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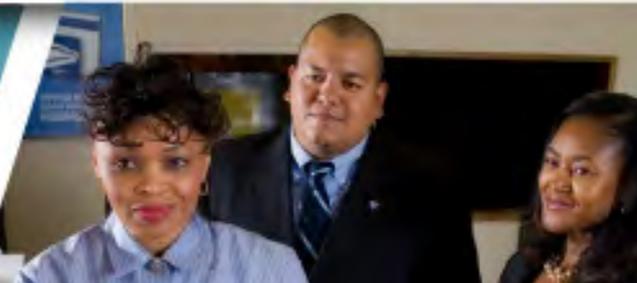
UNITED STATES POSTAL SERVICE

Fiscal Year 2015 Pay for Performance Program

Audit Report

Report Number
HR-AR-17-010

July 31, 2017





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Our audit objective was to determine whether the Postal Service's FY 2015 PFP program was sufficiently consistent and transparent to allow management to recognize employee performance.

Background

The U.S. Postal Service pay for performance (PFP) program is the primary pay program for non-bargaining Executive and Administrative Schedule (EAS) employees who work in supervisory, technical, administrative, and managerial positions. The National Performance Assessment, which is a scorecard of performance goals, is the foundation of the PFP program.

EAS employees work at Postal Service Headquarters (HQ) or field locations, including post offices, stations, branches, and plants. In fiscal year (FY) 2015, management evaluated 5,466 HQ employees and 43,105 field employees under the PFP program.

PFP evaluation criteria vary based on the EAS employee's assigned work location. HQ employee evaluations are based on corporate goals, which are tied to the Postal Service's overall performance, and on individual goals. Field employee evaluations are based on corporate goals and unit goals or those of a group of employees within the unit.

Our audit objective was to determine whether the Postal Service's FY 2015 PFP program was sufficiently consistent and transparent to allow management to recognize employee performance.

What the OIG Found

The Postal Service administered the FY 2015 PFP program in accordance with policies and procedures; however, guidance documents could be more accurate and updated more timely. Specifically, the PFP policy and guidance on the PFP website did not accurately reflect the current process. This occurred because management did not periodically review PFP policies and procedures maintained on the internal website to ensure they were accurate and up to date. Inaccurate policy and procedure documentation increases the risk of inconsistent application of process, noncompliance, or lack of employee accountability.

Additionally, opportunities exist to better align employee evaluation criteria to improve consistency and transparency in the evaluation process. For example, the distinction between stations and branches versus post offices did not provide employees with the same opportunity to be evaluated for their individual contributions.

Based on our recalculations, the scores of 38 percent of employees at Capital Metro Area stations and branches (142 of 378) would have changed — 30 percent (112 of 378) would have increased and 8 percent (30 of 378) would have decreased if evaluated based on individual contributions for their assigned location. Sixty-two percent (236 of 378) of employee scores would have remained the same.



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The unit criteria distinction between plants versus post offices did not provide employees within departments with the same opportunity to be evaluated for individual departmental contributions.

Similarly, the unit criteria distinction between plants versus post offices did not provide employees within departments with the same opportunity to be evaluated for individual departmental contributions. Based on our recalculations, the scores for 8 percent of employees in Capital Metro Area maintenance department groups (16 of 208) would have changed had they been assessed using the criteria that is used at post offices.

This occurred because the PFP program is designed to evaluate performance at stations, branches, and plant departments collectively based on the overall performance of the main post office or plant to which they were assigned respectively. Management stated that this decision was to ensure that individual station, branch, and plant employees focused on achieving unit goals to promote team accomplishments and potentially alleviate unintended consequences. Therefore, in theory, these units would work together to achieve the unit goals for the main post office or plant.

As a result, 31 of the supervisors interviewed (18 at Baltimore stations and branches and 13 at the Sacramento Processing and Distribution Center) perceived the PFP process as not fairly recognizing individual accomplishments. Perceived unfairness in the PFP process may increase the risk of employees becoming disengaged if they feel management does not recognize the accomplishments of individual units or that the poor performances of others mask their contributions.

What the OIG Recommended

We recommended management update policy to ensure it aligns with current processes; communicate evaluation criteria of the PFP process to reduce the risk of negative perception and of employees becoming disengaged; and assess methods within the PFP process for recognizing individual units for their specific performance at stations, branches, and plant departments.

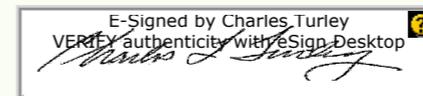
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

July 31, 2017

MEMORANDUM FOR: JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER AND EXECUTIVE
VICE PRESIDENT



FROM: Charles L. Turley
Deputy Assistant Inspector General
for Supply Management and Human Resources

SUBJECT: Audit Report – Fiscal Year 2015 Pay for Performance
Program (Report Number HR-AR-17-010)

This report presents the results of our audit of the U.S. Postal Service's Fiscal Year 2015 Pay for Performance Program (Project Number 16SMG004HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, Director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

Field employee evaluations are based on corporate goals and how well the unit (such as a station or branch) or a group of employees within the unit achieve unit goals.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's fiscal year (FY) 2015 pay for performance (PFP) program (Project Number 16SMG004HR000). Our objective was to determine whether the Postal Service's FY 2015 PFP program was sufficiently consistent and transparent to allow management to recognize and award employee performance. See [Appendix A](#) for additional information about this audit.

The PFP program is the primary pay program for non-bargaining Executive and Administrative Schedule (EAS) employees who work in supervisory, technical, administrative, and managerial positions. In FY 2015, management evaluated 48,571 EAS employees using the PFP program. The National Performance Assessment (NPA), which is a scorecard of performance goals, is the foundation of the PFP program.

EAS employees work at Postal Service Headquarters (HQ) or field locations that include post offices, stations, branches, and plants. PFP evaluation criteria vary based on the employee's assigned work location. HQ employee evaluations are based on corporate goals, which are tied to the Postal Service's overall performance, and on individual goals. Field employee evaluations are based on corporate goals and how well the unit (such as a station or branch) or a group of employees within the unit achieve unit goals.

Summary

The Postal Service followed its policies and procedures in conducting the FY 2015 PFP; however, there are opportunities to better align employee evaluation criteria to improve consistency in the evaluation process. Additionally, the process was transparent and accessible to employees but guidance documents could be more accurate and updated more timely.

In FY 2015, the distinction between stations and branches versus post offices did not provide employees with an equal opportunity to be evaluated for their individual contributions. We found that 30 percent of employees at Capital Metro Area stations and branches (112 of 378) did not receive performance scores qualifying them for a pay increase; however, based on our recalculations, those 112 employees would have qualified for pay increases. Conversely, less than 8 percent of employees at Capital Metro Area stations and branches (30 of 378) received a performance score that qualified them for a pay increase; however, if those 30 employees had been assessed based on U.S. Postal Service Office of Inspector General (OIG) calculations, they would have either received a smaller increase or no increase at all.

Similarly, the distinction between plants versus post offices did not provide employees the same control over their performance scores for their individual department's contributions. We found that 8 percent of employees in Capital Metro Area maintenance department groups (or 16 of 208) did not receive performance scores qualifying them for a pay increase; however, if the 16 employees had been assessed using the criteria for post offices, they would have qualified for pay increases.

Lastly, Postal Service PFP guidance¹ and guidance on the PFP website did not accurately reflect the current process.

¹ Handbook EL-312, *Employment and Placement*, updated with *Postal Bulletin* articles through November 10, 2016.

Pay for Performance Policies and Procedures

Postal Service management is responsible for overseeing policy and procedure² documentation, both the hard copy and online versions, to ensure they are accurate, up to date, and easily accessible. Additionally, Postal Service guidance requires management to revise or make obsolete policies, procedures, and forms as needed.³ Policy and procedure documentation is commonly maintained on the PFP website, which is an internal website accessible to all Postal Service employees.

We identified seven PFP-related documents that contained outdated information on the PFP website.

We identified seven PFP-related documents that contained outdated information on the PFP website. Specifically:

- Handbook EL-312⁴ did not reflect the elimination of individual goals for field EAS employees. The handbook stated that employees and evaluators establish individual goals through an interactive discussion that must be completed within 30 days. Under the FY 2015 PFP process, only HQ employees established individual goals⁵; field employees did not establish individual goals⁶.
- Documents that did not reflect the October 2011 elimination of individual goals for field EAS employees:
 - *PFP Process Overview Diagram for the Objective Setting Process*, dated October 2005.
 - *PFP Tips for Employees and Evaluators for the Objective Setting Process*, dated February 2011.
 - *PFP Evaluator's Checklist for the Objective Setting Process*, dated February 2011.
 - *PFP Tips for Employees and Evaluators for End-of-Year Evaluations*, not dated.
- *Tips for Employees and Evaluators for Mid-Year Evaluations*, dated February 2011, contained six broken hyperlinks and was not updated to reference updated quick start guides, checklists, and PFP program contacts.
- *Evaluator's Checklist for End-of-Year* was not dated and stated that ratings should not be part of end-of-year discussions. For FY 2015, PFP included end-of-year rating discussions⁷.

These issues occurred because management did not periodically review policy and procedure documentation to ensure guidance was accurate. Inaccurate policy and procedure documentation increases the risk of inconsistent application of process, noncompliance, or lack of employee accountability. In this instance, it could also provide employees with inaccurate information related to how their performance will be assessed and their evaluation criteria.

Management took corrective action by updating the PFP website to make all process documents current; therefore, we are not making a recommendation regarding PFP tips and checklists. However, management has not updated Handbook EL-312 to reflect the current process.

² Postal Service Management Instruction (MI) AS-310-2013-6, *Document Management*, dated June 26, 2013.

³ [Six Steps to Publishing Postal Service Policies, Procedures, and Forms](#).

⁴ Handbook EL-312, Section 584.62, *Establishing Individual Core Requirements*, updated with *Postal Bulletin* articles through November 26, 2015.

⁵ *Pay for Performance Program Evaluation Roles for Headquarters and Headquarters Related Non-Bargaining, Non-Executive Employees for FY 2015*.

⁶ *Pay for Performance Program Evaluation Roles for Field EAS Employees*, dated June 2014.

⁷ *Pay for Performance Program Evaluation Roles for Field EAS Employees*, pages 3-4, dated June 2014.

Pay for Performance

In FY 2015, the distinction between stations and branches versus post offices did not provide employees with the same control over performance scores for individual contributions, resulting in HQ and post office EAS employees receiving a disproportionate number of employees with higher PFP scores.

Of the total 48,471 EAS employees, HQ comprised 11 percent (or 5,466), 72 percent of whom (3,945 of 5,466) received PFP scores that warranted a pay increase. Overall, HQ employees received 12 percent of all pay increases given in FY 2015.

Additionally, post office employees comprised 44 percent (21,235 of 48,571) of total employees and 76 percent (16,051 of 21,235) of those employees received PFP scores that warranted a pay increase. See [Table 1](#) for analysis of employee groups.

An employee's PFP score calculation is based on his or her assigned work location. The following provides an overview of the criteria components for each EAS employee work location:

- **HQ** — employees were evaluated based on corporate and individual employee goals and their final scores must average the corporate score.
- **Post Offices** — employees were evaluated based on corporate and NPA unit goals. Each post office is considered to be one NPA unit and its results are not combined with any other units.
- **Station and Branches** — employees were evaluated based on corporate and NPA unit goals. Multiple stations and branches that roll-up to a main post office are considered as one NPA unit. Each station and branch has its own goals; however, the results are combined with those of all the other stations and branches in the NPA unit.
- **Plants** — employees were evaluated based on corporate and NPA unit goals. Each department has its own goals; however, the results for the entire plant are combined as one NPA unit.

Table 1: EAS Employee Groups

 EAS EMPLOYEE LOCATION	 TOTAL	 PERCENTAGE OF TOTAL EMPLOYEES	 EMPLOYEES WITH PAY INCREASE	 PERCENTAGE OF EMPLOYEES' PAY INCREASES BY LOCATION	 PERCENTAGE OF TOTAL PAY INCREASES
	5,466	11%	3,945	72%	12%
	21,235	44%	16,051	76%	47%
	6,172	13%	3,342	54%	10%
	8,618	18%	5,513	64%	16%
	7,080	14%	5,241	74%	15%
	48,571	100%	34,272	—	100%

Source: Postal Service FY 2015 field EAS employee data.

8 Others includes employees not specifically assigned to groups such as area and district employees.

Stations and Branches

In FY 2015, there were 28 station and branches with 66 total EAS employees in the Baltimore District. Based on the unit's performance, none of these employees' PFP scores qualified them for a pay increase.⁹ To draw a comparison, we recalculated the 66 employees' PFP scores based on individual contributions for their assigned location. The analysis concluded that the PFP scores for 38 percent more employees (25 of 66) would have increased to qualify them for a pay increase, with no PFP scores decreasing, and the PFP scores for 62 percent of employees (41 of 66) would remain the same. Eighty-eight percent of these employees (22 of 25) worked at small stations and branches¹⁰ and 12 percent (three of 25) worked at large stations and branches. The minimum score required to qualify for a pay increase was 4. See Table 2 for a summary of the recalculated¹¹ scores for Baltimore District stations and branches.

Table 2: Baltimore District Stations' and Branches' Recalculated PFP Scores

PFP Score	Employees: Current	Employees: OIG Recalculated	Employees: Difference	PFP Pay Increase
2	47	8	-39	0.0%
3	19	33	14	
Subtotal	66	41	-25	
4	0	9	9	2.0%
5	0	13	13	2.5%
6	0	3	3	3.0%
Subtotal	0	25	25	
Total	66	66	25	-

The performance goals chosen, respectively, represent the majority of the overall scores and had the largest impact of potential changes in outcomes.

Source: OIG analysis.

For larger stations and branches, we recalculated three of six performance goals (workhours, revenue, and expenses), which represented 70 percent of the unit score. For smaller stations and branches, we recalculated two of four performance goals (workhours and revenue), which represented 75 percent of the unit score (see Table 3 and Table 4 for recalculations of stations' and branches' scores). The performance goals chosen, respectively, represent the majority of the overall scores and had the largest impact of potential changes in outcomes. The performance goals we did not recalculate had a lesser impact on potential changes in outcomes. For example, "available for duty"¹² and "motor vehicle accidents and city deliveries per hour" represented a combined 30 and 25 percent of the unit score, respectively.

A primary difference in evaluation criteria is the depth at which the performance goals are assessed. The metric that impacted scoring for large stations and branches the most was expenses. Management assessed post office employees based on the expenses of the individual post office, while employees of large stations and branches were assessed based on the expenses of the combined NPA unit.

⁹ See Table 8 for PFP scores and pay increases.

¹⁰ Small stations and branches are those with an EAS Level 21 and below and large stations and branches are those with EAS Level 22 and above.

¹¹ The OIG recalculated the scores to identify the individual station and branch scores compared to the overall NPA unit score.

¹² This performance indicator was not used for the small station and branch.

Revenue was evaluated at the district level for both post offices and stations and branches; therefore, if the 25 Baltimore employees were evaluated based on specific facility data, they would have received PFP scores that qualified them for a pay increase.

Table 3: Large Station Recalculation Example

Performance Indicators (Percent to Plan)	NPA Result	NPA Score (1-15)	Facility Score		Weight
			Facility Result	(1-15)	
	Original		Revised		
Expenses	0%	0	0.2%	4	35% of unit
Revenue	0%	4	1.3%	7	25% of unit
Workhours	0%	5	(1.6%)	9	10% of unit
Unit Summary	-	2.25	-	4.80	40% of total
Corporate Summary	-	4.10	-	4.10	60% of total
Unit and Corporate Combined	-	3.36	-	4.38	
PFP Pay Increase	0%		2.0%		

Source: NPA system, Enterprise Data Warehouse¹³ (EDW) reports, and OIG analysis.

Table 4: Small Station Recalculation Example

Performance Indicators (Percent to Plan)	NPA Result	NPA Score (1-15)	Facility Score		Weight
			Facility Result	(1-15)	
	Original		Revised		
Expenses	(2.05%)	3	2.24%	8	35% of unit
Revenue	1.7%	0	(3.0%)	15	40% of unit
Unit Summary	-	135	-	9.10	40% of total
Corporate Summary	-	3.05	-	3.05	60% of total
Unit and Corporate Combined	-	2.37	-	5.47	
PFP Pay Increase	0%		2.5%		

Source: NPA, EDW reports, and OIG analysis.

Based on the results of the Baltimore District, we expanded our analysis to include the 378 station and branch employees in the Capital Metro Area. Using the same methodology, 30 percent more station and branch employees (112¹⁴ of 378) would have received PFP scores that qualified them for a pay increase. Conversely, less than 8 percent of employees at Capital Metro Area

¹³ EDW provides a single repository for managing the Postal Service's corporate data assets and provides a common source of accurate corporate data across organizations to a wide variety of users.

¹⁴ Includes the 25 employees in the Baltimore District (87 additional).

stations and branches (30 of 378) who received a performance score that qualified them for a pay increase would have either received a lower PFP score, resulting in either a smaller pay increase or no pay increase had they been assessed based on individual contributions for their assigned location. See Table 5 for a summary of the recalculated scores for the Capital Metro Area stations and branches.

Table 5: Capital Metro Area Stations' and Branches' Recalculated PFP Scores

PFP Score	Employees: Current	Employees: OIG Recalculated	Employees: Difference	PFP Pay Increase
2	51	11	-40	0.0%
3	195	123	-72	
Subtotal	246	134	-112	
4	108	140	32	2.0%
5	24	78	54	2.5%
6	0	20	20	3.0%
7	0	5	5	4.0%
8	0	1	1	4.5%
Subtotal	132	244	112	
Total	378	378	25	-

Source: OIG analysis.

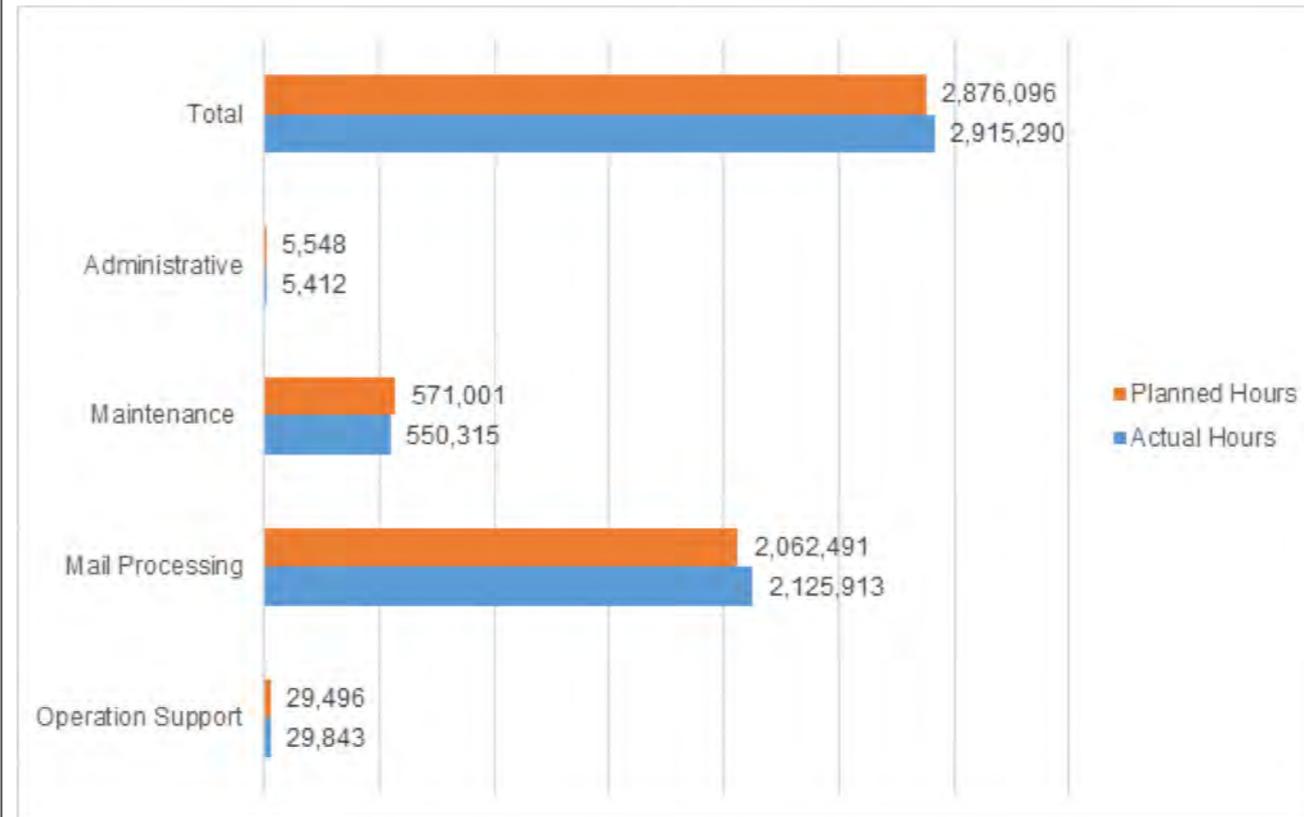
Plant Maintenance Department

The Sacramento Processing and Distribution Center (P&DC) has four departments and 91 total EAS employees. The maintenance department has 25 percent (23 of 91) of the plant's employees. In FY 2015, the maintenance department met its workhour goal by coming in 3.6 percent (20,686 hours) under budget; however, the plant as a whole exceeded the workhour goal by 1.4 percent (39,194 hours). In FY 2015, none of the 23 maintenance department employees received PFP scores that equated to a pay increase. If management had measured them based on their individual department workhours, they would have received a 2.5 percent pay increase.

In FY 2015, none of the 23 maintenance department employees received PFP scores that equated to a pay increase. If management had measured them based on their individual department workhours, they would have received a 2.5 percent pay increase.

See Figure 1 for a breakdown of workhours by plant function for the Sacramento P&DC and Table 6 for a recalculation of plant maintenance department scores.

Figure 1: FY 2015 PFP Workhours for the Sacramento P&DC



Source: Postal Service FY 2015 Sacramento plant employee data.

Table 6: Sacramento Maintenance Department Recalculation Example

Performance Indicators (Percent to Plan)	NPA Result	NPA Score (1-15)	Facility Score (1-15)		Weight
			Original	Revised	
Workhours	1.4%	0	(3.6%)	8	30% of unit
Unit Summary	-	1.80	-	6.30	40% of total
Corporate Summary	-	3.80	-	3.80	60% of total
Unit and Corporate Combined	-	3.00	-	4.80	
PFP Pay Increase		0%		2.5%	

Source: NPA system, eFlash reports, and OIG analysis.

Management was not measuring contributions toward individual station, branch, and plant department goals when specific data were available in the same way they measured contributions at post offices.

Based on the results of the Sacramento P&DC, we expanded our analysis to the 208 P&DC maintenance department employees in the Capital Metro Area. Using the same methodology, 8 percent more P&DC maintenance department employees (16 of 208) would have received PFP scores that equated to a pay increase had they been measured the same way that post office employees were measured. See Table 7 for a summary of the recalculated scores for the Capital Metro Area P&DCs.

Table 7: Capital Metro Area P&DC Maintenance Employees' Recalculated PFP Scores

PFP Score	Employees: Current	Employees: OIG Recalculated	Employees: Difference	PFP Pay Increase
2	27	34	7	0.0%
3	71	48	-23	
Subtotal	98	82	-16	
4	62	43	-19	2.0%
5	28	46	18	2.5%
6	20	37	17	3.0%
Subtotal	110	126	16	
Total	208	208		-

Source: OIG analysis.

These conditions occurred because performance at stations and branches was rolled into a single NPA unit score, rather than recognizing performance at each station or branch, even though these units had their own goals. Additionally, at the plants, plant operations were rolled into a single NPA unit, even though each department had its own goals. Management was not measuring contributions toward individual station, branch, and plant department goals when specific data were available in the same way they measured contributions at post offices. Instead management combined results with those of other stations and branches or plant departments into one NPA unit. In FY 2016, station, branch, and plant goals were changed to eliminate workhours, but there is an opportunity to measure at least 55 percent of the station and branch scorecard with specific facility data for revenue, accidents, and expenses in FY 2018.

Internal control standards state that management should design a performance evaluation and feedback system with an effective rewards system to help employees understand the connection between their performance and the entity's success.¹⁵ Because the PFP process is not consistent for field EAS employees, there is an increased risk that employee performance and organizational effectiveness could decrease. Additionally, employees could become disengaged if they feel management does not recognize the accomplishments of individual units or that the poor performances of others mask their contributions.

¹⁵ General Accounting Office's GAO-14-704G Federal Internal Control Standards, Principle 10, Design Control Activities, Section 10.03, Management of Human Capital, September 2014.

Recommendations

We recommend management update policy to ensure it aligns with current processes; communicate evaluation criteria of the PFP process to reduce the risk of negative perception and of employees becoming disengaged; and assess methods within the PFP process for recognizing individual units for their specific performance at stations, branches, and plant departments.

We recommend the Chief Human Resources Officer and Executive Vice President:

1. Update Handbook EL-312, *Employment and Placement*, to ensure it aligns with the current process.
2. Communicate to supervisors the evaluation criteria of the Pay for Performance process to reduce the risk of negative perception and employees becoming disengaged.
3. Assess methods within the Pay for Performance process for recognizing individual units for their specific performance at stations, branches, and plants.

Management's Comments

Management agreed with recommendations 1 and 2 and with our finding that their guidance documents could be more accurate and updated more timely; however, they disagreed with recommendation 3 and with our finding indicating that recalculating NPA scores at the individual station/branch and function (plant department) levels would have resulted in higher scores and payouts.

Regarding recommendation 1, management stated that in July 2016, the Postal Service removed documents containing outdated information from its PFP website and will update Handbook EL-312 to ensure that it aligns with the current process each year to the extent that changes to the PFP program are made. The target implementation date is December 2017.

Regarding recommendation 2, management stated that they will continue to communicate PFP evaluation criteria to supervisors to reduce the risk of negative perceptions and employee disengagement. In addition, management stated they have trained all PES coordinators on the PFP system and their role in supporting the system and that employees are using the system. They also implemented mandatory PES training for all PFP-eligible employees participating in the program beginning this calendar year. Management reported that mandatory training was completed in January 2017.

Regarding recommendation 3, management stated that, in consultation with the management associations, they shifted away from individual goals to unit goals in 2012 to drive collective success. Further, management indicated they could not accept our proposal for an alternative PFP system, which they believe is beyond the scope of our audit and our statutory responsibilities.

Additionally, management disagreed with our critique of the FY 2015 PFP program, which they believe was “fundamentally flawed”. They stated that we based our recalculation of NPA scores at the individual station/branch level on a subset of metrics included on the employee’s scorecard and did not consider that data sources may not be available or may be unreliable at the individual unit level. Management indicated that they base the level at which a unit is measured on consultations with operations subject matter experts and management associations to ensure a proper balance of line of sight with data availability, data integrity, and goal alignment across functions and levels. They attest that measuring small stations and branches as stand-alone units will not only discourage collaboration, but will result in a less efficient operation and potentially compromise the integrity of the PFP system.

Lastly, management disagreed in measuring individual functions within a facility because it does not promote collaboration, does not drive employee engagement, and has more potential to drive the wrong employee behavior. They stated that under the PFP program as designed, an increase in unit scores by a subset of the unit would have to be balanced mathematically by a commensurate decrease in the scores by other employees in the unit, unless overall unit performance improved.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments on recommendations 1 and 2 responsive and corrective actions should resolve the issues identified in the report; however, the OIG considers management's comments on recommendation 3 to be nonresponsive.

Regarding management's disagreement with recommendation 3, we conclude they did not properly interpret or understand the recommendation as written and discussed. The recommendation did not suggest developing an alternative PFP system, but assessing methods in the current PFP process that recognize individual units for their specific performance at stations, branches, and plants. During the audit, Human Resources officials communicated that they primarily calculate goals at the lowest detailed level at which the data are available; however, our analysis demonstrates that they could calculate data at a lower level than what is currently assessed to provide increased depth into the employees' line of sight.

Regarding management's assertion that the audit analysis was "fundamentally flawed", we disagree. Recalculating individual stations' and branches' NPA scores included the majority of goals applied to the scorecard (70 percent at larger stations and branches and 75 percent at smaller ones) and represented the goals with the largest impact on a unit's NPA score and data available at the station and branch level. As explained to management, the rationale for the analysis was to demonstrate that the data could be calculated in more depth and, if done, some scores would be impacted, but in the spirit of providing more insight into individual performances.

Based on our audit results, there are opportunities for management to better align employee evaluation criteria to improve consistency and transparency in the evaluation process and provide employees with equal opportunity for having individual contributions incorporated into their evaluation.

Regarding management's assertion that measuring station, and branch, and plant functions as standalone units will discourage collaboration, result in a less efficient operation, and potentially compromise the integrity of the PFP system we find those conclusions unsupported. Furthermore, we also find management's assertions that measuring individual functions within a facility does not promote collaboration, does not drive employee engagement, and has more potential to drive the wrong employee behavior to be unsupported. Management did not provide any qualitative data to support such an assertion. We contend that when employees feel like individual contributions are not valued there could be less employee engagement, less efficient operations, and more potential to drive the wrong employee behavior.

Management's assertion that evaluating individual maintenance scorecards reflects a lack of understanding of the PFP program is disingenuous. We contend that recalculating a goal within a subset of a unit would not necessarily result in a commensurate decrease in the scores of other employees in the unit. Each unit or plant function would receive a score based on their individual group's accomplishment. If the results are a decrease in the scores of other employees, it would be because the performance of those employees reflected the lower score.

Finally, management's assertion that we were beyond the scope of our audit and statutory responsibilities is incorrect. As management should be aware, the Inspector General's Act stipulates that the OIG is an objective and independent unit that conducts and supervises audits; and provides leadership, coordination, and recommendations to inform agency's heads about problems and deficiencies in the administration of their programs and operations. Additionally, the audit objective was to determine

whether the Postal Service's FY 2015 PFP program was sufficiently consistent and transparent to allow management to recognize and award employee performance. As such, we conducted the audit within both our scope and statutory responsibilities.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 2 should not be closed in the USPS follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed. Recommendation 3 will remain open as we coordinate resolution with management.

Appendices

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Appendix A: Additional Information

Background

According to the Postal Service's [Pay Programs](#) website, PFP enables employees to concentrate on achievements that are within their control and recognizes employee accomplishments. Non-bargaining EAS employees in supervisory, technical, administrative, and managerial positions are evaluated annually through the PFP program. The program has a scoring system that equates to a pay increase percentage. The minimum score needed to receive a pay increase is 4. See Table 8 for PFP scores and pay increases.

Table 8: PFP Scores and Pay Increases

PFP Score	PFP Pay Increase
1-3	0.0%
4	2.0%
5	2.5%
6	3.0%
7	4.0%
8	4.5%
9	5.0%
10	6.0%
11	6.5%
12	7.0%
13	8.0%
14	8.5%
15	9.0%

Source: EAS pay rules, FY 2015 PFP prepared December 11, 2015.

The Postal Service's Performance Evaluation System (PES) is intended to provide clear performance expectations with periodic feedback on individual and organizational performance. Objectives and goals are established at the beginning of the evaluation period so that employees know where priorities lie, what is expected of them, and how meeting those expectations impact the organization. While PES makes performance distinctions at the unit and corporate levels, it is different than the NPA, which is a scorecard of performance goals and the foundation of the PFP program.

Evaluators for all employees evaluated through the PFP program are required to discuss expectations with employees at the beginning of the evaluation period. Evaluators are also required to discuss mid-year and end-of-year results with the employees.¹⁶ If an HQ or HQ-related employee believes their end-of-year evaluation and score do not reflect their contribution to the work unit, they have 30 days from the date the employee ratings are posted to appeal the evaluation. Since field EAS employees in the same NPA unit receive the same score, they cannot individually appeal their scores; however, if the scorecard data are not

¹⁶ *Pay for Performance Program Evaluation Roles for Field EAS Employees*, pages 2-3, dated June 2014; and *Pay for Performance Program Evaluation Roles for Headquarters and Headquarters Related Non-Bargaining and Non-Executive Employees*, pages 3-5, dated June 2014.

representative of NPA unit performance, the installation head may request an appeal. Postal Service management provided management associations with the FY 2015 NPA unit indicators and 55 percent of the corporate indicators on September 30, 2014. According to the PFP manager, the remaining 45 percent of the corporate indicators were not provided to the associations until after the Postal Service received approval from the Board of Governors in mid-November.

Objective, Scope, and Methodology

Our audit objective was to determine whether the Postal Service's FY 2015 PFP program was sufficiently consistent and transparent to allow management to recognize and award employee performance. The scope of this audit was the Postal Service's FY 2015 PFP program.

To accomplish our objective, we:

- Performed a comparative analysis of 48,571 PFP employee scores.
- Interviewed Postal Service HQ staff to gain an understanding of the PFP program and staff roles and responsibilities.
- Reviewed complainant data provided by the National Association of Postal Supervisors (NAPS).
- Evaluated EDW data to determine PFP scores for EAS employees at stations and branches in the Baltimore District. We recalculated scores to identify individual station and branch scores compared to the overall NPA unit score. For the 23 smaller stations and branches, we recalculated two of four performance goals (workhours and revenue), which represented 75 percent of the unit score. We used NPA unit data as a proxy for the remaining 25 percent in our recalculation. For the four larger stations and branches, we recalculated three of six performance goals (workhours, revenue, and expenses) which represented 70 percent of the unit score. We used NPA unit data as a proxy for the remaining 30 percent in our recalculation.
- Evaluated EDW data to determine PFP scores for EAS employees at stations and branches in the Capital Metro Area for workhours, revenue, and expenses. We recalculated the scores to identify individual station and branch scores compared to overall NPA unit score.
- Evaluated eFlash¹⁷ data to determine PFP scores for maintenance employees at the Sacramento P&DC. We recalculated the workhours goal to identify the individual department compared to the overall NPA score.
- Evaluated eFlash data to determine PFP scores for maintenance employees at Capital Metro Area P&DCs. We recalculated the workhours goal to identify the individual department compared to the overall NPA score.
- Interviewed Human Resources managers in the Sacramento District and Pacific Area to gain an understanding of the PFP process and their roles and responsibilities.
- Interviewed 64 EAS employees to understand their roles and obtain feedback on the PFP process, including 31 in the Baltimore District, 20 at the Los Angeles Customer Care Center, and 13 at the Sacramento P&DC. We judgmentally selected these sites based on NAPS' concerns.

¹⁷ A reporting system that reports data from delivery, mail processing, customer service, and other functions.

- Hosted an external (public audience) Audit Asks web page to gather information on PFP and reviewed the eight responses received.

We conducted this performance audit from May 2016 through July 2017, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 3, 2017, and included their comments where appropriate.

We assessed the reliability of the workhour, total operating expense, and total revenue data in EDW and eFlash by recomputing and comparing it to the NPA unit scorecard. We also interviewed Postal Service officials knowledgeable about the data. We determined the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Management's Comments

JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER
AND EXECUTIVE VICE PRESIDENT



July 17, 2017

AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report—Fiscal Year 2015 Pay-for-Performance Program
(Report No. HR-AR-17-DRAFT)

Thank you for the opportunity to respond to the above-referenced draft OIG audit report. We appreciate and agree with the fundamental conclusions of the report that the Postal Service followed its policies and procedures in conducting the Fiscal Year(FY) 2015 Pay-for-Performance (PFP) Program; and that the process was transparent and accessible to employees.

We likewise agree with your observation that even though our FY2015 PFP process was transparent and accessible to employees, our guidance documents should be updated on a timelier basis to insure that all documents are completely accurate. In order to address this concern, the Postal Service removed any documents that contained outdated information from the PFP website in July 2016. In that regard, all links that were not fully functional were requested to be removed or discontinued, including the reference in Handbook EL-312. Postal Management has also reviewed and updated all Performance Evaluation System (PES) training guides and support documentation on the PES website. In addition, all PES Coordinators in every district were trained on the system, and on their role in support of the system and the employees that utilize it. We has also implemented mandatory PES training for all PFP-eligible employees who participate in the program beginning in 2017.

That said, we cannot agree with your critique of the FY2015 Program, which in our view is premised upon a methodology which is fundamentally flawed. For the same reasons, we cannot accept what is essentially your proposal for an alternative PFP system, which in addition we believe to be beyond the scope of the audit and an inappropriate foray into the responsibilities of postal management. As such, we must respectfully disagree with the bulk of your factual determinations in the draft report.

By way of further explanation, the report specifically criticizes the distinction between stations and branches versus Post Offices in the PFP program, and asserts that such distinction did not provide employees with equal opportunity to be evaluated for their individual contributions. The report included findings that 112 of 378 employees at Capital Metro Area stations and branches did not receive performance scores qualifying them for a pay increase; and concludes that if those 112 employees had been assessed under the PFP criteria for post offices, they would have qualified for pay increases. For the following reasons this conclusion is incorrect and inappropriate:

- Postal Management categorically disagrees with the OIG's PFP recalculation analysis/findings indicating that recalculation of NPA scores at the individual station/branch level would have resulted in higher scores and higher payouts for employees. This conclusion is based on recalculation of only a subset of metrics

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included on the employee's scorecard. The report fails to address how scores will be affected if all NPA metrics were recalculated and fails to consider that data sources at the lower levels may not be available or may be unreliable at the individual unit level.

- The Postal Service PFP policy utilizes both unit and corporate performance to determine the overall performance rating. The level at which the unit is measured is determined based on consultation with operations subject matter experts as well as the Management Associations each year. This determination is made to ensure a proper balance of line of sight, with data availability, data integrity, and with goal alignment across functions and levels. For example, individual stations and branches regularly share resources to balance workload and employee availability. Measuring small stations and branches as standalone units will not only discourage collaboration, it will result in a less efficient operation and potentially compromise the integrity of the PFP system.

Similarly, the report commented that the distinction between plants versus post offices did not provide employees the same control over their performance scores for their individual department's contributions. The OIG found that in the Sacramento Processing and Distribution Center the maintenance department met its workhour goal, however, the plant as a whole missed the workhour goal by 1.4 percent and stated that if the 23 maintenance employees were evaluated based on only maintenance workhours they would have received PFP scores equating to pay increases. Additionally, the OIG found that 8 percent of employees (16 of 208) in Capital Metro Area maintenance department groups did not receive performance scores qualifying them for a pay increase; and concluded that if the 16 employee had been assessed using the criteria for post offices, they would have qualified for pay increases. These conclusions are again incorrect and inappropriate for the following reasons:

- Management again disagrees with the OIG conclusions. Processing and distribution center operations are significantly different from a post office. Further, suggesting that performance should be measured by individual function within a facility reflects a lack of understanding of the intent of NPA and the PFP program. Measuring individual functions within a facility does not promote collaboration, does not drive employee engagement, and has more potential to drive the wrong employee behavior. For example, it is possible that maintenance department could decide not to perform certain maintenance activities in order to save workhours to achieve their workhour plan. This would increase the likelihood of machine downtime which would in turn increase mail processing workhours. The collective success of the operation depends on maintenance and mail processing all working together to maintain an efficient operation.

In addition, the OIG attempts to evaluate the maintenance scorecard in isolation, which again reflects a lack of understanding concerning the operation of the PFP program as currently designed. In that regard, under the PFP program as designed, an increase in the scores by a subset of the unit would have to be balanced mathematically by a commensurate decrease in the scores by other employees in the unit, unless the overall performance of the unit improved. The OIG's analysis is flawed because it did not consider that aspect of the PFP program.

Despite the fact that the Postal Service disagrees with the OIG's critique of the PFP Program, disagrees with the fatally flawed analysis that underpins that critique, and with

disagrees with the specifics of the third recommendation, but will implement a modified version of it.

In that regard, in connection with the OIG's first recommendation, the Postal Service will insure that it updates Handbook EL-312, to ensure that it aligns with the current process each year to the extent changes to the PFP program are made.

With regard to the OIG's second recommendation, the Postal Service will continue to communicate to supervisors the evaluation criteria of the PFP to reduce the risk of negative perceptions and employees becoming disengaged. In that regard, and as noted above, the Postal Service has already trained all PES Coordinators in every district concerning the PFP system, and their role in support of the system and the employees that utilize it. The Postal Service has also implemented mandatory PES training for all PFP-eligible employees who participate in the program beginning this calendar year.

Finally, with regard to the OIG's third recommendation, the Postal Service does not agree with the OIG's recommendation that PFP goals should be applied and calculated at station/branch unit level. The Postal Service notes that, in consultation with the management associations, we shifted away from individual goals to shared unit goals in 2012 to drive collective success. That said, Postal Service management annually consults with management organizations to establish unit goals and to determine at what level these goals are to be measured. This process was followed in FY2015, and will be followed again in this and future years to explore whether improvements can be made to the program that are consistent with our goal of continuously improving individual and organizational performance.

In conclusion, the Postal Service takes its responsibility to administer a fair and equitable pay for performance system very seriously. The OIG's findings that the Postal Service followed its policy and procedures in conducting the FY2015 PFP and that the process was transparent and accessible to employees demonstrates our commitment in this regard. As such, we would hope that you would reconsider those aspects of the draft report that are beyond the scope of your audit, that are outside the parameters of your statutory responsibilities, and that are premised upon faulty methodology. We would welcome the opportunity to discuss these issues with you further.



Jeffrey C. Williamson



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