



September 28, 2009

STEVEN J. FORTE
SENIOR VICE PRESIDENT, OPERATIONS

SUBJECT: Audit Report – Performance Goals for Market-Dominant Products
(Report Number EN-AR-09-005)

This report presents the results of our audit of U.S. Postal Service annual service performance goals for market-dominant products¹ (Project Number 09XG019EN000). Our objectives were to assess the development and implementation processes used to establish the performance goals for market-dominant products and determine whether the Postal Service followed regulatory requirements. This self-initiated audit addresses operational risks and is the second in a series of service standard and measurement reviews. See [Appendix A](#) for additional information about this audit.

Conclusion

Management developed the fiscal year (FY) 2009 service performance goals² for FCM based on historical performance data, and the process used was reasonable. However, the process for developing the FY 2009 performance goals for Standard Mail, Periodicals, and package services needs improvement. Management did not have sufficient and reliable historical data to establish performance goals, so they developed the performance goals based on the following criteria: customer expectations, current levels of performance, system capabilities, network capabilities, product differentiation, economic realities, and professional judgment. The Postal Service could enhance transparency in the implementation of the performance goals by documenting the methodology and publishing performance goals more timely. In addition, the Postal Service complied with regulatory requirements for establishing service performance goals, although the Postal Regulatory Commission (PRC) required some enhancements. Lastly, we noted potential operational risks, which include the Postal Service's ability to effectively measure service performance and to meet goals established for some market-dominant products.

¹ Market-dominant products include First-Class Mail® (FCM), Standard Mail®, Periodicals, and package services.

²The Postal Accountability and Enhancement Act (Postal Act of 2006, or "the Act") enacted December 20, 2006, mandated the establishment of modern service standards and performance goals for each market-dominant product. In accordance with the Act, the Postal Service developed modern service standards that specify the number of days to achieve delivery for each three-digit ZIP Code origin-destination pair within the Postal Service network and performance goals that express target percentages of on-time achievement.

FCM Performance Goals

The process used to establish FY 2009 FCM performance goals was reasonable. To develop FCM performance goals, management used historical data available in the External First-Class Measurement System (EXFC). A review of service performance the Postal Service reported for FY 2009 first and second quarters indicated the actual performance was consistent with established performance goals. Achieving performance goals could increase customers' confidence in the Postal Service's ability to deliver mail in a timely manner. See [Appendix B](#) for our detailed analysis of this topic.

Standard Mail, Periodicals, and Package Services Performance Goals

The process used to establish performance goals for Standard Mail, Periodicals, and package services needs improvement. Specifically, management did not maintain documentation to support how they used available data and established criteria to develop FY 2009 percentage goals. According to management, they developed service performance goals based on limited, interim data that may not represent the measure of overall system-wide performance as a whole. Consequently, to establish performance goals, management used customer expectations, current levels of performance, system capabilities, network capabilities, product differentiation, economic realities, and their professional judgment.

Our review of service performance data for the first and second quarters of FY 2009 indicates actual service performance was significantly lower than established service performance goals for Standard Mail, Periodicals, and package services. According to management, once the Intelligent Mail Barcode® (IMb) system is in place and Start-the-Clock programming³ is implemented, additional data will be available to measure service performance. However, management also stated customer participation in the IMb process is important for obtaining comprehensive service measurement data and that this system is in its early stages, so it will be some time before adequate data is available. See [Appendix B](#) for our detailed analysis on this topic.

We recommend the Senior Vice President, Operations:

1. Document the methodology used to develop future performance goals for market-dominant products.
2. Ensure annual performance goals for market-dominant products are reviewed and modified as additional intelligent mail barcode data becomes available.

³ Start-the-Clock programming is the date and time the mailpiece enters the mailstream. If the mailpiece is accepted after the critical entry time or dropped in a collection box, business mail chute, or post office location after the last posted pickup time or on a day when pickup does not occur, the mailpiece has a Start-the-Clock date of the following applicable acceptance day.

Transparency of Performance Goals Implementation

The Postal Service could enhance transparency in the implementation of the performance goals by publishing performance goals more timely. Specifically, the Postal Service agreed to establish the FY 2009 service performance goals before the end of FY 2008. However, management did not publish the goals for all market-dominant products until February 2009. Timely publication of the performance goals in the future could promote transparency for customers and stakeholders. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Senior Vice President, Operations:

3. Ensure future annual service performance goals are published within 30 days after approval.

Compliance with Regulatory Requirements

The Postal Service complied with regulatory requirements for establishing service performance goals by establishing a goal of continuous improvement. However, the PRC stated the goal lacked specificity and required the Postal Service to establish goals that reflect percentages of on-time achievement. In subsequent consultation with the PRC, the Postal Service developed percentage-specific performance goals for its market-dominant products and published them in February 2009. As a result, the Postal Service enhanced its service performance measurement tool. See [Appendix B](#) for our detailed analysis of this topic.

Potential Operational Risks

Management is committed to establishing realistic service performance goals that customers can rely on to be consistently achieved. However, during our review of the performance goals we noted two key operational risks: service performance potentially not meeting customers' expectations and the possibility of mailers not participating in the full-service⁴ option for IMb. See [Appendix B](#) for our detailed analysis of this topic.

Management's Comments

Management agreed with our findings and all the recommendations. They agreed to use historical data from various systems in developing goals as well as review, modify, and disseminate these goals. Management's comments, in their entirety, are included in [Appendix E](#).

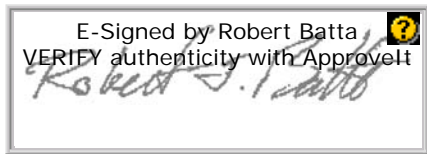
⁴ Full-service participation in IMb requires mailers to populate and apply a barcode but, unlike basic service, the barcode must contain a number that is unique to the particular mailpiece. Full-service mailers must also uniquely barcode any trays or containers they use to package mail and submit electronic documentation of their mailings. The Postal Service provides pricing discounts and other incentives for mailers implementing full service.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report.

The OIG considers recommendations number 1 and 3 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michael Magalski, Director, Network Optimization Directorate or me at (703) 248-2100.



Robert Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Thomas G. Day
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Act mandated the establishment of modern service standards and performance goals for each market dominant product. In accordance with the Act, the Postal Service developed modern service standards that specify the expected number of days to deliver a piece of mail for each three-digit ZIP Code origin-destination pair within the Postal Service network; the performance goals are the percentage of mail expected to achieve the on-time delivery standard. According to management, the overall performance goal of the Postal Service is one of continuous improvement. Progress toward achievement of this goal will be monitored through a combination of service performance measurement systems.

The following information outlines actions the Postal Service has taken in response to the Act requirements:

- In December 2007, the updated *Postal Service Strategic Transformation Plan 2006-2010* stated that service improvement areas are concentrated on two broad areas of market-dominant products: the quality and consistency of service provided at all customer contact points and the speed and reliability of end-to-end mail delivery across all product lines.
- In December 2007, the Postal Service implemented modern service standards for the market-dominant products as reported in the *Federal Register*, Postal Service, Title 39 Code of Federal Regulations, Parts 121 and 122 (Modern Service Standards for Market-Dominant Products) Final Rule, dated December 19, 2007.
- On June 3, 2008, the Postal Service submitted its proposal for developing service performance measurement systems to the PRC for review. On November 25, 2008, the PRC granted the Postal Service approval to use external and internal service measurement systems, including the IMb,⁵ to report on service performance for market-dominant products.
- In June 2008, the Postal Service submitted its Network Plan to Congress.
 - The Network Plan described the performance goal as continuous improvement; however, the PRC stated that the plan lacked specific performance goals and a vision. As a result, the PRC requested the performance goals be expressed as specific percentages of on-time achievement.

⁵ IMb is a new data rich, four-state barcode the Postal Service is in the process of introducing. The IMb system includes process and documentation requirements for inducting mail into the postal system and the data system to monitor and report on mail containing IMBs.

- In February 2009, the Postal Service published the FY 2009 goals as percentage of on-time achievement.
- The Network Plan stated that after establishing these FY 2009 targets, the Postal Service would, at a minimum, conduct an annual service standard target review before the beginning of each succeeding fiscal year.
- On March 30, 2009, the PRC submitted its *Annual Compliance Report* for 2008. The report concluded that the Postal Service complied with the Act and provided summary information on service performance. However, there were some concerns about the limited volume of mail for which service standards were measured. In addition, the report stated that service measurement was unavailable for 80 percent of mail volume.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess the development and implementation processes used to establish the Postal Service's performance goals for market-dominant products and determine if the agency met regulatory requirements. To accomplish the objectives, we obtained a legal interpretation of Public Law (109-435, dated December 20, 2006, Title III, § 301 and 302) for the establishment of performance goals from our General Counsel. We also reviewed the law, rules, and Postal Service guidance for development and implementation of service performance goals and reviewed PRC guidance to determine if the Postal Service complied with all regulatory requirements in establishing the goals. We conducted interviews with management at various levels to gain an understanding of the process used to establish the service performance goals. In addition, we compared the Postal Service FY 2009 first and second quarters' service performance percentages to the goals for each of the market-dominant products.

We conducted this performance audit from March through September 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on August 24, 2009, and included their comments where appropriate.

Because of time constraints and the understanding that the Postal Service is in the early stages of implementing service performance measurement systems for market-dominant products, we did not examine performance collection systems. In addition, we did not include the special services market-dominant product because the performance measurement requirements were outside the scope of this audit.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Business Rules for Modern Service Standards</i>	EN-AR-09-002	March 12, 2009	The Postal Service complied with statutory requirements in establishing the standards but may have difficulty meeting them due to operational risks. Management agreed with the finding and there were no recommendations.
<i>Intelligent Mail Barcode Project Planning and Application Development Life Cycle</i>	IS-AR-09-006	March 31, 2009	Management was not aware of the significant complexities and extensive requirements needed for the IMb Full Service-Seamless Acceptance Service Performance (SASP), Release 1 application. The report provided three recommendations to ensure all risks and mitigation alternatives have been thoroughly considered, formally documented, and diligently pursued. Management generally agreed with the findings and two recommendations; partially agreed with the third recommendation.
<i>Intelligent Mail/Seamless Acceptance Project Management</i>	MS-AR-09-006	March 31, 2009	Controls to manage the infrastructure to support IMb Full Service-SASP were not adequate and project administration activities were insufficient. These deficiencies placed the Postal Service at risk for delays and cost overrun. The report provided six recommendations for improvements. Management disagreed with the conclusions; however, they partially agreed with two recommendations and agreed with four recommendations.

Report Title	Report Number	Final Report Date	Report Results
<i>Service Performance Measurement System – Delivery Confirmation</i>	CRR-AR-09-05	August 14,2009	Delivery Confirmation data used to calculate the service performance measures for retail parcels is reliable. However, the strategic plan significantly depends on implementing and using the IMb. The report did not include recommendations.
<i>U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement</i>	GAO-06-733	July 2006	The report recommended the Postal Service modernize its delivery standards; implement delivery performance measures for major types of mail by providing clear commitment and more effective collaboration; and improve the transparency of delivery performance standards, measures, and results.
<i>U.S. Postal Service: Intelligent Mail Benefits May Not Be Achieved if Key Risks Are Not Addressed</i>	GAO-09-599	May 2009	The report recommended the Postal Service address the risk of lower than-expected customer adoption of Intelligent Mail to ensure successful implementation, which could enhance performance measurement.

APPENDIX B: DETAILED ANALYSIS

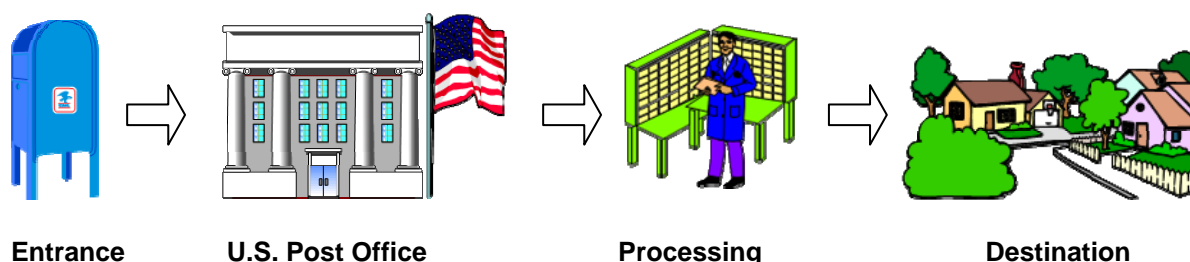
FCM Performance Goals

The process used to establish FY 2009 FCM performance goals was reasonable. To develop FCM performance goals, management used historical data available in the EXFC System. A review of service performance the Postal Service reported for FY 2009's first and second quarters indicated that actual service performance was consistent with established performance goals. Achieving performance goals could increase customers' confidence in the Postal Service's ability to deliver their mail in a timely manner.

The Act required the Postal Service to establish performance goals and develop objective performance measurement systems for its market-dominant products. To comply with the Act, management used a modified EXFC to establish goals and measure service performance for single-piece FCM letters and flats categories. The Postal Service also used this historical data as a proxy to develop the goals for flats in the Presort FCM category.

The EXFC measures FCM performance from the time mail enters the mailstream until it reaches its destination point as illustrated in Figure 1. EXFC is an end-to-end service performance measurement system that produces accurate, independent, externally generated results.⁶ EXFC provides quarterly estimates of single-piece FCM service performance for 80 performance clusters, encompassing 891 three-digit ZIP Codes from their overnight and 2-, 3-, and 5- day service standard areas. This network represents approximately 99 percent of the nation's destinating single-piece First-Class stamped and metered mail volume.

Figure 1: External First-Class Measurement System



According to management, to maintain performance data integrity and define performance goals for future fiscal years, an independent contractor will provide the Postal Service a report showing timely service performance based on data extracted from the EXFC. Management will use the report to establish future performance goals while incorporating continuous improvements. Once management has identified the

⁶ The Postal Service extracts actual performance data from the EXFC and provides it to an independent contractor who then analyzes it and determines, on a percentage basis, how well the Postal Service provided its delivery services for FCM.

performance goals, they will submit them to the Establish Committee/Deputy Postmaster General for approval.

In February 2009, management published the FY 2009 service performance goals for the different FCM categories. To assess the reasonableness of the FY 2009 goals, we compared them to the service performance results reported in the first and second quarters of FY 2009. The results for the first and second quarters' comparison showed service performance was slightly below FY 2009 goals. Although service performance results were below these goals, we noted that it increased from the first to the second quarter, as shown in [Appendix C](#).

According to management, the expansion of EXFC measurement from approximately 460 to 890 3-digit service areas represented a continuous improvement approach for service performance. Using historical service performance data could assist management in implementing continuous improvements and may increase customers' confidence in the Postal Service's ability to deliver their mail in a timely manner.

Standard Mail, Periodicals, and Package Services Performance Goals

The process used to establish performance goals for Standard Mail, Periodicals, and package services needs improvement. Specifically, management did not maintain documentation to support how they used available data and established criteria to develop FY 2009 percentage goals. According to management, they developed service performance goals for Standard Mail, Periodicals, and package services based on limited, interim data that may not represent overall system-wide performance. Consequently, to establish performance goals, management used customer expectations, current levels of performance, system capabilities, network capabilities, product differentiation, economic realities, and their professional judgment. Our review of service performance for the first and second quarters in FY 2009 indicates actual service performance was significantly lower than established service performance for Standard Mail, Periodicals, and package services. Although actual service performance improved slightly in the second quarter, it was still significantly below FY 2009 goals as shown in [Appendix C](#).

The Postal Service admitted that developing the goals for such an extensive product array was somewhat challenging. Unfortunately, historical data was unavailable for robust analyses of some products, so management decided on goals before measurement results were available. In addition to not having historical data in some cases, many of the reporting systems were undergoing extensive revisions.

According to management, the goals were aggressive and developed based on the following criteria: customer expectations, current levels of performance, system capabilities, degree of operational difficulty, product differentiation and economic realities. During an annual cycle, management reviews achievements and develops target proposals for each fiscal year. They consider the above criteria before recommending a set of goals for the Board of Governors to review and approve. Once

the board approves the goals, the Postal Service shares them with the PRC and stakeholders.

Also, the Postal Service has developed a few new reporting systems; however, some are still in development. For instance, the IMb system is designed with service performance measurement capability. Intelligent Mail will allow the Postal Service to gather more comprehensive and detailed service performance information and measure it against established performance standards. According to management, once the Intelligent Mail production system is in place and they implement the Start-the-Clock programming, additional data will be available for service performance use. However, the PRC *Annual Compliance Report for 2008* stated:

Success depends heavily on mailer participation in the IMb program. The Commission is concerned about accuracy of IMb data and will monitor program implementation in FY 2009.

Although management did not have a process to measure service performance for Standard Mail, Periodicals, and package services, they have remedied this situation by developing and implementing performance measurement systems. The Postal Service intends to collect service performance data it could use to develop service performance goals for its market-dominant products as shown (see [Appendix D](#)). In addition, the Postal Service's Network Plan stated:

After establishing the FY 2009 targets, the Postal Service will, at a minimum, conduct an annual service standard target review before the beginning of each succeeding fiscal year.

According to management, these reviews, along with other factors, will be the basis for determining if performance goals need adjustment.

Performance results that are significantly lower than performance goals could reduce customers' confidence in the Postal Service's ability to deliver mail in accordance with established service standards. In addition, an adequately documented process on how goals are established could enhance customers' confidence, agency transparency, and accountability for mail service performance.

Transparency of Performance Goals Implementation

The Postal Service may have missed an opportunity to promote its commitment to transparency for its customers and stakeholders by not publishing the FY 2009 annual service performance in a more timely fashion. Specifically, the Postal Service stated in the Network Plan that it would establish the FY 2009 performance percentage goals before the end of FY 2008.

The Act required the Postal Service, in consultation with the PRC, to establish service performance goals within 6 months after establishing new service standards that it

developed later in December 2007. The Postal Service met that requirement in June 2008, by including continuous improvement as its performance goal in the Network Plan. The PRC, however, strongly suggested that goals be expressed as “percentage on-time” achievement. According to management, they embraced the enhanced transparency and accountability but stated that specific goals would be unavailable until early 2009.

Discussions with field personnel indicate they were informed of the implementation of FCM performance goals in October 2008. Management could not provide supporting documentation on when it established the performance goals for Standard Mail, Periodicals, and package services. However, management published the goals in February 2009. Timely publication of annual service performance goals promotes transparency and accountability to customers and stakeholders.

We recognize the difficulty management encountered during development of the FY 2009 annual service performance goals and their commitment to continuous improvement.

Compliance with Regulatory Requirements

We concluded the Postal Service complied with regulatory requirements in establishing service performance goals as continuous improvement. However, the PRC stated the goals lacked specificity and strongly encouraged the Postal Service to adopt more explicit percentage goals for all classes of mail and include those goals in their plan to Congress. The Postal Service complied with the PRC requirement but advised that goals would be unavailable until early 2009.

The Act required the Postal Service, in consultation with the PRC, to establish service performance goals within 6 months after establishing new service standards. The goals were required to be part of a plan for meeting the service standards it developed later in December 2007. The law directed the Postal Service to describe any changes to its processing, transportation, delivery, and retail networks necessary to allow the Postal Service to meet the performance goals. The Act also required the plan be submitted to Congress along with other regulatory requirements.

Furthermore, according to the March 30, 2009, *PRC Annual Compliance Determination* report, information the Postal Service provided to the PRC seems to be in compliance with the Act. However, the PRC had concerns regarding the limited volume of mail for which the Postal Service measures service standards, but recognized that full implementation of the IMb should enhance mail volume coverage for measurement data.

Potential Operational Risks

According to management, the Postal Service is committed to establishing realistic performance goals that customers can rely on to be consistently achieved. During our review, we noted two key operational risks related to the development of the FY 2009 annual service performance goals:

- One key risk is the potential of not achieving the service performance goals for Standard Mail, Periodicals, and package services. Our review showed that service performance for the first two quarters of FY 2009 were significantly lower for some market-dominant products. Customers' and stakeholders' confidence in the Postal Service's ability to deliver mail in accordance with service standards could be damaged if the Postal Service is unable to achieve stated performance goals. Management indicated they are aware of the risk and are working to address it. Additionally, management agreed to conduct annual service standard target reviews before the beginning of each fiscal year.
- The second risk is whether the Postal Service would achieve an acceptable level of mailer participation once it fully deployed the IMb system. During our review, management indicated strategies would be implemented to encourage the mailers to use the IMb system.

**APPENDIX C: POSTAL SERVICE'S FY 2009, FIRST AND SECOND QUARTER
COMPARISON OF ON-TIME SERVICE PERFORMANCE TO PERFORMANCE
GOALS**

National					
Market Products	FY 2009 Goals %	1st Quarter FY 2009 Performance %	Deviation from Goal (Q1) %	2nd Quarter FY 2009 Performance %	Deviation from Goal (Q2) %
Single Piece FCM					
Overnight	96.5	95.6	0.9	96.2	0.3
2-Day	94.0	91.9	2.1	93.1	0.9
3-5 day	92.7	85.7	7.0	91.0	1.7
Presort FCM					
Overnight	96.5	91.2	5.3	92.9	3.6
2-Day	94.0	87.8	6.2	89.9	4.1
3-5 day	92.7	84.2	8.5	87.3	5.4
Single Piece FCM					
International	94.0	86.2	7.8	88.8	5.2
Standard Mail					
Destination Entry	90.0	87.4	2.6	88.5	1.5
End to End	90.0	77.2	12.8	78.9	11.1
Periodicals					
Periodicals	91.0	69.8	21.2	73.6	17.4
Packages					
Packages	90.0	64.7	25.3	69.3	20.7

APPENDIX D: POSTAL SERVICE MEASUREMENT APPROACH AT FULL ROLLOUT⁷

	Single-Piece			Presort		
	Letters	Flats	Parcels	Letters	Flats	Parcels
FCM	EXFC	EXFC	Start: Acceptance Scan <u>Stop: Delivery Confirmation Delivery Scan</u>	Start: Documented Arrival Time at Postal Facility <u>Stop: External Reporting</u>	EXFC as Proxy ⁸	Start: Documented Arrival Time at Postal Facility <u>Stop: Delivery Confirmation Delivery Scan</u>
Single-Piece FCM International	IMMS ⁹	EXFC as proxy ¹⁰	Single-Piece FCM parcels as proxy ¹¹	N/A	N/A	N/A
Periodicals¹²	N/A	N/A	N/A	Start: Documented Arrival Time at Postal Facility <u>Stop: External Reporting</u>	Start: Documented Arrival Time at Postal Facility <u>Stop: External Reporting</u>	N/A
Standard Mail	N/A	N/A	N/A	Start: Documented Arrival Time at Postal Facility <u>Stop: External Reporting</u>	Start: Documented Arrival Time at Postal Facility <u>Stop: External Reporting</u>	Start: Documented Arrival Time at Postal Facility <u>Stop: Delivery Confirmation Delivery Scan</u>
Package Services	N/A	N/A	Start: Acceptance Scan <u>Stop: Delivery Confirmation Delivery Scan</u>	N/A	Start: Documented Arrival Time at Postal Facility <u>Stop: External Reporting</u>	Start: Documented Arrival Time at Postal Facility <u>Stop: Delivery Confirmation Delivery Scan</u>

⁷ Special Services are not included in Table 1 as they have different methods to Start-the-Clock and Stop-the-Clock for the market-dominant products.

⁸ The Postal Service will use the EXFC measurement for single-piece flats as a proxy for Presort FCM flats because of the very small volume of Presort flats.

⁹ The International Mail Measurement System (IMMS) is an external measurement system for which an independent measurement contractor seeds mail into the mailstream.

¹⁰ The EXFC measurement for domestic single-piece FCM flats will serve as a proxy for single-piece FCM International flats because of the small volume in the latter category. After clearing customs, single-piece FCM International flats enter the domestic mailstream and are handled with domestic single-piece FCM flats.

¹¹ The Postal Service will use the measurement for domestic single-piece FCM parcels as a proxy for single-piece First-Class International parcels.

¹² Two mailer-operated external systems, Red Tag and Time Inc.'s DelTrak, will be used for Periodicals measurement during FY 2009, as the Postal Service transitions to a long-term internal solution.

APPENDIX E: MANAGEMENT'S COMMENTS

STEVEN J. FORTE
SENIOR VICE PRESIDENT
OPERATIONS



September 17, 2009

Lucine M. Willis
Director, Audit Operations
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Performance Goals for Market-Dominant Products
(Report Number EN-AR-09-DRAFT)

Thank you for providing the U.S. Postal Service with the opportunity to review and comment on the above subject report.

This report presents the results of the Office of Inspector General (OIG) audit of U.S. Postal Service annual service performance goals for market-dominant products. The objectives were to assess the development and implementation process used to establish the performance goals for market-dominant products and determine whether the Postal Service followed regulatory requirements.

The report concluded that the Postal Service complied with regulatory requirement for establishing service performance goals. However, the process for developing the FY2009 performance goals for Standard Mail, Periodicals, and package service needs improvement. Furthermore, the Postal Service could enhance transparency in the implementation of the performance goals by documenting the methodology and publishing performance goals more timely. Finally, potential operational risks were noted which include the Postal Service's ability to effectively measure service performance and to meet goals established for some market-dominant products.

Standard Mail, Periodicals and Package Service Performance Goals

Recommendations 1 and 2:

In regards to the Standard Mail, Periodicals, and Package Service performance goals, the following recommendations were presented:

1. Document the methodology used to develop future performance goals for market-dominant products.
2. Ensure annual performance goals for market-dominant products are reviewed and modified as additional intelligent mail barcode data becomes available.

Response 1:

In response to the OIG's recommendation that the Postal Service "document the methodology used to develop future performance goals for market-dominant products," the Postal Service concurs and is committed to accomplishing that goal.

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To develop performance goals for market-dominant products, management will use historical data available in the Intelligent Mail® barcode (IMb™) system for Standard Mail and Package Services and Red Tag / Del-Trak for periodicals.

The IMb™ system measures Standard Mail™ letters and non-saturation flats, using documented arrival time at a designated postal facility to start-the-clock, and an Intelligent Mail® barcode (IMb™) scan by an external, third-party reporter to stop-the-clock. Mail piece tracking from IMb™ in-process scans is used in conjunction with the external data to extrapolate results for this entire volume of mail. Data collected by the Postal Service are provided to an independent, external contractor to calculate service measurement and compile the necessary reports.

Periodicals are measured through combining data from two externally and independently operated Periodicals measurement systems. The Red Tag Monitoring Service is operated by the not-for-profit Red Tag News Publications Association to monitor service for association members. The Del-Trak System is operated by Time, Inc. to monitor service for several of its publications. When combined, data from the two systems represent 46 publications ranging in frequency from daily to monthly, concentrated primarily in weekly publications. An external contractor then applies a set of business rules and weights to the combined data.

Retail Package Services performance is measured using an internal Postal Service system that measures transit time from the time of mailing at a Post Office until the time of delivery to the intended recipient, on parcels for which a customer requested Delivery Confirmation™ service.

The system measures service to and from virtually all 3-Digit ZIP Code areas for which Package Services volume originates or destinate. Transit time is compared against the service standards to develop the measure of on-time service performance.

Management will use reports from the above processes to establish baseline data to support future performance goals while incorporating continuous improvements.

Response 2:

In response to the OIG's recommendation that the Postal Service "ensure annual performance goals for market-dominant products are reviewed and modified as additional intelligent mail barcode data becomes available," the Postal Service concurs and currently performs such annual reviews.

The Postal Service recognizes the IMb™ system is still in its' early stages. However, with the price and service incentives offered to mailers, we anticipate program growth during the next years. As mailer participation increases, the historical data will become robust and more representative of system-wide performance.

Transparency of Performance Goals Implementation

Recommendation 3:

In regards to the Transparency of Performance Goals Implementation, the following recommendation was presented:

3. Ensure future annual service performance goals are published within 30 days after approval.

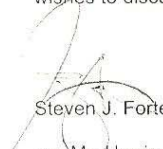
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Response 3:

In response to the OIG's recommendation that the Postal Service "ensure future annual service performance goals are published within 30 days after approval," the Postal Service concurs and is committed to accomplishing that goal.

Headquarters Operations will develop an internal communication to all Headquarters, Area and District executives to disseminate annual service performance goals. This same communication will be posted on the Service & Field Operations Performance Measurement webpage. A similar communication will be developed for external customers and will be provided to the Vice President, Communications and Vice President, Consumer Advocate. The timeframe for publishing the performance goals will be within 30 days of Board of Governor approval.

Thank you again for the opportunity to respond to this draft audit report. If you or your staff wishes to discuss any of these comments, we are available at your convenience.



Steven J. Forte

cc: Mr. Harris
Mr. Day