



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Contracting Opportunities and Impact of the Service Contract Act

Audit Report

November 2, 2011

Report Number CA-AR-12-001



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**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

November 2, 2011

Contracting Opportunities and Impact of the Service Contract Act

Report Number CA-AR-12-001

IMPACT ON:

This audit may impact U.S. Postal Service purchasing policies with regard to the McNamara-O'Hara Service Contract Act (SCA) of 1965.

WHY THE OIG DID THE AUDIT:

The report responds to a request from Representative Darrell E. Issa. Our objective was to review Postal Service's market research to determine if potential savings could be realized if they did not have to comply with the SCA. In addition, we identified positions for which Postal Service labor rates exceeded the SCA rates and barriers to outsourcing those positions.

WHAT THE OIG FOUND:

Postal Service market research indicated that opportunities exist for cost savings if the agency did not have to comply with the SCA. In addition, our analysis showed that Postal Service wages for cleaning/janitorial and postal vehicle service (PVS) driver positions were higher than SCA rates. We estimate the Postal Service could save approximately \$675 million annually if it outsourced cleaning/janitorial and PVS driver positions. Barriers to outsourcing the positions include labor union agreements, concerns that new unions will be formed, workforce retention issues, fluctuations in market or economic conditions, and the potential for congressional constituency concerns.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service seek exemption from the SCA to allow flexibility to negotiate contract rates closer to market rates. We also recommended the Postal Service review the benefits of outsourcing cleaning/janitorial service positions and Postal Service vehicle driver positions and restructure those positions to achieve the most cost effective solution. Lastly, we recommended that the Postal Service ensure that appropriate financial data is collected to aid in making insourcing/outsourcing decisions.

WHAT MANAGEMENT SAID:

Management agreed to implement a policy change if Congress exempts the Postal Service from the SCA. In addition, management stated that recommendation 2 accurately describes what the Postal Service has already done and is continuing to do and stated that it is not clear from the report the OIG found any deficiencies to correct.

AUDITORS' COMMENTS:

Management needs to develop and fully implement plans to work with Congress to seek exemption from the SCA, for reviewing the benefits of outsourcing cleaning/janitorial and PVS driver positions, and to collect the financial data needed for insourcing/outsourcing decisions.

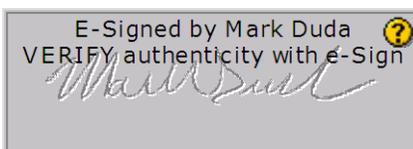
[Link to review the entire report](#)



November 2, 2011

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

DOUGLAS A. TULINO
VICE PRESIDENT, LABOR RELATIONS



FROM: Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – Contracting Opportunities and Impact of the
Service Contract Act
(Report Number CA-AR-12-001)

This report presents the results of our audit of Contracting Opportunities and Impact of the Service Contract Act (Project Number 11YS001CA000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Judith Leonhardt, director, Supply Management, or me at 703-248-2100.

Attachments

cc: Joseph Corbett
Anthony J. Vegliante
Craig D. Partridge
Mark A. Guilfoil
J. Dwight Young
Susan Witt
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of contracting opportunities and the impact of the McNamara-O'Hara Service Contract Act (SCA) of 1965¹ (Project Number 11YS001CA000). The report responds to a request from Representative Darrell E. Issa. Our objective was to review U.S. Postal Service's market research to determine if potential savings could be realized if they did not have to comply with the SCA. In addition, we identified positions for which Postal Service labor rates exceeded the SCA rates and barriers to outsourcing those positions. This audit addresses both financial and operational risks. See [Appendix A](#) for additional information about this audit.

Title 39 of the U.S.C. requires the Postal Service to follow the requirements of the SCA.² The SCA requires general contractors and subcontractors performing services on prime contracts in excess of \$2,500 to pay service employees no less than the wage rates and fringe benefits found prevailing in the locality as determined by the U.S. Department of Labor (DOL) or the rates contained in a predecessor contractor's collective bargaining agreement. The SCA applies to every contract the U.S. or the District of Columbia enters into with the principal purpose of furnishing services to the U.S. through the use of service employees.³

Conclusion

Postal Service market research indicated that opportunities exist for cost savings if it did not have to comply with the SCA. In addition, our analysis showed that Postal Service wages for cleaning/janitorial and postal vehicle service (PVS) driver positions were higher than SCA rates. We estimate the Postal Service could save approximately \$675 million annually if it outsourced cleaning/janitorial and PVS driver positions. Barriers to outsourcing the positions include current labor union agreements, concerns that new unions will be formed, workforce retention issues, fluctuations in market or economic conditions, and the potential for congressional constituency concerns.

Opportunities Exist for Cost Savings if the Postal Service Did Not Have to Comply with the SCA

Market rates for the following commodities reviewed were less than the SCA rate, as shown in Table 1.

¹ 41 U.S.C. §§ 351-358.

² 39 U.S.C. § 410(b)(5)(B).

³ Contracts with individuals who do not have service employees are not subject to the SCA. For example, a contract with an owner/operator of a truck would not be subject to the SCA.

Table 1. SCA Rates vs. Market Rates

Commodity	Estimated FY 2010 Annual Contract Spend	SCA Hourly Rate	Market Hourly Rate	Rate Difference (SCA > Market)	
				Dollars	Percentage
Snow Removal & Landscaping	\$19.5 million	\$16.30	\$12.18	\$4.12	33.83%
Cleaning/ Janitorial	\$105.9 million	\$15.74	\$11.80	\$3.94	33.39%
Highway Contract Route (HCR) Truck Driver (Box) ⁴	\$47.3 million	\$20.16	\$15.24	\$4.92	32.28%
Unarmed Guards	\$22.5 million	\$16.91	\$12.92	\$3.99	30.88%
HCR Tractor Trailer Driver ⁵	\$300.8 million	\$20.76	\$16.67	\$4.09	24.54%
Fire Alarm Maintenance	\$60 million	\$25.04	\$23.44	\$1.60	6.83%

Additionally, we reviewed data supporting potential cost savings for Mail Transportation Equipment Service Center (MTEC) contracts if the Postal Service was not required to comply with the SCA. An MTEC supplier provided support for that data. We found, however, that the data was incomplete. Specifically, several of the research sources of information were no longer available. Accordingly, potential cost savings could not be validated.

We were unable to project potential cost savings for the above commodities because data, such as number of contract hours, was not always available.⁶ Accordingly, we could not identify a methodology to reasonably estimate the labor from other contract costs making up the annual spend amount for each contract. Based on the data that was available, however, significant differences exist between the SCA and market rates.

Although the Postal Service is not funded by taxpayer dollars, Title 39 of the U.S.C. mandates that it pay at least the SCA rate for service contracts. Paying higher than market rates will continue to be a negative factor to the competitive interests of the Postal Service and add to its debt. To better serve the mailing public, the Postal Service must be able to seek cost saving measures wherever possible. Based on available

⁴ The Postal Service provided data for 18 localities. As such, the FY 2010 spend is only representative of the 18 localities and the SCA and market rates are averages of the 18 localities. In addition, the market data provided by the Postal Service did not include fringe. Therefore, for consistency and comparison purposes, we did not include the health and welfare portion in the SCA rates. The HCR truck driver (box) and tractor trailer driver positions are comparable to PVS driver positions.

⁵ Ibid.

⁶ For example, cleaning/janitorial contracts are performance based and contract hours are not tracked.

data, the Postal Service labor costs could be reduced if it did not have to comply with the SCA.

Positions for Which Postal Service Labor Rates Exceed SCA Rates and Barriers to Outsourcing

Our analysis, as shown in Table 2, found that Postal Service wages for cleaning/janitorial and PVS driver positions were significantly higher than SCA rates.

Table 2. Postal Service Rates vs. SCA Rates

Commodity	Number of Postal Service Employees	Postal Service Rate	SCA Rate	Rate Difference (Postal Service > SCA)	
				Dollars	Percentage
Cleaning/Janitorial ⁷	14,686	\$44.51	\$15.74	\$28.77	182.78%
PVS Driver ⁸	7,004	\$47.89	\$26.63	\$21.26	79.83%

Throughout the federal government as well as private industry, barriers to outsourcing are common. The reasons for the barriers vary. Some of the more common barriers include:

- Existing labor union agreements and associated memorandums of understanding.
- Potential formation of new unions.
- Workforce retention (for example, finding and retaining qualified, reliable personnel).
- Fluctuations in market or economic conditions.
- Potential congressional constituency concerns.

The Postal Service’s financial outlook is poor and labor costs⁹ account for 80 percent of its costs. If management does not take action, such as achieving savings through outsourcing, the General Accountability Office (GAO) estimates that the Postal Service’s financial losses could increase to \$33 billion over the next decade.¹⁰ We estimate the Postal Service could save approximately \$675 million annually, if it

⁷ We obtained the Postal Service wage rate for cleaning/janitorial personnel from the National Average Labor Rates memorandum, dated January 25, 2011, published by Postal Service Headquarters Finance. Both the Postal Service and SCA rates include fringe benefits.

⁸ PVS driver includes both truck driver (box) and tractor trailer drivers. We obtained the Postal Service wage rate for PVS drivers from the National Average Labor Rates memorandum, dated January 25, 2011, published by Postal Service Headquarters Finance. Both the Postal Service and SCA rates include fringe benefits.

⁹ Labor costs include wages, retiree health benefits, retiree pension payments, health benefits of current employees, and workers’ compensation. The largest category of labor costs is wages, making up 63 percent.

¹⁰ *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability* (Report Number GAO-10-455, dated April 12, 2010).

outsourced cleaning/janitorial and PVS driver positions at competitive market rates. See [Appendix B](#) for details.

Recommendations

We recommend the vice president, Supply Management:

1. Seek exemption from the Service Contract Act to allow flexibility to negotiate contract rates closer to market rates.

We recommend the vice president, Labor Relations:

2. Review the benefits of outsourcing cleaning/janitorial service positions and postal service vehicle driver positions and work with Supply Management to restructure those positions to achieve the most cost effective solution.
3. Working with Supply Management and Postal Service program officials, ensure that appropriate financial data is collected to aid in making in-sourcing/outsourcing decisions.

Management's Comments

Management did not agree or disagree with recommendation 1 but stated Supply Management believes that removing the Postal Service from the requirements of the Davis Bacon Act¹¹ and SCA should allow for more efficient and cost effective contracting. Management also stated that recommendation 2 accurately describes what the Postal Service has already done and what it is continuing to do. Specifically, management stated the report and associated calculation of monetary impact fail to consider the impact of the Postal Service's labor agreement with the American Postal Workers Union (APWU) that became effective May 23, 2011. They stated the new agreement provides for the establishment and use of non-career employees on a much wider scale than previously permitted and new employees will be paid at rates much lower than current career rates and, in some cases, lower than SCA rates. In addition, management stated the new APWU career employees will be paid less than career employees. Management stated the new provisions impact the report in two fundamental and significant ways:

- They reflect that management has accomplished precisely what recommendation 2 suggests. Through the new labor agreement, the Postal Service has restructured the work force and provided for a lower cost employee, while continuing to establish outsourcing or in sourcing decisions on a cost effective basis.
- The new provisions render the costing methodology used in Table 2 of the report outdated. Because future custodial and PVS driver positions will not be paid based

¹¹ The scope of our review did not include contracts subject to the Davis Bacon Act.

on current career wages, the claimed potential savings of \$675 million is grossly overstated.

With regard to recommendation 3, management stated it is not clear from the report the U.S. Postal Service Office of Inspector General (OIG) found any deficiencies the Postal Service needs to correct. In addition, management stated the report shows the Postal Service does do market rate research and it has established processes in place, in accordance with labor agreements, to facilitate outsourcing and insourcing decisions, which would include any relevant financial data needed. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

In response to recommendation 1, management agreed to implement a policy change if Congress would exempt the Postal Service from the SCA. Management asked us to close the recommendation based on this. To close the recommendation, management needs to inform us of plans to work with Congress to seek the exemption and provide sufficient evidence that those plans have been fully implemented.

Management did not agree to take any actions regarding recommendation 2 and voiced concern over the potential cost savings identified in our draft report. Our draft report showed a potential \$6.75 billion savings over a 10-year period. We have edited the final report to claim only an annualized savings of \$675 million.

In addition to concerns stated regarding the amount of potential cost savings claimed in the report, management stated that they believe the recent APWU agreement allows the flexibility needed to reduce cleaning/janitorial and postal vehicle driver costs. However, given its current financial situation and its efforts to significantly downsize the current workforce it is unclear when and if the Postal Service will staff these positions at the rates noted in management's comments. Specifically, the Postal Service has initiated significant retail and network restructuring initiatives and plans to reduce its workforce by 220,000 people. Therefore, we cannot base our monetary impact estimates on the rates management provided. As market and SCA rates were lower than current rates paid to Postal Service employees, it would be prudent for the Postal Service to consider outsourcing the positions to achieve additional monetary savings. To close the recommendation, management needs to inform us of plans for reviewing the benefits of outsourcing the positions and restructuring the positions to achieve the most cost effective solution and provide sufficient evidence that those plans have been fully implemented.

In addition, management did not agree to take any actions regarding recommendation 3. During the audit, we worked extensively with Postal Service employees to obtain Postal Service, SCA, and market wage rate documentation. The Postal Service did not have a standardized process for collecting and analyzing the documentation. For example, we were unable to determine the number of contract hours for the performance based cleaning/janitorial contracts. A standardized process

for each commodity would help ensure that all financial data, such as hourly rates and number of contract hours positions, is collected and would aid management in making insourcing/outsourcing decisions. Management asked that we close the recommendation based on their response. To close the recommendation, management needs to inform us of plans to collect the financial data needed for insourcing/outsourcing decisions and provide sufficient evidence that those plans have been fully implemented.

The OIG considers all three recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

The Postal Reorganization Act of 1970 abolished the U.S. Post Office Department, a part of the cabinet, and created the U.S. Postal Service, a corporation-like, independent agency. Unlike the Post Office Department, the Postal Service is not funded by taxpayer dollars; rather, the Postal Service operates as a business where its funding comes from the revenue generated by selling postage and Postal Service products. However, although the Postal Service is supposed to operate like a business, the federal government imposes certain restrictions on it such as the requirement to comply with the SCA.¹²

Title 39 of the U.S.C. requires the Postal Service to follow the requirements of the SCA.¹³ The SCA requires general contractors and subcontractors performing services on prime contracts in excess of \$2,500¹⁴ to pay service employees no less than the wage rates and fringe benefits found prevailing in the locality as determined by the DOL or the rates contained in a predecessor contractor's collective bargaining agreement. The SCA applies to every contract the U.S. or the District of Columbia enters into with the principal purpose of furnishing services to the U.S. using service employees.

Objectives, Scope, and Methodology

Our objectives were to review Postal Service's market research to determine if potential savings could be realized if they did not have to comply with the SCA. In addition, we identified positions for which Postal Service labor rates exceeded the SCA rates and barriers to outsourcing those positions. To accomplish our objectives, we:

- Validated wage rates and potential cost-saving opportunities associated with specific commodities¹⁵ identified by the Postal Service.¹⁶ Specifically, we obtained supporting documentation from the Postal Service including:
 - DOL wage determinations.
 - Bureau of Labor Statistics (BLS) market rates.
 - National Payroll Hours Summary Report.
 - Enterprise Data Warehouse (EDW) reports.
 - Contract Authoring Management Systems (CAMS) data.
 - Employee Master File data.
 - Web-Based Complement Information System data.
 - Contract Files.

¹² 41 U.S.C. § 351-358.

¹³ 39 U.S.C. § 410.

¹⁴ If the original amount of \$2,500 (established in 1965) was increased commensurate with the consumer price index, this amount today would be \$17,712.

¹⁵ The commodities were Fire Alarm Maintenance, , Snow Removal/Landscaping, Cleaning/Janitorial, Unarmed Guards, and Highway Transportation (PVS and HCRs).

¹⁶ We obtained the Postal Service wage rates for cleaning/janitorial and PVS driver positions from the National Average Labor Rates memorandum, dated January 25, 2011, published by Postal Service Headquarters Finance.

- Payscale.com.
- Monster.com.
- CareerBuilder.com.

- Reviewed provisions of the SCA, Postal Service's Supplying Principles and Practices, and APWU collective bargaining agreement.

- Interviewed Supply Management portfolio and category management center managers and personnel.

- Interviewed commodity service center personnel to discuss the cost-savings analysis prepared for MTESSC.

We conducted this performance audit from May through October 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. 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. We discussed our observations and conclusions with management on August 29, 2011, and included their comments where appropriate.

We assessed the reliability of data by comparing source documents to data in the CAMS and EDW to validate monetary amounts as well as contract award dates, bill rates, and so forth. We validated DOL rates and BLS data to market research data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Custodial Maintenance: New York District</i>	DA-AR-09-007	4/07/2009	\$48,267,945 funds put to better use	Larger Postal Service facilities in the New York District incurred increased costs for custodial services because hourly rates for full-time employees were \$10 higher than prevailing contractor rates. The condition existed because the collective bargaining agreement between the Postal Service and the APWU restricted the use of contract cleaning services to smaller Postal Service facilities. Management agreed with the findings and recommendations.
<i>Custodial Maintenance: Nationwide</i>	DA-AR-09-011(R)	8/13/2009	\$996,588,215 funds put to better use	Larger Postal Service facilities incurred increased costs for custodial service because hourly rates for full-time Postal Service custodial employees nationwide were \$21 higher than current contractual custodian rates. This condition existed, because the collective bargaining agreement between the Postal Service and APWU restricted the use of contract cleaning services to smaller Postal Service facilities. Because the OIG previously addressed expanding contract services in the New York District audit report, it made no additional recommendations for this finding. Management agreed there were monetary findings but believed the monetary impact may be overstated.

<p><i>U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability</i></p>	<p>GAO-10-455</p>	<p>4/12/2010</p>	<p>N/A</p>	<p>Action by Congress and the Postal Service is urgently needed to reach agreement on actions to achieve Postal Service financial viability and require that any binding arbitration resulting from collective bargaining would consider the Postal Service's financial condition.</p>
<p><i>Postal Service Work Rules and Compensation Systems</i></p>	<p>HR-AR-11-002</p>	<p>9/19/2011</p>	<p>\$2,591,971,598</p>	<p>Postal Service management needs to address inconsistencies in carrier compensation by conducting a study to determine optimum standards for carrier performance and pursue changes necessary to achieve a compensation system that maximizes carrier efficiency. The OIG estimated the Postal Service could potentially save more than \$2.5 billion annually if letter carrier compensation was changed to match the compensation system used by the rural carriers and such a change could also incentivize efficient performance. In addition to the comparison between city and rural compensation, the OIG also compared the costs for contracted delivery services to both the city and rural systems. The cost per delivery for these routes at 36 cents was even lower than that for rural routes. Thus, there are likely additional savings to be gained from transitioning to a more efficient optimal solution.</p>

Appendix B: Monetary Impact

Positions for which Postal Service Labor Rates Exceed the Service Contract Act Rates

The Postal Service could save an average of approximately \$675 million annually over the next 10 years, if it outsourced cleaning/janitorial and PVS driver positions at the SCA rates.

Commodity	Number of Postal Service Employees	Average Annual Hours Per Employee	Postal Service Rate	SCA Rate	FYs 2012 –2021 Total Savings (Phased In)
Cleaning/Janitorial	14,686	1,729	\$44.51	\$15.74	\$5,024,235,671 ¹⁷
PVS Drivers	7,004	1,756	\$47.89	\$26.63	1,726,200,673
Total					\$6,750,436,344¹⁸
Total Annualized Cost Savings Claimed as Monetary Impact					\$675,436,344¹⁹

The savings identified above are based on a 10-year cash flow projection,²⁰ discounted to present value, by applying the following factors published by Postal Service Headquarters Finance.

Rates by Type ²¹	Factor
Discount Rate/Cost of Borrowing	3.875%
Postal Service Labor Escalation Rate	1.7%
Contract Labor Escalation Rate	2.7%

¹⁷ This amount includes reductions of \$9,777,316, which we previously reported in, *Custodial Maintenance: New York District* (Report Number DA-AR-09-007, dated 04/07/2009) and \$147,959,767, which we previously reported in, *Custodial Maintenance: Nationwide* (Report Number DA-AR-09-011(R), dated 08/13/2009).

¹⁸ Impact Category: Funds put to better use represents funds that could be used more efficiently by implementing recommended actions.

¹⁹ Management’s comments on our draft report indicated concern regarding the use of our standard 10 year cost savings projection. Therefore, to be conservative, we are only claiming the annualized amount of potential savings.

²⁰ Our cash flow projection was calculated over a 10-year period beginning in FY 2012 and ending in FY 2021.

However, we did not calculate any savings until FY 2013 to consider the time needed for the Postal Service to renegotiate the current APWU agreement. Beginning in FY 2013, an attrition rate of 50 percent was used.

²¹ Rates published May 7, 2010.

Appendix C: Management's Comments



October 14, 2011

SHIRIAN HOLLAND

SUBJECT: Draft Audit Report – Contracting Opportunities and Impact of the Service Contract Act (Report Number CA-AR-11-DRAFT)

We appreciate the opportunity to review and comment on the subject draft report. Management agrees with the intent of the Office of Inspector General's (OIG) recommendations and thanks them for initiating this audit at the request of Representative Darrell E. Issa. The Postal Service believes that we have already considered cost effective solutions for custodial, motor vehicle work, cleaning/janitorial and postal vehicle service (PVS) driver positions in conjunction with the May 23, 2011 American Postal Workers Union (APWU), AFL-CIO, labor agreement. It does not seem that the OIG took full consideration of the affects that this agreement will provide on future costs. Further explanation of the agreement and its effect on future costs is discussed under the recommendations below. Based on this discussion we believe the potential savings addressed in the report are overstated.

AUDIT RECOMMENDATIONS

We recommend the Vice President, Supply Management:

Recommendation 1. Seek exemption from the Service Contract Act to allow flexibility to negotiate contract rates closer to market rates.

Management Response/Action Plan: Supply Management believes that removing the Postal Service from the requirements of the Davis Bacon Act and the Service Contract Act should allow for more efficient and cost effective contracting. If Congress exempts the Postal Service from these Acts, a policy change will be implemented.

Target Implementation Date: Since this would require legislative action which is beyond our control, we suggest that this recommendation be closed concurrent with the issuance of the audit report.

Responsible Official: Manager, Supply Management Infrastructure.

We recommend the Vice President, Labor Relations:

Recommendation 2. Review the benefits of outsourcing cleaning/janitorial service positions and postal service vehicle driver positions and work with Supply Management to restructure those positions to achieve the most cost effective solution.

Management Response/Action Plan: This recommendation accurately describes both what the Postal Service has already done and what we are continuing to do. The draft report fails to discuss the significance of the new labor agreement with the American Postal Workers Union, AFL-CIO, (APWU) which became effective on May 23, 2011.

The new labor agreement provides for the establishment and use of non-career employees (Postal Support Employees or PSEs) on a much wider scale than previously permitted. These employees are paid at rates much lower than current career rates and, in some cases, lower than the Service Contract Act rates. These changes significantly impact the cost differential between contracting out and performing work in house in many situations, including custodial and motor vehicle work. Cleaning/janitorial and Postal Vehicle Service (PVS) driver positions are part of the APWU bargaining unit. The hourly rates for PSEs for custodians and truck drivers are at or below rates required to be used under the Service Contract Act and much lower than current career rates.

PSE hourly wage rates

Custodians -	\$12.38
Motor Vehicle Driver -	\$15.52
Tractor-Trailer Operator -	\$15.85

In addition, new APWU career employees will be paid less than existing career employees under the new agreement. For example, the new starting rate for custodians is approximately 27 percent less than the previous starting rate.

These new provisions impact the issues in the report in two fundamental and significant ways:

1. They reflect that management has accomplished precisely what this recommendation suggests. Through this labor agreement, the Postal Service has restructured the work force and provided for a lower cost employee, while continuing to establish outsourcing or insourcing decisions on a cost effective basis.
2. These new provisions render the costing methodology found in Table 2 of the draft report outdated. Because future custodial and PVS driver positions will not be paid based on current career wages, the claimed potential savings of \$675 million is grossly overstated.

While a comparison of future postal wage costs versus potential outsourcing is complicated by the need to project numbers of non-career and new career employees in these employee categories, it is clear that comparisons utilizing current postal wage rates over time will become obsolete. It is inaccurate to utilize current wage rates as the basis for the in-house comparison, as we know that the Postal Service will not be paying those rates in the future. As is reflected in the third recommendation in this report, it is important to ensure that appropriate financial data is used in making these decisions, and the approach in Table 2 fails to do so.

Target Implementation Date: Implementation of this recommendation was in conjunction with the APWU labor agreement effective May 23, 2011.

Responsible Official: Vice President, Labor Relations

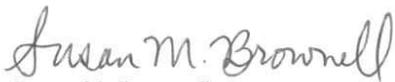
Recommendation 3. Working with Supply Management and Postal Service program officials, ensure that appropriate financial data is collected to aid in making in-sourcing/outsourcing decisions.

Management Response/Action Plan: It is not clear from this report that the OIG found any deficiencies that need to be corrected. In fact, it shows that the Postal Service does include market rate research, where there may be a suitable comparison, when making decisions even though we would be bound by Davis Bacon or SCA labor rates. The Postal Service has established processes in place, in accordance with our labor agreements, to facilitate outsourcing and insourcing decisions which would include any relevant financial data needed.

Target Implementation Date: As indicated above, established processes are already in place. Therefore, we request closure of this recommendation concurrent with the issuance of the final audit report.

Responsible Official: Vice President, Labor Relations and Vice President, Supply Management

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Laurie Hayden at (202) 268-5949 or Susan Witt at (202) 268-4833.


Susan M. Brownell
Vice President, Supply Management


Doug A. Tulino
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