



Report to the Ranking Member,
Permanent Subcommittee on
Investigations, Committee on Homeland
Security and Governmental Affairs, U.S.
Senate

March 2019

U.S. POSTAL SERVICE

Addressing Policy Gaps Could Improve Pilot Design and Evaluation for Postal Innovations

GAO Highlights

Highlights of [GAO-19-293](#), a report to the Ranking Member, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

USPS faces a challenging business environment that has led to reduced demand for its traditional services and significant financial losses. USPS aims to address this challenge by offering innovative products and services. The success of these efforts will depend, in part, on how effectively USPS tests each innovation's performance on a small scale to determine whether, how, and when to launch an innovation more broadly—a practice known as “piloting.”

GAO was asked to review USPS's efforts to develop postal innovations. This report (1) describes key innovations that USPS recently piloted and (2) examines the extent to which USPS's policies reflect leading practices for pilot design and evaluation. GAO analyzed information on USPS pilots from fiscal years 2013 through 2017; compared USPS policies for piloting innovations to leading practices for pilot design and evaluation in prior GAO work and relevant standards for internal control; and selected four key innovations based on various characteristics (e.g., innovation type) to serve as illustrative examples of USPS's piloting efforts.

What GAO Recommends

GAO recommends that USPS (1) develop policies that fully reflect leading practices for pilot design and evaluation and (2) develop tools or training to ensure consistent documentation of lessons learned from pilots. USPS neither agreed nor disagreed with the recommendations but described actions it plans to take related to each.

View [GAO-19-293](#). For more information, contact Lori Rectanus at (202) 512-2834 or RectanusL@gao.gov.

March 2019

U.S. POSTAL SERVICE

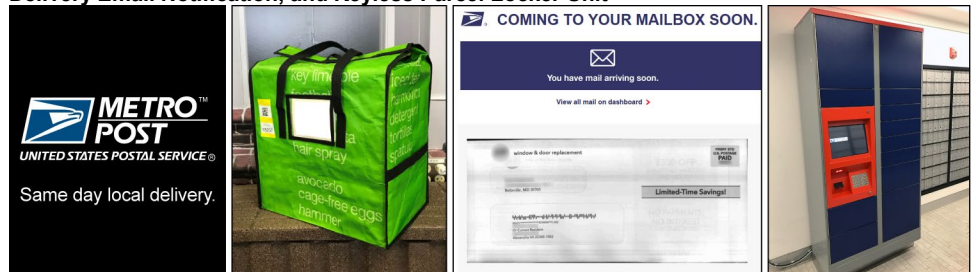
Addressing Policy Gaps Could Improve Pilot Design and Evaluation for Postal Innovations

What GAO Found

From fiscal years 2013 through 2017, the U.S. Postal Service (USPS) piloted 24 key innovations intended primarily to generate revenue or improve customers' experience. The following four selected innovations illustrate these efforts:

- **Same-Day Delivery:** USPS delivered goods consumers bought online or in stores. The pilot sought to test the product's feasibility and revenue potential.
- **Grocery Delivery:** USPS delivered groceries to consumers in metropolitan areas. The pilot sought to test the product's feasibility and revenue potential.
- **Informed Delivery:** USPS emailed customers an advance image of the mail they would receive. The pilot sought to test the service's potential benefits, such as generating new revenue from advertisers that may use the service.
- **Keyless Parcel Lockers:** USPS is testing lockers where customers can independently pick up packages at post offices. The pilot seeks to test the service's operation and potential benefits for USPS and customers.

(From Left to Right) Metro Post (same-day delivery), Grocery Delivery Tote Bag, Informed Delivery Email Notification, and Keyless Parcel Locker Unit



Sources: United States Postal Service and GAO. | GAO-19-293

USPS's policies for piloting innovations do not fully reflect the five leading practices for pilot design and evaluation identified in GAO's prior work. The policies fully reflect two of the leading practices because they require articulating a methodology for evaluating pilot performance and documenting lessons learned. The policies do not fully reflect the other three practices because they do not require: (1) linking pilot objectives to identified performance measures; (2) documenting conclusions based on pilot results; or (3) communicating with key external stakeholders, as appropriate. These policy gaps limit the extent to which USPS can ensure that it is making good resource allocation decisions based on pilot experiences. For example, GAO found that USPS did not document its conclusions based on the results of its pilots of same-day delivery, grocery delivery, and Informed Delivery. Documenting conclusions can be especially important when USPS continues to offer the product or service after the pilot has concluded, even though the pilot did not achieve all of its objectives, as was the case with these three innovations. Further, while USPS's policies require documenting lessons learned from its pilots, USPS did not do so for some pilots GAO reviewed. Senior USPS officials said that USPS did not consistently follow this policy because it had not developed tools or training that could help ensure such consistency. As a result, USPS risks losing information that could be relevant to future innovation efforts.

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Abbreviations

MTAC	Mailers' Technical Advisory Committee
PRC	Postal Regulatory Commission
USPS	U.S. Postal Service

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March 14, 2019

The Honorable Thomas R. Carper
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Mr. Carper:

The U.S. Postal Service (USPS) faces a challenging business environment that has reduced demand for traditional postal services and led to significant financial losses. Revenue from USPS's most profitable postal-service category—First-Class Mail—has declined over the last decade, from \$38.2 billion in fiscal year 2008 to \$25 billion in fiscal year 2018. According to USPS, offering innovative products and services is critical to adapting to evolving business and customer needs and improving its financial condition. The success of any particular innovation will depend, in part, on how effectively USPS tests the innovative product's or service's performance on a small scale to determine whether, how, and when to launch the innovation more broadly—a practice known as "piloting." Effectively piloting innovations can help ensure that USPS invests its limited resources on innovations that are most likely to improve its long-term viability.

You asked us to review USPS's efforts to develop innovative products and services. This report (1) describes key innovations USPS has recently piloted and (2) examines the extent to which USPS's policies for piloting key innovations reflect leading practices for pilot design and evaluation.¹

To identify key innovations that USPS has recently piloted, we first requested information from USPS on all such innovations piloted between

¹For the purpose of this report, we focused on "key innovations," which USPS defines as new products and services that may have a significant effect on cost, the end consumer, the shipper, or the mailer.

fiscal years 2013 and 2017.² In response, USPS identified 24 key piloted innovations. We compared the list provided by USPS against information in USPS, USPS Office of Inspector General, and Postal Regulatory Commission (PRC)—an independent agency with regulatory oversight over USPS—documents to help corroborate the completeness and accuracy of USPS’s response. We conducted an in-depth review of 4 of the 24 innovations to provide illustrative examples of USPS’s piloting efforts. We selected the 4 innovations—Metro Post (i.e., same-day delivery), Customized Delivery (i.e., grocery delivery), Informed Delivery, and keyless parcel lockers—to represent a range of the innovations’ primary characteristics, such as innovation type (e.g., new product or new service); primary innovation goal (e.g., generating revenue or improving customer service); and investment level.³

To evaluate the extent to which USPS’s policies for piloting key innovations reflect leading practices for pilot design and evaluation, we compared policies identified by USPS officials as applicable to its efforts to pilot innovative products and services⁴ against five leading practices we identified in our prior work, as well as standards for internal control

²We selected fiscal year 2013 because it corresponds with the fiscal year that USPS issued its Five-Year Business Plan to return USPS to financial and operational viability, including actions to confront revenue declines through innovation. We selected fiscal year 2017 because it was the most recent fiscal year for which USPS had available information on piloted innovations at the time of our review.

³A postal “product” is statutorily defined as a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied, and a “postal service” refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, and transportation, or other ancillary function. See 39 U.S.C. §§ 102(5), (6). In addition, the Postal Service was statutorily authorized, subject to Postal Regulatory Commission approval, to provide “nonpostal services” offered as of January 1, 2006. In general, the term “nonpostal service” is defined by statute to mean any service that is not a “postal service.” See 39 U.S.C. § 404(e)(1). We did not independently evaluate whether USPS’s categorization of each innovation aligned with these definitions. For the purpose of this report, we collectively refer to USPS’s three types of key innovations—new service, new product, or enhancement to an existing product or postal/nonpostal service—as “innovative products and services.” We are not reporting specific investment, cost, revenue, or volume data for piloted innovations because USPS considers this information to be proprietary.

⁴USPS, Handbook F-66, *General Investment Policies and Procedures* (Sept. 2018) and Handbook F-66D, *Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments* (February 2006).

related to documenting key information:⁵ The five practices we identified include:

- establish appropriate and measurable objectives linked with identified performance measures;
- articulate a methodology for evaluating pilot performance;
- evaluate pilot performance and identify and document lessons learned;
- draw and document conclusions about scalability (i.e., determining whether, how, and when to launch the innovation more broadly) based on pilot results; and
- ensure appropriate two-way communication at all stages of the pilot with key internal and external stakeholders in order to understand and address their views.

We discussed these leading practices with senior USPS officials, and they agreed that the practices were reasonable and relevant to USPS's efforts to pilot innovative products and services.

We examined how USPS followed its policies and applied these leading practices for the four selected key innovations by reviewing the pilot

⁵Our prior work identifies leading practices for designing and evaluating pilot programs. In our prior work, we have applied these practices to multiple federal agencies and programs. For the purpose of this report, we made some modifications to these leading practices. For example, we modified the leading practice related to evaluating pilot performance to make explicit that the leading practice includes documenting lessons learned. For the prior work that we reviewed to identify these five leading practices, see GAO, *Tax Administration: IRS Needs to Strengthen Its Approach for Evaluating the SRFMI Data-Sharing Pilot Program*, [GAO-09-45](#) (Washington, D.C.: Nov. 7, 2008); *DATA Act: Section 5 Pilot Design Issues Need to Be Addressed to Meet Goal of Reducing Recipient Reporting Burden*, [GAO-16-438](#) (Washington, D.C.: Apr. 19, 2016); *Performance Partnerships: Agencies Need to Better Identify Resource Contributions to Sustain Disconnected Youth Pilot Programs and Data to Assess Pilot Results*, [GAO-17-208](#) (Washington, D.C.: Apr. 18, 2017); and *Identity Theft: Improved Collaboration Could Increase Success of IRS Initiatives to Prevent Refund Fraud*, [GAO-18-20](#) (Washington, D.C., Nov. 28, 2017). For standards for internal control that we reviewed, see GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014), Principle 3, Paragraph 9, and Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework* (2013), Chapter 4, Additional Considerations, Documentation.

proposals and revenue and other performance data.⁶ Our findings related to these four selected key innovations are not generalizable to all innovations piloted by USPS but provide illustrative examples of how USPS has followed its policies and applied the leading practices that we identified.

For both objectives, we also interviewed USPS officials and representatives from four postal associations knowledgeable about USPS's efforts to develop innovative products and services, as well as two mailers directly affected by USPS's Informed Delivery innovation.⁷

We conducted this performance audit from December 2017 to March 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

USPS's Financial Position and Strategic Goals

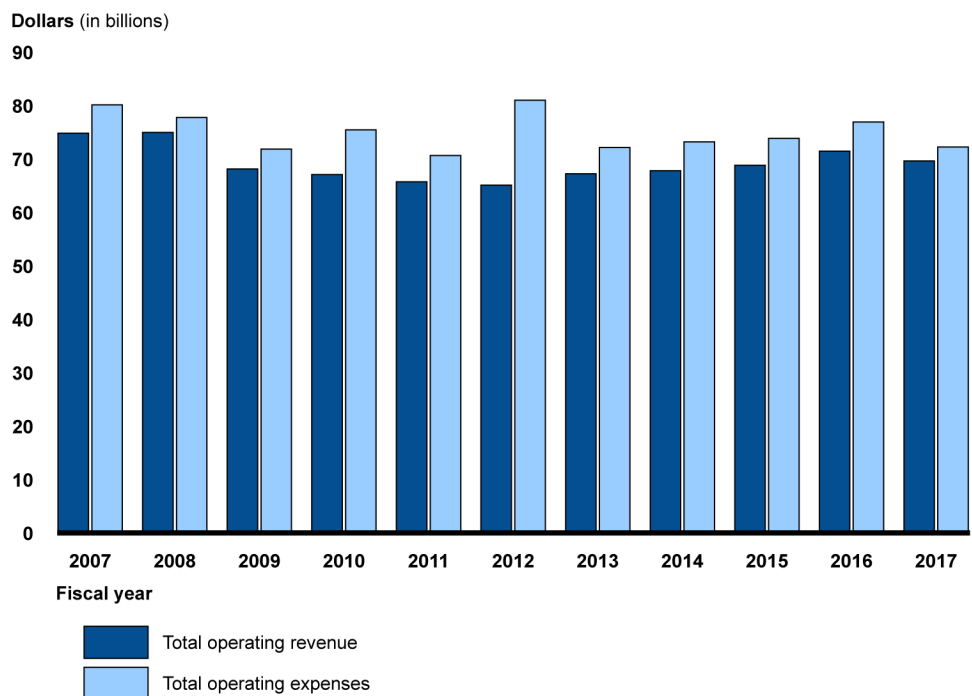
USPS's mission is to provide universal postal service while operating as a self-financing entity, but USPS's current financial position is not sustainable. To achieve its mission, USPS must cover its expenses through revenues generated from the sale of its products and services. However, USPS's total operating expenses have exceeded total operating revenue each year since fiscal year 2007, including a \$2.6 billion loss from operations in fiscal year 2017 alone (see fig. 1). Moreover, we have reported that USPS's overall financial condition is

⁶As we discuss later in this report, USPS had not concluded the pilot for one of the four key innovations we selected for review. Consequently, for this innovation, we did not compare USPS's application of two leading practices: evaluate pilot performance and identify and document lessons learned and draw and document conclusions about scalability based on pilot results.

⁷We did not interview mailers for other innovations that we selected either because representatives of mailers that worked directly with USPS during the pilots of these innovations were no longer available or because individual mailers were not directly affected by the innovation.

deteriorating.⁸ For example, in August 2018 we reported that USPS had about \$149 billion in unfunded liabilities and debt at the end of fiscal year 2017.⁹ As a result, USPS's financial condition remains on our list of high-risk areas needing attention by Congress and the executive branch.¹⁰

Figure 1: U.S. Postal Service (USPS) Total Operating Revenue and Total Operating Expenses, Fiscal Years 2007 through 2017



Source: USPS, Forms 10-K. | GAO-19-293

⁸For example, see GAO, *U.S. Postal Service: Key Considerations for Restoring Fiscal Sustainability*, [GAO-17-404T](#) (Washington, D.C.: Feb. 7, 2017) and *U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities*, [GAO-14-398T](#) (Washington, D.C.: Mar. 13, 2014).

⁹GAO, *Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed*, [GAO-18-602](#) (Washington, D.C.: Aug. 31, 2018).

¹⁰GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017), p.130. We added USPS's financial condition to our list of high-risk areas in July 2009.

According to USPS financial documents, its ability to sell innovative products and services will be a key factor in improving its financial condition. Thus, USPS established a strategic goal to “innovate faster to deliver value” to its customers, by making investments in innovations that respond to rapidly evolving customer needs.¹¹ A key element of this effort is to accelerate testing of innovative products and services to better serve these needs, according to USPS.

While USPS is allowed to develop certain new postal products and services, there are statutory restrictions that currently limit the range of innovations USPS can offer. For example, under current statute, USPS is not permitted to ship alcoholic beverages.¹² Similarly, although USPS is explicitly authorized to provide services to federal executive agencies (e.g., passport services), such authorization does not include services to state, local, and tribal governments. Legislation has been introduced in previous sessions of Congress that would permit USPS to deliver alcoholic beverages and allow USPS to provide property and services to state, local, and tribal governments under certain conditions.¹³ According to USPS officials, USPS supports these legislative proposals, which could enhance its ability to offer innovative products and services.

USPS Postal Innovation Pilot Policies and Responsibilities

According to USPS officials, two USPS handbooks include policies applicable to piloting key innovations. Specifically, the first handbook includes requirements, procedures, and responsibilities for all types of investment programs and projects undertaken by USPS, regardless of size, cost, or complexity.¹⁴ This handbook, for example, requires the identification and documentation of lessons learned for all investments and projects. The second handbook includes requirements and

¹¹USPS, *Future Ready: U.S. Postal Service Five-Year Strategic Plan Fiscal Years 2017 to 2021* (Sept. 30, 2016).

¹²18 U.S.C. § 1716(f).

¹³For provision of property and services to state, local, and tribal governments, see e.g., S. 1486, § 302, 113th Cong (2013); S. 2629, § 203, 115th Cong (2018); H.R. 756, § 204, 115th Cong (2017); and H.R. 6076, § 204, 115th Cong (2018). In addition, for shipment of alcoholic beverages, see e.g., S. 1486, § 303, 113th Cong (2013) and S. 2629, § 204, 115th Cong (2018).

¹⁴USPS, *Handbook F-66, General Investment Policies and Procedures* (Washington, D.C.: September 2018).

procedures specifically for major operating expense investments.¹⁵ This handbook, among other things, establishes requirements and procedures meant to ensure that new and enhanced products and services consistently meet customer needs, generate new revenue, and strengthen USPS as a business. This handbook further states that USPS has a responsibility to subject new initiatives to rigorous financial analysis, testing, and measurement, to determine whether these initiatives will make a positive financial contribution to the organization and ensure that USPS's leadership has appropriate information for effective decision-making.

USPS's Office of Product Innovation generally has lead responsibility for piloting innovations.¹⁶ According to USPS's policies, a project manager is responsible for establishing and coordinating a cross-functional team to design and evaluate the pilot. This team typically includes officials from a variety of USPS departments, such as finance, general counsel, information technology, marketing, and operations. The project manager, with support from the cross-functional team, is responsible for preparing a proposal for the pilot that includes key information, such as the pilot's objectives and performance measures, and overseeing pilot implementation and communication with key stakeholders.

In some cases, PRC has a role in overseeing postal innovation pilots.¹⁷ For example, USPS must notify PRC before it pilots any postal product innovation for which it will impose a price (i.e., a pilot that generates revenue for USPS) and must subsequently report quarterly revenue,

¹⁵USPS, *Handbook F-66D, Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments* (Washington, D.C.: February 2006). A major operating expense investment is an investment associated with a new initiative, project, or program and may include ongoing operating expenses associated with the initiative, as well as capital expenditures that may fall under \$5 million.

¹⁶According to USPS officials, other USPS offices have lead responsibility for piloting some innovations. For example, the Office of the Chief Information Officer may have lead responsibility for piloting information technology-based innovations.

¹⁷The PRC is composed of five commissioners and exercises regulatory oversight over USPS. It was created by the Postal Reorganization Act of 1970, with expanded responsibilities under the Postal Accountability and Enhancement Act of 2006. We did not assess actions taken by PRC to consider and approve innovation pilots, including grocery delivery and same-day delivery.

volume, and cost data.¹⁸ PRC also ensures that certain safeguards are maintained during the pilot, such as limitations on the pilot's duration and revenue. However, according to PRC officials, the commission has limited involvement in other areas of USPS's efforts to develop innovations.

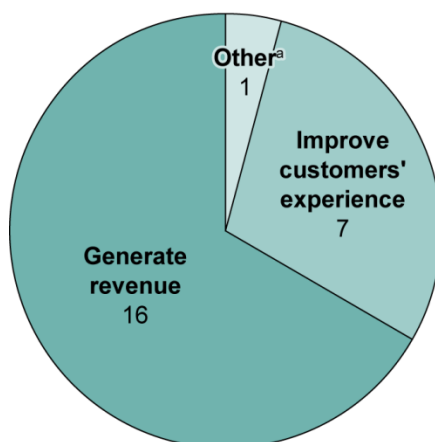
USPS Piloted Key Innovations Are Intended Primarily to Generate Revenue or Improve Customers' Experience

USPS piloted 24 key innovations from fiscal years 2013 through 2017.¹⁹ For example, USPS piloted an Identity Verification Service that allows users to verify their identity either remotely (i.e., online) or in person at a postal facility. Similarly, USPS piloted an innovation to allow mailers to print shipping labels, track packages, and schedule package pick-ups by accessing USPS data. The primary goal of the majority of these key innovations (16 of 24) was to generate revenue, while the primary goal for the remaining innovations was generally to improve customers' experience using USPS products or services (see fig. 2). Appendix I includes a complete list of key innovations USPS piloted from fiscal years 2013 through 2017.

¹⁸See 39 U.S.C. § 3641, 39 C.F.R. Part 3035. In September 2014, PRC issued a final rule for conducting "market tests" of "experimental products" that it regulates. See *Market Tests of Experimental Products*, 79 *Fed. Reg.* 54552 (Sept. 11, 2014). We refer to these tests as "pilots" and products as "postal product innovations" for purposes of our report. In January 2019, PRC issued an order amending these rules to revise the method for calculating applicable revenue limitations, among other things. See *PRC Order Amending Rules Relating to Market Tests*, Order No. 4973 (Jan. 8, 2019).

¹⁹USPS officials noted that USPS implemented a variety of other key innovations during this time frame, but did not pilot them because the investments carried relatively low risk or implementation cost. For example, USPS introduced High Density Plus, a product enhancement for mailers delivering more than 300 pieces on a single mail route. Similarly, USPS offered annual-mailing promotions (i.e., postal rate discounts offered over a limited period to qualifying mailings) intended to create awareness of innovative uses of mail.

Figure 2: Key Piloted U.S. Postal Service (USPS) Innovations by Primary Goal, Fiscal Years 2013 through 2017



Source: GAO analysis of USPS information. | GAO-19-293

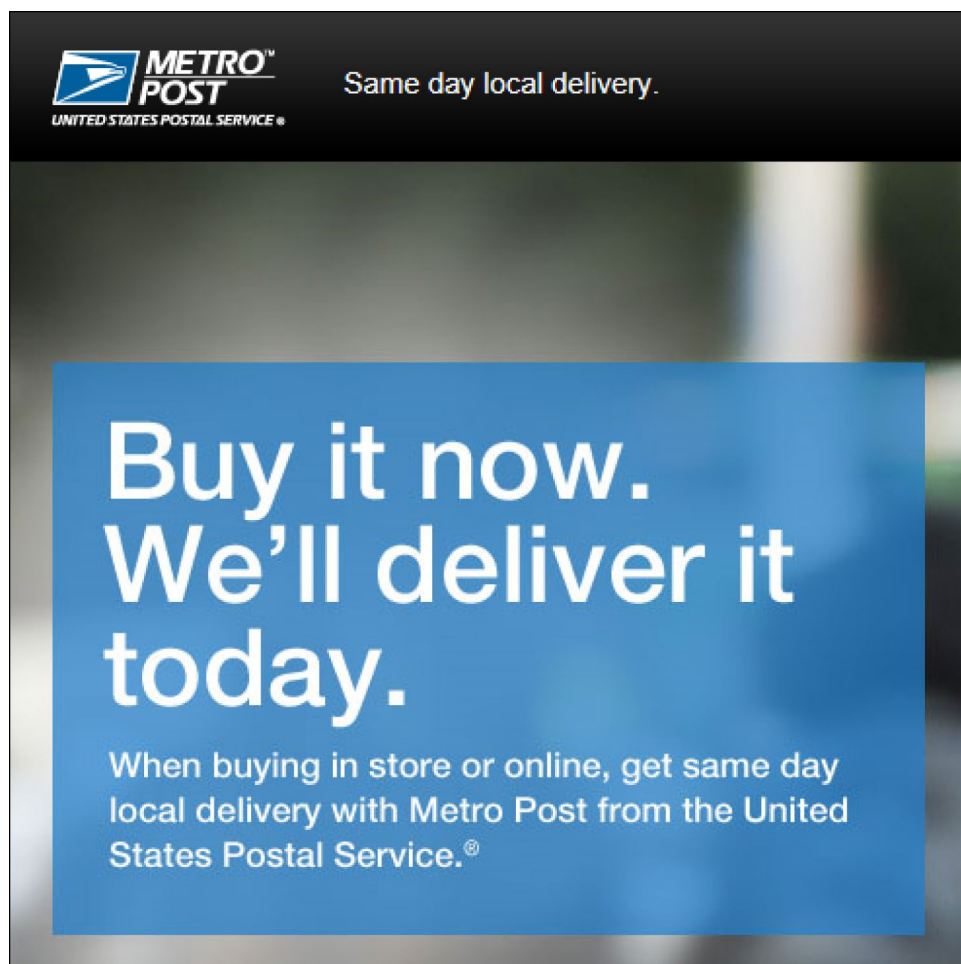
^aUSPS stated that the primary goal of one innovation was to improve internal infrastructure.

The following discussion provides additional information about the 4 key innovations we selected as illustrative examples of USPS's efforts to pilot innovative products and services.

- **Same-Day Delivery:** From December 2012 to December 2015, USPS piloted same-day delivery for consumer e-commerce purchases (see fig. 3). According to the pilot proposal, this innovation was intended to generate revenue for USPS by allowing it to leverage its existing delivery infrastructure to capture part of the growing e-commerce market. To determine the potential scalability of same-day delivery, USPS first tested its operational feasibility and potential demand in several major metropolitan areas, including San Francisco, New York, and Phoenix. During the pilot, USPS delivered photos, chocolates, water, electronics, and other goods from 38 participating mailers to consumers in these areas. At the pilot's conclusion, USPS decided to continue offering same-day delivery to interested participating mailers under Priority Mail contracts.²⁰

²⁰According to USPS, as of October 2018, it has signed nine Priority Mail contracts with eight mailers that participated in the pilot. Priority Mail provides flat-rate 1- to 3-day expected delivery for domestic parcels.

Figure 3: Snapshot of U.S. Postal Service Website for Same-Day Delivery Product Innovation



Source: United States Postal Service (USPS.com, October 4, 2018). | GAO-19-293

- **Grocery Delivery:** From November 2014 to October 2017, USPS piloted a grocery delivery product in nine selected metropolitan areas.²¹ According to USPS, the innovation was intended to generate additional revenue by taking advantage of the growing market for grocery delivery. To test the innovation's operational feasibility, USPS required the pilot's sole participating mailer to bring totes containing

²¹Metropolitan areas included San Francisco, Los Angeles, San Diego, New York, Sacramento, Stamford, Philadelphia, Boston, and the Washington/Baltimore capital region.

groceries and other prepackaged goods ordered by customers directly to post offices (see fig. 4). USPS was then responsible for sorting the totes and delivering them to customers. According to its proposal for this pilot, USPS expected grocery delivery to provide a substantial revenue generation opportunity. At the pilot's conclusion, like same-day delivery, USPS decided to continue offering grocery delivery with the participating mailer under a Parcel Select contract.²²

Figure 4: Illustration of a Tote Used for U.S. Postal Service Grocery Delivery Product Innovation



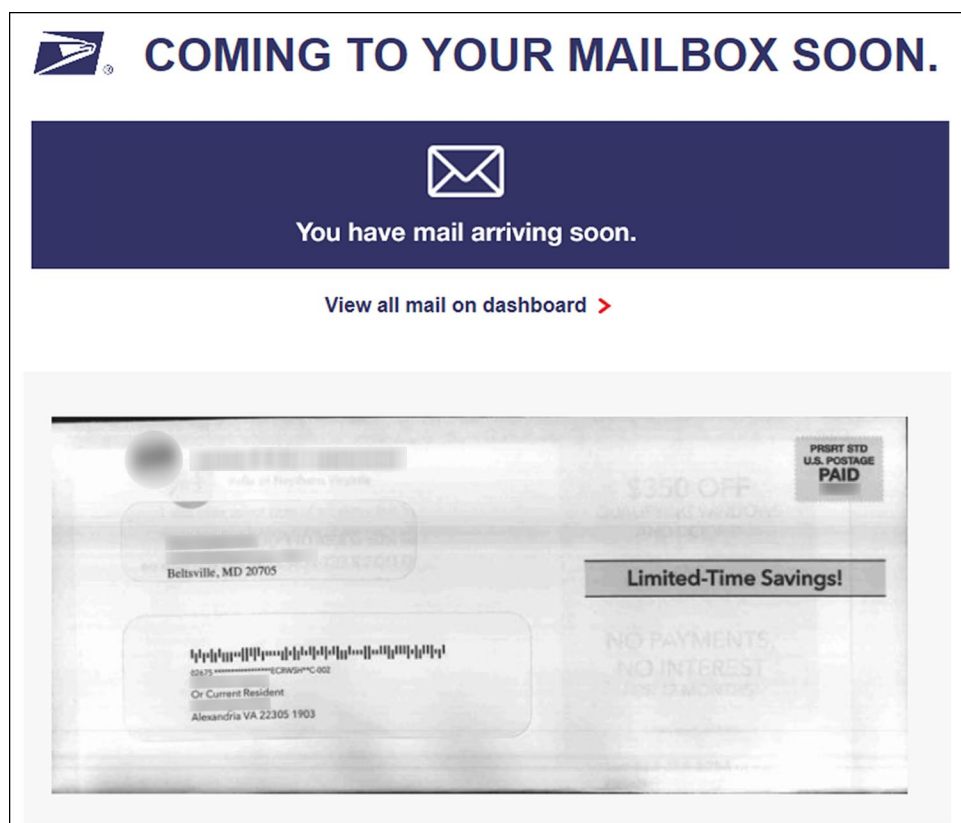
Source: GAO. | GAO-19-293

²²Specifically, USPS signed a Parcel Select contract with the participating mailer in October 2017 that was reviewed and approved by the PRC. According to USPS, Parcel Select is a ground delivery product for bulk package shipments.

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- *Informed Delivery*: From spring 2014 through July 2016, USPS piloted a notification service called Informed Delivery in Northern Virginia and New York.²³ According to USPS, this innovation is intended to bridge the gap between the physical and digital worlds by, for example, emailing customers with a scanned image of the exterior address side of letter-sized mail they should receive later that day (see fig. 5). Informed Delivery can also allow mailers to conduct marketing campaigns by integrating other elements—such as hyperlinks to mailers’ websites—into the email and other notifications that customers receive. In its proposal to pilot Informed Delivery, USPS stated the pilot was intended to help USPS understand the service’s business opportunity and increase the certainty of its potential benefits, which included retaining mail volume and generating new revenue from large advertisers. In addition, the pilot aimed to generate “statistically valid data” on how subscribers respond to marketing campaigns that mailers conduct. According to USPS, more than 70,000 customers were actively using the service at the pilot’s conclusion. In July 2016, USPS decided to end the pilot and launch the service nationally. According to USPS, about 13 million customers were subscribed to the service as of October 2018. USPS aims to have 40 million customers subscribed to the service by 2020.

²³According to USPS officials, the Informed Delivery pilot did not start during any one month, but rather was rolled out over a few months during the spring of 2014.

Figure 5: Snapshot of U.S. Postal Service Informed Delivery Notification



Sources: United States Postal Service and GAO. | GAO-19-293

- **Keyless Parcel Lockers:** Since October 2013, USPS has piloted keyless parcel lockers that allow customers to independently pick up packages in 98 selected post offices. According to USPS, among other things, this innovation is intended to reduce the number of missed package deliveries to customers' post office boxes and thereby reduce USPS's delivery costs (see fig. 6).²⁴ The purpose of the pilot is to assess the performance and use of the lockers and to assess their performance. In October 2013, USPS began pre-testing the technical performance of 10 prototype keyless parcel locker units

²⁴According to USPS, missed deliveries to post office boxes occur when a package is unable to fit into a post office box and a parcel locker is unavailable, or when package does not fit into an available locker.

at post offices in New York City and Northern Virginia.²⁵ Following this pre-test, in February 2015, USPS approved the installation of 50 made-to-order locker units in selected post offices across the country. Finally, in May 2016 USPS expanded the pilot to include an additional 50 units, including 2 units that a senior USPS official told us were not yet installed. As of November 2018, the pilot is still ongoing.

Figure 6: Photo of U.S. Postal Service Keyless Parcel Locker Unit



Source: GAO. | GAO-19-293

²⁵According to USPS's proposal for the pilot, a keyless locker unit typically contains 12 individual lockers and is capable of electronically recording inventory and locker use.

USPS’s Policies for Piloting Key Innovations Reflect Some but Not All Leading Practices for Pilot Design and Evaluation

USPS’s policies applicable to piloting key innovations fully reflect two of the five leading practices for pilot design and evaluation that we identified in prior GAO work and relevant standards for internal control (see table 1).²⁶ These policies do not, however, fully reflect the other three leading practices due to policy gaps. Further, we found that USPS had not consistently followed its policies to document lessons learned at the conclusion of each pilot, as discussed below.

Table 1: Extent to Which the U.S. Postal Service’s (USPS) Policies for Pilot Design and Evaluation Reflect Leading Practices

Leading practices for pilot design and evaluation	Assessment of USPS’s policies
Establish appropriate and measurable objectives linked with identified performance measures	Do not fully reflect
Articulate a methodology for evaluating pilot performance	Fully reflect
Evaluate pilot performance and identify and document lessons learned	Fully reflect
Draw and document conclusions about scalability (i.e., determining whether, how, and when to launch the innovation more broadly) based on pilot results	Do not fully reflect
Ensure appropriate two-way communication at all stages of the pilot with key internal and external stakeholders in order to understand and address their views	Do not fully reflect

Source: GAO. | GAO-19-293

Senior USPS officials acknowledged that gaps exist in its policies for pilot design and evaluation because they were not developed by USPS to fully reflect all leading practices. These policy gaps limit the extent to which USPS can ensure that it is making good resource allocation decisions based on pilot experiences. Below we further discuss the extent to which USPS’s policies reflect the five leading pilot practices we identified as well as how USPS applied these leading practices among the four piloted innovations that we reviewed.

Establish appropriate and measurable objectives linked with identified performance measures: We found USPS’s policies do not fully reflect this leading practice. While USPS policies require that project managers

²⁶As discussed earlier, we identified leading practices from prior GAO reports on pilot design and evaluation, including [GAO-09-45](#) and [GAO-16-438](#), as well as from our review of standards for internal controls related to documentation in [GAO-14-704G](#) and the Committee of Sponsoring Organizations of the Treadway Commission’s *Internal Control-Integrated Framework* (2013). USPS officials identified Handbook F-66 and USPS Handbook F-66D as policies applicable to its piloting of key innovations.

establish pilot objectives and performance measures, they do not require that each objective be linked with identified performance measures. As a result, some pilots may have objectives without an associated performance measure.

For example, although USPS established both objectives and performance measures for each of the four innovations we selected for review, it did not consistently link each established objective to performance measures. USPS's proposal to pilot same-day delivery, for example, had objectives of generating new revenue and improving customers' experience. However, while the proposal included performance measures associated with generating new revenue—i.e., package volume, gross revenue, and net revenue—it did not identify and link any performance measures with its objective of improving customer experience. Similarly, USPS's proposal to pilot keyless parcel lockers included improving customers' experience as one of its objectives. However, while the proposal included a variety of performance measures—reduction in the number of missed deliveries to post office boxes, locker rate utilization, and on-time locker installation—it did not identify and link any performance measures with its improving customers' experience objective. Absent such measures, USPS may not know whether customers have experienced an improvement using keyless parcel lockers compared to using manual, keyed parcel lockers. Linking all objectives to performance measures could help ensure that USPS has the performance information to assess the extent to which a pilot has achieved all of its objectives.

USPS officials told us that it can be difficult to measure performance for some objectives related to customer experience. While measuring customers' experience can be challenging, it is important to understand the extent to which a pilot has achieved all of its objectives. Further, USPS has demonstrated that it can measure improvement in customers' experience. For example, during its Informed Delivery pilot, USPS conducted a consumer survey with approximately 5,500 Informed Delivery subscribers to collect data on consumer adoption and satisfaction. In the survey, USPS found that over 80 percent were satisfied or very satisfied with the service. According to USPS officials, this data helped USPS to measure the pilot's success in meeting its objective of improving customers' experience.

Articulate a methodology for evaluating pilot performance: We found that USPS's policies fully reflect this leading practice because the policies require officials to develop and communicate a methodology for

evaluating pilot performance. Articulating such a methodology helps managers to identify the types and sources of performance information necessary to evaluate the pilot.²⁷ USPS’s policies require project managers to work with the pilot’s cross-functional team to develop and reach consensus on the methodology. These policies also require the project manager and cross-functional team to identify data needs, data sources, and how the data will be evaluated.

For the four innovations we reviewed, we found that USPS articulated a methodology for evaluating the pilot’s performance. For example, for the Informed Delivery pilot, USPS identified its customer registration system as the method for tracking progress toward performance measures related to the number of Informed Delivery subscribers. Similarly, in its proposal to pilot keyless parcel lockers, USPS identified its central parcel locker monitoring system as a method of tracking progress toward performance measures related to utilization of keyless parcel lockers.

Evaluate pilot performance and identify and document lessons learned: We found that USPS’s policies fully reflect this leading practice, but USPS did not consistently follow its policy that requires documenting lessons learned. Specifically, the policies require project managers to evaluate performance and document lessons learned at the conclusion of each pilot. Doing so can enable USPS to identify information needed to make conclusions about the pilot’s scalability and ensures that such information will be accessible to inform future related efforts. However, among the key innovations we selected for review USPS had not consistently documented lessons learned (see table 2).

Table 2: Extent to Which the U.S. Postal Service (USPS) Documented Lessons Learned for Key Piloted Innovations Selected by GAO	
Key piloted innovations	Documented lessons learned at pilot’s conclusion
Metro Post (i.e., same-day delivery)	Not documented
Customized Delivery (i.e., grocery delivery)	Not documented
Informed Delivery	Documented
Keyless parcel lockers	^a

Source: GAO. | GAO-19-293

^aAs of November 2018, USPS had not concluded its pilot for keyless parcel lockers.

²⁷[GAO-16-438](#).

USPS officials told us that they discussed lessons learned during ongoing monitoring of pilot performance for these innovations, but had only documented lessons learned for its Informed Delivery pilot. Specifically, USPS identified lessons learned in its July 2016 proposal to launch its Informed Delivery service nationally. In this proposal, we found that USPS identified some lessons learned about the pilot related to user satisfaction and adoption rates. USPS officials told us that this information helped to inform USPS's decision to launch the service nationally. However, USPS officials acknowledged that USPS did not document lessons learned for the other two concluded pilots that we selected for review (same-day delivery and grocery delivery).

Senior USPS officials told us that USPS had not consistently documented lessons learned at the conclusion of pilots across the 24 key innovations because it had not developed tools, such as a template, or training that could help ensure such consistency. Without consistently documenting lessons learned for all of its pilots, USPS risks losing information garnered during pilot implementation that could be relevant to future innovation efforts. Doing so can be particularly important because, according to a senior USPS official, officials responsible for pilot projects sometimes retire or leave USPS for employment elsewhere, creating a gap in knowledge of pilot experiences. Standards for internal control underscore the importance of maintaining documentation in order to retain organizational knowledge and mitigate the risk of having knowledge limited to a few personnel.²⁸

Draw and document conclusions about scalability based on pilot results: USPS's policies do not fully reflect this leading practice. These policies require that project managers draw conclusions based on the results and lessons learned from the pilot. According to USPS officials, conclusions may include determining scalability—i.e., whether, how, and when to integrate pilot activities into overall efforts. However, USPS's policies do not specifically require that officials document these conclusions. Documenting conclusions about scalability based on pilot results helps to ensure retention of organizational knowledge related to the pilot that may inform future decisions.

²⁸[GAO-14-704G](#) and Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control-Integrated Framework* (2013).

Among the three innovations that we selected for review for which the pilots had concluded (i.e., same-day delivery, grocery delivery, and Informed Delivery), USPS officials told us that senior leadership discussed the results and lessons of the pilots and made determinations regarding whether, how, and when to launch them more broadly, but that they did not document these decisions or the rationale for them.²⁹ By not documenting conclusions, USPS risks losing information that could affect the success of future related efforts and that could inform future USPS leadership of the rationale for maintaining investments in activities upon which pilots were based.

Documenting conclusions for innovation pilots can be especially important in cases in which USPS decides to continue or expand pilot activities even when the pilots do not meet all of their intended objectives. For example, USPS's same-day delivery and grocery delivery pilots had revenue objectives, along with associated performance measures; however, neither pilot achieved these objectives. For the same-day delivery pilot, costs exceeded revenue in 12 of the 13 fiscal year quarters in which the pilot was conducted, according to data USPS reported to PRC. Likewise, USPS data indicate it did not reach its annual revenue target for its grocery delivery pilot. Similarly, USPS's pilot of Informed Delivery was intended to generate "statistically valid data" on how consumers respond to mailer marketing campaigns. However, according to a senior USPS official, the pilot did not generate the data as intended, because no such campaigns were conducted during the pilot.

As discussed earlier in this report, USPS did not discontinue any of these three selected innovations when their pilots concluded. Although USPS may have had good reasons to continue with, or more broadly launch, these innovations despite the pilots not meeting all of their objectives, the lack of documentation regarding its reasoning and decisions limits information relevant to whether USPS is making judicious use of limited resources.

Ensure appropriate two-way communication at all stages of the pilot with key internal and external stakeholders in order to understand and address their views: USPS's policies do not fully reflect this leading practice.

²⁹In August 2017, USPS proposed purchasing over 1,400 additional keyless parcel locker units. However, according to a senior USPS official, USPS did not approve the purchase because the pilot had not demonstrated that the benefits of providing keyless parcel lockers to consumers outweighed installation, maintenance, and other costs.

USPS's policies require the involvement of key internal stakeholders in pilots. Specifically, USPS's policies require the involvement of cross-functional teams—which include legal, finance, and other departments—and varying levels of review during the design and implementation of pilot proposals. However, USPS's policies do not address communication with key external stakeholders. According to USPS officials, some pilot projects may be confidential or have limited or no direct effect on external stakeholders and, thus, communication with external stakeholders may not be appropriate. While external stakeholder communication may not be appropriate with some pilots, such communication, as appropriate, can help to ensure that issues critical to the success of a pilot activity are identified and addressed.

Among the innovations that we selected for review, USPS officials explained various steps taken to involve internal stakeholders in the design and evaluation of the pilots, such as the involvement of cross functional teams to develop pilot proposals. Further, while USPS's policies do not address external stakeholder communication, we found that USPS employed strategies for some of the innovations we selected for review to communicate with some external stakeholders—i.e., industry associations and mailers. For example, a representative of a postal association told us that USPS shared information and sought input about its Informed Delivery pilot during a quarterly meeting with industry groups. Similarly, a mailer we interviewed told us that USPS had shared information and sought input on the Informed Delivery pilot through direct outreach with the mailer.

However, USPS did not consistently employ strategies to communicate with some key external stakeholders among the innovations that we selected for review. Specifically, USPS did not design or implement strategies to obtain feedback from consumers on its pilots for same-day delivery, grocery delivery, or keyless parcel lockers, despite the fact that each of these innovations directly affected consumers. In contrast, as previously discussed, for its Informed Delivery pilot, USPS planned and conducted a survey to obtain consumer feedback, the results of which helped USPS project managers support the proposal to expand the service nationally. Absent communication with all key stakeholders, USPS risks not having a complete understanding of perspectives that could inform the viability of its innovations.

Conclusions

In recent years, USPS has sought to compete in a challenging business environment by piloting innovations intended primarily to generate

revenue and enhance customers' experience. The policies that USPS uses for piloting key innovations fully reflect some leading practices for pilot design and evaluation, such as articulating a methodology for evaluating pilot performance. However, addressing gaps between USPS's policies and leading practices related to linking objectives and performance measures, documenting conclusions, and communicating with key external stakeholders would enable USPS leadership to better assess the outcomes of its pilots, understand the rationale for conclusions about scalability based on pilot results, and gauge customers' reactions to innovative products and services. Moreover, developing tools or training to ensure that USPS consistently implements its policy of documenting lessons learned from pilots would provide USPS with key information to inform future related efforts.

Recommendations for Executive Action

We are making the following two recommendations to USPS:

The Postmaster General should direct the Vice President of Product Innovation to develop policies that fully reflect leading practices for pilot design and evaluation in areas such as linking objectives and performance measures; documenting conclusions about scalability based on pilot results; and communicating with key external stakeholders, as appropriate. (Recommendation 1)

The Postmaster General should direct the Vice President of Product Innovation to develop tools, such as a template, or training to help ensure USPS consistently documents lessons learned at the conclusion of pilots, as required by USPS policies. (Recommendation 2)

Agency Comments and Our Evaluation

We provided a draft of this product to USPS and PRC for comment. USPS provided a written response, which is reproduced in appendix II of this report. In its response, USPS did not state whether it agreed with our recommendations, but described actions that it plans to take related to each. These actions, if fully implemented, would meet the intent of our recommendations. For example, USPS stated that it would develop policies specifically for pilot design, and would reflect leading practices for pilot design and evaluation based upon best practice research. USPS also noted that it would develop training to ensure consistent documentation of lessons learned from its pilots. USPS added that this planned training would cover best practices for pilot tests.

Regarding our first recommendation USPS said that pilots are only one step in a larger process for developing innovations. We agree with this and noted in our report that piloting is one key element of USPS's efforts to innovate. Nonetheless, given USPS's financial position, effectively piloting innovations is a critical step to ensure that USPS invests its limited resources on innovations that are most likely to improve its long-term viability. USPS also stated that flexibility is important in innovation pilots, particularly as it pertains to linking pilot objectives with performance measures. We continue to believe that linking objectives with performance measures is key to effectively evaluating pilots. In so doing, however, there is flexibility to adjust pilot objectives and performance measures as new information is gleaned during the pilot. Finally, with regard to communication with external stakeholders during pilots, USPS said that it communicates consistently with external stakeholders regarding pilots at Mailers' Technical Advisory Committee meetings (MTAC).³⁰ In our report, we noted that USPS employed strategies to communicate with some external stakeholders—i.e., industry associations and mailers. We continue to believe, however, in the importance of communication with all key external stakeholders, which may include stakeholders, such as consumers, that do not participate in MTAC meetings.

USPS and PRC also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committee, the Postmaster General, Chairman of PRC, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

³⁰The Mailers' Technical Advisory Committee is a venue for USPS to share technical information with mailers and to receive their advice and recommendations on matters concerning mail-related products and services. The committee holds meetings on a quarterly basis.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or RectanusL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Lori Rectanus". The signature is written in a cursive style with a large, stylized "L" and "R".

Lori Rectanus
Director
Physical Infrastructure Issues

Appendix I: List of U.S. Postal Service Key Piloted Innovations, Fiscal Years 2013-2017

The U.S. Postal Service (USPS) piloted 24 key innovations from fiscal years 2013 through 2017 (see table 3).¹

Table 3: U.S. Postal Service (USPS) Key Piloted Innovations, Fiscal Years 2013 through 2017

Innovation name	Description	Innovation Primary goal
Metro Post (i.e., same-day delivery)	Package delivery product that delivers packages from participating retailers to customers in selected areas on the same day.	Generate revenue
Customized Delivery (i.e., grocery delivery)	Package delivery product that delivers groceries and other prepackaged goods from a participating retailer to customers in selected areas.	Generate revenue
Standard Post / Retail Ground	Package delivery product that reduces customer costs by providing “zone pricing” (i.e., lower prices for boxes shipped shorter distances) for less-than-urgent deliveries and oversized packages.	Generate revenue
Parcel Return Service pick-up locations	Offering that reduces the number of USPS locations shippers must visit to pick-up returned packages.	Generate revenue
Priority Mail regional rate	Alternative shipping product that reduces customer costs by providing “zone pricing” (i.e., lower prices for boxes shipped shorter distances) for some Priority Mail shipments.	Generate revenue
Informed Delivery Platform	Service that provides consumers with a digital preview of their household mail arriving soon. Mailers can integrate digital campaign elements to engage the consumer.	Generate revenue
MyUSPS	Portal that allows customers to see all packages destined to their address, create return labels, and request mail holds or redelivery. This feature is now a part of the Informed Delivery platform so customers can see all mail and packages in one place.	Improve customers’ experience
Expected Delivery	A service that provides customers with: a delivery timeframe (currently 2 hours) on the day of delivery; and predictions for the expected delivery date and delivery timeframe at least the day before the actual delivery day.	Improve customers’ experience
Mobile Check Payment	A service that allows commercial customers to make deposits using a mobile device, thereby avoiding the need to visit a retail location, enhancing the customer experience, and expediting the clearance of funds.	Improve customers’ experience
Keyless parcel lockers	Lockers installed in some USPS post offices that serve as a “last mile” delivery point for packages that cannot be delivered directly into P.O. Boxes.	Improve customers’ experience
Identity Verification Service	A service that would allow users to verify their digital identity either remotely (i.e., online) or in person.	Generate revenue

¹USPS defines “key innovations” as those that have a significant effect on cost, the end consumer, the shipper, or the mailer. The 2006 Postal Accountability and Enhancement Act defines (a) postal “product” as a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied, and (b) “postal service” refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, and transportation, or other ancillary function. USPS defines an “enhancement” as any improvement to the quality or value of a postal product or service.

Innovation name	Description	Innovation Primary goal
Electronic Postmark	A service that assures the integrity, authenticity, and accuracy of electronic data content.	Generate revenue
Priority Mail redesign	Enhanced Priority Mail product by providing expected delivery, free insurance up to \$50, and new packaging.	Generate revenue
Parcel Select rural pricing	Enhanced Parcel Select product by developing two-tiered (i.e., rural and non-rural) pricing to meeting shipper needs.	Generate revenue
Parcel Select next day delivery	Enhanced Parcel Select product by allowing shippers to drop packages at USPS processing plants with lower sorting requirements.	Generate revenue
Parcel Select Return Service	Enhanced Parcel Select product by expanding the number of USPS locations that accept package returns from shippers.	Generate revenue
Click-N-Ship Business Pro	Developed software that allows mailers to pay postage electronically and provides enhanced reporting features for some shipments.	Generate revenue
Merchant Return scan base payment	Streamlined package returns process by using electronic scan data to calculate payment in lieu of manually weighing and rating each package.	Generate revenue
Developed online tools for shippers	Developed software that allows mailers to, for example, print shipping labels, track packages, schedule package pick-ups by accessing USPS data.	Improve Internal Infrastructure
Next Generation Mailbox	Developed larger mailbox receptacle capable of accommodating more package deliveries and locations with multiple delivery points.	Improve customers' experience
Informed Visibility / GEO delivery	Developed software that provides mailers with near real-time end-to-end tracking information for some mailpieces and mail aggregates (e.g., containers).	Improve customers' experience
USPS returns automated	Developed capability to charge for returns based on captured attributes, such as capturing package weight from mail processing equipment, accurately assessing postage, and easily collecting postage due.	Generate revenue
Near real time package delivery notification	Developed capability of on-street devices used by carriers to transmit mail scan information at the time of the scanning.	Improve customers' experience
E-Commerce Program	A service to enable printing and payment of shipping labels from customers' home or office.	Generate revenue

Source: GAO analysis of USPS information. | GAO-19-293

Note: USPS did not discontinue any key piloted innovations from fiscal years 2013 through 2017.

Appendix II: Comments from the U.S. Postal Service



February 15, 2019

Ms. Lori Rectanus
Director, Physical Infrastructure Issues
United States Government Accountability Office
Washington, DC 20548-0001

Dear Ms. Rectanus:

This responds to the draft report, *U.S. Postal Service: Addressing Policy Gaps Could Improve Pilot Design and Evaluation for Postal Innovations* (GAO-19-293).

Thank you for providing the United States Postal Service (USPS) with the opportunity to review and comment on the draft report titled *U.S. Postal Service: Addressing Policy Gaps Could Improve Pilot Design and Evaluation for Postal Innovations* (GAO-19-293). Our comments on the draft report and our responses to the GAO's Recommendations for Executive Action are set forth below.

Product Innovation has established comprehensive product development processes where pilots are only one step in those processes. These processes are documented in the F-66D section 4.6, "Overview of Development Process" and the Product Innovation new product development process that was provided to the GAO on January 4, 2018. In many cases, a pilot is part of the Ideation stage of product development. This stage is part of the creative process of generating, developing, and communicating new ideas, where an initiative and the pilot being conducted are not fully defined and are exploratory, which require deeper and broader research to finalize. Therefore, pilots may have general metrics/objectives because they are part of ideation and fact finding. Much of this report refers to generic best practices tailored to traditional product pilots with set metrics and precedents, and not as applicable to disruptive and exploratory product and service innovation with no precedent in the organization. Therefore, the GAO stated best practice of "*Linking pilot objectives to identified performance measures*" is not always applicable to our innovation pilots. Sometimes a pilot is created for one opportunity and the data may unveil or prove a new or different opportunity. This is the nature of innovation and why pilots for innovation need to be flexible.

In addition, the USPS communicates consistently with external stakeholders regarding pilots through the Mail Technical Advisory Committee (MTAC): MTAC and MTAC user groups. MTAC members consist of key external stakeholders. MTAC is a way for the USPS to share technical information with the industry, and to receive their advice and recommendations on matters concerning mail-related products and services, in order to enhance customer value and expand the use of these products and services for the mutual benefit of industry stakeholders and the Postal Service.

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GAO Recommendations:

1. *The Postmaster General should direct the VP of Product Innovation to develop policies that fully reflect leading practices for pilot design and evaluation in areas such as linking objectives and performance measures, documenting conclusions about scalability based on pilot results; and communicating with key external stakeholders as appropriate.*

USPS Response:

The USPS will develop policies specifically for pilot design and continue to use MTAC to communicate with key external stakeholders. The USPS will reflect leading practices for pilot design and evaluation based on thought leader and best practice research.

The USPS believes that “best practices” for innovation should predominantly follow “Agile Development.” Agile development recognizes the need to pilot (test) a preliminary, exploratory concept and iterate to learn and be adaptable on the final concept. For innovation, the pilot itself is done to help better define the performance metrics that are feasible and to clarify the goals that should be set for the program. We agree that pilot tests for traditional pilots with incremental changes with clear precedents and metrics should follow the recommendations in this report. However, for the majority of our pilots for new concepts, with variables and unknowns, we need to follow a more “agile” approach, which recognizes the pilot itself will help frame and flush out the concept to help define expectations. We agree with GAO that we should document lessons learned and ensure that all learnings are required to be clearly documented in the process.

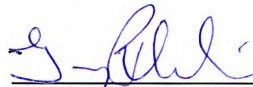
2. *The Postmaster General should direct the VP of Product Innovation to develop tools such as templates or training to help ensure USPS consistently documents lessons learned at the conclusion of pilots as required by USPS policies.*

USPS Response:

The USPS will develop training to ensure consistent documentation of lessons learned from pilots. The USPS is in the process of developing the training for the Chief Customer and Marketing Officer (CCMO organization), led by the Product Innovation organization to ensure all departments under the CCMO who develop or enhance products have completed the training by September 30, 2019. Training planned will provide best practices for pilot tests that include checklists, leading practices for pilot design and evaluation, templates to ensure consistency, post analysis process that includes documenting lessons learned, and a central repository to store all pilot test information to ensure easy archiving and retrieval. In addition, the Finance and the Business Analysis team is updating and refreshing F-66D with completion November 2019.

Again the USPS appreciates the opportunity to respond to the GAO draft report and Recommendations for Executive Action.

Sincerely,



Gary C. Reblin

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Lori Rectanus, (202) 512-2834 or RectanusL@gao.gov

Staff Acknowledgments

In addition to the individual named above, Derrick Collins (Assistant Director); William Colwell and James Leonard (analysts in charge); Barbara El Osta; Geoffrey Hamilton; Gina Hoover; Anthony Jackson; and Laurel Voloder made key contributions to this report.

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