

GAO

Report to the Chairman, Subcommittee on
Federal Financial Management, Government
Information, Federal Services, and International
Security, Committee on Homeland Security and
Governmental Affairs, U.S. Senate

January 2013

U.S. POSTAL SERVICE

Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products



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Highlights of [GAO-13-216](#), a report to the Chairman, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

USPS continues to face a dire financial situation. Reducing costs is essential, but USPS also must generate additional revenue through the sale of products and services. PAEA, enacted in 2006, eliminated USPS's authority to offer nonpostal services unless they were offered as of January 1, 2006, and expressly grandfathered by the PRC. USPS may, however, offer new nonpostal services if they are related to the grandfathered nonpostal services. It may also offer experimental postal products that meet certain conditions. As requested, this report describes:

(1) the nonpostal services grandfathered after the enactment of PAEA, experimental postal products offered since enactment of PAEA, and discretionary services USPS currently performs for other federal agencies; (2) initiatives—including nonpostal services and experimental postal products—USPS is pursuing to generate additional revenue and the status of these initiatives; and (3) the reasons USPS decided not to pursue other revenue-generating initiatives that it had identified.

GAO reviewed PAEA provisions and PRC decisions pertaining to nonpostal services, experimental postal products, and services performed for other federal agencies and USPS documents related to the initiatives that USPS chose to pursue and those it decided not to pursue. GAO interviewed USPS officials regarding these issues.

In commenting on a draft of this report, USPS agreed that its financial viability is dependent not only on cutting costs, but also on generating additional revenue.

View [GAO-13-216](#). For more information, contact Lorelei St. James at (202) 512-2834 or stjamesl@gao.gov.

January 2013

U.S. POSTAL SERVICE

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What GAO Found

The U.S. Postal Service (USPS) currently offers 12 nonpostal services (i.e., services not directly related to mail delivery) that were grandfathered by the Postal Regulatory Commission (PRC) after enactment of the Postal Accountability and Enhancement Act (PAEA). These services—which include Passport Photo Services, the sale of advertising to support change-of-address processing, and others—generated a net income of \$141 million in 2011. Since enactment of PAEA, USPS has received approval from PRC to offer eight experimental postal products, which are products that differ significantly from other offered products, such as the sale of gift cards loaded with a specified sum of money. Lastly, USPS performs at least four discretionary services (i.e., services it chooses, rather than is required, to perform) for other federal agencies, such as accepting passport applications for the State Department.

USPS is currently pursuing 55 new initiatives that it identified based on outreach to postal stakeholders. USPS chose to pursue these initiatives because of their potential to increase revenue and add value to the mail, among other reasons. Forty-eight initiatives are extensions of existing lines of postal products and services, such as offering Post Office Box customers a suite of service enhancements (e.g., expanded lobby hours and earlier pickup times) at selected locations and increasing public awareness of the availability of postal services at retail stores. Three initiatives are extensions of existing nonpostal services, including allowing customers to forward their mail to a new address using mobile devices. Finally, four of the initiatives involve experimental postal products, such as prepaid postage on the sale of greeting cards. These four experimental products are among the total of eight experimental products that have received PRC approval since enactment of PAEA. Forty-five of the 55 initiatives are ongoing; the remaining are under development.

USPS considered but decided not to pursue 25 other stakeholder-identified initiatives, primarily because of financial reasons. Twelve initiatives were abandoned because USPS determined they were not likely to be profitable or the initial investment was too high. Reasons for not pursuing other initiatives included insufficient stakeholder interest or lack of statutory authority. USPS would like to pursue revenue-generating opportunities in three areas—nonpostal services, shipments of alcoholic beverages, and services performed for state and local governments—if it is provided with statutory authority to do so. USPS officials said opportunities in these areas could improve USPS's financial position, but they emphasized that additional innovations will not be sufficient to return USPS to financial solvency. Results will also be constrained by the economic climate and by changing use of the mail. USPS's multiyear revenue plan detailing its competitive strategies is expected in the spring of 2013.

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Abbreviations

PAEA	Postal Accountability and Enhancement Act
PRC	Postal Regulatory Commission
USPS	U.S. Postal Service

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

January 15, 2013

The Honorable Tom Carper
Chairman
Subcommittee on Federal Financial Management,
Government Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Mr. Chairman:

The U.S. Postal Service (USPS) continues to face a dire financial situation and does not have sufficient revenues to cover its expenses, putting its mission to provide prompt, reliable, and efficient service at risk. As customers increasingly turn to digital communications and online payment methods, total mail volumes have decreased precipitously, falling almost 21 percent from fiscal years 2007 through 2011. In 2012, USPS reached its \$15 billion borrowing limit¹ and incurred a \$15.9 billion net loss.²

According to the Postmaster General, reducing USPS's costs is essential, but generating additional revenue is also necessary. Consequently, the Postmaster General implemented a variety of strategies to increase revenue, including strategies to strengthen the value of mail to businesses, improve the experience of USPS's customers, and compete with private sector firms for the package business.

As requested, this report examines matters related to USPS's provision of nonpostal services (i.e., services not directly related to the delivery of mail, such as Passport Photo Services). In particular, you asked us to

¹USPS is authorized by statute to borrow \$3 billion annually and a maximum of \$15 billion. 39 U.S.C. § 2005(a).

²USPS has incurred \$41 billion of net losses over the previous 6 years, including a \$5.1 billion net loss in fiscal year 2011. The \$15.9 billion net loss includes \$11.1 billion for two required payments to prefund its future retiree health benefits. Originally due at the end of fiscal year 2011, USPS's \$5.5 billion retiree health benefit payment was delayed until August 1, 2012. Pub. L. No. 112-74, § 632, 125 Stat. 786, 928 (Dec. 23, 2011). USPS missed that payment as well as the \$5.6 billion payment that was due on September 30, 2012. Even though USPS did not make these payments, it recorded a loss for the obligation to make these payments.

review those nonpostal services that were offered at the time the Postal Accountability and Enhancement Act (PAEA) was enacted in 2006 and that the Postal Regulatory Commission (PRC) determined should be continued, or “grandfathered”.³ In addition, as agreed with your staff, we also provide information on two other areas with the potential to generate revenue: (1) experimental postal products and (2) services that USPS performs on a discretionary basis for other federal agencies. PAEA granted USPS the authority to offer experimental postal products, which are those that are significantly different from all other products USPS offers and have certain other characteristics. Such products include a same-day delivery service for local buyers in selected metropolitan areas and prepaid postage on the sale of greeting cards. Discretionary services for other federal agencies are services that USPS may choose to pursue but is not required to perform.⁴ Such services include collecting data on vacant addresses for the Department of Housing and Urban Development.

This report describes:

1. The nonpostal services grandfathered after the enactment of PAEA, the experimental postal products approved for market testing since the enactment of PAEA, and the services USPS currently performs for other federal agencies.
2. The initiatives—including nonpostal services and experimental postal products—USPS is pursuing to generate additional revenue and the status of these initiatives.
3. The reasons USPS decided not to pursue other revenue-generating initiatives that it had identified.

³Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006).

⁴We excluded services that USPS is *required* to perform for other federal agencies, including those required by statute or executive order. For example, the Migratory Bird Hunting and Conservation Stamp Act requires USPS to print, issue, and sell duck stamps (that serve as hunting licenses) for the U.S. Fish and Wildlife Service. Pub. L. No. 73-124, 48 Stat. 451 (Mar. 16, 1934). Through executive order, USPS also is directed to deliver medicines to individuals in the event of a large scale biological attack. Exec. Order No. 13527, 75 Fed. Reg. 737 (Jan. 6, 2010).

To address these objectives, we reviewed and analyzed numerous documents, including:

- relevant laws, such as those pertaining to USPS's authority to engage in nonpostal services, experimental postal products, and services for federal agencies;
- reports on USPS's nonpostal services, experimental postal products, and services for federal agencies issued by GAO, USPS's Office of Inspector General, and others;
- agreements specifying the terms and conditions for USPS's ongoing cooperation with other federal agencies;
- PRC decisions (orders) and relevant stakeholder filings submitted in response to the PRC's proceedings on USPS's nonpostal services and experimental postal products since PAEA's enactment;
- the results of USPS's 2010 outreach to external and internal stakeholders to identify potential revenue-generating opportunities, including USPS's 2011 plan for increasing revenue; and
- updated documentation on USPS's current strategy and plan for increasing revenue, which is under development, including information on initiatives that USPS chose to pursue and those it decided not to initiate; USPS's rationale for these decisions; the status of the initiatives that USPS is pursuing; and the available revenue and cost estimates for these initiatives.

We also interviewed USPS officials, including the Chief Marketing and Sales Officer and Executive Vice President, the Vice President for USPS's Domestic Products, General Counsel staff, and others. Among other things, we discussed

- USPS's actions and processes for identifying and assessing additional revenue-generating opportunities, including those related to nonpostal services, experimental postal products, and discretionary services for federal agencies;
- USPS's criteria for deciding which opportunities to pursue;
- the status of its decisions; and

-
- the reasons why USPS decided not to pursue certain initiatives and obtained USPS's views on what, if any, statutory authorities USPS believes it needs to pursue other, potential revenue-generating initiatives.

We also interviewed PRC staff to obtain additional information and clarification on the nonpostal services and experimental postal products offered by USPS since PAEA's enactment, and on the services USPS provides on a discretionary basis for federal agencies. Finally, we obtained information on the status, results, and applicable time frames for these services, products, and activities from USPS staff. Appendixes I, II, and III provide more detailed information on USPS's grandfathered nonpostal services, approved market tests for experimental postal products through November 2012,⁵ and examples of services that USPS currently performs on a discretionary basis for federal agencies, respectively.

We conducted this performance audit from April 2012 to January 2013 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

The Postal Reorganization Act provided USPS with authority to offer nonpostal services.⁶ USPS used this authority to introduce a wide array of products, such as prepaid phone cards; an electronic funds transfer service between the United States and Mexico (Dinero Seguro); and retail merchandise, such as T-shirts, mugs, and neckties. In 2006, PAEA eliminated USPS's authority to offer nonpostal services unless they were offered as of January 1, 2006, and expressly grandfathered by the PRC.⁷

⁵PAEA allows USPS to test experimental products under certain conditions in order to encourage product innovation and rapid product introduction.

⁶Pub. L. No. 91-375, 84 Stat. 724 (Aug. 12, 1970).

⁷This authority was eliminated because of stakeholder concerns about the unprofitability of some of the offered services and competition with the private sector. See *United States Postal Service v. Postal Regulatory Commission*, 599 F. 3d 705, 706 (Mar. 30, 2010).

PAEA directed the PRC to review USPS's ongoing nonpostal services within 2 years of enactment to determine whether they should continue (i.e., be grandfathered), taking into account the public's need for the service and the private sector's ability to meet that need. The PRC defined, for the purposes of its review, a service to be an ongoing commercial activity that USPS offered to the public for financial gain.⁸ Using this definition, all nonpostal services that were offered as of January 1, 2006, were ultimately grandfathered by the PRC.

With PRC approval, USPS can introduce new, related nonpostal products if they fall under the umbrella of one of its grandfathered nonpostal services. For example, because the PRC grandfathered Officially Licensed Retail Products as a nonpostal service, USPS can offer a variety of related products, including stamp dispensers and framed postal artwork, as long as they are consistent with the underlying grandfathered nonpostal service.

While USPS offers a number of nonpostal products and services, the revenue they generate is relatively small. Nonpostal revenue in fiscal year 2011 was \$173 million, accounting for a small fraction of a percent of USPS's total revenue of \$65.7 billion.

PAEA required that grandfathered nonpostal services be regulated as either market dominant, competitive, or experimental products.⁹ Market dominant services include those products where USPS exercises sufficient market power that it can, among other things, effectively set the price of such product substantially above cost without risk of losing a significant level of business to other firms offering similar products.¹⁰ For example, first-class mail letters and sealed parcels are market-dominant products. Competitive services consist of all other products and are those

⁸Postal Regulatory Commission, Order 154, Review of Nonpostal Services Under the Postal Accountability and Enhancement Act, Docket No. MC-2008-1, Dec. 19, 2008, Washington, D.C.

⁹USPS has not offered experimental nonpostal products. As discussed later, several experimental postal products are offered by USPS.

¹⁰39 U.S.C. 3642(b).

in which USPS competes with the private sector.¹¹ USPS is required to cover its costs for these services.

PAEA also authorized USPS to conduct market tests of experimental postal products if the product being tested (1) is significantly different from all products offered by USPS within the prior 2-year period; (2) will not result in an undue market disruption, especially for small business concerns; and (3) is correctly classified as either a market dominant or competitive product. The PRC, as a matter of practice, considers whether these conditions have been met before USPS can begin a market test. PAEA authorized market tests for products that are not anticipated to exceed \$10 million in annual revenue and authorized the PRC to exempt products from this threshold if the annual revenue will not (or is not expected to) exceed \$50 million. Generally, a market test may not exceed 2 years.¹² The purpose of a market test is to determine, among other things, if there is a market for the product and, if so, to test various pricing scenarios.¹³ The time frame allows USPS to demonstrate a “nexus” to the mail and, consequently, that the product is a postal product.¹⁴ If USPS believes a market test demonstrates that a product is suitable, it may seek approval from the PRC to permanently offer it. USPS also may terminate a market test if, for example, the test did not meet USPS’s objectives.¹⁵

The Postal Reorganization Act authorized USPS to enter into interagency agreements to provide property and services to federal agencies.¹⁶ The parties must specify the terms and conditions of their collaboration,

¹¹PAEA specifies that USPS’s Board of Governors shall establish rates and classes for competitive mail products. Pub. L. No. 109-435, § 202, codified at 39 U.S.C. § 3632.

¹²If requested by USPS, the PRC may extend the testing period for an additional year. 39 U.S.C. § 3641(d).

¹³39 U.S.C. § 3641(e).

¹⁴A postal service (or product) need not be mailed to constitute a “postal” offering. Specifically, PAEA defines a postal service to mean the delivery of letters, printed matter, or “mailable” packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto. Pub. L. No. 109-435, § 101.

¹⁵Additionally, the PRC is authorized to cancel a market test if it fails to meet the required conditions. 39 U.S.C. § 3641(f).

¹⁶Pub. L. No. 91-375, § 2, codified at 39 U.S.C. § 411.

including the activities to be performed by USPS and the terms of reimbursement, if applicable. One such agreement allows USPS to accept passport applications on behalf of the U.S. Department of State (State Department).

Given declining mail volumes, customers' changing needs and their use of the mail, and a desire to address these issues, USPS began engaging with internal and external stakeholders within the postal community to generate ideas for innovative products and services that could generate additional revenue. In the summer and fall of 2010, USPS held a series of discussions, including an innovation symposium with stakeholders including business leaders, partners, customers, suppliers, and academics, to gather insights on potential innovations and revenue opportunities. According to USPS, the outreach generated over 1,500 potential initiatives, which were evaluated and winnowed down based on a variety of factors, such as time to implement, return on investment, and strategic fit. According to USPS, its decisions to pursue certain initiatives have been guided by several recurring themes, including:

- making it easier and more convenient for businesses and consumers to do business;
- promoting mailing best practices, such as those that incorporate barcode technology into advertising campaigns; and
- innovating and leading in e-commerce delivery to meet the needs of the mobile generation.

In addition to these recurring themes, each initiative is aligned to support one of USPS's three primary marketing strategies. These strategies are: (1) First-Class Mail—slow the diversion of First-Class Mail by differentiating hard copy from digital mail and embracing new opportunities from digital and social media; (2) Marketing Mail—simplify the use of marketing mail for businesses and promote emerging technologies for marketing mail; and (3) Shipping Services—develop solutions to grow shipping services in the e-commerce market.

USPS's overall strategic direction is described annually in its Comprehensive Statement of Postal Operations and the impact of these strategies is described in its annual Integrated Financial Plan—both of

which are publically available. While the 2013 Integrated Financial Plan¹⁷ indicates that USPS expects an operating loss of \$2 billion in 2013, it projects that USPS's revenue-generating initiatives will help USPS increase its shipping revenue by 10 percent and reduce the decline in its mailing revenue to 3 percent in fiscal year 2013. USPS plans to complete a multiyear revenue plan in the spring of 2013 that will include details on its competitive strategies.

We have previously reported that making progress toward financial viability would require USPS to take steps to cut costs and increase revenue within its current legal authority.¹⁸ USPS supported the provision in postal reform legislation passed in the Senate that would have provided USPS with the authority to undertake new revenue-generating initiatives such as offering new nonpostal services and exploring opportunities to offer services on behalf of state and local governments.¹⁹ We also previously identified questions we believe are important to consider before USPS is granted such additional authority,²⁰ including the following:

- How would USPS finance its nonpostal activities, considering its difficult financial condition?
- Should USPS be allowed to compete in areas where there are already private-sector providers, and if so, on what terms?

¹⁷United States Postal Service, *Fiscal Year 2013 Integrated Financial Plan* (Nov. 23, 2012).

¹⁸GAO, U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability, [GAO-10-455](#), (Washington, D.C.; Apr. 12, 2010).

¹⁹See 21st Century Postal Service Act of 2012, S. 1789, 112th Cong. (2012).

²⁰GAO, U.S. Postal Service: Financial Challenges Continue, with Relatively Limited Results from Recent Revenue-Generation Efforts, [GAO-10-191T](#), (Washington, D.C.; Nov. 5, 2009).

USPS Offers 12 Grandfathered Nonpostal Services, 8 Experimental Postal Products, and at Least 4 Discretionary Services for Federal Agencies

Nonpostal Services

At the time PAEA was enacted, USPS was offering 12 nonpostal services that it has continued to offer as a result of these services being grandfathered by the PRC. Two of these are market dominant services, including MoverSource (a service whereby the cost of changing a customer's mailing address is defrayed through the sale of advertising) and Philatelic Sales (sales related to the hobby of stamp collecting). The remaining 10 are competitive services, including USPS's Passport Photo Service. In fiscal year 2011, USPS reported to the PRC that it generated net income totaling \$141 million from its 12 nonpostal services and related products. Appendix I provides additional information about each of these grandfathered nonpostal services.

Experimental Postal Products

Since the enactment of PAEA, USPS has received approval from the PRC to market test a total of eight experimental postal products. Four of the eight approved market tests are for market dominant products, such as First Class Tracer, which enables the tracking of First-Class letters through the mail stream. The remaining four experimental products are competitive products, including USPS's Gift Cards—experimental product to test the feasibility of selling gift cards loaded with a specified sum of money to consumers who could choose to mail the cards. Four of these experimental products are an outgrowth of USPS's stakeholder discussions on new revenue-generating initiatives and are discussed further below.

USPS terminated one of the eight approved market tests—Collaborative Logistics—a test to determine whether there was a market for renting excess space on USPS's long-haul delivery trucks. While USPS considered the market test successful, it did not seek to make

Collaborative Logistics a permanent product. Instead, USPS terminated the test in September 2011, indicating that its ongoing facility consolidations had resulted in significant opportunities to reduce overcapacity and costs within its transportation network. Depending on its future financial and operational conditions, USPS said it may seek to introduce this product on a permanent basis in the future. Appendix II provides more information on each of the experimental postal products for which USPS has received PRC approval for market testing since the enactment of PAEA.

Discretionary Services Performed for Other Federal Agencies

USPS has the authority to perform services for other federal agencies on a discretionary basis by entering into written agreements with these agencies. Because any postal officer may enter into such agreements, and USPS does not have a centralized office responsible for executing or otherwise tracking these agreements, USPS was unable to provide comprehensive information on the agreements it currently has. However, based on our discussions with USPS officials and our review of related reports, we identified at least four services that USPS performs on a discretionary basis for federal agencies. For example, USPS collects data on vacant addresses for the Department of Housing and Urban Development to use in forecasting neighborhood changes, assessing neighborhood needs, and measuring the performance of its housing-related programs. USPS also accepts passport applications at over 6,300 post offices nationwide for the State Department. By using USPS's extensive network of post offices, the agencies' agreement is intended to provide passport applicants with more convenient access to passport acceptance services than the State Department could provide alone, particularly in remote U.S. areas. In addition, USPS leases its excess space, including parking, office space, and roof areas to federal agencies, including the General Services Administration. Finally, USPS processes investigations related to equal employment opportunity complaints for numerous federal agencies.²¹ Appendix III provides more information on these services.

²¹According to USPS officials, USPS initiated this service to generate additional revenue. In addition, USPS believed that given its extensive experience in this area, it could use its existing contractor workforce to reduce the costs and improve the timeliness and quality of other agencies' equal employment opportunity complaints processing. USPS's National Equal Opportunity Employment Service Office conducts these investigations.

USPS's Efforts to Generate Additional Revenue Include Ongoing and Planned Postal and Nonpostal Initiatives

As of November 2012, USPS was pursuing 55 stakeholder-identified initiatives that it believes respond to the changing needs of consumers and businesses and strengthen the relevance of USPS and the mail.²² Forty-eight initiatives are extensions of USPS's existing lines of postal products and services; three are extensions of grandfathered nonpostal services; and four are experimental postal products. Forty-five of the initiatives are ongoing, and are discussed below and in more detail in appendix IV. Ten are under development and are not discussed.

Extensions of Existing Postal Products and Services

Thirty-nine of the 48 initiatives that are extensions of USPS's existing lines of postal products and services are ongoing. Examples include:

- The reclassification of 6,000 of its post office boxes from market dominant to competitive in markets with other mail services in fiscal year 2011. This change allowed USPS to offer post office box customers additional services such as expanded lobby hours, earlier pick-up times, and the use of post office locations for street-styled addressing (e.g., 131 South Center St. #3094, instead of P.O. Box 3094) for an increased fee.
- The launch in fiscal year 2012 of the Partner Campaigns—an initiative in which USPS works with retail partners to increase the public's awareness that retail stores also offer postal services. According to USPS, the Partner Campaigns are expected to increase customer access to postal products and services.
- The launch of 2nd Ounce Free in fiscal year 2012—an initiative that enables large mailers, such as banks, to send twice as much mail for the 1-ounce price. According to USPS, this product allows mailers to use the second ounce for marketing purposes which adds value to their mailings. For example, a mailer may choose to combine advertising with its bills and statements. If that advertising leads to the consumer using return mail, it could lead to greater sales for USPS and the mailer and slow the decline in the use of First-Class Mail.

²²None of the 55 initiatives involve services that USPS intends to perform for one or more federal agencies.

Nonpostal Services and Experimental Postal Products

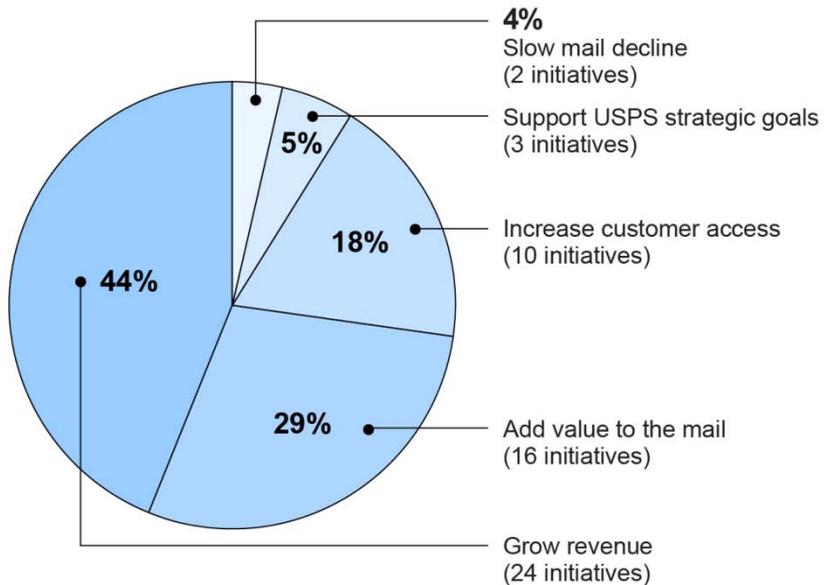
USPS is pursuing three stakeholder-identified initiatives that are extensions of its existing nonpostal services. Two of these initiatives are ongoing, including an effort to allow customers to change their addresses using mobile devices, which expands the ways a customer can request address changes through MoverSource. USPS is also pursuing four stakeholder-identified initiatives involving experimental postal products.²³ Two that have completed market testing and are ongoing as permanent postal products are Every Door Direct Mail™, which is designed to make it easier for small and medium-sized businesses to advertise using the mail, and Reinvigorate Samples, which is intended to encourage increased mailings of product samples. Market tests for the two other experimental postal products—prepaid postage on the sale of greeting card and a campaign to involve selected companies in direct mail advertising—are under way.

Reasons for Pursuing the 55 Initiatives

USPS pursued these 55 initiatives for reasons including revenue generation and adding value to the mail, among others, as shown in figure 1. Twenty-four initiatives (44 percent) were pursued solely or primarily to grow revenue, including a First-Class Package Service for packages weighing less than 1 pound—the only per-ounce pricing in the marketplace, according to USPS officials. To grow revenue, USPS also introduced several options for returning unwanted merchandise more easily and conveniently. USPS officials could not provide estimates of the expected net income for all of the 55 initiatives; however, the officials estimated that 9 of them will collectively generate a net contribution of about \$240 million in fiscal year 2012.

²³These four initiatives are among the eight total experimental products for which USPS has received PRC approval for market testing.

Figure 1: Sole or Primary Reason Cited by USPS for Pursuing 55 Initiatives



Source: GAO analysis of USPS data.

USPS Did Not Pursue 25 Initiatives because of Financial and Other Reasons, and Believes Additional Statutory Authorities Would Provide Opportunities to Increase Revenue

USPS decided not to pursue 25 additional stakeholder-identified initiatives because of financial and other reasons. Specifically, 12 of 25 initiatives, or 48 percent, were abandoned because of financial reasons. For example, USPS decided not to offer online Identity Management Services to educate customers about how to protect themselves from identity theft when shopping online. USPS anticipated that the service also would provide convenient access for purchasing from online companies pre-qualified by USPS. According to USPS, it abandoned this initiative because it determined that the initiative would not result in a return on USPS's investment. In other cases, USPS determined that initiatives required too high an initial investment or posed other financial risks and uncertainties. For example, USPS decided not to pursue a domestic money-transfer service and a retail bill-payment initiative because the costs would render these financial services unprofitable at this time.

USPS decided not to pursue the remaining 13 stakeholder-identified initiatives for other reasons.

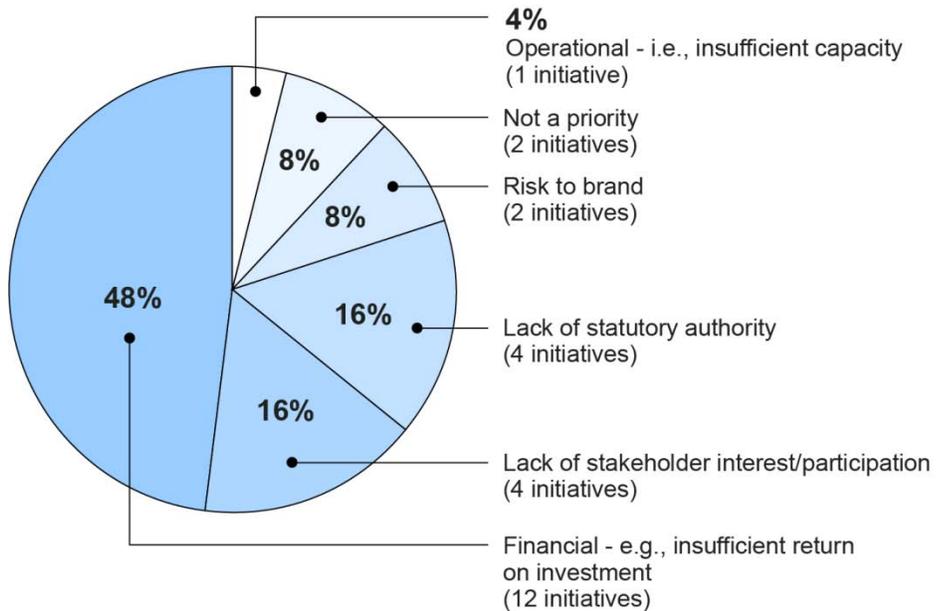
- USPS eliminated four initiatives that could be viewed as nonpostal services because it lacks statutory authority to perform new services in this area, as discussed further below.
- USPS eliminated four initiatives because stakeholders were not interested in participating in the efforts. For example, USPS wanted to expand and digitalize its passport services at self-service kiosks in post offices as a potential means to reduce error and fraud. However, according to a recent USPS Office of Inspector General report, the State Department was not interested in participating because, in its view, the kiosks would not be cost effective.²⁴ USPS also tried to partner with the Internal Revenue Service to use personnel at post office locations to verify the identities of individuals claiming eligibility for the Earned Income Tax Credit (a benefit for certain individuals who work and have lower wages). According to USPS officials, there was limited interest on the part of the Internal Revenue Service because, as reported by the Office of Inspector General, the Internal Revenue Service decided to implement an alternative solution.
- USPS eliminated two initiatives because it determined that they required a greater initial commitment of resources than other initiatives and were therefore of lower priority. For example, USPS decided not to provide eligible companies with volume-based discount pricing to increase their use of First-Class Mail because companies may be unwilling or unable to make the needed investments for the initiative to work. Instead, USPS officials said they are focusing on other incentives with lower investment thresholds.
- USPS eliminated two initiatives because it determined that they could potentially damage the trust that customers have in the USPS brand. One initiative involved opening and scanning a customer's mail—with the customer's permission—to send the mail to them in digital form. The other initiative envisioned providing companies with tools to enable them to better target their mailings to consumers.

²⁴U.S. Postal Service Office of Inspector General, Partnerships with Other Government Agencies, (Management Advisory), DA-MA-12-006 (Sept. 28, 2012).

- USPS eliminated one initiative that conflicted with ongoing efforts to reduce the postal workforce. Specifically, USPS decided not to use its Human Resource Shared Services Center to offer retirement management services to other federal agencies, in part, because it does not currently have sufficient capacity to expand these services.

Figure 2 summarizes the primary reasons cited by USPS for not pursuing the 25 initiatives.

Figure 2: Reasons Cited by USPS for Not Pursuing the 25 Initiatives



Source: GAO.

According to USPS officials, they would like to pursue additional revenue-generating opportunities in three areas—nonpostal services; shipments of beer, wine, and spirits; and cooperation with state and local governments—if provided with additional statutory authority. The officials stated that USPS staff have briefed congressional members and staff about these areas.²⁵ In addition, they noted that USPS has outlined its interests in publicly available reports, including its March 2010 Action

²⁵USPS officials noted that proposed legislation introduced provides additional authority for USPS to engage in these activities. See S. 1789, 112th Cong. (2012).

Plan, which lays out the agency's position on its need for increased flexibility to offer new and innovative products.²⁶ USPS also reiterated its interest in acquiring additional statutory authorities in February 2012 when it issued its 5-year business plan.²⁷ According to USPS, opportunities in these three areas could provide significant value to customers, improve USPS's financial position, and take full advantage of its resources and competencies. USPS emphasized, however, that additional innovations in these areas will not be sufficient to solve USPS's dire financial situation. Results will also be constrained by the economic climate and by changing use of the mail.

Concluding Observations

USPS's financial viability is dependent not only on cutting costs, but also generating additional revenues. USPS generated a net income of \$141 million in 2011 from its offerings of nonpostal services and products. While beneficial, this income pales in comparison to USPS's net loss of \$15.9 billion in 2012. To address its deepening fiscal crisis, USPS believes that additional services and products in three areas—including nonpostal services, shipments of alcoholic beverages, and cooperation with state and local governments—could generate some additional revenue; however, additional statutory authority is needed. Legislation was introduced to improve USPS's financial condition. The legislation included increased flexibilities to allow USPS to offer new products; however, Congress was unable to reach overall agreement on the steps needed to sustain and transform USPS. We continue to believe action to address the long-standing challenges that hinder USPS's financial viability, including a consideration of options to expand its revenue-generating potential, remains necessary.

²⁶USPS, Ensuring A Viable Postal Service for America, An Action Plan for the Future (March 2010).

²⁷USPS, Plan to Profitability, 5-Year Business Plan (February 16, 2012).

Agency Comments

We provided a draft of this report to USPS for review and comment. In its written comments, reprinted in appendix V, USPS stated that its financial viability is dependent not only on cutting costs but also generating additional revenue. USPS also provided technical comments which we incorporated, as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Postmaster General, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-2834 or stjamesl@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 VI.

Sincerely yours,



Lorelei St. James
Director
Physical Infrastructure Issues

Appendix I: USPS's Grandfathered Nonpostal Services

No.	Grandfathered nonpostal service (first year offered)	Description	Number of nonpostal products under the service	Publicly reported net income, ^a fiscal year 2011 ^b
Market Dominant Nonpostal Services				
1	MoverSource (1995)	MoverSource is a program involving USPS's change-of-address orders. The program is offered through a multiyear alliance between USPS and Imagitas—a subsidiary of Pitney Bowes—and provides USPS customers with, among other things, a form for requesting address changes; confirmation of the change; and mailings containing move-related tips, advertising, and offers. The revenue and cost of the program are shared between USPS and Imagitas. USPS also receives a share of the \$1 fee collected for each internet change-of-address order. In addition, the mailings generate postage revenue for USPS that is not shared. According to USPS, the MoverSource program adds value to the change-of-address process, while defraying its annual costs for processing these changes. USPS typically processes about 40 million change-of-address orders annually, of which about one-third are processed online.	None	\$51.9 million
2	Philatelic Sales (~1850)	USPS sells a wide-range of stamps and stamp-related items to customers involved in the hobby of stamp collecting. Examples of philatelic items include first day covers, ^c ceremony programs, uncut press sheets, framed stamps, binders for storing stamps, and philatelic guides. USPS satisfies its orders for philatelic items through two fulfillment channels—retail outlets and USPS's Stamp Fulfillment Services. Selected philatelic items are available at USPS retail facilities, but most are sold through USPS's Stamp Fulfillment Services via USPS.com®, the USA Philatelic catalog, phone, and fax. In May 2012, the price of these items ranged from less than a dollar for the first day cover of the Common Tern bird stamp to \$1,440 for a sheet of American Wigeon duck stamps.	~900	(0.7 million) ^d
Subtotal: Nonpostal market dominant services.				\$51.2 million
Competitive Nonpostal Services				
3	Affiliates for Website (2001)	In exchange for a portion of revenue generated, USPS provides its website customers with access to other companies (affiliates) that also provide mailing services and products. USPS's website currently hosts hyperlinks to three affiliates—Cardstore, Click2Mail, and PremiumPostcard—under agreements styled as affiliate marketing arrangements. According to USPS, affiliate arrangements provide customers with increased access to, among other things, postal products and services and generate revenue for USPS through affiliation fees, increased website traffic, and additional postage sales. According to USPS, its affiliate website agreements are actively managed by both parties. As a result, the parties meet monthly and discuss marketing goals and objectives to increase the parties' revenue and website visits.	3	N/A ^e
4	Affiliates – Other (Linking Only) (2001)	This program is similar to the one described immediately above, except that USPS does not actively manage these affiliate arrangements. USPS's website currently hosts hyperlinks to three such affiliates—Start Sampling, My Savings, and Maponics—which provide customers with products and services ranging from free samples and coupons to maps. According to the Postmaster General, USPS's agreements with these affiliates can be viewed as leases of USPS's "virtual real estate." "Linking only" affiliates pay either a flat fee (i.e., "cost per click" as in the case of Start Sampling and My Savings) or, in the case of Maponics, share a portion of the revenue with USPS for having a link to its website.	3	N/A

Appendix I: USPS's Grandfathered Nonpostal Services

No.	Grandfathered nonpostal service (first year offered)	Description	Number of nonpostal products under the service	Publicly reported net income, ^a fiscal year 2011 ^b
5	Electronic Postmark® (1995)	Electronic Postmark is a web-based security program that enables customers, using authorized service providers under license with USPS, to detect whether documents or files time stamped with an electronic postmark have been altered since the postmark was applied. Authorized providers generate the "timestamp" (the postmark) on secure servers that they own and maintain. Providers pay a quarterly fee for this service, with additional fees for usage above a certain threshold. In 2010—the last year in which USPS sold this service to a provider—the quarterly fee was \$75,000 per provider for up to 1.5 million electronic postmarks and \$0.02 for each additional postmark.	None	N/A
6	FedEx® Drop Boxes (2001)	This nonpostal service involves a non-exclusive lease agreement between USPS and FedEx, which for a fee, allows FedEx to place its drop boxes at USPS post offices. In September 2012, there were about 4,870 of these boxes located at USPS retail facilities. According to USPS, all responsibilities related to the installation, maintenance, collection, and removal of the drop boxes reside with FedEx.	None	N/A
7	Licensing Programs Other Than Officially Licensed Retail Products (early 1990s)	This program is similar to No. 9 below, except that it involves the sale of postal branded merchandise through other (nonpostal) channels. In fiscal year 2012, USPS had about 20 licensing agreements with third-party vendors for their use of USPS's intellectual property on thousands of products including apparel, fashion accessories, cards and stationery, pet products, toys and games, and other types of consumer products. USPS charges a nominal fee (\$25) for the use of its trademarks or copyrighted material for noncommercial or limited commercial purposes. However, it negotiates the price for its licensees' use of patents, and other intellectual property involving more extensive commercial purposes. According to USPS, it manages its licensed products by, among other things, requiring licensees to obtain advance approval for USPS-branded products, imposing quality control standards, and policing product use and promotion.	~20	N/A
8	Non-sale lease agreements – nongovernment (late 1980s/early 1990s)	USPS has a variety of agreements with private, nongovernmental entities to lease excess USPS space, including parking, office, warehouse space, and land. For example, USPS leases its rooftop space and excess land to advertisers and cellular providers for billboards and antenna towers. In fiscal year 2012, USPS had about 600 lease agreements with nongovernmental entities. The parties negotiate the price of the lease, which vary by agreement.	~600	N/A
9	Officially Licensed Retail Products (mid-1990s)	USPS licenses its intellectual property, including its postal trademarks and stamp images, to parties who use these images on merchandise that USPS sells in its post offices and on its website. (The program involves the actual sale of the licensed retail merchandise—not the royalty payments that USPS receives for licensing its intellectual property to these parties.) In fiscal year 2012, USPS had 150 licensing agreements with third-party vendors for their use of USPS branded items such as weight scales, stamp dispensers, teddy bears, passport holders, framed artwork, and key chains. In September 2012, prices for these products ranged from \$1.30 for reflective mailbox stickers to \$134.99 for framed art.	150	N/A
10	Passport photo service (early 2000s)	USPS produces and sells passport photos to individuals for a fee of \$15 at more than 5,000 USPS passport application acceptance sites.	None	N/A

Appendix I: USPS's Grandfathered Nonpostal Services

No.	Grandfathered nonpostal service (first year offered)	Description	Number of nonpostal products under the service	Publicly reported net income, ^a fiscal year 2011 ^b
11	Photocopying service (early 1990s)	USPS offers self-service photocopying services at about 2,540 of its retail facilities. In some locations, photocopiers were installed by commercial vendors under contracts with USPS. The remaining machines were installed by USPS. In September 2012, USPS charged a fee of between \$0.10 to \$0.50 per page for copying.	None	N/A
12	Training facilities (1997-1998)	USPS rents excess facility space and services at its two training facilities to outside parties. The facilities include meeting rooms, housing, and exercise areas. Available services include (1) conference-related services such as food and the rental of audio-visual equipment, and (2) hospitality-related services such as lodging, fitness-related services, banquet services, and the onsite sale of sundries. USPS contracts with a company to manage each of the facilities. Management companies set the price for the services provided and USPS receives a negotiated percentage of net profits.	None	N/A
Subtotal: Nonpostal competitive services.			\$89.8 million	
Total: All nonpostal services.			\$141.0 million	

Source: GAO analysis of USPS and PRC documents.

^aThe Postal Regulatory Commission (PRC) Annual Compliance Determination Report for Fiscal Year 2011 (Mar. 28, 2012). USPS annually reports financial data on all products, including market dominant and competitive products, to the PRC. USPS reports its competitive information to the PRC in "nonpublic" reports. The PRC does not publicly disclose these data, except in aggregate form.

^bUSPS's fiscal year 2012 financial data for its market dominant and competitive products is not expected to be reported until March 2013.

^cA first day cover is a stamped envelope, post card, or other postal material showing that the stamp was cancelled at the post office where the stamp was issued.

^dUSPS reported a net loss of \$666,210 for Stamp Fulfillment Services Handling Services for sales in fiscal year 2011—\$171,954 revenue less \$838,164 for expenses. According to USPS, the reported loss relates to handling fees assessed on the portion of its customers' philatelic orders processed by its Stamp Fulfillment Service in Kansas City, Mo. and resulted from the PRC's accepted method for allocating revenue and expenses for handling services for Philatelic and Non-Philatelic orders. Philatelic Sales (a nonpostal service) and Non-Philatelic Sales (a postal service) are fulfilled through USPS's Stamp Fulfillment Services with handling fees received for order processing and fulfillment. However, according to USPS, revenue associated with its "Philatelic Sales" represents handling fees paid by customers who order using alternative sales channels such as USPS.com, catalog, phone, and mail, and excludes all revenue from product sales. According to USPS, the two sales channels "are in practical and operational terms one service" and, consequently, USPS cannot precisely allocate revenues and expenses between the two. Also, according to USPS, a portion of USPS's Philatelic Sales occur at retail ("brick and mortar") outlets where customers do not incur handling fees. Finally, USPS's reported financial data do not include expenses related to its sales of philatelic items at retail facilities because USPS has not yet determined how to estimate these costs.

^eFinancial information on USPS's competitive products is not publically reported.

Appendix II: USPS's Approved Market Tests for Experimental Postal Products, as of November 30, 2012

No.	Name and anticipated timeframe for market test, at approval	Description	Expected annual revenue at approval ^a	Status
Market Dominant				
1	Alternate Postage Payment Method for Greeting Cards (~Jan. 1, 2011 to ~Dec. 31, 2012)	Alternate Postage removes a step in the mailing process because it enables consumers to send greeting cards without affixing postage. According to USPS, the alternate payment method makes it easier and more convenient for customers to purchase and mail cards because they do not have to determine and affix the proper postage before mailing. Instead, the cost of postage is included (prepaid) in the price consumers pay for the card. To participate, a company must produce and distribute greeting cards with envelopes bearing barcodes and other USPS specified markings that allow USPS to identify each envelope in the mail stream. Participating companies pay USPS in two steps. First, USPS receives 50 percent of the postage revenue when the card is sold to consumers (or distributed to third-party vendors)—even if the card is not mailed. Second, companies must pay USPS for the postage for cards that USPS determines were actually mailed.	\$10 million– 50 million ^b	<u>Ongoing.</u> While only one greeting card company—Hallmark—was participating in this test as of November 30, 2012, USPS hopes to make prepaid greeting cards more widely available by expanding the test program to additional partners. Further, USPS requested and received PRC approval to extend the market test beyond December 2012 and seek the PRC's approval of Alternate Postage as a permanent product after the market test ends. <u>Revenue:</u> USPS projects this product will result in \$12 million in revenue for fiscal year 2012 and \$17 million in revenue for fiscal year 2013
2	Every Door Direct Mail™–Retail; formerly called Marketing Mail Made Easy (~Feb. 27, 2011 to ~Jan. 31, 2013)	Every Door Direct Mail–Retail was a test that used simplified addressing, entry, pricing and payment options to entice small and medium-sized businesses to advertise to consumers within their neighborhoods. By making advertising through the mail (direct mail) less costly and complex, USPS hoped to attract new mail customers and/or increase its mail volume and revenues from existing small-volume business mailers. The test had several features. For example, USPS allowed small and medium-sized businesses to send up to 5,000 mail pieces per day at a reduced cost (14.2 cents per piece). USPS also reduced the complexity of the mailings by allowing the businesses to prepare their mail using simplified addressing, such as “Postal Customer,” which eliminated the need to purchase mailing lists and print specific addresses on each of their mail pieces. In addition, USPS made it more convenient for these businesses to enter mail into the mailstream because it allowed them to bring their mailings to their local post office instead of to a mail-processing plant that may not be conveniently located. Finally, USPS waived all permitting and mailing fees for the businesses' mailings.	10 million– 50 million ^b	<u>Revenue:</u> According to USPS, revenue for this product has continued to grow and, as of October 2012, surpassed \$2 million per week at its retail locations. USPS estimates this product will result in \$55 million in revenues in fiscal year 2012 and \$100 million in revenue in fiscal year 2013.

**Appendix II: USPS's Approved Market Tests
for Experimental Postal Products, as of
November 30, 2012**

No.	Name and anticipated timeframe for market test, at approval	Description	Expected annual revenue at approval ^a	Status
3	Mail Works Guarantee (~June 2011 to ~May 2013)	This test was aimed at demonstrating the effectiveness of direct mail advertising campaigns to 16 of the country's "top" advertising companies. According to USPS, these companies spend \$90 billion annually for advertising on all media, but spend approximately \$3 billion (about 3 percent) advertising through the mail. Consequently, in requesting the PRC's approval for the market test, USPS stated that it saw "huge potential revenue" if USPS could involve these companies in direct mail advertising campaigns using First-Class and Standard Mail. To qualify for the test, a company must spend at least \$250 million on advertising annually, but allocate less than 1 percent of its total advertising budget to direct mail. In addition, it must mail 500,000 to 1 million pieces of First-Class Mail or Standard Mail during a direct mail campaign. Participating companies would be required to pay normal postal rates for their mailings, but receive a postage back guarantee (i.e., a credit to their USPS account of up to \$250,000) if a direct mail advertising campaign fails to achieve its goal.	≤10 million	<u>Ongoing</u> , but unlikely to be successful. As of November 30, 2012, USPS had not yet found any companies interested in participating in the market test. According to USPS, the test is not likely to be successful because its incentives for program participation "were not sufficient to cause customers to change their behavior." While the test has not been successful thus far, USPS said it is continuing to solicit participation from large companies with multi-million dollar advertising budgets that do not currently use the mail as part of their advertising mix. In addition, USPS is exploring revisions to the test's participation requirements to help attract customers. On January 8, 2013, USPS filed to terminate the Mail Works Guarantee market test with the PRC. <u>Revenue</u> : None.
4	First-Class Tracer (~Dec. 2011 to ~Nov. 2013)	This test product is designed to satisfy the needs of consumers who want to track their First-Class letters through the mail stream. Specifically, the product allows customers to purchase and affix a barcode label, tracing number, and a code which, collectively, enable them to track the status (excluding delivery confirmation) of their First-Class mailings on USPS's website. According to USPS's request for the test's approval, USPS expected to sell the tracing labels in packages of 5 and 10 and to sell the packages at differing prices—ranging from \$0.99 to \$2.99 depending on the quantity and location—to test customer acceptance at 50 retail postal locations in the Washington, D.C., metropolitan area.	≤10 million	<u>Ongoing</u> . According to USPS, while this test was not expected to conclude until November 2013, the First-Class Tracer had sold out at most of its participating retail locations as of mid-October 2012. <u>Revenue</u> : According to USPS, this product generated \$3,065 in revenue through mid-October 2012.

**Appendix II: USPS's Approved Market Tests
for Experimental Postal Products, as of
November 30, 2012**

No.	Name and anticipated timeframe for market test, at approval	Description	Expected annual revenue at approval ^a	Status
Competitive				
5	Collaborative Logistics (May 7, 2009 to Sept. 30, 2011, as extended)	Collaborative Logistics—the first experimental market test offered under PAEA—was initiated to reduce excess capacity in USPS's highway transportation network. According to USPS, its utilization of vehicles across this network varied by day of week, time of month, and season. As a result, USPS sought to optimize its network of purchased highway transportation by reselling available space on its contractors' trucks. During the course of the test, USPS resold, on a space-available basis, truck space to six customers for shipments that were required to be loaded on pallets. The loads were delivered to large postal processing facilities and picked up at large downstream postal facilities. USPS negotiated the price with each customer based on a variety of factors, including the customers' required service standards	≤10 million	<p><u>Terminated in September 2011.</u> USPS views this market test as successful, but did not seek to make it a permanent postal product despite its original intention to do so. Instead, USPS terminated the test in September 2011, indicating that it had reevaluated its plans. USPS explained that its ongoing facility consolidations had resulted in significant opportunities to reduce overcapacity and costs within its transportation network. Depending on its future financial and operational conditions, USPS said it may seek to introduce this product on a permanent basis sometime in the future.</p> <p><u>Revenue:</u> According to USPS, this product generated about \$2.1 million over the testing time frame.</p>
6	Samples Co-op Box (May 2010)	Samples Co-Op Box was a 1-week test mailing of parcel boxes containing an assortment of samples, such as beauty, health, and snack products, from various packaged goods companies. USPS partnered with a company to prepare and mail the boxes and to conduct market research, and USPS delivered the boxes to consumers in targeted demographic areas without charge. According to USPS, while product samples provide an effective way for companies to build brand awareness for their products, the volume of samples sent through the mail has declined in recent years. Consequently, this test was intended to, among other things, explore ways to increase sample mailings that, according to USPS, offered “the potential for millions of dollars” of additional postal revenue. Another purpose of the test was to obtain information about the cost-effectiveness of the program and its value to product manufacturers and consumers.	0 ^c	<p><u>Completed, now a permanent postal product.</u></p> <p>This test was completed in May 2010 following a 1-week mailing of several hundred thousand boxes of samples to consumers in Charlotte, N.C. and Pittsburgh, Pa. According to USPS, the test was well received by both the sample recipients and the participating packaged goods companies. USPS secured the PRC's approval to add this product as a new competitive postal product (Parcel Select Contract 1) in March 2011 and executed an agreement with Start Sampling, a Mail Service Provider that offers sample fulfillment services, to distribute the sample boxes. USPS receives postage revenue for each of the “Sample Showcase” boxes plus a share of the revenue generated in product sales.</p> <p><u>Revenue:</u> N/A^c</p>

**Appendix II: USPS's Approved Market Tests
for Experimental Postal Products, as of
November 30, 2012**

No.	Name and anticipated timeframe for market test, at approval	Description	Expected annual revenue at approval ^a	Status
7	Gift Cards (~May 1, 2011 to ~April 30, 2013)	This market test allows customers to purchase gift cards loaded with a specified sum of money that may be sent through the mail. According to USPS, the sale of gift cards at selected retail postal locations increases customer convenience and enhances postal revenue by encouraging customers to use the mail for gifting purposes. USPS activates the card and earns a negotiated percentage of each card's activation fee. The remainder of the fee is remitted to the issuer of the card. In its request for approval of the market test, USPS indicated that it intended to enter into an agreement with one or more card providers. USPS also indicated that it might test different activation fees, which typically range from \$3.95 to \$5.95 depending on the value and type of the gift card.	≤10 million	<u>Ongoing.</u> USPS entered into an agreement with American Express and currently offers this vendor's gift cards at about 5,200 USPS retail locations. The test is expected to be completed by May 2013. <u>Revenue:</u> According to USPS, this product generated \$96,000 in revenue during fiscal year 2011 and is expected to generate about \$1.1 million during fiscal year 2012.
8	Metro Post™ (~Nov. 2012 to Oct. 2013)	Metro Post is a same-day delivery service for local buyers who purchase products from participating online e-commerce companies (and associated retailers) in selected metropolitan areas. According to USPS, it anticipates entering into relationships with up to 10 online e-commerce companies over the course of the market test. Metro Post is intended to test the operational feasibility of same-day package delivery to/from multiple locations and to help USPS determine the optimal pricing structure for the service.	10 million– 50 million ^b	<u>Ongoing.</u> PRC approved the market test for Metro Post on November 14, 2012. USPS selected San Francisco as the first city for testing. The market test began on December 17, 2012. <u>Revenue:</u> Not yet available.

Source: GAO Analysis of USPS and PRC documents.

^aThis column provides information on the amount of revenue USPS expected to generate from the market test when it announced its intention to initiate the test.

^bUSPS requested, and received, the PRC's approval to exceed the \$10 million annual revenue limitation.

^cThis test did not anticipate any revenue to USPS. The agency conducted the test free of charge to the parties involved.

Appendix III: Examples of Services USPS Currently Performs on a Discretionary Basis for Federal Agencies

Discretionary services performed for federal agencies ^a		
No.	(first year of service)	Description
1	USPS accepts passport applications for the U.S. Department of State (State Department) (1974)	Pursuant to an interagency agreement between USPS and the State Department and authorities granted under 39 U.S.C. § 411 and 31 U.S.C. § 686. USPS is authorized to accept passport applications on behalf of the Department. Under the terms of the most recent agreement (2000), trained USPS personnel, among other things, review each passport application for completeness, record pertinent information about the identification the applicant used, collect fees, and send the completed application to the State Department. USPS retains a portion (\$25) of the collected fees in the form of an execution fee. In fiscal year 2011, USPS accepted approximately 5.6 million passport applications in over 6,300 post offices nationwide. According to USPS, the applications generated net income of \$43 million for the period. By using USPS's extensive network of post offices, the agreement is intended to provide passport applicants with more convenient access to passport acceptance services than the State Department could provide alone, particularly in remote U.S. areas. According to the interagency agreement, either party may terminate the agreement, without liability, with 180 days advance notification to the other party.
2	USPS leases excess space to other federal agencies (late 1980s/early 1990s)	Through various interagency agreements and authorities granted under 39 U.S.C. §§ 401, 410, and 411, USPS is authorized to enter into non-sale lease (tenancy) agreements with government agencies for such things as excess parking, office space, and roof space for antennae towers. In fiscal year 2011, USPS received about \$24 million in revenue for 91 non-sale lease (tenancy) agreements with federal agencies. Most of USPS's leases (tenancy agreements) for excess parking and office space are with the General Services Administration, while USPS's roof space is typically leased to law enforcement agencies. According to USPS, because its tenancy agreements generate revenue for space that USPS is not using, they help maximize the value of USPS's real estate holdings. Note: USPS also enters into non-sale lease agreements with private, nongovernmental parties. However, as discussed in appendix I, those agreements are carried out pursuant to a grandfathered nonpostal service.
3	USPS processes equal employment opportunity (EEO) complaints for other federal agencies (2006)	Through various interagency agreements and under authority granted by 39 U.S.C. § 411, in 2006, USPS began conducting EEO investigations on behalf of other federal agencies. According to USPS officials, USPS initiated this service to generate additional revenue. In addition, USPS believed that given its extensive experience in this area, it could use its existing contractor workforce to reduce the costs and improve the timeliness and quality of other agencies' EEO complaints processing. Since 2006, 17 federal agencies have entered into interagency agreements with USPS for this purpose. In fiscal year 2011, USPS's National EEO Investigative Service Office completed 255 investigations for 9 federal agencies that generated about \$558,000 in net income. According to USPS, interagency agreements can be terminated at any time by the mutual agreement of the parties.
4	USPS collects vacant address data for the Department of Housing and Urban Development (HUD) (2005)	Pursuant to authorities granted under 39 U.S.C. § 411 and a 4-year interagency agreement with HUD, USPS agreed to provide HUD with data on vacant U.S. residential and business addresses. According to the agencies' most recent agreement (September 2011), HUD intends to use this information to forecast neighborhood changes, assess neighborhood needs, and measure the performance of several of its programs. HUD agreed to pay USPS \$30,000 in 2011 and has options to purchase additional data over a 4-year period for a total cost of up to \$160,000. The parties specified that the agreement may be terminated for no reason or any reason by written notice to the other party.

Source: GAO analysis of USPS and PRC documents and related reports.

^aIn addition to services that USPS performs on a discretionary basis for federal agencies, USPS is required—either by law or executive order—to perform numerous services on behalf of federal agencies. For example, the Migratory Bird Hunting and Conservation Stamp Act requires USPS to print, issue, and sell duck stamps (that serve as hunting licenses) for the U.S. Fish and Wildlife Service. Pub. L. No. 73-124, 48 Stat. 451 (Mar. 16, 1934). Through executive order, USPS also is directed to deliver medicines to individuals in the event of a large scale biological attack. Exec. Order No. 13527, 75 Fed. Reg. 737 (Jan. 6, 2010)

Appendix IV: Description of Ongoing USPS Initiatives, as of November 14, 2012

No.	Initiative Name	Description	Reason
First-Class Mail			
1	2nd Ounce Free	2nd Ounce Free enables large mailers, such as banks, to send twice as much mail for the one-ounce price. According to USPS, this product allows mailers to use the second ounce for operational or marketing purposes which increases the potential value of their mailings.	Slow erosion, add value
2	Alternative Postage Payment	Alternate Postage Payment removes a step in the mailing process because it enables consumers to send greeting cards without affixing postage. According to USPS, the alternative payment method makes it easier and more convenient for customers to purchase and mail cards because they do not have to determine and affix the proper postage before mailing. Instead, the cost of postage is included (prepaid) in the price consumers pay for the card. USPS introduced this product as an experimental product in January 2011 and, according to USPS, expects to seek its approval as a permanent product at a later date. Appendix II provides additional information on this product initiative.	Add value
3	IMb-based Initiatives	USPS is pursuing a pricing incentive that will offer customers a higher discount for sending First-Class Mail that meets its Intelligent Mail barcode (IMb) requirements. According to USPS, this initiative supports USPS's goal of increasing adoption of its intelligent barcodes that, among other things, enhances USPS's mail-processing efficiency and increases its ability to track the location of mail as it moves through the mail stream.	Add value
4	Negotiated Service Agreements/ Total Customer Value Contracts	This initiative targets USPS's largest mailers of First-Class Mail and Standard Mail and is carried out through negotiated service agreements between the parties. Participating mailers will receive reduced postage costs if they meet specified volume commitments. According to USPS, the initiative may be extended to other product categories if it is successful.	Slow erosion
5	Picture Permit Imprint Indicia	This initiative allows mailers to enhance the "indicia" area (i.e., the postage block area) of a mail piece with a picture or image, including mobile barcodes. According to USPS, the images can be used to advertise brands, bring immediate attention to the mail piece, and potentially improve the rate in which mail is opened.	Add value, support
6	Product Rationalization and Simplification	This initiative represents USPS's ongoing process to analyze its First-Class Mail product and service offerings. The analysis is intended to result in, among other things, the continuous simplification of mail offerings, the optimization of USPS's First-Class Mail products in the marketplace, and the elimination of product redundancies. In addition, USPS hopes to reduce the cost and complexity of its customers' mailings and identify gaps between product features and customer needs. According to USPS, the introduction of its 2nd Ounce Free initiative was a direct result of this effort.	Support
7	Stamps	This initiative is intended to increase USPS's sales of stamps and philatelic products. Specifically, USPS said it intended to renew its emphasis on properly marketing and displaying stamps and philatelic products in its retail locations and to expand its Forever stamp pricing to its collectible stamp program.	Add value
Marketing Mail			
8	2012 Holiday Mobile Shopping Promotion	This promotion ran between November 7-21, 2012, and offered business mailers an upfront 2-percent postage discount on qualifying mailings. To qualify, the mailings had to include a two-dimensional barcode that when read or scanned by a mobile device, linked the recipient to a website for purchasing the advertised product. According to USPS, by delivering mobile-optimized promotional offers, coupons, and catalogs to customers in time for the Black Friday-Cyber Monday shopping sprees, the initiative was intended to spur mobile purchasing.	Add value, slow erosion

Appendix IV: Description of Ongoing USPS Initiatives, as of November 14, 2012

No.	Initiative Name	Description	Reason
9	2013 Promotional Calendar	This initiative involves a series of short-term promotions designed to provide mailers and marketers with incentives to promote innovative uses of the mail that increase its value to recipients. In addition, according to USPS, the promotions are intended to accelerate best practices among marketers and business mailers, while increasing awareness and engagement among consumers.	Add value, slow erosion
10	Additional Supporting Strategies	This initiative involves activities that support overall USPS efforts, such as those related to simplifying USPS's pricing, product lines, and mailing processes. For example, according to USPS, it is examining its existing discounts for the presorting of customer mailings and is establishing flexible pricing based on location and capacity in its processing and transportation networks.	Add value, grow revenue
11	Advertising Mailing Services	This initiative involved an advertising campaign to promote the value of advertising and First-Class Mail to business and residential customers. According to USPS, the campaign ran in the fall of 2011 and centered around two television ads—called "Hacked" and "Face-to-Face."	Grow revenue
12	Direct Mail Hub	Direct Mail Hub is a USPS internet site designed to educate small business owners, including many first-time business users, on how to use direct mail to advertise their businesses to consumers. According to USPS, the site helps small businesses generate mailings from start-to-finish and complements its Every Door Direct Mail product.	Add value, grow revenue
13	Free Standing Inserts	This initiative is intended to respond to the decline in the circulation of newspapers, which advertisers often use to deliver inserts, such as circulars, to customers. Instead of being inserted in a newspaper, advertisers can—for example—bundle multiple advertising leaflets in mailings to consumers. The initiative is carried out through negotiated service agreements and, as of November 2012, USPS had negotiated one such agreement.	Grow revenue
14	Mail Works Guaranteed	This initiative targets large advertising companies that rely on other media—not mail—to advertise to prospective customers. Specifically, USPS hopes to demonstrate the effectiveness of direct mail as an advertising medium. Appendix II provides additional information on this initiative, which was introduced as an experimental product in June 2011. On January 8, 2013, USPS filed to terminate the Mail Works Guarantee market test with the PRC.	Grow revenue
15	Mobile Commerce & Personalization Promotion	This initiative offers business mailers a 2 percent postage discount on their qualified mailings. To qualify, the mailing must contain a two-dimensional barcode or print/mobile technology that can be read or scanned by a mobile device. According to USPS, the initiative is designed to encourage marketers to incorporate a "Mobile on Mail" multi-channel marketing approach that uses mail as the gateway for driving e-commerce activity and transactions.	Add value, slow erosion
16	MoverSource	This initiative involves a potential enhancement to MoverSource—a program for changing a mail recipient's address. With this initiative, USPS is exploring the feasibility of allowing mail recipients to use their mobile devices as another vehicle for changing their mailing address. (USPS currently allows mail recipients to change their addresses via a printed form, by phone, or online.) Appendix I provides additional information about MoverSource.	Add value
17	Periodicals	This initiative involves an ongoing USPS effort to develop mutually beneficial partnerships with companies in the periodical industry. According to USPS, as of November 2012, one topic under discussion involved potentially offering magazine subscriptions through USPS channels.	Grow revenue
18	Reinvigorate Samples	Reinvigorate Samples is an effort aimed at increasing the use of mail to deliver product samples. This initiative is a follow-on to Sample-Co-op boxes that USPS initiated as an experimental product. Appendix II provides additional information about Sample Co-op boxes.	Grow revenue

Appendix IV: Description of Ongoing USPS Initiatives, as of November 14, 2012

No.	Initiative Name	Description	Reason
19	Simplified & Saturation Mail Incentives/ Every Door Direct Mail—Retail	USPS introduced Every Door Direct Mail—Retail as an experimental postal product that used simplified addressing, entry, pricing and payment options to entice small and medium-sized businesses to advertise to consumers within the businesses' neighborhoods. By making advertising through the mail (direct mail) less costly and complex, USPS hopes to attract new mail customers and/or increase its mail volume and revenues from existing small-volume business mailers. The PRC approved Every Door Direct—Retail as a permanent postal product in September 2012. Appendix II provides additional information about this product.	Grow revenue
Shipping Services			
20	Digital Channel Components	This initiative is intended to make it easier for technology-savvy and mobile customers to, among other things, order packing supplies, buy postage, print labels, and schedule free package pickups using USPS's website and other digital channels, such as smart phone mobile applications. The increased use of digital channels is intended to provide customers with greater access to USPS's products and services.	Add value
21	ePostage	ePostage is an initiative to provide mobile and technology-savvy customers with greater access to USPS's products and services. As part of this effort, USPS has developed commercial shipping tools that, among other things, provide payment and tracking services for online retailers. According to USPS, for example, its e-Postage solution is currently used by one major online retailer.	Grow revenue
22	Grow Small and Key Accounts	This initiative involves enhancements to USPS's portfolio of products and services targeted toward small businesses. According to USPS, recent enhancements include Carrier Pickup and Priority Mail Prepaid Forever Flat Rate Packaging. USPS also has extended its flat-rate-shipping options with Priority Mail and Express Mail padded envelopes, and upgraded its online Click-N-Ship platform on USPS.com.	Grow revenue
23	Growth through Competitive Contracts and Pricing	This initiative involves the renegotiation of USPS's Parcel Select contracts to adjust its pricing for deliveries based on geography. Specifically, USPS adopted a two-tiered pricing approach—one tier for suburban areas and another tier for rural areas—that is expected to lead to greater volume and revenue. According to USPS, for example, the contract changes enable private-sector firms to leverage USPS's low costs and delivery access to provide "last-mile services" to their customers.	Grow revenue
24	Increase Profitability for Lightweight Products	This initiative involves a First-Class Package Service for packages weighing less than 1 pound. According to USPS, this service provides the only per-ounce pricing in the marketplace.	Grow revenue
25	Market-Based Pricing and Products	This initiative is to better align USPS pricing with market demand and USPS costs. The Postal Accountability and Enhancement Act of 2006 required USPS's market-dominant products to cover their costs and any price increases for these products must be tied to the rate of inflation. For example, USPS moved Parcel Post®—previously an unprofitable market-dominant product—to its competitive product line. According to USPS, this change will enable USPS to raise its price for Parcel Post to at least cover the product's costs. In addition, the change is expected to benefit USPS's Priority Mail® products which, according to USPS, had been disadvantaged because these products were previously competing against the unprofitable Parcel Post service.	Support goals
26	Marketing, Advertising & Promotions/ Advertising Shipping Services	This initiative is intended to help USPS compete for a larger share of the parcel shipment business. Specifically, USPS developed a marketing plan to communicate the benefits of its products, services, and initiatives through multi-channel marketing campaigns. According to USPS, one feature of the plan involves reminding customers about the benefits and features of existing shipping options which it hopes will "continue to position" USPS as the "shipper of choice" for businesses.	Grow revenue

**Appendix IV: Description of Ongoing USPS
Initiatives, as of November 14, 2012**

No.	Initiative Name	Description	Reason
27	Position Ancillary Services for Revenue Growth and Profitability	USPS plans to give shippers greater control of their packages by, among other things, enabling them to request that a mail piece be returned or redirected before final delivery to the recipient. For example, Hold For Pickup permits a package to be shipped directly to a Post Office and held until picked up. Other ancillary services include Adult Signature Required and Adult Signature Restricted Delivery, which are designed to satisfy security and privacy concerns for shipments that by law require an adult's signature.	Grow revenue
28	Returns Management	This initiative provides customers with various self-service returns options, such as the ability to print shipping labels that make it easier and more convenient to return merchandise through the mail. According to USPS, the introduction of these "return-on-your-own" options is intended to make USPS the preferred channel for business-to-consumer returns.	Grow revenue
29	Shipping Supplies for Customers	This initiative involves an expansion of USPS's offerings of free packaging supplies to increase customer convenience and support growth of its expedited shipping products.	Support
Access to USPS Products and Services			
30	Business Mail Acceptance	The initiative involves the introduction or improvement of various processes USPS uses to accept business mail for processing, including processes that verify and track the mailings. In addition, USPS intends to upgrade its infrastructure to allow electronic data on mailings to be stored at designated local sites (in addition to the centralized database) to address the possibility of network outages.	Increase access, grow revenue
31	Business Mail Entry	This initiative involves the introduction of online resources and streamlined processes intended to make it easier for mailers to prepare and enter their mail into the mail stream.	Increase access, grow revenue
32	Business Service Network Group	This initiative involves the 400 field employees who provide day-to-day assistance to USPS's 27,000 commercial customers throughout the country. According to USPS, in addition to customer service, these employees also establish relationships with its customers' key decision makers.	Increase access, grow revenue
33	Contract Mechanisms	USPS is exploring new tiered pricing structures that would allow customers to earn additional mailing discounts once they exceed specified revenue or volume thresholds.	Grow revenue
34	Corporate Customer Contact	USPS plans to in-source its customer call-in center in an effort to improve customer service and increase the likelihood of customers purchasing postal products. According to USPS, this is a high priority initiative which is required under the terms of its latest contract with the American Postal Workers' Union. USPS said the call center will begin operations in the fall of 2012 and ramp up its operations through the spring of 2013 to meet its contractual commitment to have 1,100 union employees assigned to call center operations by May 2013.	Increase access
35	Current Product Growth/New Product Introductions	USPS is developing and expanding its line of retail products, such as greeting cards, promotional and mail related products, and tote bags. All of these products are aimed at extending postal branding in the marketplace, cross promote core postal products, and improve the overall shopping experience.	Grow revenue
36	Grow P.O. Box Revenue	This initiative targets small business customers that, according to USPS, are looking for increased convenience from their post office boxes. Specifically, USPS reclassified 6,000 of its post office boxes from market dominant to competitive products in markets with other mail services in fiscal year 2011. This change allowed USPS to offer post-office-box customers additional services such as expanded lobby hours, earlier pick-up times, and the use of post office locations for street-styled addressing (e.g., 131 South Center St. #3094, instead of P.O. Box 3094) for an increased fee.	Grow revenue

Appendix IV: Description of Ongoing USPS Initiatives, as of November 14, 2012

No.	Initiative Name	Description	Reason
37	Integrated Customer Access Plan/Customer Experience	This initiative was designed as a communications campaign built around the theme that USPS is “Everywhere I Am” with “I” being the customer. USPS is pursuing this initiative as an alternative access communications effort. According to USPS, this theme is extremely important to customers who are mobile and tech savvy, and therefore, not afraid to use remote postal locations to do business.	Increase access
38	Licensing	USPS is pursuing licensing opportunities, particularly opportunities that will promote its stamp program. According to USPS, its licensing efforts have two goals. First, by controlling the use of its postal trademarks, USPS said it protects its brand and ensures that its good name is not harmed by indiscriminate use of its trademarks. Second, USPS said it has a very valuable collection of American art as part of its stamp image library and that private sector organizations want to leverage the collection for their endeavors. According to USPS, licensing this art helps defray its costs and helps support its stamp program. Appendix I provides additional information about USPS’s licensing activities.	Grow revenue
39	Partner Campaigns	This initiative involves working with retail partners to increase awareness of the retailers’ stores as locations where customers can obtain postal services.	Increase access, grow revenue
40	Retail Brick & Mortar	This initiative focuses on improving customer service at USPS’s retail facilities. For example, USPS plans to test different approaches and staffing options to improve customer experience and reduce customer wait time at its retail facilities. In rural America, USPS is adjusting service to local demand through its use of Village Post Offices and changes to its hours of facility operations.	Increase access
41	Retail Service Incentives	According to USPS, it plans (over the next 5-10 years) to shift the majority of its retail volume from USPS-owned facilities to retail partners and stamp partners via its Retail Partner Expansion Program. This program will establish regional and national contracts that will allow select retailers to provide USPS products and services to their customers. According to USPS, the program will increase customer access to USPS products and services more rapidly and at a lower cost than would be possible through existing channels. In addition, USPS believes that the program will increase its market share and create a substantial retail platform for introducing new USPS products and services in the future, among other benefits.	Increase access, grow revenue
42	Sales Strategies	This initiative seeks to substantially increase USPS’s revenue from political mail. Specifically, USPS hopes to generate \$500 million in revenue in fiscal years 2012 and 2013 through a major sales and marketing effort. According to USPS, such an increase would double the revenue it received during the previous election season.	Grow revenue
43	Self-Service Components	This initiative is intended to increase customer access to self-service postal options which, according to USPS, will substantially lower its costs and improve its customers’ experience, among other benefits. Specifically, USPS plans to install self-service kiosks in about 2,500 high-traffic USPS facilities to emphasize self-service as the optimal channel for accessing postal services.	Increase access
44	Strategic Account Management	This initiative involves realigning USPS’s sales staff to build relationships with its largest customers. USPS expects over \$60 million in incremental revenue as a result of this realignment in 2012.	Grow revenue
45	Upsell-at-Retail	As part of its effort to grow revenue, personnel at post offices are attempting to increase their sales of expedited packaging and extra services through a concerted sales effort.	Grow revenue

Source: GAO analysis of USPS information.

Appendix V: Comments from the United States Postal Service

GARY C. REBLIN
VICE PRESIDENT, NEW PRODUCTS AND INNOVATION



January 7, 2013

Ms. Lorelei St. James
Director, Physical Infrastructure Issues
United States Government Accountability Office
Washington, DC 20548-0001

Dear Ms. St. James:

Thank you for the opportunity to provide comments to the Government Accountability Office (GAO) report titled, *Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*.

We concur with the overarching conclusion of the report that the United States Postal Service's financial viability is dependent not only on cutting costs but also generating additional revenue. As such, we reiterate that legislation enabling us to offer additional services and products in three areas – nonpostal services, shipments of alcoholic beverages, and cooperation with state and local governments – is a key component of our ability to continue to generate new revenue and improve our financial condition.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Reblin".

Gary C. Reblin

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Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Lorelei St. James, (202) 512-2834 or stjamesl@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Kathleen Turner and Heather Halliwell (Assistant Directors), Tonnye Conner-White, Delwen Jones, Steve Martinez, Josh Ormond, James Russell, and Crystal Wesco made key contributions to this report.

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