U.S. Postal Service Pay for Performance Program

Management Advisory

June 3, 2013

Report Number DP-MA-13-001

OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

June 3, 2013

**U.S. Postal Service
Pay for Performance Program**

Report Number DP-MA-13-001

BACKGROUND:

The U.S. Postal Service's Pay for Performance (PFP) Program enables the Postal Service to set strategic goals and measure supporting performance objectives throughout the organization. These performance metrics are aligned to measure performance at corporate, functional unit, and individual employee levels.

The Postal Service froze pay increases for fiscal years (FY) 2011 and 2012 due to financial difficulties and has yet to decide whether to grant pay increases in FY 2013. However, in the past, the PFP Program has been the sole source of annual pay adjustments for non-bargaining unit employees, including Postal Service executives. If pay increases are reinstituted, the program again may be used in this capacity.

The program included two parts: the National Performance Assessment and the core requirement or individual performance metrics within the Performance Evaluation System. The National Performance Assessment provides a standardized method for assessing performance within the Postal Service on a national and local level and reporting on weighting factors and timeframes for key performance metrics. The Performance Evaluation System is

a national system for evaluating individual achievements determined by the employee and his or her supervisor. However, effective October 5, 2012, the core requirement portion was discontinued for most PFP participants.

Our objective was to determine how PFP metrics were developed and measured and whether they are aligned with the Postal Service's strategic goals.

WHAT THE OIG FOUND:

The Postal Service clearly and accurately documents how it develops, measures, and approves its PFP metrics. However, current Postal Service PFP metrics do not directly support all of the agency's strategic goals or, specifically, the postmaster general's four core business strategies (and sub-objectives) created to return the Postal Service to profitability. If the Postal Service addresses this issue, it could increase productivity towards its strategic goals.

WHAT THE OIG RECOMMENDED:

We recommended evaluating the current performance metrics and developing performance metrics that better support the Postal Service's strategic goals.

Link to review the entire report

June 3, 2013

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

STEPHEN J. MASSE
VICE PRESIDENT, FINANCE AND PLANNING

FROM: John E. Cihota
Deputy Assistant Inspector General
 for Financial and Systems Accountability

SUBJECT: Management Advisory – U.S. Postal Service Pay for
Performance Program (Report Number DP-MA-13-001)

This report presents the results of our review of the U.S. Postal Service Pay for Performance Program (Project Number 12BG004FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Analysis and Performance, or me at 703-248-2100.

Attachments

cc: Megan J. Brennan
     Joseph Corbett
     Thomas J. Marshall
     Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service Pay for Performance (PFP) Program (Project Number 12BG004FF000). The objective of our review was to determine how PFP performance metrics were developed and measured and whether performance metrics were aligned with the Postal Service's strategic goals. This self-initiated review addresses strategic risk. See Appendix A for additional information about this review.

The Postal Service froze PFP pay increases for fiscal years (FY) 2011 and 2012 due to the financial difficulties and has yet to decide whether to grant pay increases in FY 2013.[1] In a May 7, 2012, memorandum, the Postal Service stated that if the federal government freezes wages for federal employees in FY 2013, it will suspend PFP pay increases. On March 26, 2013, U.S. government lawmakers extended the current freeze on federal civilian workers' pay for a third consecutive year.

The Postal Service's PFP Program has been the sole source of annual pay adjustments for about 58,000 non-bargaining unit employees — which includes all Postal Career Executive Service (PCES) employees and the majority of Executive and Administrative Schedule (EAS) employees.[2] If pay increases are reinstituted in the future, they may once again be used in this capacity. The intent of the PFP Program is to emphasize the organization's success through objective, measurable performance metrics. These performance metrics are aligned to measure performance at the corporate, functional unit, and individual employee levels.

The PFP Program measures performance for non-bargaining employees in both EAS and PCES[3] groups, as shown in Table 1.

Table 1. Number of PFP Participants in FY 2011[4]

Postal Service Employee Type	Number of Participants
EAS employees	57,100
PCES executives	622
Total	**57,722**

Source: Postal Service Human Resources.

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[1] Future salary increases are determined by Postal Service management after consulting with the two postmaster management associations – the National Association of Postmasters of the U.S. (NAPUS) and the National League of Postmasters (NLPM) – and with the National Association of Postal Supervisors (NAPS).

[2] For this report, PCES refers to all executives other than officers.

[3] The postmaster general has the authority to decide on PCES salary compensation increases and policy, with input from the chief human resource officer. In addition, PCES compensation is governed by the compensation policy for executives and includes a performance matrix similar to officers and EAS. The officer's compensation policy is outlined in the *Annual 10-K* report.

[4] Data are from the Postal Service Human Resources Compensation group.

The PFP Program was comprised of two parts: the National Performance Assessment (NPA) and the Performance Evaluation System (PES).[5] NPA tracks organizational performance using different measures from its various business and operational processes and uses these measures to establish corporate and unit level performance results to develop employee evaluations. The Postal Service's PFP Program was also comprised of 10 corporate NPA performance metrics, 51 unit NPA performance metrics, and 306 individual or PES core requirement performance metrics. A participant was evaluated on a combination of these performance metrics using a tool called the balanced scorecard.[6] On October 5, 2012, the core requirement portion was discontinued for most of the PFP participants.[7] Specifically, the employee's rating will be based on his or her performance that is measured against NPA corporate and unit performance metrics with a 60/40 percentage weighting, respectively.

Postal Service management stated that the compensation salary increases for the PFP Program were established to meet the mandates under the Postal Reorganization Act, as outlined in 39 U.S.C. § 1004. Management determined that level six of the 15-level rating system is set at a 'plan' achievement level for performance.

Conclusion

The Postal Service clearly and accurately documents how it develops, measures, and approves the PFP performance metrics. However, the current Postal Service PFP performance metrics do not support all Postal Service strategic goals,[8] specifically as they relate to the four core business strategies created by the postmaster general in an effort to return the Postal Service to profitability. If the Postal Service addresses this issue, it could increase productivity towards its strategic goals.

Progress Toward the Strategic Goals of the Postal Service

The Postal Service PFP Program's current performance metrics do not directly support all strategic goals.

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[5] The PES system was originally used within the PFP program to weight NPA organizational scores to individual core requirements to determine an overall PFP rating. As of October 5, 2012, the PES system will continue to match NPA organizational scorecards to individual employees and provide a venue for discussing performance issues during the fiscal year.

[6] A scorecard is based on a participant's functional area and position and includes all 10 corporate performance metrics, and three to nine unit performance metrics. The U.S. Postal Service Office of Inspector General (OIG) report *2009 Pay for Performance Program* (Report Number HR-AR-11-006, dated August 8, 2011) focused on the participant's core requirements.

[7] For FY 2012, the Postal Service eliminated core requirements for about 46,000 of 52,000 total EAS employee participants.

[8] We based our conclusion on the following studies: Corporate Executive Board, Working Council for Chief Financial Officers, *Balanced Scorecard: Communicating Strategy Through Performance Measures*, September 2000; and *Creating and Implementing the Balanced Scorecard,* March 2001.

In FY 2011, the postmaster general created four core business strategies, with sub-objectives, to return the Postal Service to profitability.[9] These four business strategies are:

- Strengthening our business-to-consumer channel.
- Improving the customer experience.
- Competing for the package business.
- Becoming a leaner, faster, and smarter organization.[10]

However, FY 2011 NPA performance metrics were not specifically mapped to the four strategies but rather to four different goals:

- Enhancing performance-based culture.
- Increasing efficiency.
- Generating revenue.
- Improving service.

Whereas the NPA goals are related to the four core business strategies, the strategies are more detailed and provide specific objectives that are not linked to current PFP performance metrics. For example, there are no PFP performance metrics related directly to the strategies of strengthening the business-to-consumer channel and becoming a leaner, faster, smarter organization. In addition, the NPA goal of "increasing efficiency" is related to the core strategy of "becoming a leaner, faster, and smarter organization," but the metric mapped to "increase efficiency" is total deliveries per hour, which is an overall measure of efficiency within the Postal Service. There are no performance metrics to measure the following subobjectives to the core strategy:

- Redesigning the operating network, infrastructure, and processes by reviewing retail office productivity and studying under-used offices for potential consolidation, closure, or conversion to a contract unit, as well as pursuing the reduction in the number of mail processing facilities.

- Implementing tools such as the Lean Six Sigma processes and training employees who work in teams to find ways to reduce waste, strengthen business processes, improve service, and provide a better customer experience.

- Continuing to reduce labor costs through reductions in employee costs.

Further, not all of the subobjectives for the core business strategies of improving the customer experience and competing for the package business are covered by current

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[9] DRIVE (Delivering Results, Innovation, Value, and Efficiency) is a management process the Postal Service is using to improve business strategy development and execution. DRIVE is focused on a portfolio of 36 strategic initiatives the Postal Service will implement to meet its ambitious performance and financial goals. The relationship between the DRIVE initiative goals and the four core business strategies are very closely linked but do not have clear one-to-one correspondence or are not clearly aligned to performance metrics.
[10] See Appendix A for additional information on the four core business strategies and sub-objectives.

PFP performance metrics. For example, the NPA goal of "enhance performance-based culture" is related to the core strategy to "Improve the customer experience," but the metric is mapped to the goals of customer experience measurement, Occupational Safety and Health Administration illness and injury rate, Equal Employment Opportunity complaints per 100 employees vs. same period last year, and Voice of the Employee survey. Only one of those metrics has to do with customer experience (customer experience measurement). Also, there are no performance metrics to measure the subobjective of the core strategy of offering customers convenience by increasing access to our products and services and to maintain a position as a secure and well respected service provider.

In addition, the majority of the Postal Service's performance metrics measure day-to-day operations and not the progress toward achievement of strategic business plans and objectives. For example, six of the 10 corporate NPA performance metrics measure mail delivery service standards and whether the Postal Service is achieving those standards on an ongoing basis. Specifically, one of the mail delivery NPA performance metrics measuring day-to-day operations is Priority Mail Service/Scan.[11] Another example of a performance metric measuring day-to-day operations is Time and Attendance Collection System (TACS) adjustments.[12] For many of the day-to-day performance metrics, the Postal Service sets target goals by analyzing results from prior years and charting them on a bell curve and making the average the target goal for the year. This method of performance evaluation is designed to measure current organizational performance rather than directing performance toward desired outcomes such as strategic goals.

Furthermore, the NPA goal of 'improving service' is related to the core business strategy to 'strengthen our business-to-consumer channel,' but the main metrics mapped to the improve service goal are Priority Mail, Express Mail, First-Class Mail, and parcel select service metrics, which measure on time delivery of those products. There are no metrics in place to measure the subobjectives of the core strategy of introducing new platforms and completing implementation of existing platforms to make it easier for small businesses to develop direct mail campaigns and create and implement Every Door Direct Mail, which enables local businesses to target potential customers by carrier route. As a result, the Postal Service's PFP Program does not effectively promote strategic success. If the Postal Service revises its performance metrics based on the Postal Service's Strategic Goals and Subobjectives listed in Appendix A, it might have the opportunity to progress toward the achievement of strategic business plans and objectives.

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[11] The Priority Mail Service/Scan performance metric measures the percentage of Domestic Priority Mail Air and Surface with Delivery Confirmation™ service, having a service standard of 1 or 2 days, which is delivered within 2 delivery days.
[12] The TACS adjustments performance metric tracks the percentage of pay adjustments made during a 2-week pay period.

Performance Metrics Best Practices

According to our research, the Postal Service's PFP measurement tool, also known as a balanced scorecard,[13] can be a robust organization-wide strategic planning, management, and communication system that aligns the work people do with an organization's vision and strategy. When effectively used, organizations using balanced scorecards include performance measures that are linked to strategic goals. More than 60 percent of Fortune 500 companies use a balanced scorecard. For example, one of them — a delivery service company — implemented an effective strategic scorecard by having only four primary performance measures:

- Customer satisfaction index.
- Employee relations index.
- Competitive position (financial status and market share compared to competitors).
- Internal business processes (operations, such as time in transit).

The company implemented a performance metric only if it related to one or more of the four strategic measures. After establishing this linkage, the company focused on creating an alignment among all performance measures whereby measures at each level would directly contribute to measures at the next higher level. Five years after implementation, the company saw its profitability increase by 30 percent in 1 year alone and another 40 percent the next year. Additionally, the company's service reliability, customer satisfaction, and employee relations improved.

Further, we found that companies that use strategic balanced scorecards reduced their number of performance metrics to around 25 and aligned them to the strategic goals of the organization. This enabled employees to focus their efforts on the organization's key strategic goals and not become distracted with too many goals and targets.[14]

By contrast, companies that used balanced scorecards merely as a measure of performance had hundreds of performance metrics. According to the Postal Service, its PFP Program enables it to set strategic goals and measure supporting granular performance objectives throughout the entire organization. However, as noted previously, not all of the Postal Service's strategic goals are covered by current PFP performance metrics. Additionally, the PFP Program is designed to align objectives at the corporate and unit organizational structures and link individual contributions to organizational success. Consequently, the Postal Service has 61 different performance metrics.

PFP management stated that the number of performance metrics has remained fairly consistent since PFP inception. Management also stated that the number of

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[13] A balanced scorecard combines non-financial performance measures with traditional financial measures to give managers a more 'balanced' view of organizational performance. The Postal Service uses a balanced scorecard.
[14] Corporate Executive Board, Working Council for Chief Financial Officers, *Balanced Scorecard: Communicating Strategy Through Performance Measures*, September 2000, and *Creating and Implementing the Balanced Scorecard,* March 2001.

performance metrics in the PFP Program gives employees the opportunity to concentrate on achievement within their control or influence and based on their individual goals in the organization. However, based on our research, when an organization uses too many performance metrics, it can reduce an employee's vision of the organization's ultimate goals.

Recommendation

We recommend the chief human resources officer and executive vice president, in coordination with the vice president, Finance and Planning:

1. Evaluate the current performance metrics and develop performance metrics that better support the Postal Service's strategic goals.

Management's Comments

Management disagreed with the finding but partially agreed with the recommendation and stated that they will evaluate current performance metrics and consider changing or adding metrics that more directly tie to the postmaster general's four core business strategies. Management stated they will complete this corrective action by January 31, 2014. Additionally, management requested that edits be made to the report to more accurately reflect the PFP Program.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issue identified in the report. Additionally, management requested that edits be made to the report to more accurately reflect the PFP Program. We incorporated three of the four requested changes. Management believed that the four core business strategies and the NPA performance metrics could be brought more into alignment. As stated in the report, the FY 2011 NPA performance metrics were linked and related to the four core business strategies; however, the core strategies are more detailed and provide specific performance objectives that are not linked to current PFP performance metrics.

Appendix A: Additional Information

Background

The PFP Program enables the Postal Service to set strategic goals and measure supporting granular performance objectives throughout the entire organization. Additionally, it is designed to align objectives at the individual level through the unit and organizational structures and link individual contributions to organizational success. The intention of the PFP Program is to provide an opportunity to reward non-bargaining employees for achieving performance. Non-bargaining employees rely on successful performance ratings for their annual pay increases and/or lump sum award.

The career non-bargaining unit employees eligible for the PFP Program are referred to as either EAS employees or PCES executives. EAS employees include employees in supervisory, professional, technical, clerical, administrative, and managerial positions; PCES executives include area and field executives (including postmasters) and headquarters and headquarters-related executives. A participant's performance is measured against a set of 10 corporate and 51 unit performance metrics. These performance metrics are established and communicated to all participants at the beginning of the fiscal year. A participant is evaluated on a combination of these performance metrics (called a scorecard). A scorecard is based on a participant's functional area and position and includes all 10 corporate performance metrics and up to 10 unit performance metrics.[15] The performance metrics scores are also weighted differently because of the discontinuance of the core requirements for most of the PFP participants on October 5, 2012. The Postal Service subsequently revised the weights of the corporate and unit performance metrics.

Weights assigned to corporate results, unit results, and each corporate and unit performance metric depend on the level of influence of the unit. Specifically, an area vice president (representing control of postal operations in a multi-state area) may have a performance rating weighted 100 percent on corporate goals; conversely, a local postmaster may have a performance rating based on 20 percent of corporate goals and 80 percent of the performance of goals relative to his or her particular office. The end result is 61 different NPA performance metrics and roughly 33,000 different scorecards for about 58,000 participants. Management conducts mid-year performance reviews to provide feedback and make recommendations for continuous improvement. At the end of the fiscal year, the participant's PFP score is calculated by summing the participant's weighted NPA score. Each PFP score is associated to an adjective rating: non-contributor, contributor, high contributor, or exceptional contributor.

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[15] Corporate and unit summaries are combined for each of the participant's pay packages, resulting in the employee's 'composite summary.' The composite summary represents a percentage of the overall performance rating for the employee.

National Performance Assessment

The NPA system was designed to provide a standardized method for assessing performance within the Postal Service on a national and field level and it reports on metrics, weighting factors, and timeframes for key performance metrics. The Postal Service implemented the NPA system to ensure that all management employees have a direct stake in the success of the organization. NPA is a web-based system that collects performance metric data, such as retail revenue and on-time Express Mail delivery, from 50 separate source systems across the organization. Management uses these data to calculate performance metrics scores that are included on scorecards used to monitor the performance of the entire enterprise and individual units across the nation.

Each NPA performance metric has a sponsor and data source owner. Generally, the sponsor is the headquarters' department manager who maintains or monitors programs and systems related to the performance metric. The performance metric sponsor also ensures the integrity of the data systems and provides NPA with timely performance metric scores each reporting period. The data source owner is the manager responsible for the data system that generates scores for NPA reporting.

NPA targets or goals are set as NPA performance metrics evolve. When a corporate NPA performance metric is initially established, data are collected and measured for the first year based on input from area and district management officials, and from there the performance metric goes through a test year during which the score does not count. An NPA performance metric sponsor will review a couple years of measured data, and the data results are placed in a bell curve or histogram to establish targets that are set as stretch goals. Performance metric sponsors make recommendations on the targets to the Postal Service executive leadership team (ELT). The targets stay the same unless the performance metric sponsors recommend a change based on comments from area finance managers or other organizational managers and their evaluation of the suggestions and/or recommendations. In addition, the ELT may request a change to the weight of an NPA performance metric. For example, a change may be made to take 5 percent of weighting from one NPA performance metric and apply it to another performance metric. The chief financial officer will evaluate the input and make a decision on whether to approve or deny a weighting factor change. The final approval for corporate performance metrics is up to the Postal Service Board of Governors and the ELT provides the final approval or denial for the unit performance metrics.

According to the Postal Service, by instituting these standardized, objective measurements, the system has:

- Increased the objectivity of the PFP Program.

- Given employees access to their current performance data.

- Empowered employees to take a more active role in the tracking, improvement, and evaluation of their own performance.

Pay For Performance Program Historical Data

In 2004, the Postal Service implemented a 15-level performance measurement scale for its PFP Program, known as the PFP reward matrix. An EAS employee's overall PFP performance rating correlates to a level on the matrix that is used to determine the salary increase or level of compensation awarded. The PFP Program and its related pay policies were developed consistent with various compensation mandates under the Postal Reorganization Act, specifically provisions 39 U.S.C. §§ 1001 and 1004. Title 39 of the U.S.C.[16] requires the Postal Service to consult with the three postal management associations. Then after giving full and fair consideration to any recommendations of the management associations, the Postal Service makes a final decision on any changes to be made.[17] The compensation salary increases for the PFP Program were established to meet the compensation mandates under the Postal Reorganization Act as stated in the following items:

- Maintain a standard of comparability to compensation in the private sector of the U.S. economy.

- Assure the attraction and retention of qualified and capable supervisory and other managerial personnel.

- Provide an adequate and reasonable differential in rates of pay between clerks and carriers and supervisory and other managerial personnel.

- Maintain a well-trained and well-motivated workforce to improve the effectiveness of postal operations.

- Promote the leadership status of supervisory and other managerial personnel with respect to rank-and-file employees.

Postal Service Strategic Goals and Sub-Objectives

Early in 2011 the postmaster general outlined four key strategies for the organization:

- Strengthen the business-to-customer channel.
- Improve the customer experience.
- Compete for the package business.
- Become a leaner, smarter, faster organization.

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[16] Title 39 of the U.S.C. has additional compensation mandates that the Postal Service must consider, including pay limits, federal retirement benefits, federal unemployment/injury compensation, and territorial cost-of-living allowances.
[17] The three different management association groups are NAPS, NAPUS, and the NLPM of the U.S.

The organization responded with initiatives to strengthen the Postal Service position, such as:

- Strengthen our business-to-consumer channel by:

  o Introducing new platforms and completing implementation of existing platforms to make it easier for small businesses to develop direct mail campaigns.

  o Creating and implementing Every Door Direct Mail, which enables local businesses to target potential customers by carrier route.

- Improve the customer experience by:

  o Continuing to operate an extensive customer experience measurement program.

  o Offering customers convenience by increasing access to our products and services by introducing village post offices and increasing the number of partnerships with third-party retailers, thereby reducing customer dependence on traditional post offices.

  o Maintaining a position as a secure and well-respected service provider which, in a digital world where privacy and security are sometimes threatened, is becoming more important.

- Compete for the package business by:

  o Improving the reliability of package tracking by increasing the scan rate.

  o Making it easier for consumers and small businesses to use postal shipping services.

  o Offering competitive pricing for deliveries of small packages within short-range destination zones.

- Become a leaner, faster, and smarter organization by:

  o Redesigning the operating network, infrastructure, and processes by reviewing retail office productivity and studying under-used offices for potential consolidation, closure, or conversion to a contract unit, as well as pursuing the reduction in the number of mail processing facilities.

  o Implementing tools such as the Lean Six Sigma processes; and training employees who work in teams to find ways to reduce waste, strengthen business processes, improve service, and provide a better customer experience.

  o Continuing to reduce labor costs through reductions in employee costs.

Objective, Scope, and Methodology

The objective of our review was to determine how PFP performance metrics were developed and measured and whether performance metrics were aligned with the Postal Service's strategic goals. To accomplish our objective, we reviewed Postal Service handbooks and memorandums to determine current policies and procedures. We interviewed unit personnel and Postal Service Headquarters, area, and district management to obtain an understanding of current policies and procedures and noted their comments, where appropriate. We researched studies and best practices for benchmarking and comparison purposes.

We conducted this review from November 2011 through June 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on April 9, 2013, and included their comments where appropriate.

We assessed the reliability of NPA and PFP data by interviewing postal officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG issued a report titled *2009 Pay for Performance Program* (Report Number HR-AR-11-006, dated August 8, 2011) recommending the Postal Service better define the relationship between NPA and core requirements, establish and implement mandatory training for new and existing employees and managers on the process, and evaluate the program's effectiveness of establishing and using behavioral core objectives in the rating process. Management agreed with recommendations to define the relationship between NPA and core requirements and evaluate program effectiveness. They partially agreed with the recommendation related to training and will consult with the management associations on changes to PFP policy and core requirements.

Appendix B: Management's Comments

UNITED STATES
POSTAL SERVICE

May 16, 2013

JOHN E. CIHOTA
DEPUTY ASSISTANT INSPECTOR GENERAL FOR FINANCIAL AND
SYSTEMS ACCOUNTABILITY

SUBJECT: U.S. Postal Service Pay for Performance Program – Draft
Management Advisory (Report Number DP-MA-13-DRAFT(R)

Management partially agrees with the recommendations and findings.

Recommendation:
We recommend the Chief Human Resources Officer and Executive Vice President,
in coordination with the Vice President, Finance and Planning:

1. Evaluate the current performance metrics and develop performance metrics
    that better support the Postal Service's strategic goals.

Management Response/Action Plan:
Management partially agrees with the recommendation in that it will evaluate the
current performance metrics. We do not agree with the finding that current Postal
Service PFP metrics do not directly support all of the agency's strategic goals, or
specifically, the Postmaster General's four core business strategies (and sub-
objectives). While wording of the Postmaster General's business strategies and
the fiscal year (FY) 2011 NPA performance metrics are different, we believe that
they are thematically consistent. We believe that the NPA goals drive results
towards both sets of objectives, and therefore support the agency's goals.
However, we do agree that additional corporate or unit indicators could be created
that would more directly tie to the Postmaster General's business strategies.

Action:
Management will conduct its annual review of NPA performance metrics and will
make the wording of the four NPA goals, and the Postmaster General's four
business strategies mutually supportive for FY2014. During this review,
management will also consider changing/adding metrics that more directly
support the Postmaster General's four business strategies.

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Target Implementation Date:

January 2014, concurrent with FY2014 PFP/PES activities and system changes.

Responsible Official:
Vice President, Employee Resource Management

Management Response:

Management also requests that additional edits are made to the report.

1. Page 1. *"The Postal Service's PFP Program has been the sole source of annual pay adjustments for about 58,000 non-bargaining unit employees – some Executive and Administrative Schedule (EAS) employee but mostly Postal Career Executive Service (PCES) employees."*

This statement is incorrect. It should be revised to say that the PFP program has been the sole source of annual pay adjustments for about 58,000 non-bargaining unit employees – which includes all Postal Career Executive Service (PCES) employees and the majority of Executive and Administrative Schedule (EAS) employees.

2. Page 1. Footnote 5. *"The Postmaster General has the authority to decide on PCES salary compensation increases and policy, with input from the Chief Human Resources Officer."*

This footnote does not support the body of the report and should be eliminated. If it is retained in the report it needs to be corrected to reflect that PCES compensation is governed by the compensation policy for executives and includes a performance rating matrix similar to officers and EAS. The officer compensation policy is outlined in the Annual 10-K report.

3. Page 2. Footnote 9. *"For FY2012, there were about 51,000 EAS employee participants. The remaining PFP participants are headquarters employees."*

This footnote is confusing and does not support the assertion made in the body of the report. It should be eliminated, or if retained in the report changed to: *For FY2012, the Postal Service eliminated core requirements for 46,351 EAS employees out of a total of 51,719 Pay for Performance participants.*

4. Page 2. *"However, the current Postal Service PFP performance metrics do not support all Postal Service strategic goals[10], specifically as they relate to the four core business strategies created by the Postmaster General in an effort to return the Postal Service to profitability.*

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We do not agree with this statement and believe that it should be edited to reflect that the stated Postmaster General business strategies and the NPA performance metric wording could be brought more into alignment. We also disagree with the footnoting of this statement to the studies in footnote 10. Footnoting these studies gives the impression that they provide empirical evidence supporting the statement in the report. These studies provide overviews of the "balanced scorecard" concept, and in no way provide research that supports the assertion that the "PFP performance metrics do not support all Postal Service strategic goals". The footnote should be eliminated.

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

Jeffrey C. Williamson, Chief Human Resources Officer and
Executive Vice President

For Stephen J. Masse, Vice President, Finance and Planning

cc: Ms. Brennan
   Mr. Corbett
   Mr. Marshall
   Corporate Audit and Response Management