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THE ANNUAL REPORT OF THE POSTMASTER GENERAL AND THE IMPACT OF TERRORIST ATTACKS ON POSTAL OPERATIONS

HEARING

BEFORE THE

INTERNATIONAL SECURITY, PROLIFERATION AND FEDERAL SERVICES SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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THURSDAY, SEPTEMBER 20, 2001

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION, AND FEDERAL SERVICES,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senators Akaka, Stevens, and Cochran.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. The Subcommittee will please come to order. Good morning. Today, we have the Postmaster General, who will report to Congress on the state of the U.S. Postal Service. He is accompanied by the Postal Service's Chief Postal Inspector, Kenneth Weaver. We are also pleased to have a written statement by the Inspector General of the Postal Service, which updates her testimony from our May hearing, and I ask at this time that the statement be inserted in the record.[1]

The great tragedy of September 11 has forever altered America and everything we take for granted. In the midst of unimaginable horrors, our Federal employees pulled together to deliver essential government services. Despite the terrible losses, the Federal Government was back to work the next day. It is in that spirit that we have asked the Postmaster General and the Chief Postal Inspector to address how the Postal Service was impacted by last week's events, where it is today, and what Americans may expect in the future.

The operation of the U.S. Postal Service and the delivery of the mail are critical to our Nation's economy. One of the keys to America's recovery will be a strong and viable Postal Service. Delivery of the U.S. mail is a basic and fundamental public service that must be protected from disruption. However, there will be new costs associated with continuing this reliable and efficient service, which must also be reviewed.

The delivery and security of the mail and the safety of postal employees are not the only challenges facing the Postal Service. There

[1] The prepared statement of Ms. Corcoran appears in the Appendix on page 49.

are many in our audience who are concerned with the Board of Governors' announcement that it will file a new rate case this month.

As so many have said, the continued use of rate increases to raise revenue may end up having the opposite effect, depressing demand which will drive down revenues. It is essential that an organization the size of the Postal Service be governed by short- and long-term financial goals that support its core mission of providing universal mail service to all Americans at affordable prices. Because the Postal Service appropriately sounded the alarm over declining volume and decreasing revenues, Senators Cochran, Lieberman, Thompson and I called on the Postal Service in May to develop a transformation plan. This plan will be completed at the end of this year.

Two months earlier, again at our request, the GAO began conducting an in-depth investigation of the Postal Service, and expects to finish its report by early next year. I will review all options recommended by the GAO, the Postal Service, and postal stakeholders. Moreover, despite the horrible burden placed on our President, it is critical to the Postal Service and the Nation that nominees for the vacancies at the Postal Rate Commission and the Board of Governors be sent to the Senate as soon as possible.

Again, I welcome the Postmaster General and the Chief Postal Inspector to the Subcommittee. I would yield my time to Senator Cochran if he were here. However, I was informed that he is delayed by traffic, but will be here soon. Before Postmaster General Potter begins, I would like to note that Mr. Weaver must leave directly after his statement. Although we will not have an opportunity to ask questions of him now, he will respond to any written questions in an expeditious manner.

Mr. Postmaster General, we look forward to hearing from you.

TESTIMONY OF JOHN E. POTTER,[1] POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE

Mr. POTTER. Thank you. Good morning, Mr. Chairman. I appreciate the opportunity to talk with you today about the U.S. Postal Service. I have submitted detailed testimony in advance. However, recognizing the pressing business of the Senate, I will abbreviate my comments. Last week's attack had a personal impact on us. The Governors of the Postal Service were in public session when the terrorists attacked the Pentagon. With our offices overlooking the Potomac, within seconds we saw the absolute horror of the moment. None of us will forget the black plume of smoke coming from the building.

In New York, our Church Street Station was in the shadows of the World Trade Center. Our employees were getting the daily mail ready for thousands of businesses in the area. Their station was showered with glass and debris in the opening attack. They were in the process of evacuating when the first tower fell. Incredibly, none of our employees were hurt even as they ran to assist the wounded. I visited New York City last Friday and met with employees and managers who ran to help. I could still see the shock

[1] The prepared statement of Mr. Potter appears in the Appendix on page 25.

and disbelief on their faces several days later. As a native of New York City, the sight of the skyline without the towers remains inconceivable.

Almost from the instant of the attack, we began to discuss ways to keep the mail moving. Over the years, we have learned that in times of natural disasters, the appearance of letter carriers making their rounds is an important signal to neighborhoods and the Nation that the fabric of everyday life, although damaged, remains intact. In times of disaster, our Postal Inspection Service, Mr. Chairman, plays a constructive role in helping management. Chief Postal Inspector Ken Weaver is with me today and I would like him to speak for a few moments about the role of his inspectors and the postal police officers, and what they did last week.

Chief Weaver.

TESTIMONY OF KENNETH C. WEAVER,[1] CHIEF POSTAL INSPECTOR, UNITED STATES POSTAL SERVICE

Mr. WEAVER. Thank you, Postmaster General Potter, Mr. Chairman and Members of the Subcommittee for the opportunity today. I have a separate written report of the activities of the U.S. Postal Inspection Service and would like to have it entered into the record.[2]

Senator AKAKA. It will be entered into the record.

Mr. WEAVER. Mr. Chairman, today I am wearing an American flag on my lapel in place of the Postal Inspector pin that I normally wear. I have served in the Army, as you have, under this flag. I have also served under this flag for 30 years in the United States Postal Service, 27 of those years as a postal inspector. As the Chief Inspector, I have always been proud of the outstanding work performed by the men and women of our Postal Service, but I have never been more proud of how Inspection Service employees handled themselves and answered the call to duty than I have during this crisis. As the tragic terrorist events of last week unfolded, the Inspection Service immediately took action in support of the Postal Service and all Americans.

Across the country, inspectors, postal police officers and support personnel performed acts of heroism and provided security and investigative assistance to protect employees and customers, the mail, our post offices and to help others in their effort to address our Nation's tragedy. The Inspection Service has the responsibility to ensure the safety and security of postal employees, facilities and assets, as well as the U.S. Mail. We have done just that, and we have done more.

I visited New York yesterday to express my heartfelt appreciation to all our people for the outstanding effort they have put forth during this crisis. Although shaken from the attacks, there is that steely New York resolve to put things back together. I saw it in the eyes of our employees. They will not be defeated. On the tragic day of September 11, our New York division suffered the most serious effects from the attack. The postal facility across the street from the World Trade Center, Church Street Station, was the home for

[1] The prepared statement of Mr. Weaver appears in the Appendix on page 44.
[2] The report of the U.S. Postal Inspection Service appears in the Appendix on page 63.

numerous Inspection Service staff employees. Inspectors at Church Street offered immediate assistance to victims on the street; civilians, local police officers and firemen injured in the attack, and helped to evacuate the area as smoke and debris filled the air.

Since the attack, inspectors in New York and outlying offices have been following up on the numerous bomb threats and scares which have forced evacuation of postal facilities. We are also working with the FBI on investigative leads in the New York area. When the attack on the Pentagon occurred, postal inspectors from the Washington, DC area responded to assist FBI agents with evidence collection at the crash site. In Pennsylvania, inspectors from the Pittsburgh area reported to the plane crash site at Somerset County to assist in securing the site and the mail. Three teams of postal inspectors continue on a rotating shift at the FBI command center.

We are also providing significant investigative assistance and support to the FBI, the Federal Aviation Administration and emergency management agencies across the Nation, while assisting postal operations managers at command centers. As Postal Service operation managers have dealt with moving the mail during the last week, the Inspection Service has worked to ensure mail security nationwide. For example, the Amtrak network has been expanded and postal inspectors are present at key locations nationwide that serve as transfer points for the mail.

Tragedies so often bring out the best in people. Unfortunately, tragedies also bring out those who would prey on the misfortune of others, and on that very desire to help victims. These are the con artists who will solicit donations through the mail for the families of victims, yet not a dime will ever make it to those in need. Mr. Chairman, I want to assure you that postal inspectors will aggressively pursue those con artists. We are offering some advice to the American public on how to make sure their donations go where they are intended. In conjunction with this hearing, we have issued a press release with this useful information, and I would like to make it part of the record.[1]

Senator AKAKA. Without objection, it will be made part of the record.

Mr. WEAVER. Thank you, Mr. Chairman.

Safety and security of Postal Service employees is my top priority. Security must be part of all postal employees' activities. We have advised management of the security precautions they should take to contribute to this overall effort. I am also proud that postal employees have provided eyes and ears in our Nation's neighborhoods and business communities. In recent days, employees have provided information which has assisted law-enforcement investigative efforts during this crisis.

Before closing, Mr. Chairman, I want to, again, salute the outstanding commitment to duty and resolve of postal inspectors, postal police officers and our support staff. And I assure you that the U.S. Postal Inspection Service will continue to work to keep our employees and customers safe, to keep the mail moving, and to preserve America's confidence in the postal system. We will also con-

[1] The press release of the U.S. Postal Inspection Service appears in the Appendix on page 76.

tinue to join with other Federal law-enforcement agencies in the investigation of last week's tragic events.

Mr. Chairman, I appreciate your interest in the Inspection Service and the opportunity to address you. This concludes my remarks.

Senator AKAKA. Thank you very much, Mr. Weaver for your excellent report. I certainly want to add my pride and gratitude of the people in the Postal Service and what they have done since Tuesday to make our Nation feel secure that the mail will continue to be processed and delivered throughout the country. We are proud of the folks in the Postal Service and I want to extend our thank you to them for what they have done. As you have pointed out, events like this bring out the best and the worst among people. We would like to encourage those who have come forward to sacrifice themselves, their time, their resources, to help our country to continue to be great. That is what we are all trying to do, and I want to thank you again for your report, which I feel will renew the spirit of America.

Mr. WEAVER. Thank you, Mr. Chairman.

Senator AKAKA. Mr. Potter.

Mr. POTTER. Mr. Chairman, like Chief Weaver, I am extremely proud of our 800,000 men and women and how they pulled together to reroute mail from aircraft to ground transportation. We had men and women volunteering to go to New York City and help get the mail home. It became clear to me in Washington when I was in New York that our team was committed to keeping the Nation's fundamental communications network delivering. I cannot say enough about the thousands of postal employees in New York City and the Washington, DC and the greater Pittsburgh metropolitan areas, whose personal lives were disrupted, yet found ways to get to work and ask, "How can I help?"

I also want to salute the hundreds of contract truck drivers who move the mail every day, and my compliments to George Warrington, President of Amtrak, who added hundreds of cars to their network to move the mail. They reacted with flexibility and speed. I also want to thank Fred Smith, the CEO of Federal Express, and his team. As you know, it was only 3 weeks ago that FedEx began moving Express, Priority, and First-Class Mail under a new contract. Almost from the time of the terror attack, our teams worked cooperatively and closely to serve America and our customers. I am pleased to report that amid the national focus on Tuesday, September 11, mail handlers and clerks reported to plants across the Nation that afternoon, and worked into the evening to process and distribute the mail for customers and businesses.

On Wednesday, September 12, across America, postmasters and station managers opened their offices. By midmorning, while clerks manned their retail windows, letter carriers began fanning out throughout the neighborhoods, delivering and picking up Wednesday's mail. In New York City, we concentrated on how to get the mail to residents and businesses in Lower Manhattan. With the determination that marks New Yorkers, they got it done. Today, we are well along to restoring full service in New York.

While America's airlines sat idle, our operations managers kept mail moving over land by trucks and trains. When the Federal Aviation Administration gave the go-ahead for commercial airlines

to fly, we were ready to put the mail back aboard. In cooperation with the FAA, our aviation security group had redoubled efforts to ensure the safety of mail traveling by air. Our people remain in close contact with the FAA, cargo carriers, commercial airlines and the Postal Inspection Service to ensure the integrity of mail flying on airliners. Therefore, in places such as Hawaii, Alaska and Puerto Rico, our customers are getting mail and parcels from the mainland again.

In the broader context, the events of last week tell a great deal about our role as a basic and fundamental service, provided for the people by the Government of the United States. But in providing that service, the Postal Service is mandated to operate like a business, yet we face the same economic factors as every other business. This means that we must balance our public service responsibility within the framework of businesslike operations, since we do not receive and have not received tax dollars for postal operations in almost 20 years. Like other businesses, rising costs and the soft economy of the past year have affected us.

Revenue and mail volume lag behind projections, and as soon as we saw those trends developing early in 2000, we responded aggressively to lower costs. Through it all, we have had record customer satisfaction levels, reflected by strong performance in independent service measurements. Over the past 2 years, we have reduced career staffing by more than 21,000 positions. This year alone, we used 23 million fewer work hours, the equivalent of 11,500 employees. When all the initiatives were totaled, we removed more than $1.3 billion in costs from our system just this year. These efforts have contributed to nine straight quarters of positive productivity, an unprecedented increase of 4.5 percent over the last 2 years.

Next year, we have the most challenging budget we have ever had. We are looking to reduce work hours by another 26 million. That is the equivalent of 13,000 jobs. We will do that in an environment that will see another 1.7 million daily delivery stops added to our network, and hopefully, an additional 2 billion pieces of new mail in our system. Yet, as fast as we have reacted to reduce cost, rising energy and health-care costs and an uncertain economy have continued to challenge us. Even before last week's terror attack, we expected that mail volume will not keep pace with the annual growth in new households. Fiscal year 2001 will show a deficit in the range of $1.65 billion, the second straight year of losses. For fiscal year 2002, we project that we are going to have a deficit of $1.35 billion.

Against this backdrop, 2 weeks ago I announced the most sweeping changes, organizational changes, to affect the Postal Service in 10 years. The changes will improve our focus, will improve our accountability. We will prioritize program expenditures and drive performance. We have reduced the number of officers in the Postal Service by 20 percent, and we will eliminate over 800 headquarters and headquarters-related positions. We have eliminated two of our ten field area management organizations. The eight remaining areas will accelerate efforts to achieve a 30 percent staffing reduction by the end of this year.

Our plants and district offices will reduce administrative staffing by 10 percent, without affecting the collection, the processing and delivery of the Nation's mail. Success with automated equipment will also permit us to consolidate a number of processing facilities and operations around the country. This will be announced in mid-October, with implementation scheduled for January. Despite these cutbacks, the Board of Governors of the Postal Service voted to file a new rate case with the Postal Rate Commission later this month. Unfortunately, a 30-year-old statutory rate procedure has us initiating the process a year before new rates can be implemented. Strong cost management enables us to limit this filing to an average of just under 9 percent, lower than the 10 to 15 percent that many anticipated. While the cost of a First-Class stamp would increase by 3 cents, if our proposal were initiated, it is important to note that the 8-cent stamp of 1971, when adjusted for inflation, would cost more than the 34-cent price of today's stamp.

By the way, Mr. Chairman, we estimate that a typical family will pay less than one dollar extra per month for this service. Recognizing the difficult position of the Postal Service, financially and otherwise, both Congress and the Comptroller General of the United States have asked us to develop a comprehensive transformation plan to serve as a long-term blueprint for this organization's future. In the last week, perhaps more than ever, we have seen how the Nation depends on the Postal Service to keep people in touch and to help drive the economy. This transformation plan will help us to identify short- and long-term actions that protect our ability to do this.

We are working with a wide range of postal stakeholders and pursuing a three-phased approach to developing the plan. Each of these phases is being developed on parallel tracks. In phase one, we will continue to identify and implement actions that are available to us right now to manage more effectively and serve the American people better. In phase two, we will identify the moderate legislative changes that provide us with better tools to meet the business and consumer needs of our customers in today's world. In the third phase, we are working to identify options for long-term comprehensive changes that will define and support the role of the Postal Service well into the 21st Century.

Development of this transformation plan is one of my highest priorities. You will receive our discussion document at the end of this month and our plan at the end of this year. There is a general agreement that the 31-year-old law that created the Postal Service does not provide us with the tools necessary to protect affordable, universal service. I look forward to the Subcommittee's input in our continuing efforts to build a strong and healthy future for America's Postal Service. With your help, I believe our post offices can continue to play a vital role in keeping America connected.

I cannot say often enough how proud I am of our employees. When I was in New York with those employees most affected last week, I thanked clerks, mail handlers, supervisors and letter carriers for coming to work. One letter carrier, whom I cannot forget, looked at me and said, "I have to be here because my customers need me to be here." That, Mr. Chairman, says a great deal about our men and women. Thank you for this opportunity. I look for-

ward to working with you and the Subcommittee in the future. I would be pleased to respond to any questions you may have.

Senator AKAKA. Thank you very much, Postmaster General Potter for your testimony. Without objection, we will put your full statement in the record.

Mr. POTTER. Thank you.

Senator AKAKA. I also want to convey to you our pride and our gratitude to the Postal Service for the way in which they responded to the disaster that occurred on September 11. As you pointed out, they went back to work the next day to deliver mail and to continue service to our country. I am also glad to hear from your statement about helping the economy. It gives us an idea of where we are, and I am glad to hear about where the Postal Service is now and what you are planning for the future.

In speaking about the disaster and our economy, I felt terrible to learn that there were 60 nations that were affected by the possible deaths of people in the World Trade Center. As you pointed out, the tragedy of September 11 has united us in our spirit and our resolve, and we certainly want to continue that.

Senator COCHRAN. Good morning.

Senator AKAKA. I'm pleased to have my good friend, Senator Cochran with us now. I just want to ask—I do not know the time constraints for my other friend, Senator Stevens, and would like to ask Senator Cochran to make the decision as to whether Senator Stevens will go before him.

Senator STEVENS. Let me make that. I will be glad to——

Senator COCHRAN. No, I am going to make the decision. Senator Stevens ought to be recognized.

Senator AKAKA. Thank you very much. Senator Stevens.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Mr. Postmaster General, I welcome you in your first appearance here, that I have been able to attend. I do think we are very fortunate with your background, in terms of the operations that you have been involved in in the Postal Service, that you have come up to this level of the postal system. So I congratulate you for your appointment, and I also want to tell you that we are going to need all of your experience in dealing with the times that are ahead of us.

In Alaska, we have had some really difficult times, I am sure you know. In our State, 75 percent of all intercity travel is by air, almost 90 percent of the mail is delivered by air into the smallest of communities. After September 11, as you know, everything was grounded for a day or two. We had a hard time reminding some people downtown that the taxis were still running in New York, the buses were running, and the trains were running there, but guess what? There were none of those in 90 percent of Alaska. So we do appreciate your understanding and help in that situation. I am informed that we are almost back to normal, not quite, but almost.

In an area where hay for horses and diapers for babies are delivered by the Postal Service under what we call bypass mail, it is a real challenge to keep up with our system. I wanted to chat with you just a little bit about the future of that. There is currently a

limit on the use of the passenger-carrying aircraft for rural Alaska. I had to look into that. It was an odd and terrible day for Alaska, September 11 and 12 was, because that was a time when our school teachers were leaving to go from the major hubs out to the rural schools, 270 of them and probably 260 of them going by air.

We had enormous difficulty getting our people around, and one of the things we have tried to do with bypass mail is to ensure that a sufficient amount of mail went on the passenger-carrying local airplanes, so that stability of those airlines to survive would be assured. Have you been able to look into that yet, Mr. Postmaster General, in terms of what we will be able to do to sustain the type of local passenger service that has been in the past sustained through the use of bypass mail and the support of the Postal Service?

Mr. POTTER. Senator Stevens, let me begin by thanking you for your help to the Postal Service and working with the FAA. It is most appreciated. As you mentioned, there are restrictions on our tendering of mail, certain types of mail, to larger aircraft within Alaska. We are using cargo planes to move the mail. We have recertified our processes for airline security, working very closely with the FAA. In fact, just this past summer, we had redone our airline security procedures with the FAA's approval, and we had retrained many of the people in the country who handle the mail.

With last week's events, we went out and did a certification, 100-percent certification of all people, to make sure we were in compliance with those new regulations or those new procedures that we had. We are going to work closely with the FAA to ensure that we are able to move mail within Alaska, and we will take whatever security measures are necessary. We do want to keep mail—as you said, for the viability of those passenger airlines, we would prefer to keep mail flying on those planes, but again, we will take all the necessary steps in order to assure that the mail that is tendered to those airlines is——

Senator STEVENS. Well, I thank you very much for that. Many people forget that these little carriers that we are talking about that carry 9 to 12 passengers, there is not much of a fuel load. They are not really capable of doing much damage as far as being used as those two monster airplanes were used in New York, as bombs—and the one against the Pentagon. These are, again, taxis, and they are literally air taxis, but they have an economic viability if they can carry the mail; and if they are assured that they will carry the mail, they get out to those villages and oftentimes people, when they see the mail plane come in, they make up their mind that this is the time to go to town. So it is the mail that really generates passenger traffic and not the other way around. I do look forward to working with you, and again, I really am delighted.

You have got the background, in terms of logistical activities of the Postal Service that we need now, and I am sure this Subcommittee is going to be working very hard with you. I have got to apologize. My friend from Hawaii, he has a similar circumstance, but when the planes do not fly over there, they just take boats. We do not have quite the same circumstance, except when I first came to the Senate, once a year there was a vessel known as the North Star, that took supplies to all the villages along the Alaska Coast.

It went out once a year. All of their supplies had to go to their local stores—they had to purchase them a year in advance—and logistically that meant, in terms of their economy there, they did not get much.

Things have changed now. The day before Christmas I flew over with a friend of mine over to Bethel, which is in the center of the West Coast of Alaska. I walked through a mall and a native store there, where the things that were available to those people for Christmas was just overwhelming, compared to what I knew was there 30 years ago. Extending the mail system and making it reliable in Alaska has been brought about by the modernization of rural Alaska, and has brought them into the 21st Century with everyone else. I cannot think of another entity of government that means more to rural Alaska than the Postal Service.

I want you to know, as I have in the past, Mr. Chairman, I have served on this Subcommittee longer than anyone on our side of the aisle in history. The old Postal Committee was my first Committee when I came to the Senate, and I want to continue as long as I am here to work with you, because I think you are the lifeline for rural Alaska. I am sorry. I have got to go back to the other committee, Mr. Chairman and Senator Cochran, because we have—guess who? Secretary Mineta and FAA is over there, and I want to make sure they understand what I just told you. Thank you very much.

Mr. POTTER. Thank you.

Senator AKAKA. Thank you very much, Senator Stevens for your statement. I must also add that we certainly share the concerns that noncontiguous States have, especially with the mail service. So I want to thank Senator Stevens for his comments.

And now, Senator Cochran.

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Thank you. Mr. Chairman, I want to join you in thanking Senator Stevens for being here this morning and putting in perspective the importance of the Postal Service, not only in his State, but I think it is true throughout rural America. So the challenges are quite immense. I noticed that one of the biggest challenges for the Postal Service is to try to modernize and bring your activities up into the modern world, and one of the steps that was taken some time ago was to move into the area of e-Commerce, so-called electronic activities. I am told that in spite of the fact that it was expected to help make up for lost revenues from loss of mail moving into that area, the Postal Service has not really been able to make any money in e-Commerce.

My question is can you confirm that, and, if so, what are your plans to deal with the challenges of e-Commerce? Are you going to abandon that or continue to work on it?

Mr. POTTER. Recently, I made organizational changes at the headquarters level. Part of that organizational change was to take the vice president of e-Commerce, the vice president of Package Services, the vice president of Core Products and the senior vice president of Corporate Business Development, and move them into one organization called the Vice President of Products for the Postal Service. Over the course of time, there has been internal com-

petition for resources along the areas—and, obviously, e-Commerce was one of the areas that was in competition for resources. The reason I did that was because I wanted the organization to focus on one thing. I wanted to focus on core products.

We have some $68 billion in revenue, and my challenge to the organization is not to become the premier provider in the e-Commerce world. My challenge to the organization is to see what we can do to grow that core business, because it is a simple analysis. If you wanted to make $680 million and you were the Postal Service, it is a lot easier to grow the core by 1 percent than it is to take a new product and have it come to grow to $680 million in revenue. Now, with that said, I want to assure everybody, and our customers in particular, that we want to move into the Internet. We want to do business, because businesses are moving to the Internet to deal with one another, and that is a channel for payments. I am talking about our major customers—that is a channel that we use to share information. So the Postal Service has to be on the Internet.

We do have a number of e-Commerce initiatives that have not produced revenue, that are not meeting the expectations of their business plan. We have also eliminated some of those initiatives, but I would be happy to share those for the record with you. The initiatives that we have, we have put under a microscope. We are tracking, monitoring on an accounting-period basis, the revenues that we take in, what our costs are, and over the next 6 months, our plan is to take those initiatives that have not been meeting their business plan, and to put them on a critical watch. If, in 3 months we cannot turn things around, we are going to eliminate those initiatives. We are not going to perpetuate programs that do not have a bright future and will not generate the revenues that were expected when those programs were initiated.

Senator COCHRAN. I noticed that one of the requests that has come from the Postal Service just recently is for a supplemental appropriation. Could you tell us what this supplemental appropriation is needed for, and the exact amount you are requesting?

Mr. POTTER. We have asked for $957 million. That is money that is owed to us for services that were provided in the 1990's, and the Congress made a decision that they would pay that amount to us in $29 million over a 42-year period of time. What we are asking for is to accelerate those payments. Given our financial condition right now, we could certainly, as could other businesses around America, use $957 million. But our goal is to take that money and begin to invest it in the infrastructure. Last year, we stopped the building of post offices around America. We put a freeze on our capital budget for construction of postal facilities. We have had to make a decision that we are going to continue that freeze into 2002. We would like those funds so that we could, first of all, help our bottom line, as well as to accelerate our ability to move ahead and continue to build the infrastructure that we need.

Senator COCHRAN. There had been some discussion that, rather than ask for a substantial postal rate increase, as we now know has been done, there was consideration given to asking for a phased-in increase in postal rates. Why was the decision made to

ask for a larger increase and not phase-in the postal rate increases?

Mr. POTTER. We took a very hard look at the phasing-in of postal rates. Unfortunately, the fact that we are so close to our borrowing cap gave us very little flexibility, in terms of being able to ask for a smaller rate increase in 2003—our fiscal year 2003—and then smaller increases beyond that. So we really were hard pressed in terms of bumping up against our borrowing limits. Now, that said, a lot of people have suggested why not just expand the borrowing limit? Unfortunately, given the fact that the only way we can pay down the debts that we have is through net income, expanding the borrowing limit really does begin to mortgage our future.

So we felt that, given the circumstances, we had to ask for a rate increase and we could not establish a rate increase phasing it in. There are just too many inherent risks to what we have to deal with in the next year. Those risks include the soft economy and the types of volumes that we had projected for this year. Certainly, that is at risk. We have three cases—three contracts that expired that are currently being arbitrated by a third-party arbitrator who will make a decision about the amount of money that we pay our employees. We have a fourth agreement that is currently being negotiated with our National Association of Letter Carriers. In total, there are some 700,000 employees whose salaries will be determined in the coming months. We do not know what the outcomes, particularly on the arbitration, will be. So, there is an inherent risk there. So, given the risks in our economic situation as we look into the future, we felt it only prudent to file rates, and we did not feel that we could file rates in a phased manner.

Senator COCHRAN. There was a letter that some of us signed, asking for a report on the transformation plan of the Postal Service. I understand that you are making good progress in compiling this information for the Congress and before the end of the year, we can expect to have a complete report that we requested. Is that information that I have true, and do you have any comments about the transformation plan?

Mr. POTTER. Senator, that is true. We plan to produce and publish a discussion document by the end of this month. We are well underway to completing that document. I have reviewed several drafts. We are working closely with the GAO, and we are planning a parallel phased approach. Our first phase—and, again, we are going to run these parallel to one another—is to do everything that we can as a Postal Service to improve our posture. That includes taking costs out, looking at our networks. In our second phase, we are working and looking for moderate legislation that will help us and give us some tools so that we can improve the way we do business and act in a more businesslike manner. And the third phase will be a discussion of a long-term perspective; a comprehensive discussion about where the Postal Service should be, what should universal service look like 15 or 20 years from now, so that we can begin managing our way to an ultimate picture, an ultimate vision, of what the Postal Service is.

It is very important as we do that that we recognize them now more than ever—given the events of last week, that we recognize the importance of the Postal Service to our economy. Some nine

million people throughout America are employed, not by the Postal Service, but in the mail business. Some $900 million is transacted in the mail business. We are a vital part of the economy, and we take this opportunity to build a transformation plan very seriously. It is a high priority and we are going to fulfill the direction that we were given by the Senate to build a comprehensive plan with stakeholder input, so that we have a good working document that we can then fulfill.

Senator COCHRAN. Well, Mr. Chairman, I congratulate the Postmaster General on the good start you are off to. I think you are making good progress. You have got a sense of where you need to be, an obligation to reduce deficits and to get better control over the operation of the Postal Service, generally. So I wish you well and commend you for the excellent start that you have made as Postmaster General.

[The prepared statement of Senator Cochran follows:]

OPENING PREPARED STATEMENT OF SENATOR COCHRAN

I welcome you, Postmaster General Potter and Chief Postal Inspector Weaver, in your first appearances before the Senate. I would also like to thank you both for the significant efforts the Postal Service and the Postal Inspection Service have made during the past several days to keep the mail moving in as safe and expeditious a manner as possible.

Postmaster General Potter, you stepped into your new role at a very interesting, and also very difficult, time for the Postal Service. In fact, you were appointed Postmaster General just 2 weeks after this Subcommittee held a hearing in May to discuss the seemingly rapidly deteriorating financial situation of the Postal Service. Fortunately, the numbers relating to the Postal Service's expected deficit for this fiscal year have improved slightly since then. However, significant challenges remain in the effort to return to a "break-even" state—as made evident by the Postal Board of Governors' plan to file for another rate increase, an ongoing facilities funding freeze, and new plans for substantial workforce cuts. Hopefully, today's hearing will provide us the opportunity to discuss further cost cutting and revenue generating plans you may be considering.

I appreciate the efforts the Postal Service has made thus far in preparing a comprehensive transformation plan, as requested by Senators Akaka, Thompson, Lieberman, and me. I understand that we can expect to receive this at the end of the year, along with a detailed plan for deficit reduction. These plans should prove highly useful in helping the Senate understand the long-term operational, financial and human capital needs of the Postal Service.

Despite the Postal Service's current difficulties, the agency's tremendous workforce of over 800,000 employees has maintained record service performance and high levels of customer satisfaction—with over one million new addresses being added each year. The agency's reputation as a highly dependable deliverer of mail to American citizens throughout the country is well deserved.

I am pleased to have this opportunity to review with the Postmaster General the activities and problems of the Postal Service and any issues that, in his judgment, should be brought to the attention of this Subcommittee.

I do hope the Postal Service will continue to pursue its fundamental responsibilities, providing universal mail service at affordable rates.

I thank you, Chairman Akaka, for holding this hearing. I look forward to hearing the Postmaster General's and Chief Inspector Weaver's reports.

Mr. POTTER. Thank you, Senator.

Senator AKAKA. Thank you very much, Senator Cochran.

Postmaster General, you and Mr. Weaver have described some of the extraordinary steps the Postal Service has taken during the past 10 days to ensure that the mail is delivered in a timely manner, despite the devastating circumstances that we all faced. I, too, want to join Senator Cochran in applauding your leadership during

this time, and also your leadership in what is ahead for the Postal Service.

I again commend the hundreds of thousands of dedicated postal workers who work so hard every day to deliver the mail. Many times during disasters, the Postal Service is the first sign of the Federal Government on the scene. As you noted, mail was delivered to many homes and businesses last Tuesday. My question is what types of disaster plans does the Postal Service have, and would you further explain the steps the Service took last week to secure the U.S. mail, ensure delivery, protect its employees and communicate information to the field? You partly answered this, but perhaps you can expand on that.

Mr. POTTER. Let me just tell a little story. You mentioned that mail was delivered on Tuesday. We had people who work in our headquarters building, and, as you know, the city was evacuated. We shuttered postal headquarters and people were asked to go home, and there was a horrendous traffic jam as people moved to their homes, and I had two employees come to me and say, "You know, I got home at two o'clock and right behind me was the letter carrier, delivering that mail." So even here in Washington, people were delivering the mail.

As soon as we saw—as we were up on the 11th floor of our building and we saw what happened at the Pentagon, we began an evacuation of our building, and we immediately went into our continuation-of-operation plan. We had people that were dispatched to a location outside the Beltway to activate that center, while we kept half the folks downtown to communicate to the areas and to issue instructions on what to do. Immediately, we moved and developed a plan to move mail on the ground.

About 20 percent of our mail flies, so we wanted to make sure that the economy kept going and that we kept the payments that were in the mail—we kept them moving. So, immediately we went to ground transportation. As I said, Amtrak offered to give us additional cars on trains, build trains for us, and within a couple of hours we had that conversation. Federal Express called us and said, "We will move the mail by truck." We went to our trucking folks and we asked them to run extras and make sure that the mail kept moving. Throughout that process, we stayed in communication with the field. As you know, domestic air carriers were told to ground their planes. Some of those planes landed in places where we do not have air mail centers. So we dispatched our folks out to the airports, and as quickly as we were allowed to get access, we took the mail that was flying off the plane, put it on ground transportation and got it moving.

We expanded our current surface networks. We have a network to carry our advertising mail and our parcel post throughout the country. We immediately used that network to move First-Class Mail, Priority Mail, and although it would be a little late, Express Mail, on trucks. We worked closely and contacted in very short order the FAA to determine what their plans were. We made contact with our cargo air carriers, FedEx. We made contact with other cargo air carriers who had worked for us in the past or worked to handle our Christmas mail, and we prepared them so

that once we had the go-ahead to fly, we could move mail on cargo planes and begin to tender mail to domestic carriers.

And, as I said earlier, we reacted in terms of any restrictions that might be placed on us in terms of flying mail on domestic carriers. I am happy to say that the mail moved. It is moving. We have contacted a lot of our larger customers, particularly remittance centers around the country, to garner from them what their perception was, and they understood that mail would be delayed a day or two. But they were satisfied that we kept the mail moving, they are receiving their payments, and we made our contribution in that way to the economy.

Our goal was to get back to normal as quickly as possible. In New York, as we speak, there are only the two stations in New York that we have not moved our carriers back into. That is the Church Street Station that was right under the Trade Center, and I do not think that we are going to get access to that anytime soon. We have made provisions for the people who are serviced by Church Street Station to receive their mail at our General Post Office in New York, and, as they come to pick up the mail, we are offering them forwarding service, and we are suggesting to them that they not make the trip to 33rd Street and Eighth Avenue in Manhattan, but that they put together—if they have a residence or if they have moved their business, that we began to forward the mail for them. We do not want to inconvenience those customers.

The other station in Manhattan that has not opened is Wall Street Station. Our carriers are preparing mail. We have sent trucks down there to find out what buildings we could get access to. Whatever buildings we can get access to, we have our carriers going into that area to deliver the mail. We just got power back in the building late last night, so today we are doing a cleanup. Tomorrow, we will have access to that building and we will be delivering the mail out of our Wall Street Station. Once we move the mail, there are customers who are in buildings that they cannot access—who will be able to pick up their mail at the Wall Street Station. So we are doing everything we can possible to make sure the mail is moving

Our office in the Pentagon is open again. We are delivering mail to the Pentagon. So, for the most part, I can say the mail is moving. I think people have to be somewhat patient with us. We are trying to stay within the standards, the expectations that people have for mail moving across the country, and where possible, we are doing that and we are moving mail on all available transportation, cargo, and airlines. In fact, in your State, Senator, the State of Hawaii, we have had to put some cargo carriers in place because right now the mail to Hawaii has increased dramatically, people requesting goods and packages.

There has been a tremendous increase, and so we are flying charter planes with packages into Hawaii. We are using charters to move mail to Guam and American Samoa, and we are moving letter mail on all commercial carriers, and where we cannot, we are using cargo planes. The one problem we have in your State continues to be the Compact Islands, although we believe we have a flight leaving Saturday to get the packages down there. The smaller products have moved.

So, again, I cannot say enough about the people who work in the Postal Service. This is not what I did. This is what the people in New York, the people throughout the country, are doing to move the mail. Our logistics people, our Vice President of Network Operations, Paul Vogel, has done an outstanding job in coordinating the efforts of the country. This truly has brought out the best in postal managers. There is a level of cooperation like we see every time that we are challenged, and there is something where the Nation needs us to help them, and so I could not be more proud of what we have done. We are going to continue to work hard. We are going to make sure that the mail is secure, that our employees are secure.

We have issued instructions to create a greater awareness on the part of our employees of the need for safety. This is not just mail that flies. This is all of our vehicles, all of our post offices. So we are getting the word out to make sure—and I personally am going to do that—to make sure that when they leave their vehicles that they are locked; to make sure that if there is a stranger who shows up at a postal building, that they are immediately challenged and that we take the proper precautions to make sure our doors are locked, precautions that are just common sense. But we need to reinforce that common sense which is more important today than ever, because we cannot have the American public lose confidence in the mail.

Senator AKAKA. I want to thank you very much for responding to the needs of the Pacific, to Hawaii, Guam, and American Samoa. As we all know, the mail stopped because it could not be delivered by commercial airlines to those places. But I am glad to know that the Postal Service has responded and moved it as quickly as you could to those areas. I want to know what steps the Postal Service took in helping to protect the employees and also communicating with them in the field?

Mr. POTTER. We put out "Direct Line," which is a communication that goes to all post offices. We have done it that way. We have a Postal Service television network where we have kept people abreast of all the events that have gone on, let them know changes that were being made, and basically made them aware of the need to secure the mail, secure themselves, stay safe, and, again, deliver mail to America on a daily basis. Now, more than ever, I think people are looking at the Postal Service. They understand how vital it is to not only the economies in Hawaii and in Alaska, but to the economy of the United States. Over $1 trillion transits the mail over the course of the year.

So we understand what is in the mail. We understand the need for people to receive payments to get their bills so that they can pay them, so we can keep the engine, the economy, moving and we, again, want to do our part. Our first concern is the safety of our employees, and I was very happy, as I said in my earlier statement, that no postal employee got hurt. Our managers did the best they could to get those folks out of harm's way, and we took the necessary precautions to ensure that our employees were safe and at the same time make sure that the mail got through.

Senator AKAKA. Again, I want to thank you for thinking of the Pacific and working with the Honolulu District to resolve the

backup of mail in Los Angeles bound for Hawaii, and for establishing a regular delivery schedule. Can you tell me when the backlog for Hawaii will be clear?

Mr. POTTER. Senator, it is my understanding that we are now flying a full 747 daily. We had anticipated that, based on the volume that we normally have, we would be flying the 747 every other day; however, we are now flying that plane daily. Domestic carriers are again accepting letter mail and lightweight flat mail. So we are moving all the mail that we possibly can, and it is a matter of getting it to Honolulu and then moving it out on inter-island transportation, and we are able to do that. So we believe that it is not perfect yet, but the flow is just about back to normal. Again, the thing that was most surprising was the fact that, once this disaster hit, apparently the amount of orders for goods and the amount of communication going between the mainland and Hawaii jumped tremendously. We appreciate the revenue, but we have had to make adjustments to react to it.

Senator AKAKA. I want to tell you that the people out in the Pacific are grateful. I know because I was receiving calls about prescription drugs and other necessities that come through the mail. As soon as there is a disruption, you hear from these folks, and I am glad you took care of that.

I will ask one more question before I end this round. With the special challenges facing the Postal Service, there will be additional costs incurred in getting the mail delivered. My question is how long do you expect these additional costs to continue and will the supplemental funding request submitted to the White House just last week be used for these costs?

Mr. POTTER. We submitted a supplemental funding request to the White House. They actually asked us to identify additional costs that we had incurred and we submitted a number in the range of $50 million. Let me explain what that number is. Approximately half of the $50 million is for the renovation of the facility that was damaged at Church Street. In addition to that, as Chief Weaver mentioned earlier, we have provided assistance to the FBI in the form of equipment so that they could handle evidence at some of the sites.

We have also spent funds aiding the rescue efforts and the recovery efforts. We have provided trucks. Amtrak donated a service where they filled up seven carloads with medical supplies to assist in the Manhattan rescue effort. Those supplies were brought into our facility. We off-loaded those supplies into trailers and moved them to the site, and we are incurring some costs for some of the cargo transportation that we are talking about. So we anticipate that number could potentially grow, but I guess if you think about it, this kind of points back to the rate process that we have and the fact that, to prepare a rate case, to get an outcome and to implement, you are talking on the order of 16 months. Preparation—4 months, 10 months at the Rate Commission, 2 months to allow for people to get ready for a new rate.

We are not really ready to handle that type of thing from a rate standpoint. When we saw fuel costs rise in the past year, our competitors, FedEx, UPS—they put a surcharge on fuel in terms of what their customers would pay. We did not have that ability or

the flexibility to make that change. We submitted the supplemental because the White House asked us to identify our additional costs. We think they are going to grow and those are the types of things we have identified as costs.

Senator AKAKA. Thank you. Let me ask my partner, Senator Cochran, for any additional questions.

Senator COCHRAN. Mr. Chairman, one other question, if I might. Despite recent gains in productivity overall, over time, there has barely been an increase in productivity, and this is in the face of substantial investments that had been made in information technology, modernization and automation and the like; why has the Postal Service had such difficulty improving productivity over the long-term?

Mr. POTTER. As you have heard already, we have made a lot of progress in the last 2 years. We are focused on our costs and taking costs out. We have had since the beginning of the Postal Service, about a 13.3 percent increase in productivity, 4.5 percent of that has occurred in the last 2 years. We are, again, focused on making sure that every penny we spend is necessary, because we know it is going to have to come from the ratepayer.

In terms of why you haven't seen a greater productivity improvement over time—I believe it is because of the fact that delivery, in and of itself, is a very labor-intensive activity. We have over 300,000 people who deliver the mail, and we are working to evaluate the processes used in delivery to try to improve productivity in that area. I mentioned earlier today that we have eliminated some 21,000 career positions. The bulk of those positions are clerk positions, where the automation investment that you have referenced is focused, and we have gone back to make sure that as we have improved machines' ability to read addresses, so that we reduced the work hours of clerical employees.

We have to take that same resolve, in terms of reducing our cost in areas of material handling, that is the movement of mail into buildings and out of buildings and onto machines and off machines. We want to work with our customers, so that it is kind of transparent, the movement of mail from a printer right to delivery. We have some processes that were created before the advent of automation, and we have to change the packaging to reduce those costs. We also have to invest in material handling systems. In the area of delivery, again, we are focused on those processes to see whether or not there is an opportunity to reduce costs.

But, in a nutshell, moving mail is a labor-intensive business. We move over 208 billion pieces of mail a year with some 800,000 employees. I would not call ourselves unproductive. I would say, though, we have opportunities to improve.

Senator COCHRAN. Thank you. Mr. Chairman, this concludes my questioning.

Senator AKAKA. Thank you very much.

Mr. Postmaster General, let me ask you the question that is on everyone's mind. We know that the Postal Board of Governors will request that the Postal Rate Commission give expedited consideration to its rate case. In fact, you repeated the need for expedited review today. If the rate case is completed in less than 10 months,

does that mean that rate increases will be implemented as soon as the case is decided?

Mr. POTTER. Well, as a matter of fact, Mr. Chairman, one of the reasons that we would like to have an expedited rate case is so that we would understand what the recommendation of the Rate Commission is. Many people have talked to me, to other governors, about delaying the implementation of the case. The only way you can make a decision about that is to understand what revenues we might get from that additional rate. So, what we are doing is we are going to look at all of the different variables that go into a decision about when we might implement the rates. Those variables, as I described earlier, are what happens to the economy and what happens to our volume and revenues between now and next summer, what happens in front of the three arbitrators who are going to decide the wages and working conditions for three of our major unions, what happens with the negotiations for the National Association of Letter Carriers, and what happens in front of the Rate Commission and what recommendations they will come back with.

So the idea of asking for an expeditious decision was not with a mindset of "we are going to accelerate these rates as quickly as we can," it is "let's get all the information that we possibly can garner to make a sound judgment about an implementation date."

Senator AKAKA. Obviously, the various classes of mail will be impacted differently under the new rate case. I know that postage rates for periodicals have increased 12.5 percent under this year's two increases, and are expected to increase another 10 percent under the new proposal. Priority mail is targeted for a rate increase of 13.5 percent, even though its rates have already increased by more than 16 percent this year. My question is how does the Postal Service calculate the point at which raising rates will have a negative impact on the different types of mail service, and do you believe the Postal Service will eventually price itself out of some classes of mail?

Mr. POTTER. Postal Service rates are determined by Postal Service costs. We operate under a 30-year-old law that basically has us charging mailers or our customers prices based on what our costs are. We have worked with periodical mailers. We are attempting to work with those mailers to try and drive costs out of our processes. As I said earlier, we are trying to figure how to mail from printers to our letter carriers with as few handlings as possible along the way. So we are looking at the entire chain, from printing to delivery, and we have an ongoing dialogue with that group of mailers. In the area of Priority Mail, yes, our costs have risen, and that is the driver behind the increases that people see. We believe with the FedEx contract that we are going to increase the reliability of the mail, Priority Mail and Express Mail, and that we are going to have competitive products in both of those arenas.

As far as the long-term, I think your question about long-term, will we price ourselves out of one or two product areas? I would prefer not to. I am going to work very hard to make sure that does not happen. The key in my mind is building a solid transformation plan, putting in the efficiencies that need to be put in in order to make sure that those costs do not rise, because they trigger rates. It is also an opportunity to discuss the 31-year-old law that we

have governing us and the potential to have some pricing flexibility, so that if we know we are going to put efficiencies into different classes of mail—that we take advantage of that and have prices that would be more moderate and would allow for an evolution to a more efficient operation.

If you step back and think about the Postal Service, the bulk of our mail is letter mail. So it was very wise that, 15 or 20 years ago, our number one priority for investments was letter mail. Now, by doing that, other classes of mail were not concentrated on. There were not similar efforts to improve efficiency. Now is the time to do that because we know how important magazines are to the American public, we know how important packages are to certain communities around America, because we are, in some communities, the main provider of packages to customers.

We need to keep all Americans linked. We understand our obligation to keep our costs down so those products are competitive. We cannot just service a few markets around the country. In order for us to have reasonable rates, we have to have products that are competitive in all 50 States, and there is sufficient volume there to allow us to be efficient. We are very much concerned about that and we are going to do everything we can do to ensure that. We do not have to walk away from—or our customers don't have to walk away from a product offering because we have priced ourselves out of the market.

Senator AKAKA. I am glad to hear that from you, and of your concern. As you know, these periodicals, as you pointed out, depend so much on the Postal Service. Without the Postal Service, they cannot do business. So you are important and, I am glad you are giving them that kind of attention. Some observers believe that prior to seeking postal reform legislation, the Postal Service should demonstrate that it has explored the boundaries of the existing rate-making structure. In fact, the vice chair of the PRC urged the Postal Service to, and I quote, "to take advantage of the wide latitude permitted by current law," during our May hearing. However, you and the Board of Governors say that your options are very limited. Why do you believe that there are these two opposing views, and does the Postal Service have any plans to go beyond existing rate-making structures?

Mr. POTTER. I believe that we have opposing views—I know the Postal Service's view is built around experience at the Rate Commission. When someone is preparing you to testify at the Rate Commission, basically they tell you to provide an answer that says anything is possible, when given a hypothetical. Well, we could hypothesize all day, and anything is possible, and we do have to test that and we are testing that. An example of a test under current law is that we are going to propose, and the Board of Governors voted to propose, a waiving of delivery confirmation fees in the beginning of December, to see whether or not we can shift the deposit of packages with us from later in the month, when they are costly, to earlier in the month of December.

So we are beginning an effort to try to explore and test the boundaries of what can be done at the Rate Commission. I would have preferred to have done that with this current rate case; however, as I have described earlier, there were compelling factors that

just did not enable us to—given the fact that we are about to bump up against our borrowing limit, that is a compelling reason not to go with a smaller rate case. If you are in a hole, you have to dig yourself out. I know we want to continue to look at those options in the future, and we are going to work closely with the Rate Commission.

I recently had lunch with George Omas to discuss what the alternatives are. So there is an open line of communication, and we want to keep that there. As I said, the first phase of our transformation plan is to explore all the options that we have under current legislation, and certainly one of those options is to look at alternatives to a traditional rate case at the Rate Commission.

Senator AKAKA. Thank you very much for your responses. It appears that coordination and cooperation certainly are the keys here at this time.

Senator Cochran, do you have any additional questions?

Senator COCHRAN. I have no other questions, Mr. Chairman.

Senator AKAKA. Senator Cochran, I thank you very much for sitting here with me. I have other questions, but I will submit them in writing.

Mr. POTTER. Thank you.

Senator AKAKA. Mr. Postmaster General, I want to thank you so much for your responses and for being with us today. You have done an excellent job in your first appearance before Congress, and I sincerely appreciate your leadership during these trying times. I wish to commend you on your efforts in developing that transformation plan. The Subcommittee and I look forward to working with you further and for keeping the mail delivered to our country. Again, I wish to extend my gratitude and my feeling of pride to you and the employees of the Postal Service.

Mr. POTTER. Thank you, Mr. Chairman. Thank you, Senator Cochran.

Senator AKAKA. Thank you very much. The Subcommittee stands adjourned.

[Whereupon, at 11:23 a.m., the Subcommittee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR CLELAND

Thank you Mr. Chairman for giving me the opportunity to speak at today's hearing and address the Postmaster General, Mr. John Potter and the Chief Postal Inspector Mr. Kenneth Weaver. First, let me thank the employees of the United States Postal Service (USPS) for their efforts in keeping the mail moving during the last week and the Postal Inspectors for their cooperation with other law enforcement authorities to bring to justice those responsible for the terrible attacks of September 11, 2001.

The USPS was established by the Postal Reorganization Act of 1970. This act chartered the USPS to perform as a business enterprise, with the freedom to provide "non-postal services," ensuring that USPS could provide universal service reliably, efficiently and as inexpensively as possible for years to come. Furthermore, the USPS was mandated to operate on a self-supporting, break-even basis, with particular emphasis on restraining postal rate increases and providing "honest, efficient, and economical management."

The Postal Service is an amazing organization. Its Universal Service program binds the country together by providing inexpensive and reliable First Class mail delivery for every American and every business. The USPS stops at approximately 134 million addresses 6 days a week and delivers approximately 670 million pieces of mail every day. The Postal Service generates approximately $64 billion in revenue, ranking it eighth in the United States in the Fortune 500 Global listing. In addition, the Postal Service employs approximately 800,000 individuals giving it the Nation's second largest payroll, and USPS operates approximately 38,000 postal facilities. Managing any organization this size can be a very difficult challenge, but it was done profitably for much of the latter half of the 1990's.

In 1997 the Postal Service turned a $1.2 billion profit, and had been profitable for the years 1995–1999. But in 2000, the Service showed a net loss of $199 million. The Service originally predicted a deficit for 2001 of approximately $500 million. Early in 2001 that projected loss was revised to between $2 and $3 billion. With a new rise in rates effective July 1, 2001, and cost cutting measures the FY 2001 loss is now expected to be approximately $1.6 billion. The Service has gone from profitability to billion dollar losses in less than 2 years. In order to cut costs and pay its bills the Postal Service has frozen all existing capital construction projects, the Board of Governors voted to modify the most recent rate decision by raising certain rates, and the Service expects to save $3 to $4 billion by 2005 through its "breakthrough productivity" plan. I applaud several of the efforts of the Postal Service in attempting to meet this challenge, however, I am concerned about how freezing capital construction projects will affect future service and if delaying these improvements will result in greater costs down the road.

I have heard from many communities across Georgia that they are experiencing service problems at their existing Post Offices. The lines are too long, there is not enough parking or the Post Office is not big enough to handle the volume of mail going through its facility. Georgia has experienced one of the largest growth rates in the country and many existing facilities are being squeezed in their effort to provide prompt, efficient and reliable service. I have been informed by USPS that projects in Buena Vista, Butler, Columbus-Beallwood, Cotton, Darien, Gray, Guyton, Hawkinsville, Kathleen, Lyons, Macon-Downtown, Madison, Marble Hill, Marshallville, McCaysville, Monroe, Monticello, Pine Mountain, Pooler, Pulaski, Roberta, Rupert, Sharpsburg and Townsend will be affected by the freeze. I am very concerned about what the freeze in capital construction projects will mean to these growing communities in Georgia and how long it will last. I would like assurances from the Postal Service that efforts will be made to ensure that communities across

the Nation affected by this freeze will not see a decrease in the service that they and all of us have come to expect from the Postal Service.

In addition, I am concerned about the long term viability of the Service. The Service has increased postage twice in the last year and is in the process of filing an expedited rate case for another increase in postage rates expected to become effective in late 2002 or early 2003. With the advent of electronic alternatives First Class mail volume is expected to decline and postage increases may accelerate this change. USPS's new product lines and attempts to delve into the e-Commerce arena have not yet yielded the expected results. Furthermore, costs for the Service increase every day as new addresses are continually added. I applaud the efforts of the Postmaster General and others to cut cots by reducing management staff levels. However, I am concerned about the effect these reductions may have on the current backlog of equal employment opportunity and grievance cases. I feel that we need to work together to find a long term solution to the potential future problems of the Service, and I will look forward to an opportunity to review the Service's recommendations for reform.

Finally, I would like to mention efforts that I and a number of my constituents have made to award a commemorative stamp to Lt. Henry O. Flipper, who was the first African-American graduate of the United States Military Academy. He served as a member of the all-black Buffalo Soldier 10th Cavalry, but he was court-martialed and dishonorably discharged from the Army. Lt. Flipper has since been cleared by the Army and was pardoned by President Clinton. I feel that Lt. Flipper made significant contributions to the civil rights movement and paved the way for future African-American officers in the U.S. military. The Stamp Advisory Committee has been considering the request for a commemorative stamp for Lt. Flipper for approximately 15 years and I would appreciate your consideration of this matter in the very near future.

Once again, I would like to thank the Chairman and the participants in this hearing for allowing me to speak to you about my concerns. I will review the report for this hearing when it is released and I look forward to working with you in the future on these and other important issues.

PREPARED STATEMENT OF SENATOR BUNNING

I certainly realize that the United States Postal Service is facing some tough financial choices in the coming months, including possibly closing and consolidating mail processing centers.

I have heard reports that the USPS is considering changes to the Ashland, Kentucky, facility, and I would like to take the opportunity to register my concerns, especially regarding possibly moving the mail processing center to Huntington, West Virginia.

The Ashland processing center has a strong record of providing good service to its customers. In fact, it is my understanding that the Ashland mail processing center was recently ranked 12th nationally in terms of efficiency. I am concerned that this move could mean a decrease in the quality of service my constituents receive, along with a loss of jobs in Ashland.

STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION AND FEDERAL SERVICES
OF THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

SEPTEMBER 20, 2001

Good morning, Mr. Chairman, and members of the subcommittee. I appreciate the opportunity to talk with you today about the United States Postal Service.

The last week has been extremely challenging for our nation. The acts of terror in New York and Washington have led the people of America to question many of their assumptions about the simple and routine activities that are part of their everyday lives.

With that in mind, the Postal Service was acutely aware of the need to continue daily mail delivery and, where it was interrupted, restore it as quickly as possible. And the appearance of our letter carriers making their rounds in every community possible, both on the day of the attacks and over the next week, was important in reassuring the nation that the fabric of everyday life, although damaged, was intact.

Similarly, the continued movement of mail was important to limiting the overall economic losses resulting from last week's attacks. A single day's interruption in payments that move through the mail can mean over $1 billion in lost interest income.

As one of our letter carriers explained when a Washington, D.C. customer asked if there would be mail last Tuesday, "You bet. There's mail everyday!"

I am extremely proud of the 800,000 men and women who make up the world's largest postal system. They provided the Herculean effort, planning and elbow grease that rerouted millions of pieces of mail each day from air to ground transportation, keeping our vital communications system moving.

And there are the thousands of postal employees in New York City who, despite the fact that their personal lives were disrupted in some way by last week's tragedy, continued to work through extremely difficult conditions. But it was important to them that the people of New York – in many cases their own families and friends – remained connected with *their* friends and loved ones, whether within the city or beyond its borders.

The work of our people in New York was not limited to only delivering the mail. The New York Post Office provided trucks and drivers that shuttled medical supplies and other emergency equipment to where it was needed most.

There are many stories of individual postal employees in New York and Washington who took that extra step to serve our customers through this difficult time. I met many of them last week when I visited New York to acknowledge them for their tireless efforts. Witnessing firsthand the unimaginable destruction of so much I was moved again by the incredible spirit and dedication of our nation's postal workers.

One of the selfless people I met was Bubba Ford, manager of New York's Wall Street station. Amid the devastation and confusion in the financial district, Mr. Ford made sure his staff was safe and sent them home. And, because the gate securing the Wall Street Station and the mail it contained would no longer lock, he stood watch in the cab of a postal truck through the gloom, smoke, and dust of that terrible, long first night.

Whether simply doing their jobs – and doing them well – or performing the extraordinary acts that were so important during a time of crisis, the employees of the Postal Service were a solid national anchor in the hours and days following last week's tragedy. We salute them all.

That tells you a great deal about the Postal Service and its role in the daily life of our nation. It is a job we have been doing for more than 200 years, in good times and in bad. It is something that we will continue to do, because the Postal Service is a basic and fundamental service provided for the people by the Government of the United States.

In fulfilling this role, we can never lose sight of the reason the Postal Service exists. Because if we do, we immediately place at risk the nation's investment in a system built over two centuries to enable every American to communicate equally and effectively.

The men and women of the Postal Service perform this role exceptionally well, despite the formidable financial challenges we face in operating an ever-growing network that provides regular, personal delivery service to more than 135 million addresses.

Despite its role as a basic public service, the Postal Service is mandated to operate like a business. And, from that standpoint, we are subject to the same economic factors – good and bad – as every other business. In practice, this means that we must reconcile our public service responsibility within the framework of businesslike operations, since we do not receive – and have not received – congressional appropriations for postal operations in almost twenty years.

Mail is a vital element of the nation's communications system, just as the mailing industry is a vital part of the nation's economic health. The health of the Postal Service is, in turn, a barometer of the mailing industry. That will be the case for many years to come, so we must take the necessary actions today to preserve our ability to finance and provide universal service to the American people – now and long into the future.

Over the past two years, like other businesses, we have seen costs rise significantly for things such as energy and employee health benefits, while revenue and mail volume have lagged behind projections. We have responded appropriately and aggressively to lower our costs. In fiscal year 2001 alone, we removed more than $1.3 billion in costs from our system.

We have just completed our ninth straight quarter of positive productivity – with a record increase of 4.5 percent over the last two years. That has helped us to keep our expenses more than $2 billion below what they would otherwise have been.

In fiscal year 2001 alone, we used at least 23 million fewer work hours – the equivalent of 11,500 employees. We did this while absorbing the work connected with our Priority Mail Processing system, which had been performed by an outside contractor. At the same time, we delivered one billion more pieces of mail to 1.6 million more delivery addresses than we did last year. Accommodating those new homes and businesses requires 3,400 new delivery routes.

Despite these unprecedented cost reductions and increased delivery points, we also had an exceptionally strong record of performance for the people and businesses of America. We maintained record service performance and saw high levels of customer satisfaction.

I am proud of the efforts of our people. They have demonstrated, as never before, that the Postal Service can deliver strong performance while keeping an equally strong focus on its bottom line.

But there are storm clouds in this picture. Recent economic reports have given us cause for concern about future mail volume projections. This, coupled with a projected fiscal year 2001 deficit in the range of $1.65 billion, requires us to make even further adjustments in our resource usage.

In practice, this means that, for another fiscal year, we must extend our capital spending freeze for the construction of new post offices. In addition, just two weeks ago, I announced the most sweeping organizational changes to affect the Postal Service in nearly ten years. This restructuring is designed to bring improved focus to the organization, prioritize program expenditures, and drive performance.

For these organizational changes to be meaningful, they have to start at the top. And that is where we started, with a reduction of 20 percent in the number of

Postal Service officers. We are also streamlining the organization to increase accountability, eliminate redundancy, and focus on those vital few actions that will produce the most significant results. Along with a number of other changes, we are eliminating over 800 positions in our Headquarters organization.

To our customers, the most visible change will be in our Marketing and Sales functions. We have re-established and filled the position of Chief Marketing Officer. She is restructuring the department to emphasize customer service and products that are relevant to America's citizens and businesses.

The majority of our Sales staff, over 1,200 people, will move from our Headquarters operation to field units (Areas and Districts). This will bring them closer to our customers, strengthening the day-to-day relationships with both mailers and the operational managers who are so important to providing the services our customers rely on in doing business.

Our restructuring has also consolidated a number of marketing departments that were responsible for individual product lines. They have been united into a single product management unit, headed by a single vice president, providing greater synergy and consistency to our product development units. This group now has responsibility for all postal products, including packages and eCommerce which, previously, had been independent departments.

Our operations structure – which is the backbone of our organization – is also being streamlined. The changes join our mail processing and distribution functions under a single vice president, allowing both to benefit from the larger pool of resources and talent that had supported these functions individually. We are also merging our two primary customer service operations – delivery and retail – into a single organization. Since these are the primary services provided to customers by our network of 38,000 post offices, stations and branches, it makes sense for them to be managed as part of a single, service unit. From

both an operational and a marketing perspective, these changes will help us to better serve our commercial and consumer customers.

Our restructuring will also affect our field management structure, with the elimination of two of our ten area management organizations. Responsibility for post offices and their operation in the former Mid-Atlantic and Midwest areas is being assumed by adjoining area offices. In the eight remaining Area offices, we are accelerating efforts already underway to achieve a 30-percent reduction in staffing levels.

Managers of our district offices and processing plants, however, have been tasked with reducing administrative staffing by 10 percent within the next twelve months. This represents another reduction of more than 2,000 positions. In addition, over 500 supervisory positions will be eliminated in specific facilities across the country. For the same period, we have established field organization budgets to absorb projected growth of 1.7 million new delivery addresses while reducing an additional 26 million work hours -- the equivalent of more than 13,000 positions.

The organizational changes we are implementing are only one part of a series of continuing adjustments to our networks and processes that are designed to improve service and brings costs down.

Another element of our effort is a study of mail processing operations in plants throughout the nation. Our field managers are reporting back to us now about opportunities for the consolidation of some processing facilities and of some of the operations within our processing facilities. These opportunities are the result of an overwhelming success with the automation of flat-sized mail – magazines, catalogs, and larger envelopes. We expect to identify the planned consolidations by mid-October, with implementation scheduled for January, 2002.

All of these changes will help assure that we continue the positive cost management of the last two years while we continue to protect service performance.

Clearly, the Postal Service is experiencing a great deal of change as we prepare ourselves and our organization for the future. We recognize that change is not always easy, particularly as it affects our employees. We are working to address their concerns, both with their union leadership, with leaders of the associations that represent postmasters and managers, and with each of them as individuals. We are doing what we can to answer their questions, provide them with information as soon as it is available, and to support them in deciding how best to move through these organizational changes.

We are providing career counseling services, counseling through our Employee Assistance Program, retirement seminars, and other support services to help some of our employees as they begin the transition from the Postal Service to other employment or to retirement.

While many of our efforts are focused on helping people through this transitional period, we are also working to prepare the future leaders of the Postal Service to face the challenges of tomorrow. In fact, developing our people is one of the key success strategies that is being pursued at all levels of the organization.

A number of existing and new programs are important to this effort. Succession planning is one of the elements of this strategy, with our executives identifying high-potential employees who can follow them into their positions and providing them the individual development opportunities to better prepare them for increased leadership roles.

Leading up to succession planning is our Advanced Leadership Program which, through formal training – both internally and through participation in college classes – helps to position many of our management employees for advancement into our executive ranks.

For bargaining-unit employees with an interest in upward mobility, our Associate Supervisor Program offers them the formal training – on the job and in the classroom – that provides them with the knowledge and tools that will help them succeed as initial-level supervisors.

In the near future, we will be introducing a new Management Intern Program, which will help us to position both internal and external candidates for operational positions critical to the Postal Service. The design of this program mirrors that of the Presidential Management Intern Program, which represents the premier recruitment process for federal agencies.

Naturally, the success of these employee development programs is dependent on a work environment that encourages every employee to make a maximum contribution to the organization's success. This means that all employees must treat others – and expect to be treated – with dignity and respect, and they must maintain our basic values of integrity and accountability.

With a workforce of almost 800,000 people, the Postal Service is in a unique position to benefit from the diversity represented by its employees as it develops its future leaders. Fortune magazine recognized this strength when, for the second year in a row, it recognized the Postal Service as one of the 50 best workplaces for minority employees.

We take our role as stewards of the Postal Service seriously. As we work to preserve the strength and vitality of our nation's postal system, we also want to ensure that the hands into which its leadership passes are capable, strong and ready.

In our efforts to continue improving our service, one exceptional change that occurred last month has already been making a positive difference to our service scores – our transportation alliance with FedEx. Beginning in late August, the Postal Service began using the FedEx air fleet – one of the largest in the world – to transport Express, Priority and some First-Class Mail. Besides increasing the reliability and reach of our Express and Priority Mail products, this contract will also save us some $1 billion in transportation costs over the next seven years. This alliance also served the nation well last week as FedEx was one of the first airlines able to fly a full schedule.

We are also using new technology to establish a service-measurement system for commercial First-Class Mail and advertising mail. In two weeks, we will be moving from a test mode to production mode with our Confirm program. In the future, we intend to have a similar system for magazines. Confirm will enable customers to track their mail through postal operations using special barcodes. Service problems will be more easily identified, allowing us to make the operational adjustments necessary to improve on-time delivery consistency for commercial mail.

Despite our wide-ranging and successful cost-management efforts, the Postal Service is operating from a very difficult position. Our challenges include economic slowdowns, new communication options, and the costs of maintaining a large and necessary infrastructure to support our universal service responsibility. Against this backdrop we must acknowledge that an antiquated legislative charter severely limits our organization's ability to respond quickly to market changes, placing extreme pressures on our bottom line.

Within this financial context, I must also report that the Postal Service is approaching its statutory borrowing limit. Some have suggested that one way to address our financial situation is to extend this borrowing limit. We do not recommend this. We cannot borrow our way to prosperity. Placing further financial burdens on future postal ratepayers is not the solution to our ability to finance universal delivery service.

The Governors of the Postal Service have looked at these factors and weighed them against the Postal Service's primary role as a public service funded by revenue from the sale of postal products and services – not by tax dollars. Their review – and that of management – have left us extremely concerned about the state of the Postal Service's finances.

The numbers are extremely sobering. We are in the final weeks before we close the books on fiscal year 2001. As I mentioned, our forecast is for a net loss in the range of $1.65 billion. This follows a loss of $199 million in fiscal year 2000, with the expectation of deficit of at least $1.35 billion in fiscal year 2002.

The simple fact is that, during the last fiscal year, costs have risen almost twice as fast as revenue. And, our options are very limited as to how we will continue to pay the costs of maintaining the nation's expanding universal service network.

We also believe that we have an obligation to seek all money that is owed us before asking our customer to pay more. Therefore, we have asked the Administration to support our request for a supplemental appropriation of $957 million in Fiscal Year 2002. This request represents money Congress owes us for preferred rate mail we delivered in the 1990s. Instead of reimbursing the Postal Service for the mail that Congress required us to deliver at preferred rates, in 1993, Congress decided to reimburse us in increments of $29 million annually over a 42 year period. In light of our current financial circumstances, we are now requesting full payment for these service that have already been provided to the preferred rate mailers designated by Congress.

Regrettably, we must work through an encumbering, 30-year-old statutory rate process that has us initiating the process for new rates over a year in advance of when those new rates might be implemented. Some of the issues we must consider in our rate request include today's weaknesses in the economy, and the resulting drop in consumer confidence and mail volume growth.

Beyond the general economic situation, the outcome of the collective bargaining process with four unions representing 700,000 postal employees remains uncertain. For three of those unions, the decision on what our employees will earn has been placed in the hands of outside arbitrators. We recently began negotiations with the fourth union. While I strongly support and believe in collective bargaining, the process, as it exists for the Postal Service, does not allow us to project and plan for the costs often associated with arbitration awards.

Looking at all of these factors, the Governors of the Postal Service voted unanimously on Monday, September 10, to file a rate case immediately and, further, requested an expedited review by the Postal Rate Commission. This action was taken because the Governors have the responsibility of preserving the financial viability of the Postal Service.

Today we live in extremely unpredictable and rapidly changing times. We face three significant risks over the next year, which can have potentially negative effects on our finances. The first is the possibility that the economy may not improve as rapidly as our forecast projects. Second, are the unanticipated costs of arbitration awards affecting the compensation of employees represented by at least three of the major postal unions. Third, is that the Postal Rate Commission, similar to its action last year, may not issue a recommended decision consistent with the revenue we require.

An expedited review and recommended decision by the Postal Rate Commission will permit us to make an early decision about our options, including when new rates might be implemented. This information is important to our customers as they develop their own plans in preparing for next Fall's mailing season. In addition, we cannot proceed with facility renovation and construction until we have the necessary new revenue.

We fully recognize the concerns of our customers regarding a potential rate increase by next Fall. However, speculation that the Postal Service would seek a rate increase in the range of 10 to 15 percent is incorrect. Our continuing actions in reducing costs will allow us to file for an overall, average increase of just under nine percent. It is significant to note that the 8-cent stamp of 1971 would cost more than the 34 cents we charge today when adjusted for inflation.

Following this process, the American consumer can expect the price of a First-Class stamp to rise by three cents if the Postal Rate Commission's recommended decision reflects our request.

We have considered the suggestion of many customers and mailing industry groups that we implement phased rates. While this is a creative and innovative approach to a rate increase, our review of the proposal and our very serious financial situation have convinced us that, as a practical matter, we would be unable to implement the new rates in this manner. But this is something that we are prepared to consider in connection with future rate filings.

Looking ahead, we will not risk mortgaging the future of the United States Postal Service. We cannot, in good conscience, permit this organization to experience a fourth consecutive year of red ink.

Recognizing the difficult challenges that these issues pose for the Postal Service in the future – financially and in other areas – both Congress and the Comptroller General of the United States have requested that we develop a comprehensive Transformation Plan that would serve as a long-term blueprint for this organization's future and, in turn, for the future of the mailing industry. Working with Comptroller General David Walker, the Postal Service's Governors and my senior management team have agreed on a three-phase approach that will emerge from this plan.

Phase one will identify the transformative actions the Postal Service can take under current law. I know that a particular interest of this Subcommittee has been increasing the financial transparency of the Postal Service. We have already taken action to put public financial reports to the Board of Governors on our Web site, usps.com. We will continue to work with Congress and the General Accounting Office to address these concerns.

The second phase will build on the work that has been led by Chairman Dan Burton of the House Committee on Government Reform, and Committee members John McHugh, Danny Davis and others to identify moderate legislative changes that would enable the Postal Service to realize continued productivity improvement and contribute to providing universal service at affordable rates.

The third phase will identify the long-term and significant structural changes that might be considered, in working with Congress and the Executive branch, to strengthen the ability of the Postal Service to improve its services and manage its infrastructure efficiently in a time of rapid market change. The challenge that we will face together in coming years will be how to preserve universal service over time as costs increase for the extensive network of postal delivery and access.

Development of this Transformation Plan is one of my highest priorities. We are continuing our work with postal stakeholders, including Congress, to complete this plan. Of course, we expect this to be a living document, as our discussion with Congress and other stakeholders continues. We will be submitting an initial document by the end of this month, with a final plan in December.

The Postal Service, Congress, mailers, employee organizations and unions, and other stakeholders have been key participants in the critical debate about the future of the Postal Service. There has been general agreement that the 31-year-old-law that created the Postal Service does not provide it with the tools

necessary to protect affordable, universal service for the people of America in a radically changing communications and market environment. Unfortunately, there has been no consensus on the specific elements of transformative legislation or postal reform. The process of creating a comprehensive Transformation Plan provides an opportunity for forging consensus on many of the issues that have been discussed.

When I became Postmaster General, some 100 days ago, I told our employees that I would be one of their staunchest advocates. I told them that I would do all that I could to correct misinformation and set the record straight when it concerned their performance or integrity. I welcome this opportunity to speak on some issues that affect them.

One of the biggest inaccuracies making the rounds is that the Postal Service is up to its knees in "waste, fraud and abuse" – to the tune of $1.4 billion. That may be a compelling sound bite, but it is not quite the case.

Critics have focused on a statement by the Postal Service's Office of Inspector General, which cited recommendations it has made that have identified potential savings and cost avoidances of $1.4 billion over a seven-year period.

So how did this become $1.4 billion in "waste, fraud and abuse" rather than "potential savings" or "cost avoidance"? It's about how some people use words. The Office of Inspector General's mission, in its own words, is "to prevent, detect, and report fraud, waste and program abuse, and promote efficiency in the operations of the Postal Service."

So, if you're trying to pack some major punch into a story, which makes the better headline, "promoting efficiency," or "waste, fraud and abuse"? I guess we know the answer.

Let me share an example. In 1998, the Board of Governors approved funding for the Corporate Call Management program. Over the next two years, because of advances in technology and actual call volume, the original seven-year cost projections became yesterday's news. The Office of Inspector General, in the middle of an audit, wasn't shy about letting us know the numbers had changed and that we could save quite a bit over the original projections. That led to $962 million that we didn't spend. We call that cost avoidance. *Not* waste. *Not* fraud. *Not* abuse.

There has also been some concern about the Postal Service's eCommerce activities. The Postal Service has always been one of the nation's primary carriers of money, messages and merchandise. We have consistently relied on new technology – from the development of the railroads and the airlines to the Internet – to help us serve our customers better. Today, it is increasingly difficult to separate e-initiatives from our core products as we use electronic technology to make it easier for customers to do business with us, to improve the accuracy and speed of mail processing, to add value to existing delivery services, and to bring the advantages of new communications technology to our customers.

We have established guidelines that clearly communicate expectations for new products in this area, providing a more objective basis for making product

decisions. This process involves closely tracking the product's costs, contribution and progress over time. If, even after efforts are made to improve a product's performance, it appears likely that this result will not be achieved, the product will be discontinued. This process will be applied to all existing and new eCommerce initiatives.

For the first six months after launch, which we refer to as the "burn-in" period, we will monitor the product's contribution (revenue less expenses) by accounting period. After the burn-in period, if contribution falls below plan for six consecutive accounting periods, the product will be placed on the "critical list." Once on the critical list, corrective action will be taken to reposition the product, develop a substitute for the product, or execute an exit strategy.

The Postal Service is proud of the benefits that our pay-for-performance program has brought to our customers. This incentive program has provided for exceptional improvement in service, safety and productivity. This program mirrors those used by private industry and it has served to enhance the overall performance of the Postal Service. It covers 84,000 employees – postmasters, supervisors, administrative employees and managers who work in cities and towns all across America.

The value of this program to the organization is best described through its results. Over the six years since this program has been in place, on time delivery of First-Class Mail committed to overnight delivery has increased by ten points – and we are maintaining that improvement. Lost workday injuries have steadily declined, contributing to even better use of our people. The last six years have seen our highest levels of productivity and financial success. In fact, our increased productivity in the last two years has saved the Postal Service $3 billion. These improvements are a direct result of the goals set by our pay for performance incentive program and the achievement of our people in meeting those annual goals.

Our pay for performance program is based on the achievement of pre-established performance goals for different organizational units. If all of the organization's goals are met, employees receive full payment credit. If only parts of the goals are met, employees receive only partial credit. If no goals are met, employees receive no payment. Last year, the average payment under this system was $2,600.

In closing, I would like to express my gratitude to the members of this subcommittee for providing me with the opportunity to share my thoughts and perspectives about the United States Postal Service. As Postmaster General, I am reminded daily of the confidence the people of America have in their Postal Service. They rely on us to share their most private thoughts and their most important business. We are the single government agency that serves them daily – where they live and where they work. We are proud of the role we play in binding this great nation together every day.

As the custodians of this unique public trust, we will do all that we can to preserve the ability of the United States Postal Service to protect the investment our nation has made in it for more than two centuries. I look forward to answering any questions you may have.

Testimony from Kenneth C. Weaver
Chief Postal Inspector
before the
Senate Subcommittee on
International Security, Proliferation and Federal Services
September 20, 2001

Thank you Mr. Chairman and members of the subcommittee for the opportunity to appear today. I have a separate written report of the activities of the United States Postal Inspection Service and would like to have it entered into the record.

Mr. Chairman, today I am wearing an American flag on my lapel in place of the Postal Inspector pin that I normally wear. I have served in the Army, as you have, under this flag. I have also served under this flag for 30 years in the United States Postal Service, 27 of those years as a Postal Inspector. As the Chief Postal Inspector, I have always been proud of the outstanding work performed by the men and women of the Postal Inspection Service. But, I have never been more proud of how Inspection Service employees handled themselves and answered the call to duty than I have during this crisis.

As the tragic terrorist events of last week unfolded, the Postal Inspection Service immediately took action in support of the Postal Service and all Americans. Across the country, Inspectors, Postal Police Officers and support personnel performed acts of heroism and provided significant security and investigative assistance to protect the mail, the Postal Service and its employees, and to help others in their efforts to address to our nation's tragedy.

The Inspection Service has the responsibility to ensure the safety and security of postal employees, facilities and assets, as well as the United States Mail. We have done just that. And, we have done more. I visited New York yesterday to express my heartfelt appreciation to all our people for the outstanding effort that they have put forth during this crisis. Although shaken from the attacks, there is that "steely" New York resolve to put things back together. I saw it in the eyes of our employees. They will not be defeated.

On the tragic day of September 11, our New York Division suffered the most serious affects from the attack. The postal facility across the street from the World Trade Center, Church Street Station, was the office for numerous Inspectors, Postal Police Officers and support staff as well as for employees of our New York Crime Lab. The station sustained extensive structural damage from the initial explosions and the ash and falling debris during the collapse of the World Trade Center towers. Inspectors at Church Street offered immediate assistance to victims on the street -- civilians and local police officers injured in the attack -- evacuating the area as glass and debris fell from the sky.

Since the attack, Inspectors in New York and at outlying offices have been following up on the numerous bomb threats and scares which have forced evacuation of postal facilities. Inspectors are also working with the FBI on investigative leads in the New York area.

When the attack on the Pentagon occurred, Postal Inspectors from the Washington, DC area responded to assist FBI agents with evidence collection at the crash site. In Pennsylvania, a team of Inspectors from the Pittsburgh area reported to the plane crash site at Somerset County to assist in securing the site and the mail. Three teams of Postal Inspectors continue on rotating shifts at the FBI Command Center.

Since the attack, the Postal Inspection Service has also provided significant investigative assistance and support to the FBI, Federal Aviation Administration, and emergency management agencies across the nation. As part of our role in national security, an Inspector was dispatched to the Federal Emergency Management Agency secure command post to participate with representatives from over 25 federal agencies to continue operation of the government. The Postal Service Continuation of Operations Plan was implemented immediately, with Inspectors providing security at the off-site postal operations command center location.

As Postal Service operations managers have dealt with moving the mail during the last week, the Inspection Service has worked to ensure mail security nationwide. For example, the Amtrak network has been expanded and Postal Inspectors are present at key locations nationwide that serve as transfer points for the mail.

Since 1979 the Postal Service has had an aviation mail security program in place. In 1996, working with the FAA, we tightened restrictions to further improve security. Although this may be an inconvenience to our customers, these steps were necessary to strengthen airmail security.

Tragedies so often bring out the best in people. Unfortunately, tragedies also bring out those who would prey on the misfortune of others and on that very desire to help victims. These are the con artists who will solicit donations for the families of victims, yet not a dime will ever make it to those in need. Postal Inspectors will aggressively pursue those con artists. And we are offering some advice to the American public on how to make sure their donations go where they are intended. In conjunction with this hearing, we have issued a press release with this useful information and I would like to make it part of the record.

Safety and security of Postal Service employees is our top priority. Security must be a part of all postal employees' daily activities. We have advised employees of security precautions they should be taking to contribute to this overall effort. As helpful eyes and ears in our nation's neighborhoods and business communities, our employees have provided information, which has assisted law enforcement investigative efforts. We have learned that some of the hijackers were receiving mail at commercial mail receiving agency boxes. Unfortunately, we see too

frequently criminals hiding behind the anonymity afforded by an address at a commercial mail receiving agency.

I applaud the outstanding commitment to duty and resolve of *all* postal employees during this time of crisis. And I assure you that the United States Postal Inspection Service will continue working to keep our employees safe, to keep the mail moving and to preserve America's confidence in its postal system. We will also continue to assist other federal law enforcement agencies in the investigation of last week's tragic events.

Mr. Chairman, I appreciate your interest in the Inspection Service and the opportunity to provide this statement. This concludes my remarks.

Statement of
Karla W. Corcoran, Inspector General
United States Postal Service
Before the
Subcommittee on International Security, Proliferation
and Federal Services
of the Senate Committee on Governmental Affairs

September 20, 2001

Chairman Akaka and Members of the Subcommittee, on behalf of the Office of Inspector General (OIG), United States Postal Service, I am pleased to submit this written statement. This statement highlights opportunities to capitalize on existing revenue, resources, and personnel while improving accountability and public trust.

Congress created the OIG in 1996, and the Postal Service Governors appointed me in 1997 as the first independent Inspector General. My office conducts independent audits, reviews, and investigations of postal programs and operations. In addition, the OIG has an express statutory responsibility to oversee all activities of the Inspection Service. The OIG is uniquely situated to bring to Congress an independent assessment of postal operations. Over the last two years alone, our audits and investigations have identified over $500 million in savings; cost avoidance; and waste, fraud, and abuse in postal operations.

The Postal Service operates a basic and fundamental service to the American people, seeking to provide prompt, reliable, efficient, and universal service – to everyone, everywhere. This has been the mission since the first days of the

republic and still is the mission in the 21st Century. Everyone benefits from the Postal Service's universal service mandate and its universal access. Customers have come to rely on the Postal Service as a trusted third party, bringing safety, security, and privacy to the nation's personal and business communications. With over 38,000 facilities across the nation, it is the world's largest retailer. It has more employees than any other business except Wal-Mart, and if it were a private corporation, would rank in the top 10 of the *Fortune 500*.

The Postal Service, as a quasi-governmental entity, is required to act in a businesslike manner while struggling with its public role, as it develops new product lines, ventures into eCommerce, and other initiatives that compete with private industry and foreign posts. Being a quasi-governmental entity, the Postal Service must be accountable to the public. However, the Postal Service considers its business information proprietary and claims exemption from disclosure.

As a business entity, the Postal Service would be expected to generate a profit. Under current law, it must operate on its own revenue, on a breakeven basis, while providing universal service, regardless of the expense. However, growth in service does not guarantee growth in revenue. Therefore, the Postal Service generally relies on postage rate increases to offset costs. The last rate increase occurred this year, and the Postal Service has recently announced it will be seeking another.

In our May 15, 2001, statement to the Senate Committee on Governmental Affairs, we reported the Postal Service should continue to address opportunities to improve critical management practices. Since May, we have continued to identify opportunities for the Postal Service to improve its strategic decision-making, financial management, contracting, labor management, and computer security and privacy. In addition, this testimony will address our oversight of the Inspection Service. These areas are vital to the success of the Postal Service.

We also think the Postal Service would benefit greatly from any guidance that Congress can provide regarding what its mission currently is, and what it should be in the future.

Strategic Decision-Making: With the Postal Service reporting at least a $1.65 billion dollar loss and increased costs, strategic decision-making to effectively allocate and manage resources is crucial to the success of its core business. The following examples illustrate the need for the Postal Service to improve in this area:

- Since 1997, we have performed reviews of Postal Service automated mail processing and computerized retail equipment investments totaling over $1.9 billion. These reviews concluded that the Postal Service sometimes did not achieve the anticipated return on investment, account for all costs, and properly track performance. When this occurs, anticipated gains may never be realized -- and may even result in losses.

- Our review of seven projects, representing over $800 million in postal expenditures, disclosed the Postal Service did not adequately validate test results, savings, and cost methodology before approval. After approval, the Postal Service did not provide adequate project information in order to reevaluate the investment decision. Therefore, the Postal Service could not be assured that sound investment decisions were made.

- A recent audit revealed that stamp production would exceed demand by approximately 11 billion stamps for FY 2001 and 2002. As a result of our audit, postal management agreed to reduce overall stamp production in FY 2002 for an estimated savings of $10.5 million.

- We are currently reviewing Postal Service sponsorship programs. In one example, we identified almost $20 million already spent for the U.S.

Cycling Team sponsorship, with a commitment of an additional $25 million over the next 3 years. We plan to determine to what extent these programs contribute to the core business strategy for growing new revenue.

- Because the Postal Service does not always collect sufficient cost information, it cannot accurately measure the success of its programs. For example, our review of a lease/purchase decision on trailers indicated the Postal Service will spend millions of dollars more than necessary for trailer leases over a 12-year period. This occurred because postal management lacked sufficient and accurate cost data to make an effective decision on whether or not to lease or purchase the equipment. Postal management is currently preparing its response to this report.

Financial Management: The Postal Service needs to effectively manage costs and productivity in order to improve its financial condition. The following examples illustrate some of the financial management areas requiring attention.

- The Postal Service is a $65 billion business that does not provide its program managers the means to effectively track financial obligations. Without this information, it is difficult to develop, justify, and defend program budgets. The Postal Service tracks expenses when paid because it contends that its major expenses are salaries and benefits. This would be analogous to waiting until a personal check clears the bank before recording it and reducing your balance in your checkbook. Other government agencies and business entities track costs when obligated and incurred, providing all levels of management with the information needed for effective program management.

- The Postal Service is unable to determine the cost of processing 126,000 grievance arbitration cases currently pending and does not track costs for

resolving labor disputes. This information would help the Postal Service determine the financial magnitude of this problem and manage the associated costs more effectively.

- The Postal Service paid a contractor $5.2 million in commissions to develop new revenue sources. However, the Postal Service could not verify the amount of revenue claimed by the contractor. The Postal Service agreed to hold off on expanding this program until new management controls are put into place.

Contracting: The Postal Service administers over $15 billion a year in contracts for goods and services. This makes it one of the largest contracting organizations in the federal government. However, the Postal Service has not always followed its own procurement policies or sound contracting principles. Over the last four years, our reviews have disclosed that such contracting practices have resulted in more than $400 million in monetary findings including fraud, waste, abuse, mismanagement, and other recoveries. We have consistently reported on improvements needed in contracting procedures, as the following examples illustrate.

- We found that, contrary to its own procurement practices, the Postal Service entered into a $6.3 billion transportation agreement without first independently validating the financial data used to justify the decision. Not all of the financial data was found to be accurate or adequately supported. As a result, the anticipated level of savings may not be realized.

- As a result of one of our investigations, and with the cooperation of Postal Service management, the Postal Service recovered over $12 million from a major telecommunications contractor and will be able to avoid an additional $58 million in erroneous billings. While the Postal Service was concerned about billing discrepancies, it needed additional resources to

research and resolve the issue. Working with management, we found the Postal Service was repeatedly billed for work that was substandard, or not performed at all, and had not been monitoring contractor performance. Postal Service management is now monitoring this contractor's performance and reviewing all future bills.

- One of our audits revealed a situation where a contractor was involved in writing contract requirements. Under federal government contracting regulations, this conduct would be specifically prohibited as an organizational conflict of interest. However, according to postal policy, it is not prohibited. This contractor received a series of sole source contracts valued in excess of $300 million. The contracts were awarded, in part, to compensate the contractor for preparing the statement of work used to award other competitive contracts. If these contracts had been competitively bid, the Postal Service could have saved $53 million.

- As a result of hearings held over 20 years ago by this Subcommittee, federal laws and executive orders were passed to ensure an effective and uniform government-wide debarment system to protect the government from contractors who engage in fraud. The Postal Service does not honor debarments by other federal agencies. As a result, contractors who have been convicted of defrauding other federal agencies, and have been debarred from contracting with those agencies, are free to contract with the Postal Service.

  Although the Postal Service has its own debarment system, only three contractors are currently listed. We believe this is caused, in part, by the fact that the Postal Service requires a higher standard of evidence than is required anywhere else in the federal government to debar a contractor for fraud. We believe this standard is unnecessary and inhibits the Postal Service from protecting itself from fraudulent contractors. We identified

these problems to postal management over two years ago; however, to date, no action has been taken to revise the current procedures.

Labor Management: Labor management relations can affect employee morale, productivity, and the Postal Service's public image. Our work focuses on systemic nationwide labor management issues, including succession planning, diversity, compensation and benefits, workplace environment, management of complaint processes, and use of labor resources.

Since our inception, we have worked with the Postal Service to prevent reprisal against postal employees who report waste, fraud, and abuse to the OIG. Employees at other federal agencies have been covered by the Whistleblower Protection Act for over 20 years. However, the Postal Service is not covered by this Act. We are pleased that the former Postmaster General took our advice and extended similar protection to all postal employees. However, it is important that the new Postmaster General formally implement this policy as soon as possible to avoid the necessity for legislative action.

Also, our current audit work demonstrates opportunities for further workplace enhancement and cost savings.

- Our review of violence prevention and response programs at 25 Postal Service districts disclosed that none of the districts fully implemented the required controls designed to reduce the potential for violence. District officials either were not aware of the requirements, or believed the requirements were not mandatory or applicable in all situations. Workplace violence can subject the Postal Service to significant financial liability, diminished credibility, decreased productivity, and may lead to property damage.

- The Postal Service's pay for performance program is based on a private sector model for financial performance. However, the Postal Service, unlike the private sector, pays incentive awards without regard to its overall financial condition. This occurs because of inflation indexing that has been added to the model. The pay for performance program could achieve more meaningful results if the financial condition of the Postal Service was a more significant measure for determining incentive awards.

- In addition to pay for performance, the Postal Service offers other benefits to its senior executives that are more generous than those offered by other government agencies and private sector companies. For example, Postal Service officers automatically receive $25,000 to cover miscellaneous relocation expenses, regardless of the amount incurred. In one case, we found that an executive received three $25,000 payments over four years. In other federal agencies, the maximum amount that an employee can receive for these miscellaneous expenses is $700. Further, we benchmarked 23 *Fortune 500* companies and found their miscellaneous expense benefits ranged from $0 to $5,000. Postal Service management justifies these payments because unlike private corporations, it cannot give large pay increases when people are promoted.

  The Postal Service also has a program intended to assist employees in purchasing homes in high-cost areas. In benchmarking this practice with 31 private and public sector organizations, we noted the Postal Service was the only organization that purchased employees' homes and operated as a lien holder. Management justified this practice saying that it is similar to what universities do to attract qualified professors. These benefits fuel the perception that the Postal Service is not fiscally responsible, particularly in light of increasing rates and declining profits.

- Although the Postal Service prohibits nepotism, our audit work has substantiated instances where this practice exists. For example, in three instances, two managers either directly decided or influenced personnel selections involving their relatives. We also noted that a total of 20 members of the same family were employed in a postal district, 10 of whom worked in offices that reported directly or indirectly to the postmaster to whom they were related.

  Also, we have found the appearance of nepotism can be avoided if local procedures are formalized, well publicized, and followed. This can alleviate the negative impact in the workplace that occurs when employees question the fairness of the personnel selection process.

Computer Security: In order to ensure the continuity of delivery services and provide for a secure electronic commerce environment, the Postal Service must ensure the security of its computers and networks and the privacy of its customers' information. Virtually every piece of First-Class Mail is "touched" on numerous occasions by a variety of computer-controlled mail processing equipment. A breach in computer security by terrorists or cyber criminals could significantly impact the Postal Service's mail and eCommerce operations, resulting in a loss of public trust and revenue.

We have identified security and privacy concerns in these areas and discussed opportunities for improvement with postal management. The Postal Service has appointed a chief privacy officer and chief information security officer who will focus Postal Service management's efforts in these areas.

Under the designation of investigative functions between the OIG and the Inspection Service, the OIG is responsible for investigating criminal and terrorist attacks against the postal computer network. To carry out these responsibilities,

we work with other federal law enforcement agencies and postal officials to protect the postal network from cyber attacks.

- The OIG represents the Postal Service on the FBI's National Infrastructure Protection Center, the primary coordination authority for the protection of the nation's computer networks. This is important because the Postal Service, like the rest of government and industry, is dependent on these computer networks. Being part of this task force allows the OIG to receive early notice of criminal and terrorist attacks on federal computer networks, which could affect the Postal Service. Following last week's terrorist attacks, we have provided additional agents and computer specialists to support this critical activity.

- We identified a major Postal Service Internet site that did not have a comprehensive disaster recovery plan. The Postal Service could not ensure that certain important applications, including eCommerce programs, would continue in the event of a failure or that recovery would be timely and complete.

- The recent national attack of the Code Red computer worm, which was designed to disrupt computer operations, illustrated the damage Internet terrorists and hackers can inflict on the day-to-day operations of the Postal Service. Quick response by the Postal Service's computer incident response team, along with our computer intrusion team, minimized interruption of network service by halting the spread of the Code Red worm.

- Given last week's tragic events at the World Trade Center and the Pentagon, all federal agencies are devoting heightened attention to protecting important federal transportation, communications, utilities, computer networks, and other critical operations and systems from

terrorist and criminal attacks. In May 1998, the President issued Presidential Decision Directive 63, which sets forth requirements for all federal agencies to identify critical agency assets, and to develop strategies to protect these assets from terrorist or criminal attacks. Because the Postal Service's delivery network is a vital national asset, the Postal Service needs to take immediate action to fully comply with Presidential Decision Directive 63.

- Last year, Congress passed the Government Information Security Reform Act to improve government computer security; however, the Act does not apply to the Postal Service. Our audit and investigative work has identified many computer security deficiencies that could have been prevented if the Postal Service had more aggressively implemented the best practices recommended by the Act.

We also have identified several security and privacy concerns, as follows:

- Our telecommunications review at a major Postal Service data center identified myriad security vulnerabilities involving network servers. These security vulnerabilities, if exploited, could compromise the confidentiality, integrity, and availability of postal operations, and harm its reputation as a trusted business partner. The OIG provided detailed test results to postal officials who subsequently incorporated this information into an improved network security plan.

- The Postal Service used computer code in three Internet websites to collect, track, and send data to third parties without the customers' knowledge. This could have created the perception that the Postal Service was profiling its website visitors. The Postal Service subsequently removed the code from these systems.

- We identified eBusiness agreements that did not have sufficient security, privacy, and access language to protect the Postal Service and its commercial partners and customers. A breach in these areas could result in the theft of valuable information, loss of revenue, and interference with business and customer relationships.

Inspection Service Oversight: The OIG was established within the Postal Service with specific statutory authority to oversee all Inspection Service operations and programs. Recent Congressional concerns about the FBI and IRS have clearly emphasized the need for oversight over major federal law enforcement agencies. To address our statutory mission, we have devoted significant OIG resources to Inspection Service oversight.

- One of our earlier audits of the Postal Inspection Service, performed at the request of Congress, disclosed that more than 10 percent of postal inspectors were not meeting their statutory work hour requirement for criminal investigative work because they were spending the majority of their time performing audits. Since then, the Inspection Service has taken steps to correct this deficiency.

  However, in a recent review of service investigations, we noted the Inspection Service, while complying with the statutory work requirement for investigators, is continuing to utilize criminal investigators for mail processing reviews where a lower-paid, non-criminal investigator could perform the same work. The Inspection Service justifies this work by stating that it is important to ensure the accuracy and safety of the mail.

  We found the Postal Service could put approximately $2 million to better use over the next 5 years by using non-criminal investigators who do not receive 25 percent law enforcement availability pay. Management disagreed with our recommendations, stating customers want the Postal

Service to use federal criminal investigators to conduct this work. However, we contacted a majority of the mailers identified by the Postal Service as wanting the Inspection Service to conduct these reviews, and only a handful were aware that the Inspection Service conducted this work. We are currently working to resolve this issue.

- Our draft report of the Inspection Service's executive awards program noted that 100 percent of its 41 executives received awards, ranging from $2,500 to $20,000, for a total of $444,000 in FY 2000. Despite the requirement of the Board of Governors that awards be based on individual accomplishments, the Inspection Service used identical justifications. These identical justifications did not identify individual accomplishments. We are awaiting management's official comments on this report.

Conclusion: The tragic events of last Tuesday have changed the world and the Postal Service, including our office. I am proud to say that our employees have risen to the occasion. Our employees were present at the World Trade Center at the time of the attack, and were among the first to alert tenants and local law enforcement agencies of the crash. Agents from our New York office are still participating in rescue efforts. In Washington, our employees assisted as paramedics at the Pentagon. Since these attacks, over 10 percent of our investigative staff is working to support a variety of federal law enforcement efforts to identify and apprehend the terrorists. We have provided agents and computer specialists to participate in an elite federal cyber-terrorist task force. We have provided agents to serve as Sky Marshals and to work with FBI command centers in coordinating federal investigative efforts. We are also working with the Inspector General community to provide a pool of investigative resources to support the national effort. We believe that this is the single most important criminal investigation in the nation today, and we are prepared to support it throughout this crisis while continuing to perform our statutory mission regarding the Postal Service.

Finally, the competing obligations of public service and commercial enterprise present unique challenges for the Postal Service, particularly as the communications and delivery industries have become more competitive. Our evaluation of the Postal Service to date suggests that it could benefit from strategic direction about its role in the 21st Century. That direction can only come from the Congress, as it did in the Postal Reorganization Act of 1970. In order to provide guidance, Congress may want to consider certain fundamental questions. For example, should the Postal Service of the 21st Century:

- Be a quasi-governmental entity or private corporation?
- Maintain universal service in the age of the Internet?
- Have a monopoly or shared access to local mailboxes?
- Have a rate making process or market-based pricing?
- Have limited product lines or more product flexibility?
- Have limited investment options or greater freedom to invest?
- Have binding arbitration or unfettered labor negotiations?
- Have limited markets or global competition?

Regardless of the outcome of postal reform, we believe postal management has many opportunities to improve its accountability and public trust. The independent oversight provided by Congress and the OIG will continue to assist the Postal Service as it makes decisions in these challenging times. In our view, in order to ensure the success of future Postal Service operations, Congress and Postal Service management need to address these issues.

Written Testimony
From the
United States Postal Inspection Service
To the
Senate Subcommittee on International Security,
Proliferation and Federal Services
September 20, 2001

As the law enforcement and security arm of the U.S. Postal Service, the Postal Inspection Service is mandated by Congress to protect the security and integrity of the U.S. Postal Service and the safety of postal employees and customers. Our security and enforcement functions provide assurance to American businesses of the safe exchange of funds and securities through the U.S. Mail. Through the "sanctity of the seal", we assure postal customers of the security of their correspondence and messages. And we assure postal employees of a safe environment.

We want *all* Americans to mail and receive letters and parcels with every expectation that no one will tamper with or steal their mail. We want *all* users of the mail to be protected from mail fraud and other mail-related criminal activities. And, we want *all* postal employees and customers to work or conduct business in a safe and secure environment.

For over 200 years, the role of the U.S. Postal Inspection Service has been to preserve the public's trust in the mail and the Postal Service. Currently, the Postal Inspection Service is responsible for the protection of 800,000 career employees, 38,000 post offices, stations and branches and over 200 billion pieces of mail each year. During Fiscal Year 2001, Postal Inspectors arrested 11,325 criminal suspects, of which 4,944 were for mail theft. Postal Inspectors additionally investigated 3,257 mail fraud cases and responded to approximately 75,000 consumer fraud complaints. Mail fraud investigations resulted in 1,633 arrests, over $1.1 billion in court-ordered and voluntary restitution, and 809 civil or administrative actions. In addition to numerous prohibited mailing cases involving

bombs, threats, and injurious items in the mail, Inspectors arrested 257 suspects on child sexual exploitation offenses related to the mail and 1,575 suspects for drug trafficking and money laundering via the mail.

As the communications business evolves and expands into a global environment, the Inspection Service must effectively address developing crime trends. We must also continue to take a proactive approach and focus on crime prevention initiatives. While we primarily serve a law enforcement function, protecting the revenue and assets of the Postal Service is integral to the mission of the U.S. Postal Inspection Service.

The tragic terrorist events of last week have impacted all people of our nation. The Inspection Service immediately took action in support of the Postal Service and all Americans. The attack on the World Trade Center in New York City caused debris from the twin towers to fall on the Church Street Postal Station, resulting in extensive damage to the top floors. Postal Inspectors and Postal Police Officers (PPOs) evacuated the station and led the injured to safety.

Postal Inspectors in Manhattan were deployed to emergency command centers established by the FBI and the Mayor of New York, and additionally were assigned to bolster security at all postal facilities in Manhattan. Inspectors from nearby offices assisted with emergencies as necessary, and Inspectors from adjacent divisions provided security at other postal facilities around New York.

When the attack on the Pentagon occurred, Postal Inspectors from the Washington, DC, area responded to assist FBI agents with evidence collection at the crash site. A team of Postal Inspectors from the Pittsburgh area reported to the plane crash site at Somerset County, PA, to assist in securing the site and the mail. Three teams of Postal Inspectors rotated shifts at the FBI Command Center and aided with evidence-gathering at the scene of the crash. Inspectors at National Postal Service Headquarters evacuated employees at the L'Enfant Plaza building and relocated national postal operations to an alternate site. Postal Inspectors and Postal Police Officers provided building security at both Headquarters and the alternate site,

disseminating intelligence information to postal managers as appropriate to assist them in making operational decisions.

Postal Inspectors and PPOs have routinely assisted other law enforcement agencies in responding to terrorist acts in this country, and Postal Inspectors are assigned to FBI-sponsored counterterrorism task forces nationwide. Due to the Postal Service's extensive use of commercial airlines to transport mail, Postal Inspectors also team with Federal Aviation Administration personnel to review practices and recommend procedures that will guard the safety of the traveling public. Last week, all mail over 16 ounces was restricted from commercial airlines, ground transportation was expanded and Postal Inspectors are coordinating the transportation of Registered Mail.

Since 1979, the Postal Service has had an aviation mail security program in place. That program was significantly overhauled in August 1996 so that all mail that could pose a threat to aircraft was included. Working closely with the Federal Aviation Administration and using information derived from our mail bomb investigations, we developed mailing procedures that require our customers to present in person to a postal employee those mail pieces that pose the highest risk. Since the restrictions were implemented, domestically mailed bomb incidents have been reduced to an average of six per year, from an average of 17 per year.

Postal Inspectors must address a wide variety of natural disasters that can affect postal operations across the country. Disasters can range from truck or train accidents, which may expose mail to security hazards, to raging floods or tropical storms that can destroy mail, close postal facilities and harm employees. Postal Inspectors provide guidance to managers when a post office suffers a fire or has a roof torn off during a storm. When post offices in California were affected by rolling blackouts this past year, Inspectors worked with postal management to mitigate the problem by anticipating power outages.

Security

Providing for the security of the mail and postal products, services and assets is integral to the Postal Inspection Service's mission to protect the Postal Service from criminal attack. Inspection Service security programs address crimes affecting the mail, postal operations and revenue, which can undermine postal operations and erode the financial stability of the Postal Service.

The security force is essential to the security efforts of the Postal Inspection Service. Established in 1970, Postal Police Officers are involved in the ongoing protection of postal employees and property by enforcing federal laws and postal regulations at postal facilities.

As part of our security responsibility, the Postal Inspection Service conducts Observation of Mail Conditions (OMC) primarily during Fall and holiday seasons. During these service investigations, the Postal Inspection Service provides a set of independent eyes to ensure that operating plan information is reliable, secure and working. These on-site reviews ensure direct contact with postal area operations support, district managers, and processing and distribution center managers. Customers also appreciate service investigations because they reveal security breaches, intentional delays of mail and falsification of reports.

Last week, mail transportation procedures were disrupted. Inspection Service personnel conducted OMC evaluations. These reviews assisted postal management and postal customers in evaluating the status of mail conditions and in making necessary changes to ensure confidence in the nation's mail system. A vital part of these service reviews was to ensure that security measures were followed in the handling of mail, and particularly registered mail, during this critical time.

Postal Inspectors perform security and mail-screening operations at a number of high-profile events at the request of organizers and local law enforcement agencies. The Postal Inspection Service has already begun preparing for the 2002 Olympics, assigning Inspectors to the

Salt Lake Olympic Organizing Committee and developing strategies with federal, state and local law enforcement agencies to ensure the security of the Winter Olympics in February 2002.

Revenue and Asset Protection

Another primary mission of the U.S. Postal Inspection Service is to safeguard postal assets and revenue from criminal attack. While the vast majority of postal customers and employees are honest, Postal Inspectors crack down on commercial mailers who attempt to underpay postage, as well as employees who try to steal postal funds, or who lie about work-related injuries to receive compensation benefits to which they are not entitled.

Postal Inspectors determine which products and sources of revenue pose the highest risk in potential loses to the Postal Service each year, and target their investigations accordingly. For the last several years, fraud schemes involving postage payments have led the way, with metered, presorted, nonprofit and periodical mail receiving priority attention.

Postal Inspectors measure the effectiveness of their revenue investigations by the number of fraud schemes they identify and successfully resolve. In addition to stopping the scheme, the "resolution" may involve sending the perpetrator to jail, recouping lost funds if possible and, as appropriate, collecting fines and penalties from the perpetrators.

The Postal Inspection Service must provide enforcement and assistance to postal management in developing new mail verification systems to ensure that the Postal Service is not victimized by fraudulent schemes to underpay postage. Given the revenue shortfalls projected over the next few years, it will become increasingly important for the Postal Service to collect and retain its earned revenue. Revenue losses will escalate if an enforcement program is not maintained.

Inspection Service revenue investigations continue to focus on criminal schemes, such as presort fraud, contraband postage, meter fraud, counterfeit permit indicia and fraudulent use of nonprofit

discounts. The cases are challenging, as Postal Service business mail acceptance processes are complex and vulnerable to both fraud and human error. The Inspection Service is working with key postal managers on initiatives to implement new technologies and policies to more accurately review large-volume mailings at their point of entry.

An especially significant event this year was the culmination of a four-year investigation by Postal Inspectors of six officers and employees of the largest mail preparation company in the New York Area. The two principals of the company each pled guilty following a three-week jury trial held in July 2001, and up to $40 million of what was identified as the proceeds of their illegal activities may be subject to forfeiture. Among other allegations, the defendants were charged with underreporting 250 million pieces of First-Class Mail, resulting in losses of more than $25 million to the Postal Service.

The defendants operated a mail sorting company that processed two million pieces of mail daily for customers in the New York metropolitan area. Customers paid the company to sort their mail by ZIP Code and apply computer-readable barcodes, allowing them to receive reduced postage rates. However, Postal Inspectors discovered that the company had submitted false mailing statements to the Postal Service, underreported the quantity of mail it submitted to the Postal Service, knowingly used broken meters that printed postage free of charge, overbilled customers for postage, and bribed other customers so they would "overlook" inflated mail invoices. Seven defendants (including a postal employee) pled guilty to charges of mail fraud and racketeering, another is awaiting trial, and another suspect is still at large. Each defendant faces a maximum sentence of 20 years or more in prison.

Although the majority of Postal Service employees use workers' compensation for legitimate injuries, a small percentage of employees abuse the system and cost the Postal Service millions of dollars in fraudulent compensation claims and enforcement costs. The Postal Inspection Service places a high priority on investigations of workers' compensation fraud due to the high cost of the program. The Postal Service has accrued approximately $5.6 billion in future liability for workers' compensation claims since the Postal Service

reorganized in 1971. This is approximately 25 percent of the entire federal government's cost of workers' compensation. The Inspection Service has implemented effective procedures to identify fraudulent claimants. Investigations last year resulted in $122 million in long-term and continuation of pay (COP) cost-avoidance savings for the Postal Service. Postal Service research assistants have successfully used claim databases to analyze workers' compensation fraud. In addition, to reduce fraudulent claims earlier in the process, the Inspection Service has employed contract fraud analysts to assist in such investigations. Inspection Service enforcement efforts, including prosecution in criminal cases, are critical in controlling such costs, as fraud in this area is difficult to detect, and compensation benefits can extend for years.

Employee embezzlements unfortunately occur in all businesses, and Postal Inspectors have uncovered a range of employee schemes: failing to report postal retail sales and using the cash for personal expenses; delaying the reporting of postal sales to fund personal, short term loans; stealing postage stamps, retail products or packaging products; or covering shortages in postal funds by submitting bogus reimbursements for nonexistent or inflated business expenses. Postal Inspectors initiated 956 embezzlement investigations last year and identified $6.3 million in postal losses.

Violent Crime

Robberies present a threat of violence to postal employees, jeopardize the public's trust in the mail and attack the financial integrity of the Postal Service. Robberies may take the form of attacks on employees or customers in postal facilities, attacks on contract or postal vehicles, or attacks on postal carriers. Typically, the motive for carrier robberies is to steal mail or keys to mail receptacles. Robberies at facilities are usually committed to obtain cash and money orders. The other category of robberies generally involves postal remittance transports. Robberies of postal trucks or highway contract route trucks for registered mail containing cash or other valuables are often based on "inside" knowledge of a postal employee. In fact, a registry clerk in Phoenix used his knowledge to take approximately $3.2 million in postal funds, including $1.8 million in cash, last June. However, Postal Inspectors apprehended the

employee and recovered almost all of the remittances. We also conducted a security survey and recommended enhanced security measures.

The Inspection Service is committed to employee safety in the workplace. Postal Inspectors responded to 1,037 postal-related assaults and credible threats last year. We also partner with postal management and employee groups in early interventions and other efforts to prevent violence in the workplace. As a result of such efforts, assaults and credible threats continue to decline. Inspectors seek prosecution where possible.

Historically, motives for mail bombs include personal and business disputes, with revenge being the common thread. Mail bombs remain a relatively rare crime. In the interest of protecting postal employees and customers, the Postal Inspection Service considers the investigation of mail bombs among its highest priorities. A now retired Postal Inspector was the only federal agent present at each of the Unabomber's 16 crime scenes. The Inspection Service co-managed the Unabomb Task Force with the FBI and ATF until the Unabomber was captured in 1996.

Mail Theft

Mail theft is a federal crime, and it is one of more than 200 federal statutes enforced by U.S. Postal Inspectors. It is important to the American public that their mail is delivered on time and intact. As mandated by law, U.S. Mail should arrive unopened, in the mail receptacle it was intended for.

Over 650 million letters are handled by the Postal Service every day and travel across the country and around the globe and are delivered to 135 million addresses six days every week. Mail theft can erode customer confidence. Primary targets for mail theft include items of obvious value such as checks and credit cards, but they also include personal and financial information that enables the suspect to commit "identity theft." The majority of identity theft schemes involve the U.S. Mail. Postal Inspectors work with bank and credit card issuers, financial institutions, retail merchants, credit bureaus and other

government agencies to educate merchants and consumers about identity theft and to provide guidance to victims.

The Postal Inspection Service has been instrumental in forming prevention groups such as the Mail Industry Task Force and the Credit Card Mail Security Task Force. Credit card activation to prevent fraud was the idea of a Postal Inspector. The Postal Inspection Service commits significant resources to investigating and preventing mail theft.

Volume Mail Attacks-the theft of significant amounts of mail from various conveyances-continues to increase. Over 5,000 attacks have been experienced this year. Targets of volume mail theft include postal vehicles, collection boxes, apartment mailbox panels, neighborhood delivery and collection box units (NDCBUs/CBUs) and carrier robberies. We continue to work with other law enforcement agencies to develop effective strategies in the investigation and prevention of additional crimes generated because of the concentration of methamphetamine users in the Southwest. Volume mail theft has increased due to the valuables and financial information criminals seek to support their habits.

The majority of mail volume attacks occurred in Arizona and California during the past couple of years. Last year, we directed specific strategies to target those high-risk areas. We dedicated resources to a task force based in Phoenix. We partnered with Postal Service engineering and mailbox manufacturers to design a more secure mail receptacle. A community outreach campaign was launched in the Phoenix area to educate customers and provide prevention tips. Billboards were posted at 8 major public thoroughfares in Phoenix and 11 in Tucson, warning an estimated 60,000 residents about recent theft activity; local television and radio broadcasts alerted customers to theft prevention strategies; and Internet Web site postings offered customers additional advice on safeguarding their mail, as well as an on-line venue to report mail theft.

Mail Fraud

The Mail Fraud Statute is the oldest and most effective of the consumer protection laws, and the Postal Inspection Service has been using it since 1872 to protect the American public. To increase our effectiveness in enforcing this statute, Postal Inspectors lead and participate in several joint law enforcement and consumer group initiatives aimed at safeguarding and maintaining the public's confidence in the U.S. Mail. Educating the public on fraud schemes that involve the mail is an essential component to meeting this goal. Mail fraud schemes are limited only by the imagination of con artists. As technology evolves, schemes are constantly resurrected and updated. Examples of popular fraud scams include sweepstakes and "free prizes," "free" vacations, solicitations disguised as invoices, foreign lotteries, chain letters, charity fraud, insurance fraud, medical fraud, investment fraud, and "work-at-home" offers.

Americans receive thousands of unsolicited phone calls from telemarketers each year trying to sell a variety of products. Most are legitimate, but unscrupulous telemarketers can be the smoothest of operators, successfully swindling the public out of millions of dollars. These scam artists often target older citizens. Those on fixed incomes who fall prey to these schemes can lose their entire life savings. Telemarketing fraud costs Americans an estimated $40 billion each year. To educate consumers, Postal Inspectors were joined by other partners in the K**NO**w Fraud campaign, sending out crime prevention postcards to approximately 120 million addresses in the country. This was the largest consumer prevention campaign ever.

Postal Inspectors also work diligently to protect the business community from being victimized by mail fraud. Government agencies and health care groups that fall prey to mail fraud scams are afforded the same protection under the Mail Fraud Statute as consumers and businesses. Investigations of fraud against the government help maintain the sanctity of the mail and the public's positive image of the Postal Service through helping to ensure that the mail is safely and securely used to carry out commerce and is not used to further illegal

activity directed at other government agencies. These investigations help maintain the public's trust in the brand name of the Postal Service.

The Postal Inspection Service has worked closely with members of the rebate industry for nearly a decade to combat fraud and establish new strategies to increase the security of their operations. A major result of these partnerships was the creation of the Rebate Data Center (RDC), which captures and analyzes rebate fraud data for dissemination to pertinent investigative and industry groups nationwide.

Cybercrime has provided new challenges for law enforcement. Postal Inspectors investigate Internet fraud when the mail is used as part of the scam. Traditional mail fraud schemes are rebounding with new success on the Internet, expanding the victim base and providing increased anonymity. In response to this growing threat, the Postal Inspection Service formed the Internet Mail Fraud Initiative, which trains Postal Inspectors across the country on specialized techniques and strategies that target cyberscammers. Postal Inspectors also work with analysts at the Internet Fraud Complaint Center and develop information using the Federal Trade Commission's Consumer Sentinel and the Postal Inspection Service's Fraud Complaint System (FCS). A major outcome of the Internet Mail Fraud Initiative was that FCS was enhanced to receive online complaints directly from Internet users.

During the 106th Congress, the Senate's Permanent Subcommittee on Investigations was instrumental in the passage of the Deceptive Mail Prevention and Enforcement Act. This much-needed law protects consumers against deceptive mail and sweepstakes by establishing standards for sweepstakes mailings, skill contests and facsimile checks as well as restricting government look-a-like documents. The enforcement authorities and financial penalties make this new law a very effective tool in our law enforcement efforts. Since this new law went into effect in April of 2000, the Postal Service has noticed a sharp decline in the overall number of sweepstakes mailings as companies adopted new marketing strategies in response to the law. On June 14, 2001, the first Civil Monetary Penalty (CMP) order under this law, was issued by the U.S. Postal Service Judicial

Officer in the amount of $5,000 payable to the Postal Service. Another was issued recently in the amount of $40,000.

In addition to criminal prosecution, Postal Inspectors frequently rely on civil or administrative actions to deter mail fraud. False Representation Orders (FROs), which direct that all mail to an addressee be returned unopened to the sender, were used in a recent investigation involving a company soliciting payment for IRS rebate check information that is provided by the government free of charge. FROs are also issued against foreign lottery promoters. FROs enable Postal Inspectors to stop lottery mail-most of which contains checks-from leaving the United States and return mail to senders, thereby preventing victim losses.

Resources and expertise are leveraged whenever possible to reduce investigative costs and expedite the successful resolution to an investigation. Since 1987, after restitution to victims, the Inspection Service forfeited $190 million. Of this, $145 million was presented to the Postal Service, $31 million was equitably shared with other law enforcement agencies, and the remainder used to offset investigative costs. An additional $107 million in fines has been awarded to the Postal Service to offset the cost of investigations conducted by the Inspection Service. The majority of Inspection Service forfeitures are now derived from mail fraud investigations.

Illegal Drugs and Trafficking

The U.S. Postal Service cannot allow its distribution and delivery network to assist criminals in mailing illegal items, such as drugs. Postal Inspectors play a key role in the war on drugs through their interdictions of illegal drugs and illegal drug proceeds, which traffickers attempt to send through the mail. While the Postal Inspection Service has primary responsibility for enforcing all laws related to the mailing of controlled substances, its emphasis is on the identification and prosecution of major drug mailers. During the past fiscal year, Postal Inspectors, working with other law enforcement agencies, arrested 1,575 individuals for drug trafficking via the mail. Seizures from the mail last fiscal year included over 9,335 pounds of illegal narcotics. The investigations also resulted in the seizure of

approximately $3.5 million in cash and monetary instruments, 23 vehicles, 83 firearms and 2 residences.

Child Exploitation

Use of the mail to traffic child pornography, or otherwise sexually exploit children, continues to be a significant problem. Child pornographers incorrectly assume that the U.S. Mail will provide a safe, reliable and anonymous vehicle to traffic in this illicit material. Clearly, these criminals are unaware that Postal Inspectors have for years been regarded internationally as leaders in the fight against child exploitation. In May, Postal Inspectors were presented the 2001 National Missing and Exploited Children's Award at a Congressional breakfast. It was the third consecutive year Postal Inspectors received this honor.

The Postal Inspection Service and the Postal Service launched a national crime prevention initiative with the National Center for Missing and Exploited Children (NCMEC) to raise public awareness of the online sexual victimization of children. The Postal Inspection Service printed an eye-catching poster for display in 38,000 post offices nationwide, offering a simple, powerful message to adults: Be aware of your child's online activities, and make sure you know who they "talk" to online.

Last month, Attorney General John D. Ashcroft and Chief Postal Inspector Kenneth C. Weaver joined together to announce the successful conclusion of a two-year Inspection Service and Internet Crimes Against Children task force investigation that dismantled the largest-known commercial child pornography enterprise ever uncovered. The operator was sentenced to life in prison and 100 additional arrests were made nationwide.

The U.S. Postal Inspection Service commends the members of this committee for their continued interest in the Postal Service. Postal Inspectors are using their investigative skills to work jointly with postal managers, the law enforcement community, customers and others to achieve creative solutions to existing problems and the challenges of an increasingly competitive environment. These partnerships will strengthen the Postal Service and help enable the organization to move forward as a viable competitor in the marketplace of the future.

NEWS RELEASE

UNITED STATES POSTAL INSPECTION SERVICE

For further information call:
Lori Groen (202) 268-5082

September 20, 2001
FOR IMMEDIATE RELEASE

CHIEF POSTAL INSPECTOR WARNS OF CHARITY SCAMS

With last week's terrorist acts etched in our minds, many Americans are asking, "What can I do to help?" And with many addresses and Web sites appearing to accept donations, they're asking, "Which one should I contribute to?"

America's generosity and patriotism always shine through in times of tragedy. Unfortunately, there are always those who will prey on tragedy and a giving spirit. Postal Inspectors warn those who want to donate to check out the organization first, to ensure that their money will go to the people in need and not to the con artist. During the Gulf War, Postal Inspectors investigated a scam asking for money to send Bibles to Desert Storm troops. The money was used to pad the wallets of the scammers and no Bibles were ever purchased. After the Oklahoma City bombing, some scammers solicited funds for the victims' families, but the families never received a dime from the scam artists. If you believe you have been victimized, file a complaint with Postal Inspectors at 1-800-FRAUD-IS (1-800-372-8347) or through our Web site at www.usps.com/postalinspectors.

"Sometimes it can be difficult to know whether you are dealing with a reputable organization," said Ken Weaver, Chief Postal Inspector. "But there are guidelines you can follow to reduce the chance of becoming a victim of a charity fraud."

- Give to organizations you're familiar with. Check out the ones you've never heard of, or those whose names are similar to well-known charities. Several organizations will help you sift through the legitimate charities from the scams. The Council of Better Business Bureaus and The National Charities Information Bureau merged to form the BBB Wise Giving Alliance. This alliance is a resource for information on charities. You may also contact your local Postal Inspector.
- If you are unfamiliar with a charity, ask for its annual report and financial statement. If the organization is unwilling to provide these documents, you should be wary of supporting it financially.
- Don't feel pressured to give money on the spot. Legitimate charities will welcome your donation at any time. Relief efforts in the wake of these attacks will be needed for a long time to come—long enough to check out a charity.
- Be suspicious of a charity that says it will accept your donation in cash only; the con artist wants cash so there will be no written record which will allow authorities to determine who really received

the money you contributed. Make any check payable to the organization, not an individual.

There are many charities who are assisting with the relief efforts during this very difficult time, but unfortunately con artists try to capitalize on the good names of legitimate charities and the good will of their donors. Make sure that your donation gets into the proper hands—not the hands of the con artists—by doing a little homework prior to donating.

-30-

The Honorable Carl Levin
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Questions for the Postmaster General

1. I have been working for several years with the City of Cadillac and the Postal Service to retain a downtown Cadillac Post Office. Prior to the current construction freeze, the Postal Service determined that the Cadillac Post Office would be retained and that the existing location would be renovated to meet the needs of this growing community. The facility is an important part of the Cadillac community and I would again encourage the Postal Service to retain it.

Prior to the capital freeze on replacement facilities, the Cadillac Post Office was on the 5-year plan for the Great Lakes Area to renovate and expand the existing facility. However, in view of our current situation and the resulting declining mail volumes, we will have to carefully reassess our needs and possibly consider more cost effective alternatives. In any event, we will continue to work closely with the community to find the most appropriate solution.

2. I have been contacted by several of my constituents in Suttons Bay, Michigan, regarding their concerns about the safety of their local Post Office. I have been informed that parking at the facility is inadequate and poses a hazard to customers. I would ask that the Postal Service look into these concerns and if construction is warranted, exempt Suttons Bay from the current freeze.

We understand that the parking problem associated with this facility is as a result of summer traffic for this recreational area. We will follow up with local officials to see what can be done to mitigate this situation. If we cannot adequately address the safety issues, we will expedite finding an alternative solution. Again, we will work closely with the community to address their concerns.

3. I have made several inquiries to the Postal Service regarding the case of one of my constituents, Ms. Guadalupe Shakespeare. Ms. Shakespeare was employed by the Postal service at the Potterville, Michigan, Post Office when she filed a harassment lawsuit against the Postal Service. The lawsuit was resolved with one of the settlement terms being an agreement by the Postal Service to investigate the facts and take corrective action if it was warranted. Since the settlement, Ms. Shakespeare has tried without success to obtain information relative to this investigation.

   It was originally assumed that the investigation would be conducted by the Office of the Inspector General. However, the OIG has indicated to me that because the Postal Service had completed its own investigation, OIG did not pursue a formal investigation. The Postal Service has said that an investigation was completed but not documented. In light of the legally binding settlement agreement, I am deeply concerned by the lack of documentation that substantiates the existence of the investigation. Further, Ms. Shakespeare now seriously questions the credibility of the Postal Service to fulfill the terms of her agreement. I would appreciate a thorough review and response to Ms. Shakespeare's concerns.

Ms. Shakespeare's civil action was settled on September 8, 2000. One of the provisions of that settlement agreement, which was signed by both Ms. Shakespeare and her attorney, was that the Postal Service would conduct an investigation into the facts that led to the civil action and take "necessary corrective action should the results of the investigation warrant." The Postal Service fully complied with the agreement. After the settlement, the Labor Relations Office in the Greater Michigan District reviewed all of the facts of this matter. As part of that review, Labor Relations asked for and received information from the postal attorney who represented the Postal Service in the litigation process. Based on all the facts before them, including the fact that these events were five years old at the time of the settlement, Labor Relations concluded that no additional corrective action was necessary, beyond the specific requirement in the settlement agreement that the postmaster complete diversity and discrimination training.

The investigation was conducted by the Postal Service, not the Office of Inspector General (OIG), because that is what was called for in the settlement agreement. The OIG determined that, in light of the investigation by the Postal Service, there was no need for further review. The OIG is independent of Postal management and makes its own decisions regarding its investigations. We note that the settlement agreement, which provided Ms. Shakespeare with a monetary settlement and attorney fees, did not require either a written report or that Ms. Shakespeare would be provided with the result of the investigation.

The Honorable Susan Collins
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Questions for the Postmaster General

JACK POTTER

1. Mr. Potter, the USPS informed my office, only upon being contacted by my staff, that overnight air service in Aroostook County, Maine, as well as several other rural areas, would be replaced by two-day service.

   My office was told that this particular decision would be reversed, but when Mainers went to the Post Office in Aroostook County, they were turned away. The local paper quoted postal officials as saying that the Washington office was sending them conflicting signals. Can you please clarify whether this service is as available to those in rural Maine is it is to people living in New York or San Francisco?

The USPS has implemented an air taxi between Presque Isle and Portland Maine to connect our Maine customers with the national overnight network. Through this air taxi 70% of the origin Express Mail volume for the 40 Post Offices in Aroostook County will continue to achieve overnight service commitments nationally; this includes the volume from Caribou, Houlton, and Presque Isle. Every office in the country does not have overnight service access and on occasion people will have to go to another office to send overnight packages.

   Follow up: How are discrepancies in services, operating hours and other facets of service like this compatible with the notion of universal service that the USPS uses as the rationale for many of its exclusive prerogatives?

The US Postal Service has a mandate to provide universal service at a uniform rate for our basic letter mail product. To fulfill the mandate we provide retail and transportation services in remote locations where costs are not covered by the local users. Universal service means we provide mail service to every address. Express Mail is a premium product that faces competition in the marketplace and whose rates must remain competitive or we will be unable to sustain the network that supports its service commitments. It should be noted that revenues from Express Mail help defray letter mail costs. We incur significant expense operating post offices in small towns across America where others do not even maintain a presence. We do this because of our recognition of the vital role that we play in those small towns where we are often the only contact that residents have with their government. While operating hours across America are consistent based on local business hours, it is not possible to make all services available in all markets. This is more a function of the capability of the distribution and logistics networks to reliably serve those areas than a decision not to provide a specific service to a market. The cost of conducting business and its subsequent impact on all ratepayers must be considered when determining what competitive services can be provided in which market. Universal service does not require uniform service standards for premium services such as Express Mail.

2. Mr. Potter, former Postmaster General William Henderson recently called for privatizing the USPS while retaining certain core aspects such as universal service. What is your opinion of his proposal?

Privatization is one of the potential alternative business models we are evaluating in our Transformation Plan. The postal Board of Governors and I are evaluating all options.

The Honorable Thad Cochran
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Questions for the Postmaster General

E-COMMERCE

1. As you may know, I have had a long-standing interest in the Postal Service's involvement in e-commerce. Last year, I requested that GAO look into this particular area and report back to Congress on issues such as privacy laws, regulations, and policies that apply to the agency and its major competitors in the e-commerce area. We have already received one report from the GAO and are expecting a second within a few months.

   Last September, GAO made several recommendations to address a number of management deficiencies with respect to the Service's e-commerce program and problems it found with information the Service provided on its initiatives. I was disappointed to hear that one year later, these problems still persist.

- What actions has the Service taken to respond to GAO's recommendations?

- GAO stated that the Service did not have complete and accurate financial information on the performance of its e-commerce initiatives. When will the Service have complete and accurate information to assess progress towards meeting its financial goals?

The Postal Service is developing comprehensive policies and procedures to capture, attribute, and report revenues and expenses associated with its new products and services.

The Postal Service will provide a statement of these policies and procedures, along with Profit and Loss Statements, to the GAO, the PRC, and the appropriate Congressional committees.

In future years, the Profit and Loss Statements will be reviewed as part of the annual audit of the Postal Service's Cost and Revenue Analysis report.

The Postal Service's statement of policies and procedures and the Profit and Loss Statements for FY 01 will be provided by May 1, 2002. Profit and Loss Statements for subsequent years will be provided on May 1 of each year.

2. The Service expected to make about $100 million in e-commerce revenues for fiscal year 2001. How much did the Service actually make in this area?

Postal Service eCommerce programs earned $18 million in Fiscal Year 2001.

In Fiscal Year 2001 e-Commerce revenue was $2 million.

3. Do you think the Service should continue money-losing e-commerce activities at a time when it is incurring large budget deficits; and how exactly does the Service decide when to discontinue a money-losing e-commerce initiative?

As part of the eCommerce Programs reporting process, the Postal Service has developed a financial performance "snapshot" of USPS business development efforts. The guidelines used to evaluate the programs are listed below.

- **Pre-Launch: Development costs are tracked and monitored by the program office.**
- **Launch – Six Months: Contribution (revenues less expenses) by accounting period (AP) are included on the Earn/Burn report. This stage is known as 'Burn-In".**
- **After Six Months: After the six-month period, products will be actively monitored. If contribution falls below Plan for six consecutive APs, the product will be placed on the "Critical List". Once on the Critical List, products are given three APs to make improvements. If this is not successful, the product may be discontinued pending concurrence of Postal officials.**
- **Post Critical List: Customer adoption rates and market trends are activities that influence product success, and in some cases may warrant a revision to the business plan. In such cases, the product begins a second three-month burn-in phase to evaluate the program. In all other cases, exit strategies previously outlined are implemented.**
- **When the annual budget is developed, capital and expense funds for different efforts are established. When unforeseen events, such as the soft economy, September 11, and anthrax attacks occur, *all activities* are reviewed and reprioritized in order to reduce expenses.**
- **eCommerce programs are being reviewed along with other programs to assess which efforts we will retain that support future and current growth, service, and profitability. At the direction of the Board of Governors, the Postal Service is reviewing its eCommerce activities and considering approaches to restructuring them, so that they become profitable in the future.**

4. Looking ahead, what does the Service expect to make from its e-commerce activities in fiscal year 2002?

Postal Service current eCommerce programs are expected to earn $10.4 million in Fiscal Year 2002.

5. How does the Service figure out how much money it expects to make on its e-commerce activities; and when does the Service expect that it will generate net positive income from its e-commerce activities?

Given the relative newness of the eCommerce market, little data exists on transaction volumes or profitability within this industry. This scarcity of data makes it necessary to evaluate program potential based on broader market statistics.

- **The length of time it takes to generate billable transactions has serious implications for the Postal Service and its partners. Each eCommerce initiative has different projections related to revenue and expenses. Currently, all programs are under active review. Based on the guidelines identified in Question 2, multiple programs are on the critical list.**

6. Why has the Service had such difficulty making money in this area?

After the events of September 11, 2001, the country has seen an increased focus on homeland security. Identity security has changed from an option to a requirement. There is definite interest in eCommerce initiatives. However, the sales cycle is very long, in addition to a slow adoption rate.

Implementation of electronic services can take between three and twelve months. Thus, integration with a company's existing policies, systems and business processes can be very time consuming and costly. It takes considerable time for agencies to establish new policies and change legacy systems to integrate this new technology. Productivity improvements depend on rapid reengineering of the business processes around electronic flow.

The Postal Service stands ready to assist and even implement needed electronic commerce security measures once a concrete direction has been determined by the Homeland Security Director and other essential Federal and state decision makers.

7. Why should a potential customer choose the Postal Service's e-BillPay service over one offered by private-sector providers, such as banks?

The Postal Service has a reputation as a trusted American institution that guards the security and privacy of the documents it delivers and provides security and privacy protection based on statutes and policies to protect consumers.

The USPS Electronic PostmarkTM (EPM) an official time and date stamp is integrated into all eBillPay transaction services. The EPM provides customers indication of tampering with their financial transactions. The EPM is a unique feature not offered by any competitor, and it embodies the extra trust brought by the Postal Service.

8. Privacy has been an area of concern for many potential Internet users. How does the Service protect the privacy of the information provided by its e-commerce customers?

The USPS cares deeply about and fully protects the privacy of its customers.

The USPS provides privacy protections based on statutes, policies, and its long-rooted culture.

Statutes: the USPS is subject to, among other statutes, the Privacy Act of 1974 and 39 USC §412, which prohibits the USPS from selling or distributing customer or mailing lists to the public.

Policies:
- **the USPS complies voluntarily with statutes applicable to the private sector, including Gramm-Leach-Bliley (GLB) and the Children's Online Privacy Protection Act (COPPA).**

the USPS has adopted guidelines for online privacy issued by both OMB (federal government) and the FTC (commercial web sites).

Culture: Over its 225+ year history, the USPS has embedded privacy and security in its culture.

9. How does the Service protect the address information provided by customers of its e-commerce activities such as e-BillPay?

The Postal Service has a defined and documented security testing and accreditation approach to protect its customer privacy data and levies these requirements on its partners.

- Does the Postal Service share any customer information with its partners or affiliates?

Yes, the Postal Service shares customer information with its partner for e-BillPay, Checkfree, which is a leader in online payment services. The Postal Service's privacy policy on usps.com fully discloses that the Postal Service engages and shares data with such partners.

In its contracts, the Postal Service strictly controls its partners' use of customer data. Partners are made subject to the Privacy Act, as applicable, as well as USPS privacy policies. This is also disclosed in the usps.com privacy policy.

- Does the Postal Service share any customer information with any outside third parties?

No.

- What recourse would USPS customers have if they believe that the privacy of information provided for any postal e-commerce activity has been compromised?

In its usps.com privacy policy, customers with questions or complaints are encouraged to contact the Postal Service. Both an email and hard copy address is provided. Customers may also sue under the Privacy Act if they believe the Postal Service has wrongfully disclosed their information.

10. Currently, customers that file a change of address with the Postal Service are often subjected to unwanted advertisements directed at new movers. Why doesn't the Postal Service protect the privacy of change of address information?

The Postal Service has taken all reasonable steps to protect the privacy of change of address (COA) information, and to ensure that people who file a COA request will receive mail at their new address.

The Postal Service is a delivery service. When people fill out a change of address request, we understand that they would like to receive mail sent to them at their new address. The USPS accomplishes this as efficiently as possible, through forwarding and address correction services. The USPS also licenses the COA database to qualified organizations so they may also correct addresses. The license agreement clearly provides that the sole purpose is to correct addresses the licensee already possesses – new addresses may not be acquired. The agreement expressly prohibits the creation of new mover's lists. To be qualified, licensees go through rigorous initial and periodic reviews, which include ensuring that new movers' lists are not created. If the Committee has information that the COA file is being misused, please let us know, so that we can investigate and stop this prohibited practice. The above practices are clearly disclosed on the hard copy COA form, as well as in Moversguide.com's Privacy Act notice and privacy policy.

The USPS uses targeted advertising to support the COA program in the following ways:

The Welcome Kit is mailed to postal customers who move and submit a COA order. The Welcome Kit, as a security feature, notifies the customer to call the Postal Service if he or she did not request the address change, and to make sure the information is correct. It also includes move-related special offers and advertisements, as well as civic information such as the closest library, the local post office, voter registration information, driver's license and vehicle registration information, and the US Senators and Representatives for the new area. The advertising included in the Kit covers the printing and distribution costs (over 10 million dollars annually), which would otherwise be absorbed by the USPS. This program won the Vice Presidential "Hammer" award for reinventing government services in an intelligent and cost effective manner. In addition, the Office of Inspector General for the Postal Service has found that "the inclusion of advertising to reduce costs and potentially create revenue is . . . just good business."

The new MoversGuide.com web site also offers advertising in the sense that move-related services such as shipping supplies, long distance service, newspaper subscriptions, cable television service, and the like, can be ordered on the site.

The Postal Service has received positive feedback from customers on both programs.

NEW RATE CASE

11. On September 11, the Postal Service announced that it would file for a rate increase averaging nearly 9 percent, including a 3-cent increase in the price of a First Class stamp. Why is the Service requesting this rate increase despite the fact that postal rates have already gone up twice this year?

The Postal Service incurred a $1.7 billion net loss in FY 2001 despite those two rate increases. The Postal Service's new rate case filing projected net losses of $1.35 billion in FY 2002 and $2.45 billion in FY 2003 without further rate increases. Because the Postal Service is financially self sufficient, these losses cannot be sustained.

These losses have drained cash that is needed to fund capital expenditures. As a result, the Postal Service has frozen its facilities program. This freeze needs to be lifted soon or the Postal Service's ability to serve its expanding delivery network will be adversely affected.

Labor cost increases drove the FY 2001 net loss. Cost per workyear growth outstripped inflation, rising by more than ten percent cumulatively in Fiscal Years 2000 and 2001. This cost growth has had a significant adverse affect on Postal Service finances because compensation and benefits expense accounted for 78 percent of total Postal Service expenses in FY 2001.

These cost increases were experienced during a period when revenues dropped substantially below expectations due to the slowing economy and increasing competition from electronic alternatives to the mail.

The rate increases totaled 6.3 percent, but occurred well into the Fiscal Year 2001. On an annualized basis, the FY 2001 rate increases were 3.9 percent. These rate increases did not keep up with cost increases.

Costs continue to grow this year (FY 2002) due to inflation, labor contract requirements and the need to serve delivery network growth. Revenues are below expectations again this year because of the recession and the continuing effects of the events of September 11th and the bio-terrorism incidents last fall.

The Postal Service projects that it would exhaust all its borrowing authority in FY 2003 were postage rates not to be increased.

12. What can you do to reassure your customers in the mailing community that they will not be faced with continuous rate increases year after year?

Such reassurances are difficult to make at this time because of the significant adverse impacts of September 11, bioterrorism incidents and the faltering economy.

We are doing our part to limit rate increases. We are aggressively managing expenses. We have a wide range of productivity initiatives in place and have slashed our workhours to match the decrease in mail volume workload following September 11, and the bioterrorism incidents.

13. You have stated that ideally, this new rate case will not be implemented until January of 2003. However, the Postal Board of Governors has recently asked for expedited consideration of this rate case. Why is this?

As filed, the new rate case did not reflect or anticipate the negative financial impacts of the recession, September 11, or bioterrorism. We need additional revenues to bridge the net income gap created by these events.

We said that we needed assistance from three sources to help defray the losses associated with September 11, and bioterrorism – help from the appropriations process, help from the interest arbitration process and help from the rate making process.

Our customers have responded to this plea. Almost all the rate case participants signed a stipulation and agreement, accepting the Postal Service's rate proposals and permitting implementation of those rates as early as June 30, of this year.

With newly authorized appropriations, responsible awards in the APWU, NRLCA, and Mail Handlers arbitrations, and the rate case settlement, we are hopeful that our financial situation will stabilize in Fiscal Year 2003.

14. The Service has proposed a 10 percent increase for Periodicals, which would come on top of the 10 percent increase that was imposed this year. Earlier this year, the Service had announced efforts to cut the costs of handling flat mail including periodicals. Given these cost-cutting efforts, why is the Service proposing a double-digit increase in Periodical rates?

The Postal Service and Periodicals mailers have been working to identify and implement programs that will reduce the rate of increase in Periodical costs. To date, a number of opportunities have been identified and the Postal Service is working with its customers to implement these programs. The 10 percent increase for Periodicals would have been higher if the effect of theses programs had not been included in the Periodicals cost estimates underlying the proposed rates.

Significant savings are expected from programs designed to reduce the cost of processing flat mail. For example, the Postal Service has begun purchasing advanced automated equipment that sorts larger items such as newspapers and magazines along with catalogs. This equipment termed AFSM 100s is the first step into the future flat processing environment. The AFSM 100 can read barcodes as well as handwritten addresses and will process mail more efficiently than the current sorting equipment. In addition to purchasing new equipment, the Postal Service is retrofitting existing sorting equipment by installing automated flat feeders and optical character readers (OCRs). These improvements increase efficiency and permit over 70% of the mail pieces to be sorted automatically instead of being manually keyed thus reducing costs.

In addition to Postal Service capital programs, costs are being reduced through incentives for mailers to sort mail, bring it closer to destination, and use containers that are easier and cheaper for the Postal Service to handle. For example, a new form of sorting termed Line of Travel or LOT is expected to reduce Periodicals costs by $35 million. The unique rate structure of the Periodicals class has typically provided few incentives to transport mail closer to destination. With the mailers' agreement, the settlement rate structure addresses this issue and provides new incentives to transport Periodicals to Postal facilities closer to destination. Lastly, a new pallet discount is expected to reduce the number of sacks and the associated handling costs by encouraging mailers to use pallets holding large volumes of well prepared Periodicals. We expect this to encourage additional cost reductions.

The Postal Service applauds the positive role played by the Periodicals industry to reduce costs and work to improve Periodical preparation. We expect that these efforts will lower the cost of processing and delivering Periodicals and reduce the need for greater than average rate increases in the future.

15. The 3-cent increase proposed for the First-Class stamp would be the largest increase imposed in a decade. Concerns have been raised that First-Class Mail already pays more than its fair share of postal overhead costs. Given this, why is the Service asking for this 3-cent increase in the price of a stamp?

To clarify, the proposed 3-cent increase in the First-Class Mail, single-piece, first-ounce rate is larger than the one-cent rate increases that were implemented in January 1999 and January 2001. However, the proposed rate increase is smaller (on a percentage basis) than the 3-cent rate increase implemented in July 1995 and the 4-cent rate increase implemented in February 1991.

The Postal Service considers the impact on mailers, especially household and other small mailers, carefully before proposing any rate increase. The process of designing rates involves a careful balancing of the effect of the proposed rates on the general public, and commercial mailers with the Postal Service's financial needs. In the current rate proposal, it was necessary to increase all postal rates and fees an average of 8.7 percent to meet the financial requirements of the Postal Service. However, the proposed First-Class Mail rate increase of 8.2 percent is less than the system average. In addition, the proposed increase for single-piece mail (which includes mail sent by households) was only 7.4 percent.

Over time, rate increases for single-piece First-Class Mail have been below the rate increases for other classes of mail reflecting the Postal Service's ongoing concern for customers who have few alternatives to the Postal Service for sending messages and correspondence. With continued efforts at cost containment, I believe that the Postal Service will be able to continue to offer affordable mail services to all mailers.

EXECUTIVE BONUSES

16. Concerns have been raised about the Service providing Employee Value Added (EVA) payments to top executives, managers, supervisors, and postmasters at a time when the Service is incurring huge deficits. Very recently, you were quoted as saying postal executives may even earn up to 25 percent of their salary in bonuses this year. I understand this issue was expected to come under review by the Board of Governors - has it? If not, why?

The maximum possible incentive credit available to Postal executives under the FY 2001 Pay for Performance program was 10 percent. Actual incentive credits for all non-bargaining employees in the program averaged 2.8 percent and were determined by targets attained for the year. These targets included on-time delivery of mail, productivity improvements, and safety and employee survey results.

The Economic Value Added (EVA) Pay for Performance Program is not a bonus program. It is a group pay-for-performance program, which covers over 84,000 non-bargaining employees. This program takes a portion of an employee's pay and makes it contingent upon the attainment of certain performance measures. The program has pre-established, measurable performance indicators, and a sophisticated formula for providing incentive credits based on organizational success. The program is not an after-the-fact 'bonus" program that provides subjective evaluations of the eligibility and size of bonus payments. The Postal Service's EVA Pay for Performance Program is a proven driver of organizational success and is a key component of the total compensation plan for managerial and non-bargaining employees. Certain employees gave up overtime payments in order to participate in the EVA program. None of the participants receives cost of living (COLA) pay increases.

Audited financial results for FY 2001 and the proposed incentive credits under the Pay for Performance program were presented to the Board of Governors at their December meeting. The Governors reviewed the proposed incentives and approved them.

17. I understand members of postal management themselves determine these payments. Apparently, net income was at one point a key factor in calculating the payments but was dropped midway through fiscal year 2001. Why was this decision made?

Determination of the amount earned is based on performance goals established at the beginning of the year. These goals are grounded in the three *CustomerPerfect!* Voices – the Voice of the Customer, the Voice of the Business, and the Voice of the Employee – with each voice accounting for one-third of total possible credit. Voice of the Business (VOB) targets for FY 2001 are shown below.

Indicator	Performance Cluster Employees	Area Office Employees	Headquarters Employees
Total Factor Productivity	Threshold	Threshold	Threshold
Area Productivity Improvement at Hurdle	50%	50%	50%
PFC Productivity Improvement at Hurdle	50%	50%	50%
Administrative Staffing Reductions	N/A	N/A	50%

Growth in Total Factor Productivity (TFP) was the target that had to be attained before any VOB credit could be awarded. For FY 2001, we saw growth in TFP of 1.2% – well in excess of the targeted growth of 0.7%. Because this VOB threshold was met, employees in the program became eligible to receive credit for other VOB goals achieved.

Since inception of the program, the indicator of performance has migrated from Economic Value Added (EVA), the initial indicator, to Net Income in FY 1998, and then to TFP, decided upon as the indicator in FY 2000 and applied in FY 2001.

In FY 2000, National Net Income was one of the VOB goals. In FY 2001, TFP was substituted for Net Income because it is a better measure of performance.

18. I understand that the Service will change its EVA criteria in fiscal year 2002. What changes will be made? Why have the criteria changed over and over again?

The Postal Service is redesigning its pay-for-performance programs. This redesign effort, by law, must include the management associations in the consultation process. Once those changes are finalized, they will be announced to eligible employees. We anticipate that any changes to the compensation plan will be consistent with our objectives of being market-based and performance-driven.

The essential design of the former group incentive plan that existed from 1996 to 2001 never changed. It was funded by financial performance as measured by Economic Value Added (EVA), contained pre-established goals and targets for receiving incentive credits, and contained a carefully designed formula for incentive payouts.

Nonetheless, there have been some program changes during this period. In 1998, the funding formula was changed to eliminate the impact of rate increases and create incentives to keep operating expenses below the inflation rate. Annual performance goals and targets were changed each year as the organization sought continuous improvement consistent with our quality focus. These changes were anticipated from the beginning, recommended by top management, and approved by the Board of Governors each year.

19. Some stakeholders have criticized the Service's criteria for awarding EVA payments, saying that the Service sets the bar too low. What is your response to this? Did most executives receive payments this year?

From the outset of the group incentive program, goals and targets have been set to achieve continuous improvement in our business. Before and after results of various organizational success measures show a dramatic improvement following the implementation of our group incentive programs. On-time delivery of our First-Class Mail committed to overnight delivery has increased and maintained a 10 percent improvement. Productivity and financial success have never been as high as in the last six years.

The group incentive program was a team-based program that provided incentive credits for all employees within an organizational unit unless they separated before the end of the fiscal year or if they were excluded for non-performance. About 400 employees were excluded from incentive program credits in FY2001. The range of targets achieved in FY2001 was between 100 percent and 16.7 percent, and the incentive credits were adjusted accordingly.

PRODUCTIVITY

20. Despite recent gains, the Service's overall productivity has barely increased in the past decade, despite billions of dollars invested in automation and information technology? Why has the Service had difficulty achieving large productivity gains over the long run?

Postal Service productivity during each of the preceding three decades is shown in the table. The total cumulative TFP growth from 1972 through FY 2001 is 11.5 percent, which averages to 0.5 percent annually.

Decade	% TFP Growth
1972-1980	5.8
1981-1990	2.8
1991-2000	1.6
2001-2002	2.4
[1] FY2002 Plan	

Total Factor Productivity during the 1980's and 1990's was less than TFP growth during the 1970's. Three factors contributed to average productivity growth in the 1980's and 1990's:
1) Efforts to improve customer service and satisfaction and infrastructure;
2) Technology investments to improve distribution, delivery, and service; and,
3) Worksharing programs.

Customer service and satisfaction and infrastructure improvements:
TFP growth was lower than average during the 1990's because the Postal Service invested substantial sums in improving customer service and satisfaction. While many of these efforts have had a short-term negative impact on productivity, the Postal Service has deemed the service and customer satisfaction benefits to outweigh the costs. Through the 1990's service performance for First-Class mail improved from 84 percent to 94 percent on-time delivery. The

percent of customer who viewed overall Postal Service performance as excellent, very good, or good grew from 85 percent to 92 percent. While the "value" of service quality improvement is not captured in the TFP measure, service quality is essential to the long-term future of the organization.

Technology investments:
During the 1990's the Postal Service invested heavily in technology and infrastructure to improve the distribution and delivery of mail, provide improved customer service and reduce labor costs. This includes purchasing delivery bar code sorters, additional remote bar coding systems, and point-of-service retail terminals. It is not unusual to see slow or declining productivity growth during periods of rapid capital expansion or major capital investments. A surge in capital investments will impact productivity in the short term, as the investments are made to provide a return over time. The Postal Service began to see positive productivity returns on these investments beginning in the fourth quarter of 1999 when TFP increased 2.3 percent compared to the same quarter of the previous year. TFP has been positive in every subsequent quarter through FY 2001.

Worksharing programs:
Worksharing discounts that were introduced in the 1980's provide cost savings for the Postal Service and our customers but also impacted TFP gains negatively. Worksharing incentives shift a greater proportion of the workload associated with automation compatible mail to business mailers. While improving the productivity of the economy as a whole, these prime productivity improvement opportunities have been transferred outside the Postal Service. The type of workload remaining is of the type from which productivity improvements are the most challenging to attain. Worksharing discounts continued into the 1990's. As higher and higher levels of efficiency are achieved, incremental productivity improvements become more and more challenging.

In FY 2000 and 2001 TFP increased 3.7 percent, which is equivalent to reducing expenses by $2.5 billion. This achievement was significant in that it was achieved largely by a substantial reduction in resource usage. Previous TFP increases of this magnitude were fueled by workload increases.

21. The Service has reported declining growth in First-Class Mail volumes and an increased use of automation in processing the mail. Given this, why has there not been a large decrease in overtime?

During Fiscal Year 2001, the use of overtime declined significantly as compared to the prior fiscal year. This decline of 6.8 million or –4.7% fewer overtime hours, was experienced in all of our operations functions; mail processing, delivery and customer services. The mail processing function experienced the majority of the overtime reduction, which reflects the impact of our automated processing efficiency. The reduction of overtime continues at a very strong pace during the current fiscal year.

22. The Service has reported that its on-time delivery of 2-day and 3-day First Class Mail has slipped somewhat in fiscal year 2001. Why did timeliness decline? Was this the result of cost-cutting efforts?

The reduction of scheduled commercial air flights has dramatically impacted our non-local mail on-time performance. Three-day mail, most of which is entirely at the mercy of commercial air carriers, accounts for over half of the non-local First-Class Mail volume (53.6%). This decline has no connection to cost cutting efforts. Increases in productivity actually lead to improved service.

23. According to recent reports, the Service is currently considering whether to close or consolidate mail processing facilities. What options are under consideration? When will the Service make its decision in this area?

The Postal Service is evaluating the current processing and distribution network to find the most efficient and cost effective methods to move the mails. We expect to have models completed this summer and announce our intentions early next year.

REORGANIZATION

24. The Service recently reorganized its headquarters and announced a downsizing affecting 800 jobs at headquarters and field offices. Why was this change made? What are the major changes? What jobs will be cut? How will these functions be absorbed by remaining staff?

The intention underlying the recent reorganization effort was in part to downsize the headquarters organization and achieve necessary reductions in overhead. To a greater degree, however, the reorganization was also designed to realign headquarters around core business products and necessary revenue generation from these products. The Sales and Marketing structures were decentralized to become more responsive to postal services and customers where these services are provided and where our customers reside. Key accounts and service positions were assigned to the districts with management focused at the area level. Headquarters' Sales was dramatically reduced, however, responsibility for new product development and advertising will continue at headquarters with a much diminished staff. ECommerce and new initiatives developed around Expedited, Parcel, and Priority Mail were also revamped and realigned under Operations and Marketing. Operations were realigned as well to better focus on our long-term commitment to enhance productivities and services. Finally, for the support and enabling functions, it is anticipated that technology will absorb more of the labor-intensive work and shared services will contribute to even greater efficiencies in the near future.

- You have announced a twenty percent reduction in Postal Service officer positions. How many of the officers affected by this decision are still working within the Postal Service, and do they continue to receive officer-level pay?

The Postal Service reduced its officer positions from 49 to 39. Two of those officers accepted executive (PCES 1) positions and are currently compensated within the executive salary range. The others either retired or accepted officer positions in the new structure.

- How much do you expect will be saved by the steps you have taken?

As stated above, the reorganization was directed to realign headquarters more appropriately. Any savings realized would be attributed in the short-term to salaries and benefits associated with the position reductions. Long-term savings will be realized from more broad-based efficiencies from the realignment and the introduction of shared services.

- Does the Service plan to reduce jobs at postal headquarters through a reduction-in-force (RIF)?

Yes.

FINANCIAL QUESTIONS

25. Given that the Postal Service implemented two rate increases earlier this year, why are you expecting a deficit of $1.35 billion in fiscal year 2002?

The Postal Service incurred a $1.7 billion net loss in FY 2001 with those two rate increases. Our FY 2002 budget plan and our rate case filing projected a net loss of $1.35 billion in FY 2002.

These losses have drained cash that is needed to fund capital expenditures. As a result, the Postal Service has frozen its facilities program. This freeze needs to be lifted soon or the Postal Service's ability to serve its expanding delivery network will be adversely affected.

Labor cost increases drove the FY 2001 net loss and this loss carries forward into FY 2002. Cost-per-workyear growth has outstripped inflation, rising by more than ten percent cumulatively in Fiscal Years 2000 and 2001. This cost growth had a significant adverse effect on Postal Service finances because compensation and benefits expense accounted for 78 percent of total Postal Service expenses in FY 2001.

The rate increases totaled 6.3 percent. These rate increases were insufficient to compensate for increases in labor costs.

Costs are continuing to increase this fiscal year, due to inflation, labor contract requirements and the cost of delivery network growth.

26. The Service has recently started to factor electronic diversion of First-Class Mail into its mail volume projections for fiscal year 2002. To what extent is electronic diversion affecting mail volume? Does the Service expect this trend to accelerate over the next decade?

Electronic diversion primarily affects First-Class Mail, Periodicals, and Standard Mail. We use econometric models to link volume losses in these mail classes with the growth of internet-based technologies.

These models indicate that about 2.2% of First Class Mail will be diverted by electronic bill payment technologies in Fiscal Year 2002. The models further predict that 3.7% of Periodicals will be diverted to electronic readership, and about 0.6% of Standard Mail will shift to internet advertising.

The econometric models identified the impact of electronic bill payment alternatives in diverting First-Class Mail volume. However, the models have not yet detected significant impacts from electronic bill presentment. When electronic bill presentment grows more rapidly we may see acceleration in the rate of diversion. Overall, diversion could overtake the positive forces of economic and population growth and result in a slow and steady decline in First-Class Mail volume.

We do not foresee rapid acceleration of diversion from Standard Mail. The Internet is one of many different channels for advertising, and is in some ways complementary to Standard Mail. While the shares of the various channels may shift over time, we expect that direct mail will remain an attractive advertising alternative.

Periodical mail volume has been close to 10 billion pieces for decades. It is reasonable to expect volumes will remain near this level as electronic diversion moderates the positive impacts of population and economic growth.

The Honorable Max Cleland
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Questions for the Postmaster General

1. How, specifically, is the Postal Service attempting to eliminate the alleged waste, fraud and mismanagement identified by the Inspector General?

In those instances where the Inspector General and the Postal Service agree that there is waste, fraud, or mismanagement, the Postal Service generally takes the corrective actions recommended by the Inspector General and follows up to make certain that those actions are implemented in a timely fashion.

2. How long do you expect the freeze on capital construction projects to be in place and exactly what needs to happen before the freeze is lifted?

The freeze on capital construction projects and its longevity is driven by our financial situation. While new-construction owned or leased projects have been frozen, projects that were in the process of being constructed were continued. Also, any projects that met the criteria for exception from the freeze were continued, e.g., those necessary for life, safety or security considerations or to meet a legal obligation.

The Postal Service has had an active, well-planned facility program and, therefore, we have been able to manage our infrastructure needs thus far, despite the current freeze. Growth in some areas, however, will outstrip the capacities of our current infrastructure and make it necessary to consider new construction.

3. What specific steps are you taking to improve your levels of productivity?

The Postal Service is improving levels of productivity by automating and consolidating its core business activities, by improving the methods by which it handles the mail, and by updating its administrative systems. The speed and efficiency of the Delivery Bar Code Sorters and Customer Service Bar Code Sorters, as well as improved software will result in significant savings of manual work hours this fiscal year. Flat sorting machines are expected to play an even larger role in increasing productivity by eliminating millions of work hours of manual sortation.

Remote Encoding Centers tasked with deciphering difficult to read addresses will continue to be consolidated as improved systems provide better mail recognition. The combination of increased read rates and fewer centers translate into large work hour reductions.

In addition, mail handling programs involving robotics, parcel sorters, traying of mail, sleeving or bundling of mail are expected to have significant impacts on productivity. The Postal Service has invested in new technology to consolidate seven separate Time and Attendance systems into one streamlined system, the Time and Attendance Collection System (TACS) that will greatly reduce administrative time and costs expended in recording the work records of Postal employees.

Beyond these efficiencies, we are making strides in our productivity initiatives in various functions. Re-scheduling of maintenance based on run-times, increasing piece-per-hour throughput in centralized forwarding system units, and a new window unit scheduling system are allowing for significant reductions. The practice of holding units accountable for achieving productivities relative to their peers has resulted in productivity gains in the operational functions as well.

The Honorable Thomas Carper
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Question for the Postmaster General

Negotiated Service Agreements

1. The committee report accompanying the 2002 Senate Treasury and General Government Appropriations bill requires the USPS to report its position on whether it has the legal authority under existing statute to offer negotiated service agreements (NSA's), which are special contract rates between the USPS and mailer. Small mailers- beholden to the monopoly – are concerned that if the USPS is able to offer NSA's unilaterally, large mailer would receive special rates that are not available to all mailers. Is it possible for the Postal Service to offer negotiated rates to small mailers who can do some of the same things as large mailers or will the Postal Service only negotiate contracts with large mailers?

(Answered in #2.)

2. If the Postal Service is able to give NSA's to large mailers, based on their ability to operate more efficiently, would it be possible to reward all mailers who can provide more efficient mailing activities with lower rates, as well?

Any agreements that the Postal Service would negotiate with customers within the NSA framework would require the Postal Service to request a Recommended Decision from the Postal Rate Commission (PRC), and subsequent approval by the Board of Governors. Both the Postal Service and the PRC have recently submitted opinions to Congress regarding the legality of and prospects for pursuing NSAs, and although some questions remain open, there appears to be some consensus regarding the following:

- **The PRC will conduct hearings on proposed NSAs consistent with the due process rights of interested parties.**
- **The existing criteria used to judge the soundness of USPS pricing and classifications will apply.**
- **Agreements would generally be made available to any and all similarly-situated mailers. This means that discounts that are offered in exchange for efficiency gains would be made available to any customer able to meet the criteria established within the agreement.**

The expectation is that these procedural steps will generally work to ensure that customers are treated fairly, and that some smaller postal customers may be able to benefit directly from agreements reached with larger ones by demonstrating their ability to similarly improve postal efficiency.

Transformation Plan

The GAO has requested the Postal Service develop a transformation plan to address its financial, operational, and human capitol challenges, and statutory concerns. There are steps the USPS can take unilaterally, to address these challenges. There are also steps the Congress will likely need to take to make statutory changes that will transform the Postal Service as well.

1. Under the transformation plan, will the USPS have a defined public service mission?

The public service mission of the Postal Service will not change: we will bind the nation together through the provision of some form of universal service.

2. Should the Postal Service be self-supporting or be reliant on federal appropriations?

The Postal Reorganization Act of 1970 was enacted because of problems incurred as a result of being an appropriated government agency. There is little stakeholder support for placing the Postal Service back on budget. We do believe that, given the right reforms, the Postal Service can be self-supporting in the future. However, if volumes decline and we are not afforded additional management flexibilities, the government might be forced to subsidize universal service for the American public.

3. Should the Postal Service offer new services that go beyond mail and parcel delivery? If so, would the USPS offer services that are already offered by private firms?

A self-sustaining Postal Service must be able to respond to the changing demands of the marketplace. We currently anchor a $900 billion mailing industry, and must support our customers as their needs change. We will consider new markets that allow for value chain expansion, including services that private firms provide, if such services tie to our core competencies. If mail volumes decline we must look for alternative revenue streams in order to support our universal service obligation.

4. What is your view of privatization? Do you believe certain functions currently carried out by the USPS could be spun-off to private industry? If certain functions are allowed to be spun-off to private industry, what will the implications be on the cost of postage?

The Postal Service has been privatizing functions for many years. We have outsourced much of our transportation network, offered workshare discounts which encourage intermediaries to perform many functions, and have recently transferred our Equal Employment Opportunity (EEO) function to a privately-held employee stock ownership (ESOP) model. Postal Service versus private sector costs for performing various functions is a consideration when we evaluate opportunities for outsourcing.

The Honorable Jim Bunning
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Questions for the Postmaster General

1. What factors will be used in deciding which mail processing centers will be consolidated? How much weight will be given to each factor?

The evaluation takes a number of factors into consideration—transportation cost, equipment relocation cost, work hour cost, and service improvements. Service and cost savings are weighted equally. There has to be a balance between the projected service improvements and cost savings. The least-cost solution for the total network will be chosen.

2. How does the Huntington, West Virginia, facility compare in performance to the Ashland, Kentucky, plant?

The Huntington, WV plant presently processes close to the same amount of outgoing mail annually as the Ashland, KY plant, but uses less operating expenses. Ashland expended $1.1 million, while Huntington expended $973 thousand.

3. Explain how the Huntington, West Virginia, plant would be able to provide the same level and quality of mail service to eastern Kentucky that the Ashland mail processing center currently provides?

The facilities are 12.7 miles apart. We will have the collection mail trips stop in Huntington instead of Ashland. Eastern Kentucky will experience more upgrades in First Class service than it will lose. Overall service will improve.

The Honorable Robert F. Bennett
Senate Committee on Governmental Affairs

Hearing on US Postal Service Oversight
held September 20, 2001

Question for the Postmaster General

1. The Postal Service is currently testing a new system designed to expedite the forwarding of mail. This system, called the Postal Automated Redirection System (PARS), would bypass a number of the steps currently involved in the mail forwarding process. It is estimated that, once fully implemented, PARS could save the Postal Service more than $475 million each year.

   When do you anticipate that PARS will be fully implemented?

We are currently involved in negotiations with Siemens Dematic, the manufacturer of PARS technology. At the same time we are moving forward with the USPS internal capital approval process. We are doing these two activities in parallel in order to expedite the process. Assuming the availability of funds we hope to award the contract for the first phase of PARS in this fiscal year.

UNITED STATES POSTAL INSPECTION SERVICE

CONGRESSIONAL AND PUBLIC AFFAIRS

March 8, 2002

Honorable Daniel K. Akaka
Chairman, Subcommittee on
International Security, Proliferation and
Federal Services
442 Hart Senate Office Building
Washington, DC 20002

Dear Senator Akaka:

On behalf of Chief Postal Inspector Kenneth C. Weaver, I would like to thank you for the opportunity afforded to the Chief to testify before your Subcommittee on September 20, 2001. As the Chief stated in his testimony, our nation can be very proud of the hard work and selfless attitudes exhibited by the men and women of the Postal Inspection Service in the days following the terrorist attacks. This attitude remains prevalent today as Postal Inspectors continue their efforts to restore confidence in the mail and the security of the workplace, while construction crews work to repair the damage inflicted to postal facilities in New York City.

I am confident that the Postal Inspection Service will continue to represent the finest traditions in federal law enforcement as it carries out its mission to protect our nation's communications system. The following information is provided in response to the two questions submitted on behalf of Senator Susan Collins relating to the September 11, 2001, terrorist attacks.

Question 1: In light of last week's terrorist attack, what are the additional steps that the USPS needs to take in order to ensure that the nation's mail system is not used as a means of conveying bombs?

Answer: In the interest of protecting postal employees and customers, the Postal Inspection Service considers the investigation of mail bombs among its highest priorities. Since August 1996, new mail acceptance procedures have significantly increased safety in mail transportation through an interagency agreement with the Federal Aviation Administration (FAA). Under those procedures, all domestic stamped parcels and all international and military mail weighing 16 ounces or more must be presented to a postal retail clerk or letter carrier. Previously, such mail could be dropped anonymously into a postal receptacle for pick-up.

Further, the Postal Inspection Service has organized response teams nationwide that provide resources for investigating suspicious parcels. Postal Inspectors are

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trained to recognize the common characteristics of mail bombs and are highly proficient in the use of state-of-the-art X-ray equipment.

The likelihood of anyone receiving a mail bomb is extremely remote. Over the past five years, the Postal Inspection Service investigated an average of six mail bombings per year. Considering that the Postal Service delivers approximately 208 billion pieces of mail per year, you can see that we find about 1 mail bomb per 36 billion pieces of mail. The chart below illustrates the decline in the number of mail bomb incidents reported since 1997:

	Incidents	Explosions	Injuries	Deaths
2001	3	3	2	1
2000	7	4	2	0
1999	6	2	0	0
1998	7	3	3	1
1997	18	1	1	0

In the wake of the September 11, 2001, terrorist attacks, the Postal Inspection Service initiated a number of security measures to address potential risks to the safety of customers and employees of the Postal Service. These include the following initiatives:

- The use of Postal Inspectors and members of the uniformed security force at postal facilities to screen mail destined for government offices and other key delivery points.
- The decision to irradiate mail destined for Washington, DC, Zip Codes 202-205, representing offices of the U.S. Congress and other government facilities identified through Homeland Security.
- A coordinated response by Postal Inspectors to suspicious items received or found in the mail.
- Providing mail security/mail bomb presentations to postal employees, business customers, community groups, and anyone with interest.
- The distribution of posters created by the U.S. Postal Service designed to warn employees and customers about unique characteristics associated with mail bombs.
- The development of new Web page information on the Postal Service's Internet Web site with information on security initiatives relating to anthrax and mail bomb security.

A nationally coordinated criminal investigation continues to focus on identifying the mailers of the anthrax-tainted letters sent from Trenton, NJ. The investigation is

being led by the FBI in partnership with the Postal Inspection Service. A reward for information leading to the arrest and conviction of those responsible for mailing the four anthrax letters has been increased to $2.5 million. A copy of the reward poster, as well as a Suspicious Mail Alert poster identifying characteristics associated with mail bombs is enclosed. The posters are available on request and can also be downloaded from the Postal Service Web site at www.usps.com.

Question 2: Will the USPS consider expanding the FAA's authority to inspect mail on planes in light of last Tuesday's attack?

Answer: Since September 11, the U.S. Postal Service has explored a number of options to improve the security of the nation's mail. On October 15, 2001, the Postmaster General (PMG) announced the formation of the Mail Security Task Force to review operational plans relating to the security and mailing of hazardous materials. The PMG appointed the Chief Postal Inspector to lead this initiative.

The task force comprises representatives from postal unions, management associations, and the Office of the Inspector General, along with safety and medical specialists and members of the mailing industry. The task force is divided into the following seven working groups responsible for safety and security risk analysis:

- Mailroom Security
- Contingency Planning System-Wide
- Mail Preparation
- Mail Screening
- Communication/Messaging
- Safety and Security in the Workplace Environment
- Mail Transportation Security

As the law enforcement arm of the Postal Service, the Postal Inspection Service has been successful in safeguarding the nation's mail through security and profiling initiatives that effectively screen the mail. In an effort to identify best practices among its corporate customers, the Postal Inspection Service is participating in a review of mail preparation and processing techniques at the operations centers of several "known" mailers. Through this initiative, the Postal Service hopes to improve its operational effectiveness, while increasing the security of the mail.

With the enactment of the Aviation and Transportation Security Act (ATSA), the responsibilities to regulate the transport of mail on commercial aircraft -- formerly assigned to the FAA -- have been transferred to the newly created Transportation Security Administration (TSA). Members of a working group responsible for Aviation Mail Security have scheduled meetings with TSA representatives to discuss best practices and alternatives in an effort to reach mutually agreeable security measures to ensure the safe transport of mail on commercial airlines.

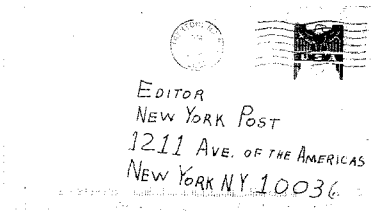
The Postal Inspection Service will continue to leverage all resources available to identify any credible threat to our nation's mail system. Through cooperative efforts with the TSA, the FBI, and other law enforcement and regulatory agencies, the Postal Inspection Service will provide the necessary commitment and resources to ensure the safety and security of postal employees, customers, and the financial assets of the Postal Service.

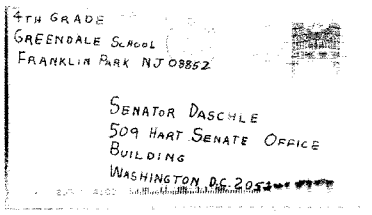
Sincerely,

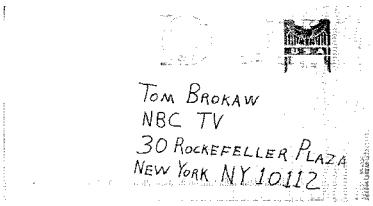
Daniel L. Mihalko
Inspector in Charge

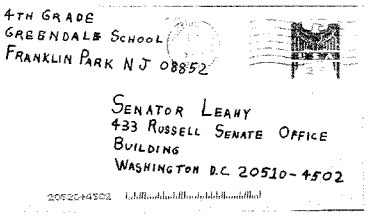
SPECIAL REWARD
Up to $2.5 million

For information leading to the arrest and conviction of the individual(s) responsible for the mailing of letters containing anthrax to the New York Post, Tom Brokaw at NBC, Senator Tom Daschle and Senator Patrick Leahy:









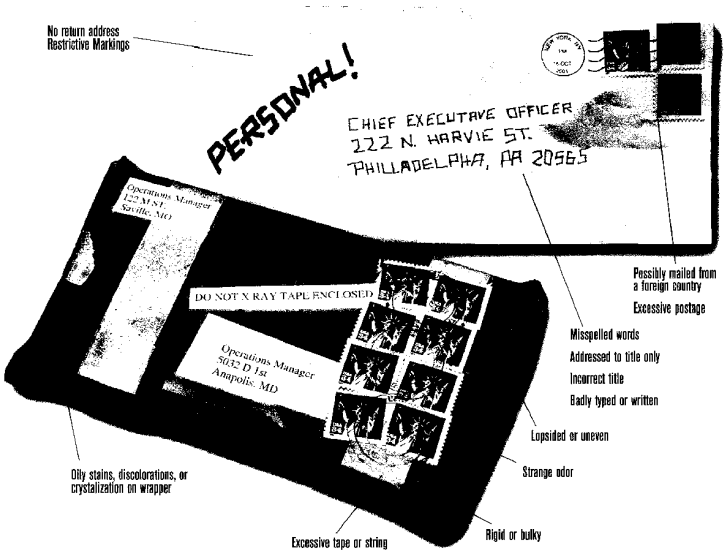
The mailings took place in the Trenton, NJ, area on or about Sept. 18 and Oct. 9, 2001.
Anyone having information, please contact America's Most Wanted at 1-800-CRIME TV or www.amw.com.

All information will be held in strict confidence. Reward payment will be made in accordance with the conditions of Postal Service Reward Notice 296, dated February 2000.

UNITED STATES POSTAL SERVICE

SUSPICIOUS MAIL ALERT

If you receive a suspicious letter or package:



1 Handle with care. Don't shake or bump.

2 Isolate it immediately

3 Don't open, smell, touch or taste.

4 Treat it as suspect. Call local law enforcement authorities

If a parcel is open and/or a threat is identified . . .

For a Bomb:
Evacuate Immediately
Call Police
Contact Postal Inspectors
Call Local Fire Department/HAZMAT Unit

For Radiological:
Limit Exposure - Don't Handle
Evacuate Area
Shield Yourself From Object
Call Police
Contact Postal Inspectors
Call Local Fire Department/HAZMAT Unit

For Biological or Chemical:
Isolate - Don't Handle
Evacuate Immediate Area
Wash Your Hands With Soap and Warm Water
Call Police
Contact Postal Inspectors
Call Local Fire Department/HAZMAT Unit

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