September 3, 2002

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SENIOR VICE PRESIDENT, HUMAN RESOURCES

SUBJECT: Audit Report - Postal Service's Corporate Succession Planning Process
             (Report Number LH-AR-02-004)

This report presents the results of our audit of the corporate succession planning
process (Project Number 01JA005LB000). The report responds to a Board of
Governor's request to evaluate the Postal Service's succession planning process,
including their efforts to replace experienced Postal Service employees with individuals
from different ethnic backgrounds.

The audit revealed that the Postal Service had established a corporate succession
planning process for filling vacant Postal Career Executive Service positions, and the
process included many features that we identified as best practices for successful
organizations. However, we also found that management of the process could be
improved. Specifically, the Postal Service had not fully documented its corporate
succession planning process or clearly defined how the plan would help meet corporate
strategic goals and address significant changes in the Postal Service business
environment. In addition, the Postal Service could improve its oversight of potential
successors' executive development and the associated training costs. We also found
the Postal Service had implemented diversity programs into the corporate succession
planning process resulting in a slight increase of some diversity statistics, and little to no
change in others. However, when compared to the civilian labor force and the Postal
Service workforce, women and minority representation at the Postal Career Executive
Service level could be improved.

The report included seven recommendations to Postal Service management that we
believe will improve the corporate succession planning process. Management generally
agreed with our recommendations and the actions taken and planned should correct the
issues identified in this report. Management's comments and our evaluation of these
comments are included in the report.

The OIG considers recommendations 1 through 7 significant and, therefore, requires
OIG concurrence before closure. Consequently, the OIG requests written confirmation
when corrective action(s) are completed. These recommendation(s) should not be
closed in the follow-up tracking system until the OIG provides written confirmation that

the recommendation(s) can be closed. We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Chris Nicoloff, director, Labor Management, at (703) 248-2100, or me at (703) 248-2300.

B. Wayne Goleski
Assistant Inspector General
 for Core Operations

Attachment

cc: Benjamin P. Ocasio
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EXECUTIVE SUMMARY

Introduction	This report presents the results of our audit of the Postal Service's corporate succession planning process. This audit was performed in response to a Board of Governor's request to evaluate the Postal Service's succession planning process, including their efforts to replace experienced Postal Service employees with individuals from different ethnic backgrounds. Our overall objectives were to determine whether Postal Service management was effectively managing the corporate succession planning process and to determine whether the Postal Service was implementing diversity programs into the corporate succession planning process.
Results in Brief	Our audit determined that the Postal Service had established a corporate succession planning process for filling vacant Postal Career Executive Service positions, and the process included many features that we identified as best practices for successful organizations. However, we also found that management of the process could be improved. For example, the Postal Service had not fully documented its corporate succession planning process or clearly defined how the plan would help meet corporate strategic goals. This occurred because the Postal Service believed an informal plan provided flexibility in running the program. The Postal Service may be more effective in achieving desired business results or addressing changing business needs if they documented their process including its relationship to corporate strategic goals.

In addition, the Postal Service's corporate succession plan addressed many of the significant changes in the Postal Service business environment, including the increased competition in the communications and delivery service sectors. However, we found other areas that needed to be addressed, such as, increasing security concerns and an assessment of the size of the potential successor pool based on organizational changes and projected retirements and attrition within the Postal Career Executive Service. By addressing these areas, the Postal Service could more effectively select and develop potential successors to meet current and future leadership needs of the Postal Service. In addition, the number of potential successors needed in the pool could be more accurately determined. |

Postal Service Headquarters also needs to improve its oversight of potential successors' executive development and the associated training costs. We found there was no centralized oversight for potential successor development and associated training costs and no centralized information management system. This resulted in Postal Service Headquarters officials not knowing if adequate training was provided to prepare potential successors to compete for Postal Career Executive Service positions.

Finally, we found the Postal Service had implemented diversity programs into the corporate succession planning process; however, women and minority representation at the Postal Career Executive Service level could be improved. Specifically, while the Postal Service had identified a pool of potential successors that was representative of the executive and administrative schedule levels 22 to 26, and made selections from the potential successor pool for the Postal Career Executive Service positions that were representative of this pool, these efforts resulted in a slight increase of white female executives and little to no change in minority categories.

Summary of Recommendations	We recommend that management fully document the corporate succession planning process, including a clear definition on how the plan will help meet strategic corporate goals. The Postal Service should also periodically revalidate, the executive competency model to ensure it identifies the knowledge and skills needed in potential successors based on the Postal Service's changing business environment. In addition, a reassessment of the accuracy of the potential successor pool size, based on organizational changes, projected retirements, and attrition is necessary. We also recommend the Postal Service establish a centralized information management system to monitor and analyze potential successor training and associated costs to ensure development needs are met; as well as continue its efforts to identify the barriers that limit improvements in the Postal Career Executive Service diversity statistics, and take the appropriate action to remove the barriers.

| **Summary of Management's Comments** | Management agreed with our recommendation to fully document the corporate succession planning process and stated they will complete this by December 2002. They also agreed to revalidate the Executive Competency Model by June 2003 and periodically assess the need to revalidate the model based on changes to the Postal Service business environment. Also, management agreed to reassess the corporate succession pool size to ensure postal needs and placement opportunities match and to implement a centralized information system to monitor and analyze potential successor training and its associated costs. Management did not believe, however, that they should ensure training is proportionately distributed among successors because individual training needs will vary. Finally they agreed to continue to identify and remove barriers that limit improvements in diversity.

Management disagreed with our comparisons of the Postal Career Executive Service workforce to the civilian labor force and Postal Service workforce; and with our "assertions" that "little or no progress" had been made in women or minority representation. They provided statistics to rebut our findings. Management's comments, in their entirety, are included in Appendix F of this report. |
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| **Overall Evaluation of Management's Comments** | Management's comments to recommendations 1 through 7 were responsive and the actions taken and planned should correct the issues identified in this report. |

INTRODUCTION

Background

The Postal Career Executive Service was established in 1979 and consists of two levels of leadership. Level 01 executives are appointed by senior-level officers and include district and bulk mail center managers. Level 02 senior-level officers are appointed by the postmaster general and include area vice presidents and the deputy postmaster general. As of February 2002, the Postal Service had approximately 768 executive positions and 41 senior-level officer positions for a total of 809 authorized Postal Career Executive Service positions Postal Service wide.

The Postal Service's corporate succession planning process was initiated in 1994 to identify a diverse pool of potential successors for Postal Career Executive Service positions and to promote their development for leadership roles in the organization. The planning process was also to provide a mechanism for building diversity into the leadership of the organization.[1]

The Postal Service projected that among its employees as of October 2000; about 36 percent of its executives and senior-level officers were eligible for regular retirement in calendar years 2001 and 2002. In addition, the Postal Service projected that 85 percent of its executives and senior-level officers would reach retirement eligibility by calendar year 2010.

Objectives, Scope, and Methodology

The overall objectives of the audit were to determine whether Postal Service management was effectively managing the corporate succession planning process and to determine whether the Postal Service was effectively implementing diversity programs into the corporate succession planning process. Our scope and methodology are discussed in Appendix A.

This audit was conducted from April 2001 through August 2002 in accordance with generally accepted government auditing standards. We reviewed management

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[1] The Postal Service's Diversity Development Office was established to build a motivated, productive, and inclusive workforce. This office focused on diversity in workforce management, promotions, and developmental activities, including succession planning. These activities have been implemented as part of the methodology for selecting and developing potential successors to executive positions.

controls over the corporate succession planning process and the implementation of diversity programs into the process. Specifically, we reviewed controls designed to ensure the qualifications, development and diversity of potential and actual successors, and the reporting of costs associated with the program. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage
U.S. Postal Service: Diversity in the Postal Career Executive Service (GAO/GGD-00-76, March 2000). This report showed that at the end of fiscal year (FY) 1999, women and minorities represented about 58 percent of the Postal Service's overall workforce and 35 percent of the Postal Career Executive Service workforce. Similarly, their representation among Postal Career Executive Service executives for each specific women and minority Equal Employment Opportunity category was lower than their representation in the corresponding Equal Employment Opportunity categories in the Postal Service's overall workforce. Women and minorities occupied 13 (about 31 percent) of the 42 senior-level officer positions as of FY 1999.

Postal Service management commented that the General Accounting Office (GAO) report reflected the commitment of the Postal Service to foster diversity at all levels of the organization, and that the Postal Service was aware that it could make continuing progress in the representation of women and minorities among its officers and executives. There were no recommendations made in the report.

AUDIT RESULTS

The audit revealed the Postal Service had established a corporate succession planning process for filling vacant Postal Career Executive Service positions; however, management of the process could be improved. We also found the Postal Service had implemented diversity programs into the corporate succession planning process that resulted in a pool of potential successors that were representative of the executive and administrative schedule levels 22 to 26. We also found, selections from the potential successor pool for the Postal Career Executive Service positions were representative of that pool. However, when compared to the civilian labor force and the Postal Service workforce, women and minority representation at the Postal Career Executive Service level could be improved.

Corporate Succession Planning Process Was Established

Our review found the Postal Service had established a corporate succession planning process in 1994 to identify potential successors to fill Postal Career Executive Service vacancies and to promote their development for leadership roles in the organization. The planning process included many features that we identified as best practices for successful corporations.[2] These included:

- Identifying potential successors.

- Evaluating and training potential successors.

- Selecting employees to fill Postal Career Executive Service positions.

Each year since 1994, Postal Service vice presidents identified and prepared a list of the potential successors recommended for inclusion in the corporate succession pool. These potential successors were generally selected from the Postal Service's executive and administrative schedule levels 22 through 26. The headquarters Corporate Personnel Management office then scheduled meetings between the vice presidents, the postmaster general and the vice president, Diversity Development, to discuss each potential successor's qualifications, and to

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[2] We used the American Productivity & Quality Center report, <u>Leadership Development: Building Executive Talent</u>, 1999, to determine many of these best practices.

make selections of the successors who would enter the pool. Arrangements were also made for the approved potential successors to receive an executive assessment of their technical skills and competency levels; and based on the results, their development and training needs were updated. Many potential successors were also scheduled to attend the Postal Service's Advanced Leadership Program.[3]

We found, with few exceptions, that from FYs 1999 through 2001, Postal Career Executive Service positions were filled from the potential successor pool and not from outside the agency. For example, of the 65 vacant positions in FY 2001, 60 selections were made from the pool. Table 1 shows the number of positions filled for the 3-year period and the source for those positions.

**Table 1. Postal Career Executive Service Positions Filled for
        FYs 1999 through 2001.**

Fiscal Year	Total Number of Positions Filled[4]	Filled from Successor Pool	Filled from Outside the Postal Service
2001	65	60	5
2000	86	85	1
1999	71	69	2

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[3] The Advanced Leadership Program is a three phased program consisting of 4-weeks of classroom training and 15 credits of college courses designed to provide the knowledge, skills, and experience necessary for participants to positively impact and support future Postal Service management decisions and direction. The program seeks to develop a highly competent managerial base from which future organizational leaders would emerge.
[4] Postal Career Executive Service positions exclude vacancies filled in the Postal Service Law Department and the Postal Service's Office of Inspector General (OIG).

Management of Corporate Succession Planning Could Be Improved

Although the Postal Service had established a corporate succession planning process for filling Postal Career Executive Service positions, we found management of the process could be improved in the following areas:

- Documentation of the planning process and how it will help meet strategic goals.

- Addressing significant changes in the Postal Service business environment.

- Oversight of potential successors' development and associated training costs.

Succession Planning Process and Plan to Meet Strategic Goals Not Clearly Defined

The Postal Service had not fully documented its corporate succession planning process or clearly defined how the plan would help meet corporate strategic goals. Some elements of the process were documented in headquarters and field office correspondence, a 15-minute video shown to potential successors, and a PowerPoint presentation used for management briefings. However, to fully understand the complete process, we had to interview several Postal Service officials. For example, officials had to tell us how the process would be measured to determine its success because this information was not contained in any of the documents describing the process.

Although there were no established criteria requiring the Postal Service to document their corporate succession planning process, we found that companies identified as best practice partners by the American Productivity & Quality Center best practices report, had developed written plans. In addition, the Office of Personnel Management required federal agencies to clearly define and understand long-term goals to meet institutional leadership needs.

According to the manager, Corporate Personnel Management, the corporate succession planning process was not documented as a policy or procedure because an informal plan provided flexibility in running the program. The manager also said that a more formal plan would restrict the ability of vice presidents to respond to the individualized needs of potential successors.

We believe, however, that a fully documented planning process and a clear definition of how the plan contributes to the Postal Service meeting its corporate strategic goals, would help the Postal Service more effectively achieve desired business results and address changing business needs. In addition, with a documented understanding of how the plan would help meet strategic goals, the plan's effectiveness in selecting, developing, and placing potential successors could be more effectively measured and enhance accountability for the corporate succession planning process.

Recommendation

We recommend the senior vice president, Human Resources:

1. Fully document the corporate succession planning process to include applicable performance measures, and a clear definition on how the plan will help meet corporate strategic goals.

Management's Comments

Management agreed with the finding and recommendation. They stated the corporate succession planning process was informally documented; however a more formal description of the program should be written. Management expects to have the process formally documented by December 2002.

Evaluation of Management's Comments

Management's planned actions are responsive and meet the intent of our recommendation.

Corporate Succession Plan Addressed Many Changes in the Environment

The Postal Service's corporate succession plan addressed many of the significant changes that have occurred in the Postal Service business environment. We identified, however, the following areas that also need to be addressed:

- Increasing security concerns.

- Assessing the effect of organizational changes on the number of potential successors.

- Projecting Postal Career Executive Service retirements and attrition.

By addressing these areas, Postal Service management could more effectively select and develop potential successors to meet current and future leadership needs of the Postal Service. In addition, the number of potential successors needed in the pool could be more accurately determined. For example, if the current successor pool is too large, unnecessary costs for developmental training may be incurred.

Postal Service business environment. In accordance with best practices identified in the American Productivity & Quality Center report, the Postal Service's corporate succession planning process addressed many of the changes in the Postal Service business environment. For example, according to the April 2002 Postal Service's Transformation Plan,[5] the Advanced Leadership Program was continually refreshed and kept current with both internal and external criteria. In addition, we found the Executive Competency Model[6] generally addressed the need for potential successors to have the knowledge and skills needed to address competition in the communications and delivery service sectors, significant increased public use of e-mail, and the financial decline resulting from rising costs to maintain the Postal Service network.[7] In this respect, the competency model was aligned with the Postal Service's FY 2001 – 2005 Strategic Plan, which addressed the same issues.

Increasing Security Concerns. We found however, that the competency model had not been revalidated since its development in 1998, despite other significant changes in the Postal Service business environment. For example, in their April 2002 Transformation Plan, the Postal Service identified a list of fundamental changes that it needed to address. One of these changes, associated with the terrorist and biohazard incidents that occurred in September and October 2001, respectively, was the identification of

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[5] The Postal Service business environment has undergone significant changes, including a financial decline as a result of costs rising faster than revenue. In response to these changes the Postal Service issued the Transformation Plan to Congress, identifying the steps that must be taken to address the challenges it faces both now and in the future.

[6] The Postal Service's Executive Competency Model contains 31 core competencies that the Postal Service has identified as the skills and attributes its executives should have. This model is used to evaluate individuals against the requirements for executive positions and was used in the development of the Advanced Leadership Program.

[7] Other changes included deregulation of foreign Postal Service administrations, changing workplace loyalties and demographics, dramatic planned cost cutting and downsizing, and changes in legislation and regulations.

increasing security concerns that will require expensive and sophisticated countermeasures. Our review of the competency model found that it did not specifically address the need for executives to have the knowledge and skills needed to respond quickly and adequately to national crisis situations.

The American Productivity & Quality Center best practices report indicates that best practice organizations must ensure that their competencies are kept up to date through internal and external research. In addition, given the transformation the Postal Service is undertaking, additional opportunities may exist to update or refine the competency model to evaluate current and future Postal Service leaders. We believe updated competencies that reflect the future needs of the Postal Service will help ensure that executives have the knowledge and skills necessary to provide the strong and committed leadership needed to forge a fundamentally new business model for the Postal Service.

A headquarters human resource specialist told us the executive competency model has not changed since its development because the foundation of the model was considered strong, allowed flexibility, and conformed to the federal government Senior Executive Service[8] competency model. The specialist also stated that all potential successors receive crisis management training and that the Postal Service's response to the anthrax and bio-terrorism incidents last September and October 2001, showed how effective leaders were at resolving problems.

Assessing the effect of organizational changes on the number of potential successors and projecting retirements and attrition. The Postal Service had not assessed the impact the FY 2002 reorganization and the projected retirements and attrition in Postal Career Executive Service positions, would have on the potential successor pool (approximately 1,500 at the end of FY 2001). The Office of Personnel Management directs federal agencies to measure workforce trends and predictions when developing their succession pool.

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[8] The federal government's Senior Executive Service is the equivalent of the Postal Service's Postal Career Executive Service and includes most managerial, supervisory, and policy positions classified above General Schedule grade 15 or equivalent positions in the executive branch of the federal government.

In September 2001, the postmaster general announced that 30 percent of the senior-level officer positions would be eliminated. Since that time, the 11 Postal Service geographic areas of operation have been consolidated into 9; the headquarters Sales and Marketing operations have been restructured; and 58 Postal Career Executive Service positions have been eliminated.

In addition, we determined that as of January 2002, the average age of employees in Postal Career Executive Service positions was about 55 years old; and the average age of potential successors was about 48. This indicates that many executives and senior-level officers, and those who could succeed them, are at retirement age, or will reach retirement age within 7 years, respectively. However, the Office of Personnel Management reported in 1999 that potential successors and executives in the federal government stay on average 3.4 years past their eligible retirement date. We believe this information may have an impact on Postal Service retirement projections.

According to Postal Service officials, the organization had not assessed the impact of the reductions in Postal Career Executive Service positions because recent changes in the Postal Service organization and the number of Postal Career Executive Service positions had not been finalized. The manager, Corporate Personnel Management, also stated that a large potential successor pool was needed to ensure sufficient numbers of qualified candidates were available to select from. The manager further stated the postmaster general could reorganize the Postal Service again and increase the number of Postal Career Executive Service positions.

| Conclusion | The Postal Service's projection that 85 percent of its Postal Career Executives Service employees would reach retirement eligibility by calendar year 2010 should be an incentive for the Postal Service to reassess the corporate succession planning process to identify improvements. We believe improvements made prior to this potential wave of retirements could have an immediate, significant, and positive impact on the quality and diversity of leaders who will be needed to address the challenges the Postal Service faces both now and in the future. |

Recommendations	We recommend the senior vice president, Human Resources:
	2. Revalidate the Executive Competency Model to ensure it identifies the knowledge and skills needed in potential successors to operate in the Postal Service's changing environment.
	3. Periodically assess the need to revalidate the Executive Competency Model based on changes to the Postal Service business environment.
	4. Reassess the accuracy of the potential successor pool size based on organizational changes and projected retirements and attrition, and adjust the size as needed.
Management's Comments	Management agreed with the findings and recommendations, and stated the Executive Competency Model would be updated by June 2003, to reflect the competencies needed to develop future leaders. They also agreed to assess the Executive Competency Model based on changes to the Postal Service business environment and that this would be an ongoing effort. Management also agreed, on an ongoing basis, to review the potential successor pool size to ensure Postal Service needs and placement opportunities match.
Evaluation of Management's Comments	Management's planned actions are responsive and meet the intent of our recommendations.
Improved Oversight Needed of Potential Successors' Development and Associated Training Costs	Postal Service Headquarters needs to improve its oversight of potential successors' executive development and the associated training costs. We found there was no centralized oversight or information management system to determine if: (1) potential successor development needs were met, (2) training was proportionately distributed among successors, and (3) overall business goals were achieved.

Headquarters officials were also unable to identify all the training costs associated with the development of potential successors. Specifically, we found most of the costs for the development and training of potential successors was maintained at the vice president level with no oversight by |

headquarters officials who manage the corporate succession planning process. Although we could not determine all the costs, we found from FYs 1999 through 2001 at least $7.6 million was expended for the development of potential successors.

According to the American Productivity & Quality Center best practice report, successful companies oversee the development of potential successors to ensure business needs are met and to track the performance and development needs of potential successors. We also found Office of Personnel Management guidance that states in order to meet institutional needs, long term plans are needed to provide training, mentoring, and developmental assignments for potential successors. In addition, effective management controls require the use of sound methodologies for budgeting, recording, and reporting costs to obtain the information and financial data needed to manage programs and operations. For example, two of the four phases of the Postal Service's *CustomerPerfect!*[9] Management Cycle are deploying resources (budgeting), and reviewing and assessing progress toward goals using accounting and financial data.

Postal Service officials told us that oversight responsibility for potential successor development and associated training costs had been delegated to the vice presidents. They also told us that the individual executive development assessments and the Executive Competency Model were adequate guidance to vice presidents regarding the training that should be provided to potential successors. In addition, the manager, corporate personnel management stated it would be too difficult for headquarters to track all the training courses and associated costs for over approximately 1,500 potential successors for the purpose of ensuring vice presidents were meeting their training needs. The senior vice president, Human Resources, told us however, if this information were available, it would be monitored and analyzed at the headquarters level.

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[9] The *CustomerPerfect!* Management Cycle of planning, implementation, and review consists of four distinct phases of activities intended to give direction to the organization and to build and sustain improved performance against the goals that are set.

According to the vice president, Diversity Development, the advantages of a centralized information management system were recognized and an attempt was made to establish a database at the headquarters level that would manage the individual training of potential successors. We determined that contractors were paid approximately $100,000 to implement the Development Tracking System. However the vice president, Diversity Development, said the system was never completed due to a temporary hold on further development to ensure alignment with other business requirements and systems development changes, and a determination of whether the Postal Service could support the system with internal resources.

We believe the lack of a centralized information management system resulted in Postal Service Headquarters officials not knowing if adequate training was provided to prepare potential successors to compete for Postal Career Executive Service positions. In addition, the Postal Service could not determine if the training was proportionately distributed based on individual needs and whether potential successors were being developed to meet business goals.

Furthermore, we believe a significant amount of resources have been expended without a proper and accurate accounting to determine the program costs. Accounting and financial information not properly recorded and classified can result in distorted reporting and unreliable data used to manage programs and operations.

Recommendation

We recommend the senior vice president, Human Resources:

5. Establish a centralized information management system to monitor and analyze potential successor training and its associated costs and to determine if:

   • Potential successor development needs are met.

- Training is proportionately distributed among successors.

- Overall business goals are achieved.

Management's Comments	Management agreed with the finding and with the recommendation to establish a centralized information management system to monitor and analyze potential successor training and its associated costs. They stated that a centralized system had been developed which included information relative to successor training and costs. They did not believe, however, that training should be proportionately distributed among successors, stating some successors already possess the requisite skills to perform the position and, therefore, require little or no training; while others may require moderate to substantial training experience.
Evaluation of Management's Comments	Management's planned actions are responsive. We agree that individuals identified as successors vary in terms of training needs. The intent of the recommendation was to ensure that individuals with similar training needs received similar training. We believe this is important because potential successor development had been delegated to individual vice presidents who were not responsible for ensuring equitable training Postal Service-wide.
Recommendation	We recommend the senior vice president, Human Resources: 6. Determine if the continued implementation of the Development Tracking System is cost effective and adequate to address the requirements set out in recommendation 5.
Management's Comments	Management agreed with the finding and recommendation and stated that the Development Tracking System would be superceded by a new corporate succession system to be tested by headquarters users and then migrated to the field by the end of FY 2003.
Evaluation of Management's Comments	Management's planned actions to the recommendation are responsive and meet the intent of our recommendation.

**Diversity Programs
Were Implemented**

We found the Postal Service had implemented diversity programs into the corporate succession planning process that had resulted in a pool of potential successors that was representative of the executive and administrative schedule levels 22 to 26. We also found selections from the potential successor pool for the Postal Career Executive Service positions were representative of that pool. These efforts resulted in a slight increase of white female representation in the Postal Career Executive Service, and little to no change (plus or minus) in minority categories. However, when compared to the civilian labor force and the Postal Service workforce, we believe women and minority representation at the Postal Career Executive Service level could be improved.

The postmaster general stated in the Postal Service's Diversity Policy issued October 18, 2001, "We will focus on diversity in our recruitment, selection, and retention of employees. When developing succession plans and making promotions, we will strongly support diversity, thereby creating an even playing field for all employees."

The Postal Service's Diversity Development Office monitored Postal Service diversity trends and provided feedback to vice presidents regarding noteworthy changes in those trends. The office also conducted on-site reviews of achievements in diversity and made recommendations based on those reviews. In addition, the Postal Service's annual performance and strategic plans required that all executives set goals for activities they undertake to promote diversity within their individual performance evaluations. An executive's achievement of these diversity goals[10] was included as an element to be considered in determining their overall performance.

We found that for FY 2001, the Postal Service had established a diverse pool of approximately 1,500 potential successors of which almost half were represented by women and minority groups. When compared to the Postal Service's executive and administrative schedule levels 22 to 26 and the Postal Career Executive Service workforce, this

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[10] These goals included developing and implementing recruiting and hiring strategies for increasing the employability of women, minorities, and people with disabilities and ensuring that developmental assignments and training opportunities were provided to diverse groups to enhance their career development.

pool was more diverse for white females and almost as diverse for all minority categories. (See Appendix B.)

In addition, Appendix C shows that the Postal Service's promotions to fill Postal Career Executive Service positions were as diverse as the pool the selections were made from. For example, the average selection of white females from FYs 1999 to 2001 was 25.6 percent, while they represented only 20.2 percent of the FY 2001 potential successors pool. However, the average selection from several minority categories, such as Hispanic females (.4 percent) and Asian American pacific islander males (.9 percent), were less than their percentage representation (1.1 percent and 1.9 percent respectively) within the FY 2001 potential successor pool.

We found the largest difference in the Postal Career Executive Service diversity workforce statistics since FY 1999, occurred in the white female category. For example, from FYs 1999 to 2001 the representation of women and minorities increased by 4.3 percentage points. This represented a 3.9 percentage point increase in white females and a gain of .4 percentage points in minorities. (See Appendix D.) Also, according to a GAO study[11] on the Postal Career Executive Service workforce, from FYs 1995 through 1999, women and minority representation increased by 4.2 percentage points. This represented a 4.4 percentage point increase in white females and a loss of .2 percentage points in minorities. Thus during FYs 1995 though 2001, minority representation at the Postal Career Executive Service level has remained fairly constant, with little to no change in representation.

Using the information reported quarterly by the Diversity Development Office,[12] however, we found that women and minority representation at the Postal Career Executive Service level could be improved. Specifically, the Postal Service reported that for FY 2001, most women and minority groups were under-represented in the Postal Career Executive Service when compared to both the

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[11] <u>U.S. Postal Service: Diversity in the Postal Career Executive Service</u>, (GAO/GGD-00-76, March 2000).
[12] U.S. Postal Service Workforce Profile, FY 2001 End of Year Report.

civilian labor force[13] and the Postal Service workforce. For example, white and black females were underrepresented the most when compared to the civilian labor force and the Postal Service workforce, respectively. This comparison can be found in Appendix E.

The vice president, Diversity Development, acknowledged there was under representation of women and some minorities in the Postal Career Executive Service when compared to the civilian labor force. He told us that his office continually works with Postal Service officials to identify barriers that have prevented achievement of diversity at all levels of the organization. He added, however, that he believes the fairer comparison of Postal Career Executive Service diversity statistics, is the comparison to the pool of employees that they are selected from. He stated that the Diversity Development Office published their diversity statistics using the civilian labor force as a comparison, in order to satisfy Equal Employment Opportunity Commission regulations, which required that comparison.

Recommendation	We recommend the senior vice president, Human Resources:

7. Continue to improve diversity statistics by identifying the barriers that limit improvements in diversity in the Postal Career Executive Service, and taking the appropriate action to remove the barriers.

Management's Comments	Management agreed with some of the findings and agreed with the recommendation. They stated the Postal Service was proud of their diversity accomplishments and would continue to ensure inclusiveness in all its personnel operations. They disagreed, however, with our comparisons of the Postal Career Executive Service workforce to the civilian labor force and Postal Service workforce and our faulting the Postal Service for the disparities. They stated the comparisons were "unnecessary, inappropriate, and meaningless." They further stated our use of the two indexes were inconsistent with our correct use of the feeder pool of executive and

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[13] Civilian Labor Force statistics are used by the Postal Service as a benchmark to compare against their workforce diversity statistics.

administrative schedule levels 22-26. They also stated that the Equal Employment Opportunity Commission had criticized the General Accounting Office for using the civilian labor force index in their report regarding the Senior Executive Service.[14]

The Postal Service also disagreed with our "assertions" that "little or no progress" had been made in women or minority representation. They stated that during the period January 2000 through June 2002, the number of executive and administrative service level 22 and above positions declined by 6.2 percent, while the percentage of women and minorities in those positions increased by approximately 1 and 2 percent, respectively. They also stated that these increases were very significant.

Evaluation of Management's Comments	Management's planned actions are responsive to the intent of our recommendation. However, we do not agree with their comments that our statistical comparisons were incorrect. We also do not agree with management's use of incomparable information to rebut our findings.

We intentionally provided a broad spectrum of statistical comparisons that could be used when determining diversity in the workplace. As stated in our report, we used the civilian labor force statistics, because they were required under Equal Employment Opportunity Commission regulations. We also used the civilian labor force and Postal Service workforce statistics because they were used by the Postal Service in their Diversity Development Office's quarterly Workforce Profile report. This report was a resource for Postal Service managers when assessing the representation of women and minorities in the workforce. The report specifically states, "The civilian labor force and the postal workforce percentages for each employee group are provided at the top of selected statistical tables for comparison against the participation of the employee groups."

Management's rebuttal to our finding that there was little to no change (plus or minus) in minority categories, and that women and minority representation could be improved, was based on information that was not comparable to the

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[14] Senior Executive Service: Diversity Improved in the Past Decade, (GAO-01-377, March 2001)

information used in our report. Management used a different time period, different executive and administrative schedule levels, and different minority categories. Specifically, management stated that between January 2000 and June 2002, there was an increase in women and minority representation at the executive and administrative service levels 22 and above. Our report however, used the period FY 1999 through 2001, and applied to white female and minority categories represented at the Postal Career Executive Service level.

APPENDIX A. SCOPE AND METHODOLOGY

To evaluate the corporate succession planning process, the OIG reviewed how Postal Service management:

- Defined the succession plan's goals and strategies.
- Selected potential successors.
- Assessed development needs of potential successors.
- Addressed development needs of potential successors.
- Assessed the succession plan's effectiveness.
- Adapted the succession plan to change.
- Implemented diversity programs into the planning process.

We also reviewed Postal Career Executive Service positions (levels 01 and 02) at Postal Service Headquarters and area levels for FYs 1999 through 2001.

To determine if the Postal Service was effectively managing its corporate succession planning process we interviewed Postal Service executives, officers, and specialists from Human Resources, Diversity Development, and Finance offices. In addition, we reviewed documentation pertaining to the corporate succession planning process, which included information about the Postal Service's Advanced Leadership Program and 5-year Strategic Plan. We also reviewed GAO reports, federal guidance and regulations, and we analyzed and independently tested the validity and reliability of the Postal Service's list of potential and actual successors, as well as graduates of the Advanced Leadership Program for FYs 1999 through 2001.

To determine best practices related to the corporate succession planning process we benchmarked against companies identified as best practice partners in the American Productivity & Quality Center's 1999 benchmarking study regarding leadership development. The information used in the study was obtained through surveys, detailed questionnaires, and on-site interviews. The study scope covered the following areas: (1) creating the leadership development process, (2) identifying the leadership pool, (3) engaging future leaders, and (4) understanding the effects of leadership development.

To identify the best features of a corporate succession planning process we reviewed the following:

- Office of Personnel Management's Executive Succession Planning Tool Kit.

- Government Executive Core Qualifications for Senior Executive Service candidates.

- Office of Personnel Management's Code of Federal Regulations for Candidate Development Programs.

- Government Performance and Results Act of 1993.

We also reviewed the Postal Service's Executive Competency Model for leaders, how candidates were identified and developed for leadership and the assessment process of successful organizations.

To determine whether the Postal Service was effectively implementing diversity programs into its corporate succession planning process, we identified the Postal Service's diversity programs in effect during the period FYs 1999 through 2001, and analyzed quarterly performance diversity reports showing the profiles of the Postal Career Executive Service, the potential successor pool, the total Postal Service workforce, the executive and administrative schedule levels 22 and above, and the civilian labor force for FYs 1999 through 2001. In addition, we analyzed the diversity statistics for executive and administrative schedule employees promoted to the Postal Career Executive Service during FYs 1999 through 2001. We did not independently determine the validity and reliability of this data from computer-based systems. However, we did have the Postal Service confirm the correctness of the Postal Career Executive Service selection data that we extracted from the Postal Service's workforce data. We also interviewed the vice president, Diversity Development, and several staff members of the Postal Service's Diversity Development Office.

APPENDIX B

COMPARISON OF THE FY 2001 DIVERSITY STATISTICS OF THE POTENTIAL SUCCESSOR POOL TO THE EXECUTIVE AND ADMINISTRATIVE SCHEDULE LEVELS 22-26 AND THE POSTAL CAREER EXECUTIVE SERVICE WORKFORCE

Equal Employment Opportunity Categories	Potential Successor Pool	Executive and Administrative Schedule Levels 22-26	Postal Career Executive Service Workforce
	----------------(in percentages)----------------		
White Male	55.4	57.7	60.6
White Female	20.2	15.9	18.0
Black Male	8.8	9.3	8.6
Black Female	6.5	7.1	5.0
Hispanic Male	4.2	4.3	4.8
Hispanic Female	1.1	1.1	0.6
Asian American Pacific Islander Male	1.9	2.7	1.2
Asian American Pacific Islander Female	0.9	1.4	0.6
American Indian Alaskan Native Male	0.3	0.4	0.5
American Indian Alaskan Native Female	0.5	0.2	0.1

Note: Percentages may not add to 100 due to rounding

APPENDIX C

COMPARISON OF THE DIVERSITY STATISTICS OF THE POSTAL SERVICE EXECUTIVE AND ADMINISTRATIVE SCHEDULE EMPLOYEES PROMOTED TO POSTAL CAREER EXECUTIVE SERVICE POSITIONS IN FY 1999 THROUGH 2001 TO THE FY 2001 POTENTIAL SUCCESSOR POOL

Equal Employment Opportunity Categories	Promotions to Fill Positions			Average selection for 3-year period	FY 2001 Potential Successor Pool
	FY 1999	FY 2000	FY 2001		
	----------------(in percentages)----------------				
White Male	47.9	45.4	49.2	47.5	55.4
White Female	19.7	32.6	24.6	25.6	20.2
Black Male	9.9	8.1	7.7	8.6	8.8
Black Female	14.1	7.0	4.6	8.6	6.5
Hispanic Male	8.5	3.5	6.2	6.0	4.2
Hispanic Female	0.0	1.2	0.0	0.4	1.1
Asian American Pacific Islander Male	0.0	1.2	1.5	0.9	1.9
Asian American Pacific Islander Female	0.0	0.0	1.5	0.5	0.9
American Indian Alaskan Native Male	0.0	1.2	3.1	1.4	0.3
American Indian Alaskan Native Female	0.0	0.0	1.5	0.5	0.5

Note: Percentages may not add to 100 due to rounding

APPENDIX D

COMPARISON OF THE DIVERSITY STATISTICS FOR THE PERCENT OF POSTAL CAREER EXECUTIVE SERVICE WORKFORCE OCCUPIED BY WOMEN AND MINORITIES FY 1999 THROUGH 2001

Equal Employment Opportunity Categories	Percent of Occupied Positions			
	FY 1999	FY 2000	FY 2001	Difference from FY 1999 to 2001
	------------(in percentages)------------			
White Male	64.9	61.9	60.6	-4.3
White Female	14.1	17.1	18.0	3.9
Black Male	8.9	8.7	8.6	-0.3
Black Female	5.0	5.1	5.0	0.0
Hispanic Male	4.8	5.0	4.8	0.0
Hispanic Female	0.5	0.6	0.6	0.1
Asian American Pacific Islander Male	1.1	1.0	1.2	0.1
Asian American Pacific Islander Female	0.5	0.5	0.6	0.1
American Indian Alaskan Native Male	0.1	0.2	0.5	0.4
American Indian Alaskan Native Female	0.1	0.0	0.1	0.0
Total Percentage of Women and Minorities	35.1	38.1	39.4	4.3

Note: Percentages may not add to 100 due to rounding

APPENDIX E

COMPARISON OF THE FY 2001 DIVERSITY STATISTICS OF POSTAL CAREER EXECUTIVE SERVICE WORKFORCE TO THE CIVILIAN LABOR FORCE AND POSTAL SERVICE WORKFORCE

Equal Employment Opportunity Categories	Postal Career Executive Service Workforce	Civilian Labor Force	Postal Service Workforce
	--------------(in percentages)---------------		
White Male	60.6	39.1	41.5
White Female	18.0	33.4	22.4
Black Male	8.6	5.2	11.3
Black Female	5.0	6.0	10.1
Hispanic Male	4.8	6.8	5.1
Hispanic Female	0.6	5.0	2.3
Asian American Pacific Islander Male	1.2	2.0	4.4
Asian American Pacific Islander Female	0.6	1.8	2.5
American Indian Alaskan Native Male	0.5	0.5	0.3
American Indian Alaskan Native Female	0.1	0.4	0.3

Note: Percentages may not add to 100 due to rounding

APPENDIX F. MANAGEMENT'S COMMENTS

SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT
HUMAN RESOURCES

UNITED STATES
POSTAL SERVICE

July 25, 2002

RONALD K. STITH

SUBJECT: Draft Audit – Postal Service's Corporate Succession Planning Process
(Report Number LH-AR-02-DRAFT)

The audit report on corporate Succession Planning confirms that the Postal Service took a bold step in 1994 to implement a process which identifies, develops, and selects future leaders of the Postal Service. Specifically, over the past number of years approximately 98 percent of all PCES positions were filled through the succession planning process. This achievement resulted in positions being filled quickly by individuals developed to perform in that position.

We also noted in the report that many of the elements of the Postal Service's succession planning process were also contained in many other corporations' plans. These "best practices" enabled the Postal Service to lead other federal agencies in preparing its future leaders.

In those instances where recommendations were made to improve the processes and structure, we have provided responsible comments.

Recommendation 1: Fully document the corporate succession planning process to include applicable performance measures and a clear definition on how the plan will help meet corporate strategic goals.

Management Response: The Corporate Succession Planning process is informally documented however, we agree that a more formal description of the program should be written. We expect to have the process formally documented by December 2002.

Recommendation 2: Revalidate the Executive Competency Model to ensure it identifies the knowledge and skills needed in potential successors to operate in the Postal Service's changing environment.

Management Response: We agree that the model should be updated to reflect the competencies needed to develop future leaders in the Postal Service. The update will be completed by June 2003.

Recommendation 3: Periodically assess the need to revalidate the Executive Competency Model based on changes to the Postal Service environment.

Management Response: We agree that we should assess the Executive Competency Model based on changes to the Postal Service environment. This will be on ongoing effort.

Recommendation 4: Reassess the accuracy of the potential pool size based on organizational changes and projected retirements and attrition, and adjust the size as needed.

Management Response: With the FY2002 restructuring, the number of Postal Career Executive (PCES) positions has been reduced. Since the opportunity to move into PCES ranks has been reduced, the focus has shifted to identifying a pool of successors who have a realistic opportunity of being offered an executive position. While there is no predetermined number of successors to be in the pool, we believe the pool must be large enough to consider such things as mobility and availability when an offer is made. We will, on an ongoing basis, review our pool size to ensure postal needs and placement opportunities match.

Recommendation 5: Establish a centralized information management system to monitor and analyze potential successor training and its associated costs and to determine if (1) potential successor development needs are met, (2) training is proportionately distributed among successors, and (3) overall business goals are achieved.

Management Response: A centralized system has been developed for the Corporate Succession Planning process which includes information relative to successor training and costs. Although this data will be available, we disagree with the recommendation which states "training is proportionately distributed among successors." Individuals identified as successors will vary in terms of training needs. Some successors already possess the requisite skills to perform the position and, therefore, require little or no training. Others, however, may require a moderate to substantial training experience.

Recommendation 6: Determine if the continued implementation of the Development Tracking System (DTS) is cost effective and adequate to address the requirements set out in recommendation 5.

Management Response: The DTS will be superceded by the new corporate succession system now in the process of being implemented. It will be first tested by headquarters users, then migrated to field users by the end of FY2003.

Recommendation 7: Continue to improve diversity statistics by identifying the barriers that limit improvements in diversity in the Postal Career Executive Service, and taking the appropriate action to remove the barriers.

Management Response: Management agrees with and accepts the recommendation that the Postal Service should continue to identify and remove barriers that limit improvements in diversity. Identifying and removing such barriers is, of course, an ongoing obligation of any organization as committed as the Postal Service is to maintaining an inclusive workplace. As the OIG recognized, the Postal Service's succession planning process for executive positions (PCES) has already resulted in a pool of approximately 1500 highly qualified potential successors "of which almost half [are] represented by women and minority groups." Further, the OIG noted that this "pool of potential successors was representative of" the group from which it was drawn (EAS levels 22 to 26); and that "promotions to fill PCES positions were as diverse as the pool the selections were made from."

Consistent with the OIG's findings, in 2002, <u>Fortune Magazine</u> ranked the USPS:

- The eighth best company for minorities.
- The fifth best for black employment.
- In the top 20 list for the third consecutive year in minority employment.
- The sixth best as far as its "glass-ceiling" ratio. This is the ratio between the percentage of minorities that are officials and managers and minorities in the total workforce.
- The sixth best as far as its percentage of minorities among the top 50 paid employees. This includes all postal positions with salaries of $140,000 or more.

- In addition, the USPS was recently ranked sixth among 138 federal agencies by the White House National Performance Council.

The Postal Service is proud of these accomplishments and will continue to ensure inclusiveness in all its personnel operations.
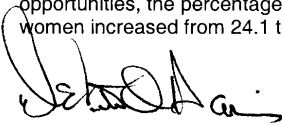
Unfortunately, we must point out that, in addition to the welcome findings by the OIG noted above, the OIG report makes some improper comparisons which need to be corrected. Specifically, the OIG report makes repeated comparisons between the Postal Service's Executive Service (PCES) and the Civilian Labor Force (CLF), and faults the Postal Service for disparities. The CLF, however, is an inappropriate benchmark to use in evaluating executive promotions, because the CLF includes the full spectrum of employees in the workforce, from janitors to CEOs, not just those qualified for executive positions. Similarly, it is inappropriate for the OIG to use the entire postal workforce (PWF) as a benchmark for executive promotions. Indeed, the OIG's use of these two indexes is inconsistent with its earlier use of the correct comparison—the feeder pool of EAS levels 22 to 26.

Further, the OIG's use of the CLF and PWF is inconsistent with the advice of the Equal Employment Opportunity Commission (EEOC), the agency charged with oversight of federal EEO programs and with providing guidance to federal agencies on fulfilling their obligations to take lawful proactive steps to promote inclusiveness. The EEOC has rejected the use of broad indexes such as the CLF as benchmarks for evaluating executive positions, as noted in a letter criticizing the Government Accounting Office (GAO) for using a CLF index to evaluate the Senior Executive Service (SES):[1]

> For example, one of the flaws of GAO's report is that it examines the SES ranks in a vacuum independent of a complete examination of the potential barriers which may prevent individuals in the pipeline or pool of persons who have the requisite qualifications and experience from moving into that labor force. Consistent with EEOC's advice to agencies, it is more appropriate to use both the GS-14 and GS-15 labor forces when evaluating the representation of women and any particular minority group in their SES workforces. We recommend this approach because these are the feeder groups which eventually lead to the SES and they form the pool of eligible candidates within the government for appointment to these SES positions.

As noted above, the OIG correctly found that PCES positions and successor pools were representative of EAS levels 22 to 26 feeder pool positions. The OIG's additional comparisons with broad indexes such as the CLF or PWF are unnecessary, inappropriate, and meaningless.

The Postal Service also disagrees, as a factual matter, with the assertions by the OIG that there has been little or no progress in women and minority representation. In fact, Postal Service statistics show that there was an overall decline of 6.2 percent in the Level 22 and above workforce between CY2000, PP01 and CY2002, PP14. Even so, during this period of sharply reduced promotional opportunities, the percentage of minorities increased from 26.0 to 27.0 percent, and the percentage of women increased from 24.1 to 26.0 percent (see attached USPS Table 1).

Suzanne F. Medvidovich

Attachments

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[1] March 6, 2001 by Ida L. Castro, EEOC Chairwoman to the Honorable David M. Walker regarding the report, GAO-01-377, *Senior Executive Service: Diversity Improved in the Past Decade*

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USPS TABLE 1

CHANGES IN THE POSTAL SERVICE WORKFORCE
CY2000 PP01 TO CY2002 PP14

	Levels 22-UP	*Succession Plan*	*PCES*
CY2000 PP01	9,281	*1,342	865
CY2002 PP14	8,704	1,398	799
Change	-577	+56	-66
Percent Change	-6.2	+4.2	-7.6

*FY2001 PQ1 data

Note:

The significant decrease of 6.2 percent in the overall feeder pool of Level 22 and above compounded by the even greater decline of 7.6 percent in PCES positions has greatly restricted the opportunities for development and promotion of all postal employees.

Therefore, a representation increase of 1.9 percent for women and 1.0 percent for minorities in the Level 22-UP workforce is very significant.

USPS TABLE 2

COMPARISON OF LEVEL 22-UP, SUCCESSION PLANNING, AND PCES
Percentage Representation for Each Group in the USPS Workforce

CY2000 PP01

CY2000 PP01	White Male	White Female	Black Male	Black Female	Hispanic Male	Hispanic Female	AAPI Male	AAPI Female	AIAN Male	AIAN Female
CLF	39.1	33.4	5.2	6.0	6.8	5.0	2.0	1.8	0.5	0.4
Level 22-UP	59.0	14.9	9.6	6.8	4.1	1.0	2.6	1.2	0.5	0.2
Succession Planning	55.7	19.5	9.4	6.6	4.5	0.9	1.9	0.8	0.5	0.3
PCES	64.2	14.7	8.9	5.1	4.9	0.6	1.0	0.5	0.1	0.1

Succession Planning Data are CY2001 PP01

CY2002 PP14

CY2002 PP14	White Male	White Female	Black Male	Black Female	Hispanic Male	Hispanic Female	AAPI Male	AAPI Female	AIAN Male	AIAN Female
CLF	39.1	33.4	5.2	6.0	6.8	5.0	2.0	1.8	0.5	0.4
Level 22-UP	57.1	16.0	9.3	7.2	4.3	1.3	2.9	1.4	0.5	0.2
Succession Planning	55.0	20.9	8.7	6.5	3.7	1.4	2.1	0.9	0.4	0.4
PCES	59.1	19.4	8.1	5.3	5.0	0.9	1.1	0.6	0.4	0.1

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USPS TABLE 3

REPRESENTATION PROGRESS
CY2000 PP01 TO CY2002 PP14

The following groups increased representation between CY2000 PP01 and CY2002 PP14

Group	Level 22-UP	Succession Planning	PCES
White Males	-	-	-
White Females	+	+	+
Black Males	-	-	-
Black Females	+	+	+
Hispanic Males	+	-	+
Hispanic Females	+	+	+
AAPI Males	+	+	+
AAPI Females	+	+	+
AIAN Males	=	=	+
AIAN Females	=	+	=

This table summarizes the changes positive (+), negative (-), and neutral (=) within each employee category to indicate the relative change from CY2000, PP01, to CY2002, PP14, described in Table 2.

White males and black males lost representation in Level 22-UP, Succession Planning, and PCES. However, both of these groups already are represented at a higher rate than the CLF (this comparison is also shown on USPS Table 2).

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APPENDIX E (REVISED)

**COMPARISON OF THE FY2001 DIVERSITY STATISTICS OF
POSTAL CAREER EXECUTIVE SERVICE TO THE CIVILIAN LABOR FORCE,
THE POSTAL SERVICE WORKFORCE, THE LEVEL 22-UP FEEDER POOL,
AND THE SUCCESSION PLANNING LISTS**

	Civilian Labor Force	*USPS Workforce*	*Level 22-UP*	*Succession Plan*	*PCES*
Total Employees			8,864	1,448	881
White Male	39.1	41.5	57.3	55.4	60.6
White Female	33.4	22.4	15.7	20.2	18.0
Black Male	5.2	11.3	9.4	8.8	8.6
Black Female	6.0	10.1	7.3	6.5	5.0
Hispanic Male	6.8	5.1	4.4	4.2	4.8
Hispanic Female	5.0	2.3	1.2	1.1	0.6
AAPI Male	2.0	4.4	2.6	1.9	1.2
AAPI Female	1.8	2.5	1.4	0.9	0.6
AIAN Male	0.5	0.3	0.4	0.3	0.5
AIAN Female	0.4	0.3	0.2	0.5	0.1

Data as of the close of FY2001