



Fiscal Year 2005

Annual Performance Plan

Government Performance and Results Act

September 2004



September 2004

To the President of the United States, the United States Congress, postal customers, the mailing industry, and the American people:

The United States Postal Service delivers results that matter. Annually, we deliver more than 200 billion pieces of mail to more than 143 million addresses. We expect to add another 1.6 million addresses in fiscal year (FY) 2005.

In recent years we have continued to enhance our performance-based culture to deliver outstanding results for customers. We have controlled costs and improved productivity. With the aid of Public Law 108-18, we have reduced our outstanding debt, have kept postal rates steady since 2002, and have pledged to keep them steady until 2006.

Independent measures of our performance demonstrate that we have consistently improved the timeliness and reliability of our delivery services to attain new record levels of quality service. Customer satisfaction also remains at record levels. This year Americans again rated the Postal Service as one of the most trusted of government agencies.

Internally, our safety performance and our workplace environment are improving steadily and will continue to improve in FY 2005. Indeed, this year, a major national business magazine rated the Postal Service as one of the best places for minorities to work. We are proud of these achievements and plan to build on them.

Despite e-mail, faxes, and the Internet, as well as numerous other electronic alternatives and direct market competition for most of our services, the Postal Service remains a vital element of the U.S. economic infrastructure. Mail remains a vital communications vehicle for individuals and businesses.

We have continued to address our most immediate and serious financial challenges. We have made prudent capital investments to improve service, safety, and productivity; strengthened our pension fund; and achieved the financial break-even requirement of the Postal Reorganization Act. Now, however, with a second consecutive year of projected revenue declines and increasing inflationary expense pressures, our FY 2005 operating plan will produce a small net loss.

In FY 2005 and beyond, we will continue to focus on revenue and improve customer service by increasing access to and ease of use of postal services. We know our industry is changing, and we will adapt responsively to those changes through a strengthened relationship with all our customers.

A handwritten signature in black ink that reads "John E. Potter". The signature is written in a cursive, flowing style.

John E. Potter

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1.0 INTRODUCTION

This report provides the American public and other stakeholders with information to evaluate the performance targets of the United States Postal Service, based on the requirements of the Government Performance and Results Act of 1993 (GPRA).

1.1 The Mission of the United States Postal Service

The mission of the United States Postal Service is to be self-sufficient and provide the following:

- Timely, reliable delivery at reasonable rates to every address.
- Access to postal services in every community.

In addition, Congress has directed the Postal Service to provide the following:

- Preferred rates to certain mailers and categories of mail.
- Other public services.

The vision of the Postal Service is to implement bold new strategies in partnership with the mailing industry that will improve the value of the mail for American businesses and households and help grow the U.S. economy.

1.2 Related Documents

The *Annual Performance Plan* is part of a set of related documents that describe postal strategies, programs, financial condition, and performance results. For more details on specific topics, references are made to these related documents throughout this report for the stakeholder. Other reports include the following:

- The *Five-Year Strategic Plan* (updated every three years).
- The *Comprehensive Statement on Postal Operations*.
- The *Annual Performance Report* (incorporated into the *Comprehensive Statement*, along with the *Transformation Plan Progress Report*).
- The *Annual Report*.
- *Integrated Financial Plan*.

These reports are all available online at www.usps.com.

2.0 BUSINESS ENVIRONMENT AND MANAGEMENT CHALLENGES

The short-term financial position of the United States Postal Service is improving based on congressional action, an improving economy, and continued postal financial discipline and productivity improvements.

The Postal Service's five major management challenges are as follows:

Develop People

The Postal Service is a labor-intensive organization, with one of the largest, most diverse workforces in the nation. The size and scope of its operations is significant.

Improve Service

The Postal Service must provide timely, reliable and accurate delivery services for a variety of products to a growing network of households and businesses, and must provide customers in every community with convenient access to postal products and services.

Manage Costs

The universal delivery network continues to expand at a rate of about 1.6 million new deliveries a year. The growth of the number of delivery addresses, coupled with the increased cost of fuel for vehicles and utility costs for facilities, is increasing the cost of operations despite significant improvements in Postal Service productivity. The exponential rise in health benefit costs, coupled with the \$27 billion military service pension costs, imposed by Public Law 108-18, cannot be sustained by current postal rates.

Generate Revenue

The fundamental problem facing the Postal Service is that mail volume is not increasing enough to pay for the increase in costs despite improved postal productivity. The availability of technological substitutes and direct competitors limits the ability of the Postal Service to simply pass on increasing costs through rate increases.

Pursue Reform

The 30-year old legislative framework of the Postal Service established by the Postal Reorganization Act of 1970 requires adjustment to increase the operational and market flexibility needed to respond to a dynamic, competitive market.

These challenges provide the foundation for the strategic goals, objectives, performance measures, and performance targets for the Postal Service.

3.0 STRATEGIC OBJECTIVES, PERFORMANCE MEASURES, AND PERFORMANCE TARGETS

The FY 2005 strategic objectives, performance measures, and performance targets are as follows:

Strategic Goal	Strategic Objective	Performance Measure	FY 2005 Target
Develop People	Enhance Performance-Based Culture	Safety — OSHA Illness and Injury Rate	Better than End of Year 2004
		Workplace Improvement — Employee Survey Results	Better than End of Year 2004
Manage Costs	Increase Productivity	Total Factor Productivity	Achieve Plan
Improve Service	Timely, Reliable Delivery	Priority Surface	Proprietary
		Priority Air	
		Express Mail	
		First-Class Mail Overnight	95.0
		First-Class Mail 2-Day	91.0
First-Class Mail 3-Day	90.0		
Grow Revenue	Sufficient to Cover Costs	National Total Revenue	Achieve Plan

Note: Final FY 2004 data will not be available until after September 30; the Annual Performance Plan will be updated to reflect actual year-end performance. Initial targets are based on year-to-date performance (data as of 6/18/04).

The Postal Service has record performance year-to-date in FY 2004 in most categories. As a result, most FY 2005 targets are incremental improvements over a record year.¹ There are no changes to the strategic goals and objectives or to the measurement systems.

¹ Detailed performance data is included in the *Annual Performance Report*, which is part of the annual *Comprehensive Statement on Postal Operations* and also in the *Transformation Plan Progress Report*.

4.0 STRATEGIC TRANSFORMATION PROGRAMS TO ACHIEVE GOALS, OBJECTIVES, AND TARGETS

The Postal Service has a detailed plan for achieving its goals, objectives, and targets.²

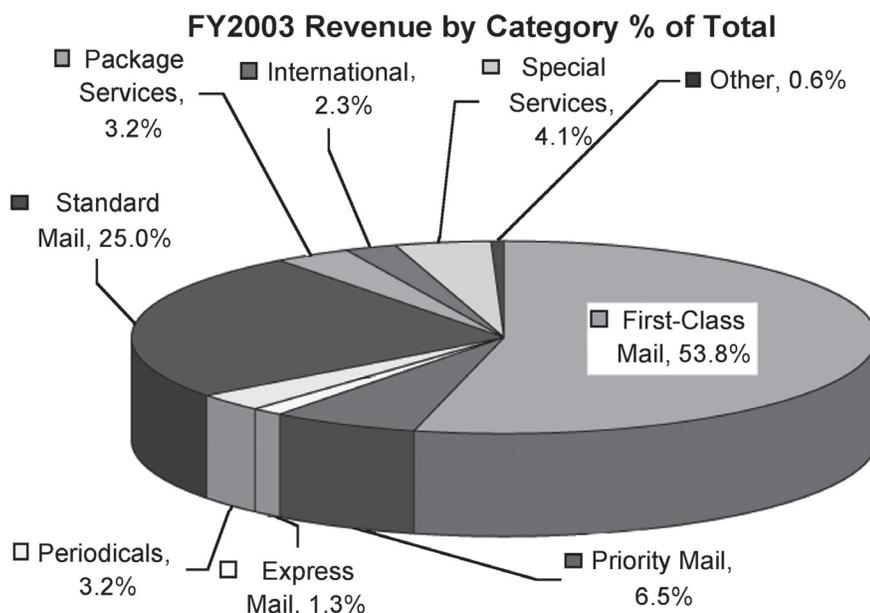
Strategy, Objective, and Targets	Programs
<p><u>Develop People</u> Enhance Performance-Based Culture</p>	<ul style="list-style-type: none"> ■ Recruitment, Training, and Development Innovations ■ Executive Succession Planning ■ Workplace Environment Improvement ■ Pay for Performance ■ Safety, Health, and Environmental Management ■ HR Management Information and Employee Self-Service Systems
<p><u>Manage Costs</u> Increase Productivity</p>	<ul style="list-style-type: none"> ■ Mail Processing Automation and Delivery Process Improvements ■ Management Information Systems ■ Supply Chain, Facility, and Transportation Management ■ Operations Information Systems ■ Shared Systems ■ Best Practices Standardization
<p><u>Improve Service</u> Timely, Reliable Delivery</p>	<ul style="list-style-type: none"> ■ <i>See above (all these programs help to improve service)</i> ■ Improve access to services, convenience, and ease of use ■ Improve customer access to timely, accurate, and relevant information ■ Implement Intelligent Mail and Address Quality improvement programs
<p><u>Grow Revenue</u> Sufficient to Cover Costs</p>	<ul style="list-style-type: none"> ■ <i>See above (all these programs help to grow revenue)</i> ■ Improved customer analytics, sales, and customer relationship management ■ Develop new or improved products and services that meet customer needs and add value to core business ■ Develop pricing tools to simplify and customize core products, and to encourage efficiency ■ Cooperation with other agencies and the private sector
<p><u>Pursue Reform</u> Increase Value</p>	<ul style="list-style-type: none"> ■ <i>See above (successful achievement of these programs enhance the credibility of the Postal Service as a results-oriented organization)</i> ■ Improve outreach to stakeholders ■ Provide relevant, timely, and accurate data to policy makers

The plan includes detailed reporting, analysis, review, and accountability through the National Performance Assessment (NPA) program. This program tracks specific performance indicators from the Postal Service-wide GPRA goals to “micro” scorecards that are designed to be relevant to every executive, manager, supervisor, and nonbargaining employee of the Postal Service.

² See USPS *Transformation Plan*, April 2002. Overall progress is reported in detail in the annual *Comprehensive Statement on Postal Operations* and the *Transformation Plan Progress Report*. Additional detail on specific issues is provided to Congress separately.

5.0 REVENUE SOURCES AND COST CATEGORIES

The Postal Service generates its own income from the sale of its delivery services to customers in competitive markets. For FY 2005, the sources of revenue are expected to be similar to previous years.



The Postal Service remains dependent upon First-Class Mail service for the majority of its revenue.

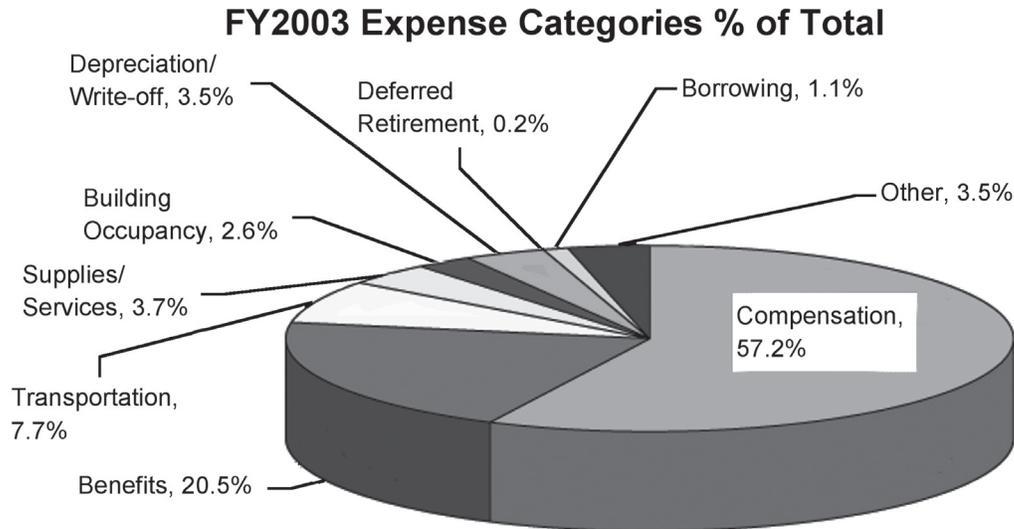
Source	FY 2003 Actual (\$ billion)	FY 2004 Est. (\$ billion)	FY 2005 Projected (\$ billion)
First-Class Mail	37.0	36.3	35.4
Priority Mail	4.5	4.4	4.2
Express Mail	0.9	0.9	0.9
Periodicals	2.2	2.2	2.1
Standard Mail	17.2	18.0	18.8
Package Services	2.2	2.2	2.2
International	1.6	1.7	1.8
Special Services	2.4	2.4	2.4
Other	0.7	0.6	0.5
Total*	68.8	68.6	68.3

Source: USPS Finance

*May not add due to rounding

The Postal Service's products and services are mature offerings in a competitive and rapidly evolving communications and delivery market. Key mail categories that the Postal Service depends on to generate revenue to support the continuing increase in the number of possible deliveries are no longer growing. Competition limits the ability of the Postal Service to pass along price increases to customers.

The Postal Service is primarily a delivery organization and, like most delivery firms, has a cost structure that is driven primarily by the cost of labor and does not change significantly year-to-year.



The Postal Service has managed its costs effectively over the last several years, reducing career staffing by over 90,000 since peak employment in 1999 and improving productivity.

Category	FY 2003 Actual (\$ billion)	FY 2004 Est. (\$ billion)	FY 2005 Projected (\$ billion)
Personnel			
Compensation	37.1	38.0	38.9
Benefits	13.3	14.2	14.9
Non-Personnel			
Transportation	5.0	4.9	5.1
Supplies/Services	2.4	2.5	2.6
Building Occupancy	1.7	1.8	1.9
Depreciation/Write-off	2.3	2.3	2.4
Interest Expense			
Deferred Retirement	0.1	0.1	0.2
Borrowing	0.7	0.0	0.0
Other	2.3	2.1	2.5
Total	64.9	65.9	68.5

Source: USPS Finance

The Postal Service's finances are discussed in detail in the *Annual Report*.³ Detailed financial data is also available on a monthly and quarterly basis on the Postal Service's public Web site, www.usps.com.

³ The *Annual Report* provides the relevant annual financial disclosures and is audited by an independent, certified public accounting firm. The Postal Service voluntarily complies with Securities and Exchange Commission's financial reporting requirements to the extent they are relevant to a non-publicly traded, government-owned entity with a break-even mandate.

6.0 BUILDING TRUST AND ENHANCING TRANSPARENCY

The United States Postal Service is a unique government agency that touches virtually every household and business nearly every day. It has visibility and a physical presence in almost every community. It has an impact that goes far beyond its basic mission of delivering the mail in a competitive marketplace.

6.1 Protecting the Mail, Postal Service Employees, and Customers

The American people have long relied on the mail to conduct the commerce of the nation. This trust is based, in part, on the existence of a specialized and particularly effective law enforcement agency—the Postal Inspection Service—with a specific mission to protect the mail, employees, and customers.

Postal inspectors arrest more than 11,000 criminal suspects each year for attacks on the mail—including mail theft, robberies, assaults on employees, and the destruction of Postal Service property. In 2005, the Inspection Service will be increasing its partnership with major mailers to incorporate their mail loss data into a new financial crimes database that will permit earlier identification of trends and more effective investigation and prosecution of incidents.

The Inspection Service investigates, in cooperation with other agencies, the mailing of hazardous materials, bombs, and other potential threats. The Inspection Service established an Emergency Preparedness and Homeland Security Group in 2003. In 2004, the Inspection Service established advanced capabilities to mitigate and investigate threats from dangerous mail. The Postal Service, supported by the Postal Inspection Service, is participating in the Critical Infrastructure Protection Program of the Department of Homeland Security and will upgrade its capability in 2005. The Postal Service is responding effectively to every incident or reported threat. Although this sometimes causes temporary local service disruptions, overall service performance has not been affected and customers usually do not experience any adverse effects.

The Postal Service has formed a new organizational structure to address the numerous issues regarding emergency preparedness. This organization consists of a vice president of Emergency Preparedness, three executive directors who are responsible for incident response, infrastructure protection and mitigation, and emergency preparedness integration. Emergency Preparedness is focused on preparing employees to sustain postal operations during emergencies and establishing better systems for mitigation, response, and recovery from both natural and man-made threats.

Key to protecting the mail, employees, and customers is the Biohazard Detection System (BDS). This system was developed under the Postal Service Emergency Preparedness Plan and is being deployed at over 280 major postal facilities. The system is designed to detect the presence of potential biohazards in the mail stream so that response action can be taken to protect employees and customers and to reduce the possibility of further downstream contamination.

The Postal Service has been involved with the Department of Homeland Security (DHS) in the development of the Postal and Shipping Sector portion of the National Infrastructure Protection Plan as required under Homeland Security Presidential Directive 7, *Critical Infrastructure Identification, Prioritization, and Protection*. The strategies in this plan will provide the foundation for future protection of the mail, postal employees, and customers.

6.2 Protecting Customer and Employee Privacy

The Postal Service has adopted policies to protect the privacy of its customers and employees. It adheres to the best practices and requirements of both the public and private sector.

In 2000, the Postal Service was one of the first agencies to establish a Privacy Office. The mission of this office is to protect the value privacy brings to the trust citizens and customers place in the Postal Service and in the sanctity of the mail.

The Privacy Office is charged with keeping Postal Service policies and procedures current with the rapidly changing privacy requirements for both traditional hard copy communications and for new technologies and applications as they are developed and used by the Postal Service.

For 2005, the Privacy Office will focus on customer testing and acceptance of privacy notices, updating Privacy Act systems for Postal Service employees, the impact of evolving database technology on privacy, record retention and disposal, and a comprehensive training program for employees. The goal is to position the Postal Service as one of the leaders in the field of privacy protection, in keeping with the tradition of the sanctity of the mail.

Because of that tradition, and recent Postal Service efforts to update the application of that tradition to the new information technology-based world, the Postal Service continues to be regarded by the public as one of the most trusted private or public institutions.⁴

In addition, the Privacy Office and Marketing will be undertaking efforts to help lead commercial customers to develop and implement strategies to respond to consumers' expectations on protection of their privacy, related to protecting personal information and creating relevant and valued mail. Using research conducted by the Postal Service and other respected organizations, the Postal Service will provide advice and counsel to its commercial customers.

6.3 Protecting Postal Information Systems

The Postal Service uses a rigorous and disciplined process to optimize its information infrastructure and reengineer its systems. Information is regarded as a critical asset that must be protected and is a cornerstone of maintaining the public trust.

Included in this process is the Information Security Assurance (ISA) program. The ISA program is composed of security policies, including an infrastructure, services, applications assessment, and a system accreditation process. The program includes an active response team to address any security related incidents, an audit function which actively monitors compliance to information technology security policies and standards, and an active communications program to increase employee awareness about computer security issues.

The Postal Service's ISA program is geared to address and support the introduction of new technologies, such as wireless communication. The ISA program also recognizes the importance of the seamless integration of supplier and customer information systems with the Postal Service, and actively works to provide complete security throughout the system in cooperation with the partners of the Postal Service.

The ISA program uses industry-standard measures of performance and complies with all relevant government directives. All programs are subjected to Business Impact Assessments. Key applications have Risk Mitigation Plans and Application Disaster Recovery Plans.

6.4 Protecting Consumers

The Postal Service conducts ongoing surveys of both residential and business customers. It receives completed surveys from about 200,000 households and 100,000 businesses per quarter. The survey is supplemented by focus groups and analyses integrating survey data with other measures of corporate performance. Customer satisfaction reporting helps the Postal Service focus on issues that are most important to customers.

⁴ In a recent Privacy Trust Survey conducted by the Ponemon Institute and sponsored by the CIO Institute at Carnegie Mellon University (January 2004), the Postal Service ranked first out of 60 agencies in how confident the public felt about the agency's commitment to protecting personal information. A similar survey, conducted by the Ponemon Institute and TRUST(e), showed the Postal Service among the top 10 most trusted private sector companies.

The Postal Service also provides multiple channels for customers to obtain information and resolve problems. This focus has helped the Postal Service to become one of the highest-rated firms with the most improved service, as measured independently by the American Customer Satisfaction Index.⁵

The Postal Service Office of the Consumer Advocate partners with the Postal Inspection Service and other agencies to educate consumers about how to avoid becoming victims of fraud. The Office sponsors National Consumer Protection Week each February.

The Postal Inspection Service protects the public against specific criminal use of the mail through investigations of fraud, illegal drugs, money laundering, child exploitation, and pornography. On an annual basis, postal inspectors investigate over 3,000 mail fraud cases, and arrest over 1,400 suspects. Over \$2 billion in court ordered and voluntary restitution has been made to citizens as a result. Inspectors arrest more than 300 suspects each year for child sexual exploitation and obscenity offenses, and more than 1,300 for drug trafficking and money laundering.

During 2005, the Inspection Service plans to focus on corporate fraud and international mail crimes. Although the use of the mail only accounts for less than 6 percent of all identity theft, the Inspection Service will continue to pursue this crime aggressively to ensure that mail continues to be the most secure and trusted method of communication and financial transactions.

6.5 Protecting the Environment

The Postal Service's presence in almost every community brings with it the responsibility of certain environmental considerations. Since 1993 when the original environmental Guiding Principles were signed, the Postal Service has made significant strides in managing its core business processes to advance operational excellence while promoting sound environmental practices. The Postal Service takes great effort to ensure as little harm to the environment as possible and has implemented a number of programs that reduce, reuse, recycle and rethink its use of resources and their impact on the environment. The Postal Service's environmental strategy is consistent with the organization's overarching strategic goals. During FY 2004, the Postal Service implemented several new environmental initiatives while continuing to support existing environmental programs. These new initiatives further the Postal Service's environmental mission, and include Green Purchasing, Shared Energy Savings Projects, Keeping Undelivered Marketing Materials From Landfills, and Environmental Education and Training.

Looking into FY 2005 and beyond, the Postal Service's environmental strategy will continue to include environmental stewardship into all core business processes within the Postal Service. To meet this objective, the environmental strategy will continue to focus on the following:

- Improving accessibility of and improvements in training programs.
- Incorporating information technology systems.
- Establishing program performance indicators.
- Increasing revenues and reducing costs.

⁵ Transportation/Communications/Utilities and Services, *American Customer Satisfaction Index*, June 3, 2004.

6.6 Protecting Diversity

The U.S. Postal Service continues its strong commitment to diversity among its employees and suppliers. The Postal Service has set clear objectives for building an environment that is healthy, prosperous, and inclusive. Its main diversity strategies include investing in our workforce, strengthening succession planning, and ensuring a diverse pool of suppliers. Each of these strategies addresses the needs of our employees, customers, and suppliers.

Equal opportunity is the key in developing a competitive, highly qualified workforce and the organization attempts to fully utilize all workers' talents, without regard to race, color, religion, national origin, gender, or disability. The organization protects its diversity in the work environment by conducting harassment and discrimination awareness and prevention programs. The success of these training programs has been reflected in significant improvements in the Voice of the Employee survey results. The Postal Service has recently been recognized by a major national business magazine as one of the "50 best places for minorities to work."

The Postal Service respects the diversity of its customers. Multilingual programs provide the information and resources that allow diverse customers to do business with the Postal Service.

The Postal Service has developed a Supplier Diversity Plan to ensure a continued focus on, and improvement in, our relationships with small, minority-owned and woman-owned businesses. The Postal Service works to improve its processes and procedures to ensure opportunities for suppliers. The Postal Service's goal is to continue to be a leader in Supplier Diversity. The Postal National Diversity Leadership Committee reviews progress in the nine objectives of the corporate *Supplier Diversity Plan*. Postal Service policy is to give preference to domestic-source products and materials when purchasing supplies and services.⁶

⁶ *Environmental Impacts of Standard Mail, USPS, April 2002*, based on data from the U.S. Environmental Protection Agency.

7.0 PERFORMANCE MEASUREMENT SYSTEMS

Performance indicators and measurements are critical elements of the GPRA. The Postal Service has developed a set of reliable, verifiable measurement systems to track performance.

7.1 Develop People: Enhance a Performance-Based Culture

The Postal Service has two organization-wide performance measures.

7.1.1 OSHA Injury and Illness Rate

The Postal Employees' Safety Enhancement Act of 1998 (PESEA) made the Postal Service subject to the reporting requirements of the federal Occupational Safety and Health Organization (OSHA). The illness and injury rate is calculated using a formula set by OSHA: "Total number of illnesses and injuries divided by the number of hours worked by all employees multiplied by 200,000 hours. The 200,000 hours represent the number of hours 100 employees working 40 hours per week would work, and provide the standard base for calculating incidence rates." The Postal Service uses OSHA's record keeping forms and complies with OSHA reporting and review requirements. Postal Service managers can review current and historical data on the internal Web site.

7.1.2 Employee Survey

Every Postal Service employee has the opportunity to participate in a survey conducted and analyzed by an independent firm under contract to the Postal Service. The survey is administered to one-fourth of the employees every quarter, so that every employee is surveyed once a year. Responses are anonymous. An index score is developed from key survey questions. Data is available at the national, area, and performance cluster level on a quarterly basis. The data can be reviewed on the internal Web site.

7.2 Manage Costs: Productivity

The Total Factor Productivity (TFP) indicator is a measure of efficiency based on comparing changes in the relationship between resources used (input) to changes in workload (output). Workload is adjusted by the work content and volume of different mail categories and changes in the number of possible deliveries. Input is adjusted to account for the different categories and costs of labor. The productivity index ignores changes in postal rates and resource rates, since they are external factors. Reports are based on data from audited postal financial data sources, and are analyzed by an independent contractor. Postal Service managers can review TFP data and other productivity indicators on the internal Web site.

7.3 Improve Service: Timely, Reliable Delivery

The Postal Service tracks the performance of major mail categories. It does not track all mail since the costs would be prohibitive. As tracking technology improves and is implemented, service for more mail categories will be measured.

7.3.1 External First-Class Measurement System

External First-Class Measurement System (EXFC) is not a system-wide measurement of all First-Class Mail service performance. However, it does measure, on a sampling basis, service performance from a customer perspective. It provides accurate and timely results using reliable and verifiable processes. The Postal Service also has a separate internal system used for operations management

(Origin-Destination Information System). While not strictly comparable to EXFC, the internal system provides a relevant cross-reference to general service trends for all ZIP Codes. The EXFC monitoring system is conducted independently by a contractor.

A contractor monitors EXFC results on a daily basis and issues monthly reports. The contractor conducts special analyses to verify that the information is accurate and fairly represents the actual service provided to customers. Postal Service managers have access to detailed analysis using the internal Web site.

7.3.2 Priority Mail End-to-End Measurement System

Priority Mail service is measured by an independent firm under contract to the Postal Service's Office of the Consumer Advocate. Modeled closely after EXFC, the Priority Mail End-to-End Measurement (PETE) system measures Priority Mail from the time a sample piece enters the mailstream to the time it is delivered. PETE measures service performance from a customer perspective.

The PETE system provides quarterly estimates of destinating Priority Mail service performance for the 80 districts, encompassing 302 three-digit ZIP Code areas. These areas represent about 70 percent of destinating identified Priority Mail volume.

The Office of Consumer Affairs monitors the program on a daily basis, and provides official results quarterly. The contractor conducts special analyses to verify that the information is accurate and fairly represents the actual service provided to customers. Detailed data is available to Postal Service managers on the internal Web site. The Postal Service also has data from the Originating and Destinating Information System (ODIS) and tracking data from the Delivery Confirmation System. While not strictly comparable, these systems provide useful cross-checking of Priority Mail service performance issues.

7.3.3 Product Tracking System

The Postal Service implemented the Product Tracking System (PTS) to provide information-based services and enhancements that make traditional postal products more valuable. Internal users and customers can obtain information about Express Mail pieces from acceptance to delivery. The Postal Service uses this system to measure the performance for Express Mail and other services. A variety of diagnostic reports have been developed to highlight areas where greater management attention is required to improve service performance. Information is provided to customers through a variety of channels, including telephone and web-based systems. Postal Service managers can also track performance online through the internal Web site.

7.4 Generate Revenue

Revenue to operate the Postal Service is derived primarily from the sale of domestic and international mail services, and is supplemented by special service fees; money order sales; rents from Post Office boxes; and the sale of stamped envelopes, mail related supplies, merchandise, and philatelic items.

Audited postal accounting systems collect financial data and generate a number of reports. The Postal Service accepts funds from customers over the counter at retail and from commercial customers at business mail entry units. Data is reported on a daily basis and reports are generated on a monthly, quarterly, and annual basis.

7.5 Supporting Systems: The National Performance Assessment (NPA)

The measurement systems for the organization-wide GPRA goals, objectives, and targets are supported by a balanced set of more detailed measures. The Postal Service has developed relevant indicators for field operating areas (multistate regions), districts, and operating units (processing plants and Post Offices). Every nonbargaining employee of the Postal Service has a personal scorecard, as well, which relates individual performance to the performance of their unit and the Postal Service nationally.

7.6 Reliable, Verifiable Measurement Systems

Postal Service programs, including the performance measurement systems, are subject to internal and external audit and review.

7.6.1 Internal Control Group

A key goal of the *Transformation Plan* is that the Postal Service culture be more performance based. Realization of that goal requires that the Postal Service assure accountability in each of its processes. Supporting this goal, the Postal Service established an internal control function in 2003.

The Internal Control Group is staffed by field managers and analysts, each of whom has received over 40 hours of training related to internal control. Control analysts are charged with evaluating control processes and policies and identifying those needing improvement. This active, integrated internal control system will enable the Postal Service to enhance revenue assurance, accountability, and operational efficiency and, thereby, enhance customer satisfaction.

In 2004, field staff received advance training focused on the requirements of the Sarbanes-Oxley Act of 2002. The Headquarters Internal Control Group includes the Corporate Audit Response Management group. The Headquarters team provides direction to the field units, assesses risks and controls at the national level, and provides analysis tools and reporting standards.

7.6.2 Corporate Audit and Response Management

The Postal Service is subject to audit by the Office of Inspector General (OIG) and the Government Accountability Office (GAO). The Postal Service has established a unit, Corporate Audit and Response Management, to serve as a focal point for all audit activities, assisting management in all phases of the audit process.

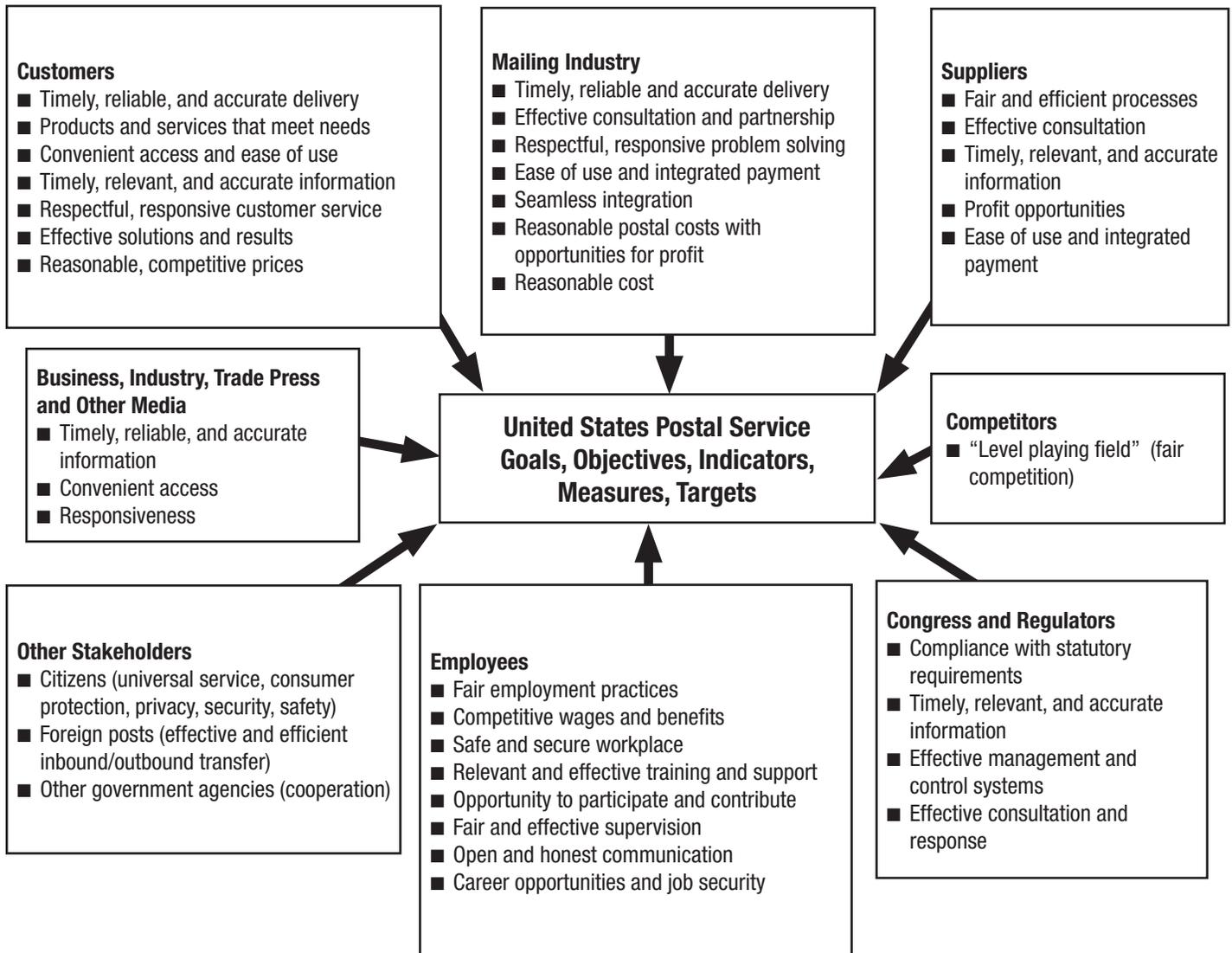
7.6.3 Audited Financial Statements

The financial statements of the Postal Service are independently audited each year by an independent certified public accounting firm that reports directly to the Board of Governors. The audits are conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audited financial statements and the auditor's opinion letter are included in the *Annual Report*.

7.6.4 Customer Feedback: Postal Outreach Programs

Postal Service goals, objectives, indicators, targets, and associated measurement systems and programs are developed in a process that depends on participation by postal stakeholders. Postal Service management attempts to balance the competing demands of different stakeholders by effectively addressing the key requirements of each.

Mapping Stakeholder Requirements



It should be noted that the process is significantly more complex than represented by the summary. Each stakeholder represents a high-level aggregation of different groups. For example, customer requirements may vary depending upon the intensity and frequency of their use of the mail (major mailers, small mailers, consumers) or whether the customers are categorized as senders or recipients. Customers may be further segmented according to the use of different services or geography. Each of these levels adds further dimensions and complexity to customer requirements.

The Postal Service devotes a significant amount of time, attention, and resources to determine the requirements of each stakeholder group, to work out reasonable compromises among the various groups, and to assess the effectiveness of various programs. The methods include surveys, focus groups; market research; media analysis; meetings with customers, suppliers, and employees; communication programs; working groups; industry task forces; congressional oversight hearings; and participation in industry and public policy conferences.

8.0 MANAGEMENT STRUCTURE AND PERFORMANCE MANAGEMENT

The management process currently in use was initially developed as a result of a detailed assessment based on the criteria established for the Malcolm Baldrige National Quality Award, and has been adapted over time to meet the changing needs of the organization.

Postal Service goals, objectives, indicators, and targets are developed in an annual process that incorporates the development of future requirements, the implementation of current programs and budgets, and the review of recent performance.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	
Establish	Set preliminary targets for coming year								Set final targets for coming year (which begins in October)				
Deploy					Negotiate requirements and develop functional/field budgets for next year								
Implement	Implement and manage current year's programs and budgets												
Review	Assess prior year performance; Monitor current performance and adjust programs and budgets where necessary												

8.1 Management Structure

The Postal Service is an independent establishment of the executive branch of the federal government.

8.1.1 Board of Governors

The Postal Service Board of Governors is composed of 11 individuals, nine of whom are appointed by the President of the United States with the advice and consent of the U.S. Senate. No more than five of the governors may be of the same political party, and the governors serve staggered terms of 9 years. The governors select the postmaster general, who also serves on the Board. The 10-member group then selects the deputy postmaster general, who also serves on the Board.

The Board is similar in purpose and function to the Board of Directors of a publicly held corporation. The Board directs and controls the expenditures of the Postal Service, approves major capital projects, approves the number of officers of the Postal Service and their compensation, joins in the long-term planning, and reviews the policies and performance of the Postal Service. The Board specifically reviews and approves the *Annual Performance Plan*. The Board conducts public meetings and is supported by a small secretariat located at Postal Headquarters in Washington, D.C. The Board may also use independent experts, consultants, and legal advisors to help them in their oversight of the Postal Service.

8.1.2 The Executive Committee

The Executive Committee is the senior management decision-making committee of the Postal Service, currently including the following eight officers: the postmaster general, the deputy postmaster general, the senior vice president and general counsel, the senior vice president of Human Resources, the chief financial officer and executive vice president, the senior vice president of Government Relations and Public Policy, the chief marketing officer and senior vice president, and the chief operating officer and executive vice president. The vice president of Strategic Planning supports this group. The postmaster general leads this group.

This group is responsible for setting long term policies, approving major programs, and reviewing performance.

8.1.3 *Establish Committee and Deploy Process*

The Establish Committee is currently chaired by the chief operating officer and executive vice president. Key members of the Executive Committee serve on this committee, including the chief financial officer, the chief marketing officer, and the senior vice president of Human Resources, to represent the key strategic areas of emphasis for the business, customers, and employees. Other officers participate as necessary.

The purpose of the committee is to review the previous year's performance and changes in the business environment, and to discuss relevant potential changes in goals, strategies, measurement systems, and targets. Proposed changes must be supported by data and analysis.

The Deploy process is co-chaired by the Finance Group and the senior vice president of Operations, and assisted by an area vice president. During the process, recommended goals, measurement systems, and targets are reviewed and discussed with those functional and field operating units that will have to implement them. This is an interactive process that usually results in changes based on the business environment, organizational capacity, and available resources. The budget is typically finalized in September.

Major programs and projects complete a Program Performance Plan that links the program budget to the achievement of specific goals and objectives of the Postal Service. These plans are similar in function and purpose to the Program Assessment and Review Tool (PART) used by the Office of Management and Budget.

8.1.4 *The Business Review Committee*

The Business Review Committee (BRC) is a fact-based analytic forum for reviewing business results in terms of the voices' targets set by the Establish Committee. The BRC highlights successful business cases and issues and seeks to improve operational effectiveness and helps foster break-through achievements.

The BRC meets bi-monthly, and is chaired by the chief financial officer (CFO). Members include the deputy postmaster general, the general counsel, the chief marketing officer, the chief operating officer, the senior vice president of Human Resources, the senior vice president of Intelligent Mail and Address Quality, the senior vice president of Operations, the vice president of Strategic Planning, the senior vice president of Government Relations, and the area vice presidents.

8.1.5 *The Capital Investment Committee*

The Capital Investment Committee (CIC) establishes the Postal Service's investment direction and procedures, ensures compliance with Decision Analysis Report (DAR) requirements, establishes resource allocation priorities within the capital budget, approves programs, and guides their submission to the Board of Governors, as necessary. The CIC also conducts follow-up reviews to determine that planned investments are achieving their expected results.

The CIC meets monthly, and is chaired by the chief financial officer. Voting members include the CFO, deputy postmaster general, general counsel, chief marketing officer, chief operating officer, and the senior vice presidents of Human Resources, Operations, and Intelligent Mail and Address Quality. Nonvoting members include the vice presidents of Engineering, Supply Chain Management, Facilities, and Finance/Controller, and the chief technology officer.

9.0 SUMMARY AND CONCLUSIONS

The United States Postal Service has established clear strategic goals and objectives to address the major challenges in accomplishing its mandated mission. It has developed relevant, reliable, and verifiable measurement systems that track performance towards achieving both short-term annual targets and longer-term strategic objectives. These performance measures were developed in consultation with key stakeholders, and performance is regularly reviewed with stakeholders. The Postal Service has a disciplined management process to manage performance and has implemented strategies to achieve performance improvements.

The Postal Service has achieved consistent, continuous improvements in the workplace environment, including enhancing safety, managing costs, and improving service performance. The Postal Service still faces significant challenges in generating sufficient revenue from current products and services to support the growing universal delivery service and retail access network.

APPENDIX 1: Performance Trends

Detailed data is provided in the *Annual Performance Report*. For convenience, a summary of recent performance is provided here. For FY 2004, data is third quarter year-to-date, where available.

Developing People

Workplace Environment (Voice of the Employee Survey Index)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
57.5	58.1	58.8	61.1	61.6

This trend is particularly remarkable given the increased reductions in staffing during this period.

Safety (OSHA Illness and Injury Rates)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
NA	8.6	7.7	7.1	6.2

The Postal Service became subject to OSHA regulations and began reporting in FY 2001. Safety rates continue to improve. Illness and injury rates are at record low levels.

Managing Costs

Total Factor Productivity (Percentage Change from Prior Year)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
2.2%	1.7%	1.1%	1.8%	2.0%

Sustained improvements in total factor productivity are noteworthy, given the increases in fuel and health care costs.

Improve Service

First-Class Mail Overnight Delivery (Percent Delivered within Standard)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
94.1%	93.5%	93.7%	94.8%	95.2%

First-Class Mail 2-Day Delivery (Percent Delivered within Standard)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
86.8%	83.8%	86.8%	90.9%	91.8%

First-Class Mail 2-day and 3-day service performance had been measured together until FY 2003. The categories were separated to provide greater focus on the different service issues — largely transportation (mail to 2-day service areas is often trucked, while mail to 3-day service areas is flown).

Steady improvements and record levels of delivery service performance have been achieved in all three First-Class Mail standards.

First-Class Mail 3-Day Delivery (Percent Delivered within Standard)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
86.8%	83.8%	86.8%	89.7%	90.4%

Other, broader measures of customer satisfaction indicate that the Postal Service is providing very high levels of service to both business and residential customers. Ninety-one percent of business customers and 93 percent of residential customers rate overall service as good, very good, or excellent.

Generate Revenue

Achieve Revenue Plan (Percent Revenue to Plan)

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (YTD)
98.6%	96.9%	96.7%	97.3%	100.6%

The slowdown of the U.S. economy during this period, particularly in the advertising sector, coupled with consumer uncertainty and increasing competition for postal services has made achievement of this goal (to break even over time) difficult. *Note: The last rate increase was implemented June 30, 2002.*

APPENDIX 2: Postal Service Information References

The U. S. Postal Service has made a significant effort to make timely, relevant, and accurate information available on the Internet to stakeholders. Those interested in accessing this data should start at the Postal Service's Web site at www.usps.com, an award-winning site. The page has a number of direct links to the following:

- Current news about the Postal Service.
- Planning documents.
- Financial information.
- Policies and procedures.
- Information for consumers.
- Information for businesses.

The site has a Spanish language option and also provides access for the visually impaired (Section 508 compliant). The site has links to various online postal tools and provides the ability to purchase stamps and other postal products. It includes a Frequently Asked Questions (FAQ) section and offers a way to contact the Postal Service online.

For those interested in using the Postal Service's online portal, the site map on the home page provides a comprehensive overview of the information and features. The table below focuses on relevant Government Performance and Results Act documents, postal policies, and information related to Postal Service financial and operational performance.

Category	Reference	Location
Postal News and Policy Announcements	<i>USPS Press Releases</i>	http://www.usps.com/communications/news/press/welcome.htm
	<i>Postal Bulletin</i>	http://www.usps.com/cpim/ftp/bulletin/pb.htm
	<i>Memo to Mailers</i>	http://www.usps.com/memotomailers/
	<i>Mailers Companion</i>	http://www.usps.com/mailerscompanion/
GPRA Documents	<i>USPS Five Year Strategic Plan, FY 2004–2008</i>	http://www.usps.com/strategicdirection/strategicplans.htm
	<i>2003 Comprehensive Statement on Postal Operations (includes Annual Performance Report)</i>	http://www.usps.com/strategicdirection/welcome.htm
	<i>FY 2003 Annual Performance Plan</i>	http://www.usps.com/strategicdirection/strategicplans.htm

Category	Reference	Location
Financial Reports	Revenue, Piece and Weight (RPW) Reports	http://www.usps.com/financials/rpw
	Monthly/Accounting Period	http://www.usps.com/financials/
	Financial Reports	http://www.usps.com/financials/
	<i>Annual Financial Report, FY 2003</i> Rate Case Information	http://www.usps.com/ratecase/
Public Reports	<i>Mail Industry Task Force</i>	http://www.usps.com/strategicdirection/mitf.htm
	Mailers Technical Advisory Committee	http://ribbs.usps.gov/mtac.htm
	<i>Household Diary Study</i>	http://www.usps.com/householddiary/
Rules and Regulations	USPS Notices to Federal Register	http://ribbs.usps.gov/fedreg.html
	Postal Explorer	http://pe.usps.gov
	<i>Domestic Mail Manual</i>	http://pe.usps.gov
	<i>International Mail Manual</i>	http://pe.usps.gov
	Customer Support Rulings	http://ribbs.usps.gov/files
Operations Information	Rapid Information Bulletin Board System	http://ribbs.usps.gov
	Business Mail Acceptance	http://www.usps.com/postalone/businessmail.htm
	Bulk Mail Centers	http://www.usps.com/bulkmailcenters/

