Postal Regulatory Commission

Performance Budget Plan

Fiscal Year 2010
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Executive Summary

The Commission is an independent agency, originally created by the Postal Reorganization Act of 1970, responsible for regulatory oversight over the Postal Service by conducting public, on-the-record hearings concerning proposed rate changes, mail classification, major service changes, and recommending decisions for action by the postal Governors. The Postal Accountability and Enhancement Act (PAEA) (Pub. L. 109-435), enacted on December 20, 2006, transformed the Postal Rate Commission into the Postal Regulatory Commission.

The Postal Service had annual revenues of $75 billion in fiscal year 2008, and delivered nearly half of the world’s mail. The Postal Service is facing troubling financial difficulties that stand to worsen before they improve. The economic downturn comes on the heels of continued diversion of single-piece First Class Mail to e-mail and electronic bill payments. The cumulative result of these events has been the most severe volume declines since the Great Depression and significant financial losses for the Postal Service.

The Commission continues to evolve in the role of a regulator by exercising broad regulatory oversight of the Postal Service with the goal to provide transparency on financial operations, pricing policies, accountability, predictability and delivery performance to Congress, stakeholders and the general public. The Postal Service has significantly more autonomy in setting rates; however, its ability to increase rates for market dominant products is limited by changes in the Consumer Price Index for All Urban Consumers (CPI-U). The law requires the Commission to complete, its review of proposed new rates for market dominant products for compliance with the CPI cap within 45 days. To counterbalance the Postal Service’s autonomy in setting rates and introducing new services, the Commission continues oversight responsibilities chiefly through information gathering, annual determinations of Postal Service compliance, consideration of complaints, and periodic reports on Commission operations.

The PAEA seeks to ensure the Commission’s independence by authorizing the submission of its budget request to the Congress separate from the U.S. Postal Service and the appropriation of necessary sums from the Postal Fund. Section 2009, of title 39, instructs that:

(3) the Postal Regulatory Commission requests to be appropriated, out of the Postal Service Fund, under section 504(d) of this title. The President shall include these amounts, with his recommendations but without revision, in the budget transmitted to Congress under section 1105 of title 31.

The Commission has always recognized that its funding through the Postal Service Fund comes directly from the postal rates and fees paid by postal customers who use the U.S. Mail. The Commission continues to look for opportunities to optimize resources while maintain appropriate funds for operating costs. To maximize its resources, the Commission processes its financial and personnel transactions through the Postal Service’s human resources systems. The FY 2010 budget request of $14,333,000 is structured to ensure the Commission’s resources are aligned with its Strategic Plan. The request is an increase of $290,000 from FY 2009.
Mission

Ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system

Guiding Principles

The Commission is committed to and operates by the principles of:

- Openness
- Stakeholder participation
- Collegiality and multi-disciplinary approaches
- Timely and rigorous analysis
- Fairness and impartiality
- Integrity
- Commitment to excellence
- Merit
Background

The Commission is an independent agency composed of five Commissioners, each appointed by the President, with the advice and by consent of the U.S. Senate, for a term of six years. The Chairman is designated by the President and serves as the head of the agency. A Commissioner may continue to serve after the expiration of his or her term for up to one year. No more than three members of the Commission may be from the same political party.

Assisting the Commission is a staff with expertise in law, economics, finance, statistics, and cost accounting. The Commission is organized into four operational offices:
♦ Accountability and Compliance;
♦ General Counsel;
♦ Public Affairs and Government Relations; and
♦ Secretary and Administration.
The Commission maintains an independent office for its Inspector General.

The Commission has exercised regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970. For thirty-six years, this oversight consisted primarily of conducting public, on-the-record hearings concerning proposed rate changes, mail classification, major service changes, and recommending decisions for action by the postal Governors.

The Postal Accountability and Enhancement Act (PAEA), enacted on December 20, 2006, is the culmination of a ten-year journey and produced the most significant changes in the regulatory landscape for the U.S. Postal Service and the U.S. postal system since 1970. The Act is founded on the principles of flexibility, transparency, accountability and predictability. The Commission’s role is to ensure transparency and accountability in postal operations, services and finances, and serves as the window by which Congress and the American public have an unvarnished view of the Postal Service. The PAEA requires the Commission to develop and maintain regulations for a modern system of rate regulation, consult with the Postal Service on delivery service standards and performance measures, consult with the Department of State on international postal policies, prevent cross-subsidization or other anticompetitive postal practices, and adjudicate complaints. Additionally, it provides regulatory oversight of the pricing of the Postal Service’s products and services while serving as a forum to act on complaints with postal products and services.

The PAEA also assigns new and continuing oversight responsibilities to the Commission, including annual determinations of Postal Service compliance with applicable laws, development of accounting practices and procedures for the Postal Service; review of the Universal Service Obligation and Postal Monopoly; and assurance of transparency through periodic reports. New enforcement tools include subpoena power, authority to direct the Postal Service to adjust rates and to take other remedial actions, and levying fines in cases of deliberate noncompliance with applicable postal laws.
The Commission’s FY 2010 Performance Budget is structured on its *Strategic and Operational Plan for FY 2008 – 2012*. The *Strategic and Operational Plan* contains the following seven goals.

**Goal 1 - Modern Rate and Product Regulation** Establish and maintain a predictable, transparent, and effective system of rate and product regulation.

**Goal 2 - Service Performance Evaluation** Ensure appropriate and transparent United States Postal Service performance standards and measurements to promote an efficient, effective and responsive mail service.


**Goal 4 - Complaint Process** Ensure United States Postal Service accountability through a fair and open public complaint process that provides appropriate and timely resolution.

**Goal 5 - Public Participation and Government Relations** Ensure the Commission is visible and readily accessible to all stakeholders.

**Goal 6 - Human Capital** Enhance a system that fosters recruitment, development, and retention of a talented and skilled workforce based on merit.

**Goal 7 - Program Integration and Support** Utilize latest technology, operational systems, and organizational infrastructure in achieving Commission goals.
Postal Regulatory Commission Organizational Chart

6505 Officer of the Commission representing the general public
The PRC shall designate an Officer of the Commission in all public proceedings who shall represent the interests of the public.
Postal Regulatory Commission Achievements in Fiscal Year 2008

A significant achievement during FY 2008 of the Commission was the issuance of a modern system of ratemaking regulations eight months ahead of the statutory schedule. These regulations created a new framework for price adjustments for postal products in the reform environment. In addition, during the year the Commission:

- Issued the first Annual Compliance Determination in accordance with the PAEA;
- Verified rate cap for prices changes using the regulations established in accordance with the Act;
- Completed and issued an Opinion concerning the Bank of America negotiated service agreement Docket No. MC2007-1;
- Issued the first Strategic and Operational Plan 2008 through 2012;
- Conducted three public field hearings in Flagstaff, AZ; St. Paul, MN; and Portsmouth, NH on universal service obligation and postal monopoly;
- Conducted a hearing in Washington, DC, on universal service obligation and postal monopoly;
- Conducted a public workshop on universal service obligation and postal monopoly;
- Unveiled a new website;
- Approved twenty-two Negotiated Service Agreements;
- Conducted monthly consultation meetings with the Postal Service to develop service standards and service performance measurements for market dominant products as required by the PAEA;
- Issued Public Notices of Inquiry to encourage public discussion on the following issues:

- Served as the Deputy Head of a multi-agency U.S. delegation led by the U.S. Department of State, at the UPU, which includes representatives of the Postal Regulatory Commission, U.S. Postal Service, Department of Commerce, Office of the U.S. Trade Representative, and U.S. Customs and Border Protection;
- Testified before Congress at eight hearings;
- Issued Advance Notice for Accounting Regulations; and
- Filed proposed regulations establishing accounting regulations.
The Postal Service had annual revenues of $75 billion in fiscal year 2008, and delivered nearly half of the world’s mail. The Postal Service is facing challenging financial difficulties that stand to worsen before they improve. The economic downturn comes on the heels of continued diversion of single-piece First Class Mail to e-mail and electronic bill payments. The cumulative result of these events has been the most severe volume declines since the Great Depression and significant financial losses for the Postal Service.

The Commission is confident that the requested resources of $14,333,000 will allow it to meet the mission of ensuring transparency and accountability in postal operations, services and finances. Under prior law, the Commission’s budget request was approved and funded by the Postal Board of Governors. Congress sought to insulate the regulator from the Postal Service by requiring the submission of its budget request to the Congress separate from the Postal Service, and the appropriation of necessary sums from the Postal Fund. Section 2009, of Title 39, instructs that:

(3) the Postal Regulatory Commission requests to be appropriated, out of the Postal Service Fund, under section 504(d) of this title. The President shall include these amounts, with his recommendations but without revision, in the budget transmitted to Congress under section 1105 of title 31.

The PAEA assigns new responsibilities requiring a staff with the necessary mix of skills, and modern information technology systems to ensure enhanced communication with the public and an improved ability to meet its new objectives as defined by the PAEA. Efforts to establish a supporting information technology infrastructure are underway. These efforts will be completed over the next few fiscal years. This request also continues funding for the Office of Inspector General, as authorized by the PAEA.

In FY 2010, the Commission will issue an annual compliance determination report assessing the Postal Service’s compliance with the ratemaking regulations and applicable laws. In the report, the Commission will review and determine whether market dominant rates are within the CPI rate cap, and competitive products are not subsidized by market dominant products, and that competitive products pay their attributable costs as well as appropriate share of fixed postal costs.

The Commission has made great strides in the international arena during the last two fiscal years. The United States has been elected to the Postal Operations Council (operating body) and Council of Administration (regulatory body) of the Universal Postal Union (UPU). The Commission will continue working the U.S. Department of State and the Postal Service on the adoption of terminal dues rate drafted by the Commission during the UPU Congress. Additionally, the Commission will continue working with both agencies in the negotiation of international postal conventions and treaties.
Budget Program Information

The Commission’s FY 2010 Performance Budget Plan has five goals consisting of: (1) distinct systems of Modern Rate Regulations for Market Dominant and Competitive Products; (2) service and performance measurements of the Postal Service; (3) financial accountability and compliance; (4) program integration and support; and (5) the Office of the Inspector General. Within each of the five goals, the Commission has identified performance objective measures.

The Commission’s FY 2010 Performance Budget plan goals are aligned with its strategic goals:

- **Distinct Systems of Modern Rate Regulations for Market Dominant and Competitive Products** - Establish and maintain predictable, transparent, and efficient ratemaking systems;
- **Measure USPS Service and Performance** - Ensure appropriate and transparent USPS measurements to promote an efficient, effective, and responsive mail service. Ensure accountability through a fair and open complaint process that provides for appropriate and effective remedies;
- **Financial Accountability and Compliance** - Provide accountability through transparent data reporting and review USPS compliance with appropriate accounting standards and financial reporting;
- **Program Integration and Support** - Regulate, evaluate, and report on USPS products and services. Maintain a visible and accessible PRC connected to all stakeholders assuring representation of the interests of the general public in proceedings before the Commission. Enhance a system that fosters recruitment, development, and retention of a skilled workforce based on merit. Provide the technology and infrastructure necessary to meet the needs of the PRC’s mandate; and
- **Program Office of the Inspector General** – The Office of Inspector General was established in June, 2007 as required by an amendment to the Inspector General Act of 1978 included in the Postal Accountability and Enhancement Act of 2006 (Pub. L. 109-435 sec. 605). The Inspector General will conduct independent and objective audits, internal investigations and inspections; prevent and detect waste, fraud and abuse; promote economy, effectiveness and efficiency; review pending legislation and regulations; and keep the Commission Chairman and Congress fully informed of Commission issues.
**Proposed Appropriation Language**

For necessary expenses to carry out the duties, responsibilities and functions of the Postal Regulatory Commission pursuant to Postal Accountability and Enhancement Act of 2006, Pub. L. 109-435, $14,333,000 is to be derived by transfer from the Postal Service Fund, and expended as authorized by section 603(a) of such Act.

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# Obligation by Object Class

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 Highlights of the Fiscal Year 2010 Request

- The Commission’s budget request for FY 2010 is $14,333,000, a slight increase of $290,000.

- This request will allow the Commission to conduct financial reviews and special studies of the Postal Service reports on costs, revenues, rates and services to ensure the applicable methodologies as prescribed by regulations are compliance.

- This request will allow the Commission to conduct financial reviews of the Postal Service compliance report with Section 404 of the Sarbanes-Oxley Act, as required by the PAEA.

- This request includes an upgrade to the Commission’s Docket On-line system, which will replace the existing 11-year old system. The upgraded system is expected to provide a comprehensive solution that will enable improved document management by capturing the existing paper trail electronically, associating each document with a specific event, and creating a searchable database. Additionally, the enhanced system will provide better reporting options to support management oversight.

- This budget request will allow the Commission to continue its efforts in promoting greater transparency and accountability for postal services around the globe. To carry out this work, the Commission will participate in the Universal Postal Union (UPU) meetings in Bern, Switzerland and other regional organizations such as, the Postal Union of the Americas, Spain, Portugal and Caribbean Postal Union. In addition, this request will allow the Commission to serve actively on the Postal Operational Council and Council of Administration of the UPU.

- This budget request provides an opportunity for the Commission to continue our conduct an ongoing review and conduct special studies of the universal service obligation and the postal monopolies.
Strategic Goal 1: Distinct Systems of Modern Rate Regulations for Market Dominant and Competitive Products

Establish and maintain predictable, transparent, and efficient ratemaking systems. The system will achieve the following objectives: maximize incentives to reduce costs and increase efficiency; create predictability and stability in rates; maintain high quality service standards; allow the Postal Service pricing flexibility; ensure adequate revenues to include retaining earnings to maintain financial stability; reduce the administrative burden and increase the transparency of the ratemaking process; enhance mail security and deter terrorism; establish and maintain a just and reasonable schedule for rates and classifications; and allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

In FY 2008, the Commission published the new ratemaking system eight months ahead of the statutory requirement. The regulations allow the Postal Service significantly more autonomy in setting rates; however, its ability to increase rates for market dominant products is restricted to changes in the Consumer Price Index – Urban (CPI-U). The law requires the Commission to complete its review of proposed new rates for market dominant products for compliance with the CPI-U cap 45 days upon receipt of the Postal Service filing. The Commission anticipates the Postal Service to file yearly new rate adjustment requests during the second quarter of each fiscal year.

Performance Objectives:

1.1 Establish and maintain predictable, transparent, and efficient ratemaking system
1.2 Reduce the administrative burden and increase the transparency of the ratemaking process
1.3 Establish and maintain a just and reasonable schedule for rates and classifications

Resources:

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<td>% Resources</td>
<td>18.3</td>
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<td>% Resources</td>
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Proposed 2010 Work Plan:

1.1 Establish and maintain predictable, transparent and efficient ratemaking system.

The Commission will continue to monitor the regulations to ensure the objectives of predictability and stability rates are met as outlined in the PAEA.

The Commission will continue to monitor and evaluate any Postal Service notice of rate change to ensure the rates are within the CPI cap.

1.2 Reduce the administrative burden and increase the transparency of the ratemaking process.

The Commission will continue to solicit views of postal stakeholders.

1.3 Establish and maintain a just and reasonable schedule for rates and classifications.

The Commission will issue Annual Compliance Report that includes determination of whether or not any rates or fees in effect during the fiscal year were out of compliance with applicable provisions of the regulations.

Strategic Goal 2: Measure USPS Service and Performance

Ensure appropriate and transparent Postal Service measurements to promote an efficient, effective, and responsive mail service. Ensure accountability through a fair and open complaint process that provides for appropriate and effective remedies.

In the first quarter of fiscal year 2009, the Commission issued its Report on Universal Postal Service and Mail Monopoly. Additionally during the second quarter of FY 2009, the Commission hosted a Regulatory Dialogue with fourteen international postal regulators from China, Ecuador, the European Commission, Japan and Portugal. The purpose of the Postal Regulatory Dialogue was to create a channel for more informal, practical, interactive engagement among postal regulators.

Performance Objectives:

2.1 Establish and maintain rules, regulations, and procedures for a formal complaint system.

2.2 Establish and maintain rules, regulations, and procedures for sensitive documents required by annual reports or obtained via subpoena authority.

2.3 Complete a review of the recommendations from the universal postal service and the postal monopoly report.
2.4 Promote greater transparency and accountability for postal services around the globe and ensure a level playing field with private competitors.

Resources:

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<td>% Resources</td>
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Proposed 2010 Work Plan:

2.1 Establish and maintain rules, regulations, and procedures for a formal complaint system.

The Commission will continue to monitor rules, regulations, and procedures for a formal complaint system (39 CFR 3001.81) to ensure appropriate and effective remedies are applied.

The Commission will issue an annual Compliance Report that includes determinations of whether or not applicable provisions of the regulations and/or any service resulted in a complaint.

2.2 Establish and maintain rules, regulations, and procedures for sensitive documents required by annual reports or obtained via subpoena authority.

The Commission will continue to monitor the rules, regulations, and procedures for sensitive documents required by annual reports or the use of subpoena authority.

The Commission will continue to monitor the process for receiving sensitive document to ensure compliance with regulations and privacy stipulations.

2.3 Complete a comprehensive review of the universal postal service and the postal monopoly.

The Commission will continue to monitor and study the findings and recommendations of the Report specifically on the financial impact of reducing mail delivery to five days a week.
2.4 Promote greater transparency and accountability for postal services around the globe and ensure a level playing field with private competitors.

The Commission will participate in the Universal Postal Union (UPU) meetings in Bern, Switzerland and other regional organizations such as, the Postal Union of the Americas, Spain, Portugal and Caribbean Postal Union. In addition, this request will allow the Commission to serve actively on the Postal Operational Council and Council of Administration of the UPU.

Strategic Goal 3: Financial Accountability and Compliance

Provide accountability through transparent data reporting and review. Economists analyze complex economic, cost, and financial data and evaluate the data by exploring, identifying, and addressing complex and controversial issues dealing with tax computations and transfer requirements. The Commission will conduct ongoing analyses of Postal Service performance in the area of productivity and operations. Provide expert advice on matters pertaining to Postal regulatory policies, including:

- detailed statistical studies and survey data;
- database of service units compiled for specific operations;
- operational cost models;
- quantitative and qualitative reports, studies, and surveys outlining the degree of market price and service competition; and
- other economic evidence and argument pertaining to market power, competitive access, or potential anti-competitive impacts and effects.

Performance Objectives:

3.1 Conduct a financial review of the Postal Service’s report on costs, revenues, rates, and services to ensure the applicable methodologies as prescribed by regulations.

3.2 Conduct a financial review of the Postal Service’s report for each fiscal quarter as required by the Sarbanes-Oxley Act.

3.3 Monitor accounting practices and principles for the Postal Service through substantive and procedural rules for the assumed income tax for competitive mail products, as required by the PAEA.
Resources:

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Proposed 2010 Work Plan:

3.1 *Conduct a financial review of the Postal Service’s report on costs, revenues, rates, and services to ensure the applicable methodologies as prescribe by regulations.*

The Commission will conduct a review of the data received and issue a determination in the Compliance Report by the end of the second quarter.

To ensure the applicable methodologies are applied as outlined in the regulations, the Commission will continue to monitor financial data on a monthly basis.

3.2 *Conduct a financial review of the Postal Service’s report for each fiscal quarter as required by the Sarbanes-Oxley Act.*

The Commission will continue to review the data collection criteria.

The Commission will continue to monitor and evaluate the Postal Service’s data for compliance with section 404 of the Sarbanes Oxley Act, as required by the PAEA.

3.3 *Monitor accounting practices and principles for the Postal Service through substantive and procedural rules for the assumed income tax for competitive mail products, as required by PAEA.*

The Commission will continue to monitor and evaluate the Postal Service’s accounting practices and principles as it relates to the regulations for assumed income tax for competitive mail product, as required by the PAEA.

**Strategic Goal 4: Program Integration and Support**

In seeking to fulfill its mission, substantial portions of the Commission’s resources are devoted to daily oversight, communication, and transparency with stakeholders through its Filing-Online system. The Commission has begun initiatives to modernize and ensure the security of the Commission’s information technology systems.
The Commission’s existing information technology systems were designed for processing responsibilities under the old ratemaking regime. With the passage of the PAEA, the Commission conducted a comprehensive review resulting in recommendation to modernize existing database information; to establish a tracking system for informal consumer inquiries; to redesign the Dockets database and to continue to monitor and enhance security of all information systems.

In addition, this goal allows the Commission to maintain a visible and accessible Commission connected to all stakeholders and ensures representation of the interests of the general public in proceedings before the Commission.

**Performance Objectives:**

4.1 *Effectively use information technology to enhance organizational performance and efficiency and provide appropriate access to and the dissemination of Postal Regulatory Commission information.*

4.2 *Effectively and efficiently operate financial, budget, and other support programs.*

4.3 *Attract, develop, and retain a highly skilled, diverse, and motivated workforce.*

**Resources:**

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<td>% Resources</td>
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**Proposed 2010 Work Plan:**

4.1 *Effectively use information technology to enhance organizational performance and efficiency and provide appropriate access to and the dissemination of Postal Regulatory Commission information.*

The Commission will continue to develop and implement the remodeling of the internal databases and its supporting infrastructure with systemic changes to the enterprise architecture to improve overall operations and security.

The Commission will continue to monitor the tracking system of consumer information inquires.

4.2 *Effectively and efficiently operate financial, budget, and other support programs.*
The Commission will continue to comply with FISMA and other regulatory requirements.

The Commission will continue to implement the business enterprise architecture plans.

4.3 *Attract, develop, and retain a highly skilled, diverse, motivated workforce.*

The Office of the Secretary and Administration will continue to evaluate the performance of staff in meeting the duties and responsibilities of the Commission.

**Strategic Goal 5: Program Office of the Inspector General**

Conduct independent and objective audits, investigation and inspections in support of the Postal Regulatory Commission’s overall strategic goals and to prevent and detect waste, fraud and abuse.

**Performance Objectives:**

5.1 *Conduct audits and evaluations in support of the Postal Regulatory Commission’s Program Integration and Support activities, including information technology management, financial management and human capital management.*

5.2 *Prevent and detect waste, fraud and abuse.*

5.3 *Review existing and proposed regulations and legislation for impact on the economy and efficiency of the Postal Regulatory Commission’s programs.*

**Resources:**

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<th>FY 2010 (REQUESTED)</th>
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<td>% Resources</td>
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</tbody>
</table>

**Proposed 2010 Work Plan:**

5.1 *Conduct audits and evaluations in support of the Postal Regulatory Commission’s Program Integration and Support activities, including information technology management, financial management and human capital management.*
Continue to monitor and audit Program Integration and Support activities as needed, and to review proposed internal policy changes.

Continue to improve effectiveness of reporting under the Federal Information Security Management Act along with any other mandated reports.

5.2 Prevent and detect waste, fraud and abuse.

Continue to maintain hotline and to investigate all allegations of misconduct in a timely manner.

5.3 Review existing and proposed regulations and legislation for impact on the economy and efficiency of the Postal Regulatory Commission’s programs.

Begin appropriate post-implementation review of regulations implementing the Postal Accountability and Enhancement Act of 2006.