates to a potential yearly savings of $3 million to $8 million for sheet stamps alone.

The Multi-Print contract has not only achieved the cost savings we anticipated but has also provided a better overall value to the Postal Service in terms of delivery, flexibility, and quality. The private sector has shortened the turnaround time necessary to produce stamps, given us the flexibility to respond to our customers' many changing needs (such as a new self-adhesive product line), and offered us a product of superior quality. Because the law requires that the BEP recoup all of its costs, the Postal Service is forced to pay the BEP even if products are late or of inferior quality. The private-sector contracts permit the Postal Service to penalize our printers if their products do not meet our delivery and quality standards. This has resulted in a highly competitive private sector that is constantly striving to provide the Postal Service with the highest-quality, best-value stamps in the world.

81.) The number of Postal Service transitional employees decreased from 33,066 in 1996 to 26,789 in 1997 which is not alarming considering that these numbers have been declining since 1993. However, there was a sudden increase in casual employees. The number of casual employees increased from 24,696 in 1996 to 32,615 in 1997 breaking the pattern of having a decline in numbers since 1993. What is the cause for the sudden increase in casual employees? Please explain the Postal Service's plans with respect to its staffing mix, including use of transitional and casual employees.

Answer: The reduction of transitional employees (TEs) is based on a February 2, 1993, Memorandum of Understanding (MOU) covering the time period 1993 to 1997. The MOU contained the ramp-up and ramp-down of TE numbers including the July 1, 1996 reduction of 6,000, the July 1, 1997 reduction of 5,000, and the December 1, 1997 reduction of 5,000. The vast majority of the remaining TEs are in the remote encoding centers (RECs) with approximately 2,000 in the NALC craft. The MOU regarding TEs in the RECs is for an indefinite period of time, i.e., there is no scheduled ramp-down; however, the number of TEs will continue to diminish as the workload at RECs decreases with improved optical character reader and remote computer read recognition technology.

The reduction of TEs and the increasing workload has been absorbed partially by increased productivity, and partially by additional casual and part-time career employees. The amount of casual employees allowed is a percentage determined by an arbitration decision which varies by craft and time of year (e.g., Christmas). The Postal Service plans on using the mix of casuals allowed by the national agreements.

82.) In the Postal Service's latest comprehensive statement, the Postal Service stated that it planned to revise and update the ongoing agreement between the Smithsonian and the Postal Service in order to reinforce proper operational and financial procedures for the National Postal Museum. The Service also said it was exploring financial alternatives to ensure the long-term financial stability of the museum while reducing the final contribution of the Postal Service.

a. Why does the Postal Service need to upgrade the operational and financial procedures of its agreement with the Smithsonian? What specific improvements are necessary?

Answer: In 1990, the Postal Service and the Smithsonian Institution signed an operating agreement that set out each party's responsibilities and obligations with respect to the establishment, management, and funding of the National Postal Museum (NPM). The NPM itself then opened almost three years later in 1993. Both parties now agree that the original agreement needs to be updated to reflect procedural and administrative changes that have occurred since 1990. Specific changes that the Postal Service would like to see made in the agreement are, of course, subject to negotiation by the parties; however, it's fair to say that the Postal Service would like to see improvements in the budget process and clarification of the language dealing with each party's financial obligations to the Museum.

b. What is the current contribution of the Postal Service to the museum? Is the Service planning to reduce its contribution in the future? What financial alternatives have been explored by the Postal Service? Does the Postal Service believe new financial arrangements will be needed to ensure the long-term financial stability of the museum?

Answer: In FY97, the Postal Service made payments totaling $2,760,718 towards the NPM's operating expenses. The FY98 total payment is expected to be $2,664,084. These amounts are net income derived from various NPM activities such as memberships, donations, and the Museum Shop. The Postal Service's share of this income is used to offset a portion of its contribution. The payment amounts also reflect adjustments made on the basis of financial audits.

We have no power to change the funding formula unless the Smithsonian agrees to modify it. What we can do (and are doing) is review whether we have been paying the proper amount under the agreement's funding formula. JP Morgan has recommended that we change the funding arrangement, but we can only do that with the Smithsonian's concurrence.

The Postal Service has explored the possibility of establishing an endowment that would fund the Postal Service's annual contributions for the life of the operating agreement. It has also considered the merits of making fixed annual payments, adjusted for inflation, to the Museum. It should be noted that no financial alternative can be implemented unless both parties agree to such a revision to the operating agreement. The Postal Service is obligated to pay 67 percent of the Museum's budget through 2022 no matter what happens in the negotiations with the Smithsonian.

83.) Would you support a congressional initiative to improve present monitoring and reporting of postal costs and productivity performance that would require the Postal Service to:

a. Publish annually a comparison of its costs-broken down by major category- with established national indices for corresponding categories of costs?

Answer: The Postal Service believes its cost presentations to be of high quality, containing sufficient detail to provide all interested parties with a sound knowledge of postal cost behavior. However, if it is concluded that more information is needed, the following suggestions may be considered:

The Postal Service could agree to an annual comparison of its costs with national indices, provided that appropriate national cost indices can be found. The Postal Service already generates cost figures by major category. The relevant comparison would be between unit postal costs and indices of costs for similar activities elsewhere in the national economy. In making such comparisons, however, it must be borne in mind that changes in unit postal costs do not necessarily reflect the magnitude or the direction of changes in the efficiency of postal labor. Unit costs can be dramatically altered by changes in the mix of products in the output. For example, an increase in presorted mail within a given class of mail would be expected to lower the unit cost of that class, independently of any changes in labor efficiency. This characteristic of unit cost comparisons reduces their value as indicators of relative efficiency.

b. Publish annually a statement of its labor productivity results, together with comparisons of these results with appropriate established national indices?

Answer: The Postal Service could support annually publishing its measures of total factor productivity, which is a better postal productivity measure than that of labor alone. If appropriate national indices could be identified, the Postal Service could publish comparisons of these results with the national indices. It must be noted, however, that any such comparisons may be of limited validity where the quality of the relevant outputs changes over the course of the comparison, as in the case of Postal Service improvements in service.

c. Present its explanation of the reason for any substantial deviation between its results and the national indices, and to develop programs for correcting adverse deviations while maintaining and extending any areas of success in surpassing national performance trends?

Answer: The Postal Service could provide explanations for deviations between postal costs (or productivity) and appropriate national indices. However, such explanations may not always be conclusive. Since our product costs are derived from statistical sampling systems, it is sometimes difficult to separate unit cost changes resulting due to sampling variation from cost changes due to mail characteristic changes, operational changes, service changes or productivity changes. Moreover, it should be recognized that the Postal Service already puts programs in place for the purpose of lowering costs. Finally, it should be borne in mind that lowering costs is not the only goal to be considered in program development. Maintaining or raising service and introducing new products are also important goals to be pursued.

84.) If you agree that speed, reliability and consistency of mail service are major concerns for not only mailers, who naturally want to receive the service they pay for, but also of recipients, who are equally intended beneficiaries of the nation's postal system, would you support congressional oversight of service quality by:

a. Congress setting minimum standards for USPS reporting of service performance?

Answer: We agree that speed, reliability and consistency of mail service are major concerns for the senders and recipients of mail. Mail service quality is the most important factor in customer satisfaction. We believe that the service commitments that best serve the needs of the mailing public are those which are developed over the years by postal management, which has day-to-day responsibility for working

directly with the American mailing public and for coordinating the tens of thousands of processing and delivery facilities, the complex inter-modal transportation networks, and the personnel responsible for processing and delivery.

Under the Postal Reorganization Act, Congress has granted postal management the authority to establish service standards for the various mail classes. In accordance with 39 U.S.C. 3622(b)(2), "the value of the mail service actually provided each class or type of mail service to both the sender and the recipient" is a criterion used by the Postal Rate Commission in recommending rates to the Governors. During the course of Commission proceedings, the Postal Service commonly provides available service performance data. This information is usually subject to protective conditions which prevent competitors of the Postal Service from obtaining privileged information of the type which they would not disclose.

We believe that the general public is entitled to a level of information which allows them to grade our performance, particularly as it relates to the provision of First-Class Mail service, which benefits from the protections of the Private Express Statutes. Accordingly, irrespective of any Congressional mandates or Commission requirements, the Postal Service routinely publishes considerable First-Class Mail delivery service performance data generated by the External First-Class measurement system which is independently operated by PwC. We believe that our EXFC reporting policy reflects an appropriate balance between the obligation to inform the public about the quality of service provided and the need to safeguard proprietary information about that mail class.

b. Assigning a more active role to the PRC in the enforcement of service standards and in protecting against their degradation by management action?

Answer: Under 39 U.S.C. 3661, Congress also has granted the Commission the authority to issue advisory opinions in response to Postal Service proposals to change the nature of a postal service on a nationwide or substantially nationwide basis. Under this authority, the Commission played a significant role in responding to modifications to First-Class Mail service commitments proposed by the Postal Service nearly a decade ago in PRC Docket No. N89-1, conducting hearings, requiring the production of evidence, and permitting the participation of interested mail senders and recipients in the process. We believe that the current advisory role of the Commission established by the Congress is an appropriate one and that a "more active" role is not necessary.

The Postal Service will continue to strive to meet the needs of mail senders and recipients. We believe that there are more than enough economic and competitive incentives to do so without additional legislative mandates.

We do agree that speed, reliability and consistency of mail service are major concerns for not only mailers, but recipients. And in fact, we already have extensive oversight through the National Performance Review Act of 1993. This act requires all agencies of the federal government, including the Postal Service, to comply with a minimum set of expectations such as developing a five year plan, setting targets, and publishing results against those targets.

85.) Last year the Postal Service formed a "Blue Ribbon Commission" of large volume mailers to assist in developing postal policies. Do you have any plans to include representatives of small mailers in such an advisory group... i.e. the "Aunt Minnies" in your customer base?

Answer: Small volume mailers currently have access to the Postal Service through Postal Customer Councils and Customer Advisory Councils. The intent of these councils is to listen to this important customer base, hear their concerns, and respond to their needs. This feedback occurs on an ongoing basis and is an integral part of the day-to-day workings of the Postal Service.

86.) How has the dispute been resolved between the Postal Service and officials running the 1996 Atlanta Olympic games after concerns were expressed with the Postal Service selling stamps and T-shirts with sports images?

Answer: This was resolved through arbitration. The panel found that the failures, if any, on the part of the Postal Service had no material impact on AEAG's ability to perform its obligations under the Contract. Furthermore, the panel found that the parties waived or acquiesced in the claimed breaches by continuing to perform the Contract with full knowledge of the alleged failures, and by entering into written amendments to the license agreements without preserving these claims. Accordingly, the panel found these claims to be an inadequate basis to excuse AEAG from it performance obligations under the Contract.

As against the Postal Service, AEAG also claimed that it unlawfully terminated the Contract, and improperly presented a draw on the Letters of Credit which guaranteed the payment of royalties under the Contract. While the Postal Service had ample bases on which to terminate the Contract, the panel found that AEAG acquiesced in the termination of the Contract by its intentional failure to make minimum royalty payments in September of 1995.

Defendant Postal Service paid to the registry of the Court the sum of $502,735.69 plus per diem interest in the amount of $6,478.19. Upon payment into the Court's registry pursuant to the Order, defendants were relieved of any further responsibility or obligation in this cause.

Questions Panel Two

William Henderson, Postmaster General (PMG) U.S. Postal Service

1. In your testimony, you stated that you were committed to firmly supporting diversity. Could you specifically address my concerns regarding the following:

Is diversity included in the performance evaluation of senior and executive level personnel and officers and attainment of departmental goals and objectives? If so, to what extent and how is it measured? How is it measured compared to other factors and what are the other factors?

How well do the following departments at headquarters fare in senior level positions -- beginning at level 22, Postal Career Executive Service PCES, through corporate officers, in terms of employment of African-Americans, Hispanics and Asian Americans?

Human Resources Department, Corporate Relations Department, Government Relations Department, Labor Relations and International

How many African-American, Hispanic, or Asian American corporate officers do you have?

Answer: We are still assessing the most effective way to hold our managers accountable for diversity. We expect that first is the individual objective setting and performance evaluation for executives. Both activities and workforce representation outcomes can be in that objective setting and evaluation. A range of specific program and human resources management objectives are negotiated between the executive and his/her supervisor; appropriate diversity-related activity and outcome measures will be included in every executive's objectives.

We expect that diversity is also addressed in the Review phase of the *CustomerPerfect!* management system. This has a focus on organization and system, rather than individual performance. We see the focus on diversity in the two systems as mutually reinforcing.

Senior level positions in headquarters departments:

HUMAN RESOURCES								
	Blacks		Hispanics		Asian Americans/ Pacific Islanders		Total of All Employees at Level	
Level	#	%	#	%	#	%	#	%
23	14	19.0	3	4.1	2	2.7	74	100.0
24	0	0.0	0	0.0	1	25.0	4	100.0
25	4	11.1	0	0.0	0	0.0	36	100.0
26	1	33.3	0	0.0	0	0.0	3	100.0
PCES 1	1	5.0	0	0.0	0	0.0	20	100.0
PCES 2 (officer)	0	0.0	0	0.0	0	0.0	1	100.0

CORPORATE RELATIONS								
	Blacks		Hispanics		Asian Americans/ Pacific Islanders		Total of All Employees at Level	
Level	#	%	#	%	#	%	#	%
22	0	0.0	0	0.0	0	0.0	2	100.0
23	6	15.0	1	2.5	0	0.0	40	100.0
24	3	37.5	0	0.0	0	0.0	8	100.0
25	3	23.1	1	7.7	0	0.0	13	100.0
PCES 1	1	10.0	0	0.0	0	0.0	10	100.0
PCES 2 (officer)	0	0.0	0	0.0	0	0.0	1	100.0

GOVERNMENT RELATIONS								
	Blacks		Hispanics		Asian Americans/ Pacific Islanders		Total of All Employees at Level	
Level	#	%	#	%	#	%	#	%
23	5	45 5	0	0.0	0	0.0	11	100.0
25	0	0.0	0	0 0	0	0.0	2	100.0
PCES 1	1	11.1	0	0.0	0	0.0	9	100.0
PCES 2 (officer)	0	0.0	0	0.0	0	0.0	1	100.0

LABOR RELATIONS								
	Blacks		Hispanics		Asian Americans/ Pacific Islanders		Total of All Employees at Level	
Level	#	%	#	%	#	%	#	%
23	2	15.4	2	15.4	1	7.7	13	100.0
25	3	17.7	0	0.0	0	0.0	17	100.0
PCES 1	0	0.0	0	0.0	0	0.0	7	100.0
PCES 2 (officer)	0	0.0	0	0.0	0	0.0	1	100.0

INTERNATIONAL								
	Blacks		Hispanics		Asian Americans/ Pacific Islanders		Total of All Employees at Level	
Level	#	%	#	%	#	%	#	%
22	1	33.3	1	33 3	1	33.3	3	100.0
23	2	4.2	5	10.7	2	4.2	47	100.0
24	0	0.0	0	0.0	0	0.0	4	100.0
25	0	0.0	0	0.0	1	2.5	40	100.0
PCES 1	0	0.0	2	13.3	0	0.0	15	100.0
PCES 2 (officer)	0	0.0	0	0.0	0	0.0	1	100.0

Number and percentage of African-American, Hispanic, and Asian-American corporate officers:

NATIONWIDE CORPORATE OFFICERS								
	Blacks		Hispanics		Asian Americans/ Pacific Islanders		Total Officers Nationwide	
Level	#	%	#	%	#	%	#	%
PCES 2 (officer)	2	5.3	2	5.3	0	0.0	38	100.0

2. Could you elaborate on your increased focus on People and Public Policy, by sharing with us your plans to improve the postal management-postal employee relations?

Similarly, the Postal Service has implemented a Zero Tolerance program for violence or threats of violence by postal employees. What are the particulars of this plan and does the plan hold managers and employees accountable for their actions? What is your policy on violence (verbal, physical or sexual) by managers against employees and how is that policy enforced? Please explain.

Answer: Under the Voice of the Employee, a subgoal has been established that focuses on enhancing the workplace environment to improve relationships with employees. In support of this goal, the Postal Service is pursuing a set of initiatives, strategies, tactics, and programs. Strategies include promoting employee safety and well being; creating a climate perceived as fair and free from violent, unlawful, and inappropriate behaviors; seeking new and constructive ways to improve labor-management relationships; and building effective skills and behavior throughout the organization.

The Postal Service believes that a viable Workplace Violence Prevention Program is the first step in helping to ensure a violence-free workplace. In May of 1997 we implemented Publication 108, Threat Assessment Team Guide, and provided all of the performance clusters with training in threat assessment. The Guide identified members of the core team, situational advisors, and ad hoc resources. It also explains duties and responsibilities of these members. Included in the Guides are sample Zero Tolerance Policies and a sample Action Plan for Threats and Assaults. Management officials are instructed to use the appropriate procedures as identified in the collective bargaining agreement for craft employees and the Employee and Labor Relations Manual for management employees.

Zero tolerance means that each and every act or threat of violence, regardless of the initiator, will elicit an immediate, firm, and fair response, which could involve discipline up to and including removal. Zero tolerance is based on the belief that no employee should have to work in the atmosphere of fear and intimidation that results when threats and inappropriate behavior remain unaddressed. All employees deserve a safe work environment. Zero tolerance, thus, is the most important feature of a performance cluster's commitment and resolve to provide a violence-free workplace.

The Postal Service has defined Zero Tolerance in Publication 108, Threat Assessment Team Guide. The guide contains Zero Tolerance policy statements for local issuance and an action plan for dealing with threats and assaults. Postal Service Districts are required to issue statements and action plans. The statements and plans serve as models that can be adapted to local usage.

The Inspection Service investigates all credible threats and assaults and provides investigative reports to the Postal Service for consideration regarding possible disciplinary action.

3. Violent incidents that have occurred at postal facilities continue to be a major concern. What process does the postal service have in place to deal with the concerns of employees following violent acts at postal facilities?

Answer: Unfortunately, workplace violence is a growing concern throughout our nation. The Postal Service has developed a comprehensive workplace violence prevention program to address this complex and important issue. The major program components include physical security measures, training and education, development and establishment of threat assessment teams and crisis management plans, refinement of selection procedures, employee support through the Employee Assistance Program (EAP), identification of troubled worksites and resolution to underlying problems, as well as the implementation of a "Zero Tolerance" policy for violence or threats of violence by postal employees.

Our comprehensive Crisis Management Plan identifies specific roles and responsibilities for dealing with a violent crisis and was designed for local utilization nationally. The plan provides guidance for the care and support of victims and their families and assistance for other affected employees. The plan also facilitates and contributes to a safe and orderly return to normal operations. Within the framework of the plan and our organizational structure, masters-level EAP staff, assisted by Federal Occupational Health mental health professionals, respond promptly to sites which experience acts of violence in order to provide consultation and counseling services as appropriate.

The Inspection Service is leading a cross functional Postal Service team that is working on the improvement of the management of violent incidents. In addition to the utilization of Employee Assistance Program personnel to intervene with employees after an incident, as is done now, the team is examining how to better communicate with employees during and after an incident. This communication will ensure that employees are aware of actions being taken to ensure their safety. It will also provide an avenue for employee concerns to be addressed, not only for the immediate circumstance, but for the future as well.

In some circumstances, there is a need to temporarily increase the level of security at a facility whether an incident has occurred or not. The Inspection Service, in cooperation with postal management, has developed a program that provides security to meet these temporary needs. This program provides the ability to increase the level of security quickly and provides an additional level of safety for our employees.

The Security Control Officer (SCO) Program can be an additional avenue for communicating employee concerns regarding personal safety on a daily basis. Every postal facility will have a designated SCO whose responsibility it will be to coordinate safety issues within the facility. The SCO will work closely with postal inspectors to ensure the needs of the facility are met. The SCOs in the 450 largest postal facilities have been trained on various aspects of security by the Inspection Service. During Fiscal Year 1999, newly assigned SCOs will be offered training.

4. APWU has notified me of widespread allegations of processing failures and theft by Emery employees in the handling of Priority mail. How are failures and theft tracked and reported? If Emery has a processing failure, how is the failure charged back against Emery and how the USPS man-hours used to process the failed mail calculated for charge back to the Emery contract?

Answer: As within any USPS operated facility, any suspected mail theft is reported to and investigated by the Postal Inspection Service. The Inspection Service has full access to each Priority Mail Processing Center (PMPC) that includes a separate entrance along with closed circuit television cameras covering the entire workroom floor and loading docks. The security system design was approved by the Inspection Service in advance of each PMPC opening.

Reports of stolen mail are generated from customer complaints, tips, recovery of rifled mail and loss reports maintained by mailers. This information is reviewed by the Inspection Service and prompt investigations initiated when problems are identified.

Inspectors monitor activities at the PMPCs through the same type of criminal investigative systems that are installed in our Processing Plants and Retail/Delivery facilities. Access to the systems is limited to the Inspection Service.

In general, when a service failure occurs, Emery holds the mail for the next day and processes the mail. Therefore, no additional costs are incurred by USPS to handle the mail. When service failures occur, they are recorded and reported in the contractor reliability index. When failures exceed four percent of the mail (less than 96 percent on-time) a disincentive is assessed to Emery. The more failures, the greater the disincentive. (Conversely, if failures are less than three percent, greater than 97 percent on time, an incentive is paid.) If Emery never picks up mail it is supposed to process, then they are not compensated for the pieces and the cost USPS incurs to process the mail is incurred in lieu of paying Emery. In some instances, when USPS has had to transport failed mail, the USPS has estimated the costs based on the best available data, and has deducted this amount from Emery's invoices. Within the pilot sites, performance is currently establishing record levels and exceeds 93 percent delivery within two days for the quarter just ended, the expectation for this product.

5. The issue of financial freedom for the postal service is an idea addressed in postal reform on the House side and in legislation introduced by Senator Cochran, S. 1296. Please indicate if the following are some financial benefits you currently derive from having the full faith and credit of the United States:

- the postal service is exempt from Federal income taxes, and its interest income on postal service obligations is exempt from State and local income taxes;
- the postal service may require the Treasury to purchase up to $2 billion of its obligations (a "put" to the treasury);
- at the postal service's request, Treasury may grant full faith and credit guarantees to new postal service obligations.

Answer: As an independent establishment of the executive branch, the Postal Service does not pay Federal income taxes. Currently, all interest on Postal Service debt obligations is paid to the Treasury's Federal Financing Bank. If the Postal Service were to issue debt in the market, it would benefit from interest on its obligations being exempt from State and local taxes.

The Postal Service has never benefited directly from its ability to require the Treasury to purchase up to $2 billion of its obligations. The Postal Service has no plans to require the Treasury to purchase its debt obligations.

The Postal Service may not obtain full faith and credit guarantees on its own initiative. The Postal Service may obtain full faith and credit guarantees only with the approval of the Treasury. To date, the Postal Service has not requested such guarantees, and it has no plans to do so.

6. It is my understanding that the postal service has been meeting with the Treasury Department, both at senior policy levels and at staff levels, in an effort to enhance the relationship between the two parties. *How would you characterize those meetings?*

Answer: The meetings have been cordial and have served to increase understanding regarding the other party's viewpoints. Disagreements remain, however, regarding the appropriate reach of Treasury policy concerning the Postal Service's statutory authority. In addition, many questions remain regarding Treasury's capability to deliver certain important financial services, given Treasury's policy and operational concerns.

7. I understand that both the Postal Service and Treasury have made progress in a number of areas, such as:

- the implementation of a note purchase agreement that will reduce the time it takes to complete a postal service borrowing from the FFB to 2-5 days. This length of time is far shorter than the 15 days provided for in the statute.
- Increasing the current cap on postal service overnight borrowing from $300 million to $1 billion.
- providing the postal service with new products such as (1) short term and overnight lending facilities; (2) long-term floating rate debt; and (3) fixed-price call options.

Do you agree with this assessment?

Answer: Much more progress is needed. Relatively straightforward issues have remained unresolved. In addition, all Treasury-provided service improvements have been in response to repeated requests by the Postal Service. The improvements were designed only to approximate the superior services offered by the competitive marketplace.

A note purchase agreement has been in draft form for more than one year. The draft agreement continues to include Treasury policy language which would compromise severely certain statutory authority reserved for the Postal Service Board of Governors and management. Most basically, the Postal Service's authority to determine its cash and debt balances, within the limits set by the Congress, would be diluted under the terms in the draft agreement.

Treasury has agreed to increase the current cap on Postal Service overnight borrowing from $300 million to $1 billion, pending receipt of certain cash flow-related information from the Postal Service, which has been provided. The Postal Service expects the cap to be raised in the near future.

Treasury has in the past provided certain new products to the Postal Service, such as those mentioned. Provision of new products, however, has too often proved a multi-year process, compared to the multi-day process, at most, in the financial markets. For example, the Postal Service experienced a six-year wait for call options, which may have cost postal rate payers up to several hundred million dollars.

8. We understand that the long-term floating rate debt that Treasury offers you is unique and generally is not available in the private market. Is this accurate?

Answer: No. Long-term floating-rate debt is available in the market to those borrowers seeking such note structures.

9. Treasury expects that if the postal service were to borrow in the private market, it would pay about 25-35 basis points higher than the rates on comparable Treasury securities, and would also have to pay transaction costs. Treasury has examined many postal service proposals for private market financing, but has never seen on where the all-in cost of financing (i.e., the total cost, including transaction costs) is less than the cost of financing debt through the Treasury. On what financial basis do you disagree with Treasury on this?

Answer: The Treasury may be correct in terms of private market borrowing rates. Treasury's analysis, however, does not take into account timing risk. The Postal Service believes that Treasury's after-the-fact analysis of Postal Service borrowings is flawed, because the market offers much more timely borrowing execution on a wider array of innovative loans. Whereas borrowing in the market provides for virtually instantaneous determination of lending rates, Treasury's process has exposed the Postal Service to days and even weeks of interest rate fluctuations, which have proved costly. Analysis such as Treasury's is irrelevant when certain loan types are not available or are available only on a delayed basis.

10. According to Treasury, the last three loans (totaling $1 billion) taken by the postal service had an average interest rate of 5.6%. Also, according to Treasury, your total debt of $2.167 billion was financed at 1.8% percentage points above the Treasury bond rate - about the lowest you can obtain. Could you secure such a bargain outside of the Federal Financing Bank? If, so, please explain.

Answer: The Postal Service believes the loans Treasury is referring to carry an average interest rate of 5.77 percent. The loans were priced at Treasury's standard markup of 1/8percent over rates prevailing on comparable-maturity Treasury securities. In this case, since interest rates did not move substantially between the time of the Postal Service's loan request and loan closing, postal rate payers obtained very favorable pricing. At other times, however, delays in the Treasury borrowing process have proved costly. The timing of borrowings in markets where interest rates can move significantly over time is more important than the Treasury's 1/8 percent markup.

11. Have you obtained the services of any outside financial consultants, investment bankers, or rating services with regard to private financing for the postal service? If so, would you please share that information with us at a later date? Did you specifically discuss with these groups what impact NOT having the backing of the Federal government would have on postal service financing?

Answer: The Postal Service has discussed private market financing dynamics with its investment banking advisor, J.P. Morgan. J.P. Morgan has highlighted the attractive pricing offered by the Treasury, but has also pointed out that private markets offer more products to borrowers, and also provide flexibility to lock-in prices with very quick response time. Conclusions based on discussions with JP Morgan are reflected in the Postal Service's opinion that the competitive markets' innovation and speed would benefit the Postal Service. The Postal Service also has obtained a confidential corporate credit rating from Standard & Poor, but has not discussed the specifics of any private market borrowings with any credit rating agency. The Postal Service has discussed many hypothetical circumstances with these outside parties, including absence of backing from the Federal government. The Postal Service would be willing to share its information with the Congress.

12. On Wednesday, June 10, 1998, the GAO testified before the Subcommittee on Government Management, Information and Technology, on "Year 2000 Computing Crisis" - Actions must be taken now to address slow pace of Federal progress. On page 12 of GAO's testimony, they state "...the report submitted by the U.S. Postal Service shows that it plans to spend over $500 million on its Year 2000 effort and intends to implement its mission-critical projects by September 1998. However, the report also indicates that 21 percent of its 335 mission-critical systems are still in the assessment phase. This raises questions about whether the Postal Service's own target of this September is realistic." Please comment on USPS Year 2000 compliance.

Answer: At the time the GAO report was prepared, the USPS had completed an initial assessment on 100 percent of the mission critical systems while a more rigorous Business Impact Assessment (BIA) had been completed on 79 percent. BIA activity is now complete on mission critical systems. The BIA process revealed that 155 of the systems previously classified as mission critical should continue in that category. The BIAs also generated refined estimates of the resources required and the data needed to reallocate resources. Finally, the BIAs formed the basis for the commitment of USPS senior business management.

As of September 15, 1998, 106 of the 153 mission critical systems had completed renovation activities. Of the 47 remaining, 37 are planned to complete renovation by the end of the calendar year. The ten systems extending into 1999 are being managed to complete renovation before system failure dates.

13. Many bill payments are mailed in preprinted courtesy envelopes that have bar codes and are addressed to post office box sections. This type of mail would appear to be highly profitable to postal service, but also highly vulnerable to electronic diversion. I would hope the postal service is taking this threat seriously. What steps are you taking to prevent the diversion of bill payments to electronic forms of transactions?

Answer: The Postal Service is taking the threat of electronic bill presentment and payment very seriously. While there are still many technological and consumer behavioral barriers that exist, we too believe that these will be, at least in part, overcome within the next several years.

The Postal Service is responding to this challenge in a number of ways which include trends monitoring, measuring performance and managing costs. We are continuing to conduct market research among consumers, as well as with those in the financial community, to better gauge their respective needs and to keep up with the latest trend data. We are focusing on improving our service in the overnight, as well as the 2- and 3-day commitment areas, in order to best meet our customers need for fast and consistent transactions. We are also aggressively pursuing operational cost reductions that will enable us to continue our recent successes in keeping rate increases below the rate of inflation.

We are also deploying technology and identifying new opportunity. Based on customer feedback regarding their information needs, we are developing value-added services that focus on the confirmation of deposit and delivery of letter size mailpieces. We are launching industry specific campaigns that are aimed at helping customers promote customer relationships through the continued use of hard copy bills and statements.

We believe that these initiatives will help slow the conversion of hard copy bills, statements, and payments to electronic alternatives. We will continue to focus on our mandate to provide universal service by working with all of our customers as this technology further evolves.

14. I understand the postal service hopes to replace revenue lost from the diversion of first-class letters to electronic media through growth in advertising mail. Can you tell me how many pieces of advertising mail, on average, it would take to replace the profit from one piece of first-class mail?

Answer: If one equates advertising mail with Standard A mail, it takes about 2.2 pieces of Standard A mail, on average, to generate the same contribution to institutional cost as one piece of First-Class Mail. In fact, advertising is also sent as First-Class Mail, and in this case, of course, only one piece of advertising mail is needed.

It would take less than 2.5 pieces of advertising mail, on average, to replace the loss of one piece of first-class mail. This is based on the FY 1997 Cost and Revenue analysis. One could expect more current data would produce approximately the same answer. Attached is the FY97 Cost & Revenue Analysis.

JUNE 10 FOLLOW-UP QUESTIONS ATTACHMENTS

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(Other materials are available at the subcommittee)

Mr. MCHUGH. I thank the gentleman.

Well, we've been here for over 4 hours now, and that's sufficient punishment for anyone. I mentioned in my opening remarks that this hearing was not about the General but, I think, the incredibly important issue of reform. You and I have had the opportunity to discuss the concept generally, and I've been encouraged by the things that you said and your perspective.

Because, by way of editorializing here, I'm deeply concerned that there seems to be a body of thought amongst those who claim to have the interests of the Postal Service at heart that somehow status quo is a good thing. And I think as we look at both what you have described as the market out there and the forces and the competition and some of the things that are happening in this Congress, whether you agree with them or not, the effort to subject you to specific OSHA penalties, again right or wrong, that's going to cost money on the regulatory side. It's going to cost a lot of money on the fine and structure side. The efforts to contain or overregulate or reregulate international mail and GPL and all of these things, I think, suggest that it is critical that we very seriously look at the opportunities of defining a Postal Service that is relevant to the 21st century.

Without getting into the specifics of H.R. 22, that is what the whole exercise is about. You can argue or disagree with any or all of it; but to defer that, as some have suggested, I think would be disastrous. We will have an opportunity in the very near future, I hope, to discuss that in a more open and a more public way, after you've had a chance to become accustomed to your office.

We don't have all of the answers to the Postal Service. I can tell you, though, that having sat in these new chairs now for three meetings I know what's wrong with America. When you have to have a 10-page owner's manual to sit in a chair, that's wrong. That's wrong. I hate these chairs.

But with that, again, thank you, gentlemen. Thank you for being here as well. Best wishes to you.

And, with that, the subcommittee will stand adjourned.

[Whereupon, at 3 p.m., the subcommittee was adjourned.]

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