September 30, 2005

WALTER O'TORMEY
VICE PRESIDENT, ENGINEERING

KEITH STRANGE
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Transmittal of Audit Report – Flats Identification Code Sort for Automated Flats Sorting Machine 100s (Report Number DA-AR-05-001)

This report presents the results of our self-initiated audit of the Flats Identification Code Sort (FICS) for Automated Flats Sorting Machine (AFSM) 100s (Project Number 05XG003DA000). Our objective was to determine whether the FICS program reduces workhours at remote encoding centers and increases productivity in processing flat mail on the AFSM 100. In addition, we assessed contract compliance for preventive maintenance.

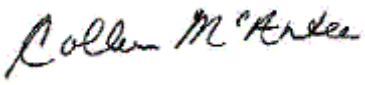
Overall, FICS may have contributed to the reduction of workhours at the remote encoding centers, and had a limited effect on flat mail productivity. However, FICS required daily preventive maintenance instead of the contracted weekly requirement.

Management could further build on program success by addressing the vendor's compliance with the contract for weekly preventive maintenance. The overall monetary impact on operations for vendor noncompliance totaled approximately $40.8 million, amortized over a 10-year period. The monetary impact will be reported in our Semiannual Report to Congress as funds put to better use, unrecoverable costs, and questioned costs.

We recommended the Postal Service require compliance with the contract's weekly preventive maintenance requirements for FICS components or seek consideration. In general, management agreed with the findings and recommendations and noted that the Flats Identification Code Sort program exceeded the field expectations and continues to produce workhour savings benefits for the Postal Service. Management also concurred with the rationale used to calculate the $40.8 million of monetary impact. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector General (OIG) considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Miguel Castillo, Director, Engineering, or me at (703) 248-2300.



Colleen A. McAntee
Deputy Assistant Inspector General
for Field Operations

Attachments

cc: Lynn Malcolm
Paul Vogel
Aron M. Sanchez
Edward L. Gamache
Steven R. Phelps

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EXECUTIVE SUMMARY

Introduction

The Office of Inspector General conducted a self-initiated audit of the Flats Identification Code Sort (FICS) for Automated Flats Sorting Machine (AFSM) 100s. Our audit objective was to determine whether the FICS program reduced workhours at remote encoding centers and increased productivity in processing flat mail on the AFSM 100. In addition, we assessed contract compliance for preventive maintenance.

Results in Brief

Overall, FICS may have contributed to the reduction of workhours at the remote encoding centers as projected in the Decision Analysis Report and showed a limited impact on flat mail productivity during deployment.

The achievement of outcomes we measured depended on the performance of daily rather than contracted weekly preventive maintenance. Management could further build on program success by addressing the vendor's compliance with the contract for weekly preventive maintenance. The estimated overall monetary impact for vendor noncompliance totals $40.8 million. Of this amount, approximately $7.7 million in maintenance overtime could be saved over a 10-year period after the vendor completes management's planned but limited system enhancements. More specifically, a labeler upgrade scheduled for completion by the beginning of calendar year 2006 should reduce 27,820 preventive maintenance workhours needed to sustain performance. Until this action is complete, we anticipate the Postal Service will incur an estimated $3.6 million in maintenance costs from January through December 2005 that may be unrecoverable.

At the conclusion of our audit, management still had the opportunity to fully address all areas of vendor noncompliance, including other components such as the printer, reader, and verifier. These components also require daily rather than the contracted weekly maintenance to sustain performance. The monetary impact of vendor noncompliance for these is approximately $29.5 million. As of July 2005, program management indicated they were negotiating consideration with the vendor.

Summary of Recommendation	We recommended management require the vendor to comply with contract requirements or seek consideration.
Summary of Management's Comments	In general, management agreed with the findings and the recommendation above. Management decided to seek monetary considerations from the vendor for maintenance nonperformance. Additionally, while management agreed with a second recommendation contained in our draft report, they stated that their engineering assessment indicates that the consideration for improved maintenance performance will not be significant enough to warrant an adjustment to the operational budget and workload scheduling. Management also stated the Flats Identification Code Sort program exceeded the field expectations and continues to produce workhour savings benefits for the Postal Service. They look forward to providing future improvements to the system that can generate even more operational savings. Management also concurred with the rationale used to calculate the $40.8 million of monetary impact due to the contractor not complying with the requirement for weekly maintenance only. Management's comments, in their entirety, are included in Appendix E of this report.
Overall Evaluation of Management's Comments	Management's actions taken or planned are responsive to the recommendation and should correct the issues identified in this report. Management's decision to seek consideration from the vendor negates the need for recommendation 2. Therefore, recommendation 2 is not included in the final report.

INTRODUCTION

Background

On August 5, 2003, the Board of Governors approved the Flats Identification Code Sort (FICS) program for 136 million with an expected return on investment of 16.6 percent.

The FICS program was an enhancement to the Automated Flats Sorting Machine (AFSM) 100s. Each of the three feeders on the AFSM 100 was upgraded with fully integrated FICS components that include a labeler, ink jet printer, identification tag/barcode reader, and verifier. With FICS, an identification tag was applied to each non-barcoded flat to increase the efficiency of automating flats.

FICS COMPONENTS

Deployment of the FICS program to the Postal Service's 534 operational AFSM 100s was expected to generate savings of $25.7 million in fiscal year (FY) 2006, the first full year of usage. This includes savings of $18.5 million from reducing workhours spent in keying, which were partially offset by increased maintenance and labor costs to handle rejected identification tags. The FICS program was expected to improve image reductions at remote encoding centers by over 43 percent and to reduce keying errors and optical character reader errors by over 58 percent.

On September 2, 2003, the Postal Service awarded Northrop Grumman a noncompetitive firm fixed-price contract totaling approximately $117.4 million for 1,627 FICS systems. The contract required weekly preventive maintenance on all FICS components. In September 2004, the Postal Service placed a temporary hold on the contract because of concerns about site productivity and readiness to support the new equipment. A recovery plan was developed, and these issues were resolved through a retrofit to the labeler, daily preventive maintenance, and additional emphasis on training. Northrop Grumman completed the retrofit of all deployed systems by the end of November 2004, and full production resumed in December 2004. The Postal Service revised its completion date for deploying all FICS systems to June 30, 2005. Currently, the Postal Service has issued a request for proposal to Northrop Grumman for a labeler upgrade.

Objectives, Scope, and Methodology

Our initial objective was to determine whether FICS increases productivity in processing flat mail on the AFSM 100. However, during the audit, we also decided to determine whether FICS reduces workhours at remote encoding centers and to assess contract compliance for preventive maintenance workhours. The scope of our audit covered deployed FICS units nationwide.

We interviewed and obtained information from Postal Service Engineering, Supply Management, Operations, area plants, Maintenance Technical Service Center, Operations Technical Support, and Northrop Grumman. We attended technical review meetings and reviewed the Postal Service's investment and purchasing policies.

To obtain an indication of performance levels for a variety of site sizes, we judgmentally selected Charlottesville, Virginia; Brockton, Massachusetts; Rochester, New York; Dallas, Texas; New Orleans, Louisiana; and Capital Heights and Gaithersburg, Maryland, which had deployed FICS systems. We visited four sites and surveyed the remaining three sites. We analyzed Postal Service Web sites and maintenance databases to analyze productivity, throughput, time outs, volume, preventive maintenance, and trouble

maintenance calls. We reviewed and analyzed contracts, conducted a telephone survey on maintenance training, and reviewed training records.

In coordination with the Office of Inspector General statistician, cost-benefit analyst, contract specialist, and the computer-assisted assessment techniques team, we assessed FICS performance based on a before-and-after analysis of AFSM 100 productivity and throughputs. (See Appendix A.) To perform this assessment, we used data from the Postal Service Management Operating Data System (WebMODS) Web site for 12 days measured in FY 2005.

We also reviewed records of FICS maintenance training (see Appendix C) to determine whether time saved could be used in other maintenance operations. Training analysis was conducted using a survey based on a random sample of 30 individuals from a list of 766 who had received FICS training. The survey question focused on cross-training of maintenance technicians.

In addition, we conducted an analysis of maintenance payroll information to determine an average workhour rate used to calculate monetary impact. (See Appendix B.) Further, we analyzed national trends in maintenance overtime to assess the feasibility of reducing overtime. (See Appendix D.)

We conducted this audit from December 2004 through September 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate. We relied on data from Postal Service operational systems to conduct our analyses. We did not test the validity of the data, but discussed results of our analyses with Postal Service managers.

Prior Audit Coverage	DCAA Audit Report on U.S. Postal Service Flats ID Coding System No. 6311-2003L22000008, February 5, 2004, determined that Northup Grumman's original proposal and final certified contract prices were based on accurate, complete, and current cost or pricing data. The scope of their audit reflected their assessment of control risk and included audit tests designed to provide a reasonable basis for their opinion. They concluded that the proposal was prepared in accordance with appropriate provisions of the Postal Service Purchasing Manual and considered the proposal acceptable for negotiating a fair and reasonable price.

AUDIT RESULTS

Program Outcomes	Overall, FICS may have contributed to remote encoding center workhour reductions and had a limited impact on flat mail productivity during deployment.
Remote Encoding Centers' Workhour Reductions	Our review of the remote encoding centers' workhours showed a general decline in keying workhours associated with flat mail operations. Specifically, we analyzed workhour trends of three centers responsible for handling FICS images from flat mail operations – Tampa, Chattanooga, and Charleston. We compared the centers' workhour data from Postal Service WebMODS database for January 20, 2005 – February 9, 2005, against SPLY[1] data (January 22, 2004 – February 11, 2004). This data showed that total keying workhours decreased from 116,728 to 97,057 for the period, a net reduction of 19,670 workhours. The Decision Analysis Report (DAR) bases FICS savings on image reductions at remote encoding centers and reductions in keying errors and optical character reader errors. These outcomes result in savings associated with workhour reductions.
AFSM 100 Productivity	The DAR describes FICS as a low operational risk because the system will not alter the operation of any existing equipment, but should increase the efficiency of image and mail flow. Early in deployment, program management suspended FICS because it was affecting AFSM 100 productivity. As a result, we analyzed productivity and throughputs to assess whether the corrective action raised productivity to similar levels prior to FICS installation. For the seven judgmentally selected sites surveyed in Appendix A, AFSM 100 flat mail productivity showed mixed results for the period immediately before and after FICS reactivation. Specifically, four sites measured showed a decrease in productivity, while the remaining three sites showed that productivity increased. Two of the decreases were extremely small. Because we did not observe a consistent effect for the days without FICS compared to the days with FICS, we cannot say that FICS caused the

[1]Same period last year – SPLY is the accounting period (or other period) compared with the same period the previous year.

AFSM 100 productivity changes or attribute any specific effect to FICS. The mixed results suggest that a factor other than FICS could have caused the variations in AFSM 100 productivity.

We used similar measures to chart the throughput performance of FICS. As shown in Appendix A, the daily throughputs, including SPLY, are consistently comparable to the performance of the AFSM before the installation of FICS. Four of the seven sites measured generally showed pre- and post-FICS throughputs following SPLY trends. In addition, one site showed throughput trends above SPLY and two below SPLY, which recovered in later periods. Therefore, our throughput analysis showed little evidence that throughput based on run time is degraded by FICS.

Program management stated that expected increases in AFSM 100 productivity will occur once FICS is fully deployed nationwide. We agree that the full deployment of FICS may lead to increases in productivity and throughput.

Based on the results of our review, we have no recommendations regarding program outcomes.

Preventive Maintenance

FICS performance and DAR expectations were achieved, but with daily rather than the contracted weekly preventive maintenance. Our interviews, observations, and analysis of program data showed that national maintenance plans for preventive maintenance required 58 minutes daily for FICS components, including the labeler, inkjet printer, identification tag/barcode reader, and verifier. However, the Engineering design cognizant organization's intended to place a more stringent requirement in the Statement of Work[2] (SOW) that would require the vendor to deliver FICS with components that would need preventive maintenance no more frequently than weekly.

The program manager could have better coordinated SOW requirements between team members but continued with daily preventive maintenance during the First Article Test, First Article Retest, and deployment to avoid reducing AFSM 100 productivity. Daily preventive maintenance was also conducted without contract modification.

Management could further build on program success by addressing the vendor's compliance with required weekly preventive maintenance. Vendor noncompliance had an estimated monetary impact of $40.8 million on operations, as noted in Appendix B. Of this amount, approximately $7.7 million in maintenance overtime could be saved over a 10-year period after the vendor completes management's planned but limited system enhancements. Specifically, a labeler upgrade scheduled for completion by the beginning of calendar year (CY) 2006 should reduce preventive maintenance by 12 minutes daily, or 27,820 hours yearly. Before this action is complete, we anticipate that the Postal Service will continue to incur 58 minutes of daily preventive maintenance costs that may be unrecoverable. Expected unrecoverable amounts are estimated to total $3.6 million from January to December 2005.

At the conclusion of our audit, management had the opportunity to fully address all areas of vendor noncompliance, including other components such as the printer, reader, and verifier. These components have also

[2]Section D, Technical Design Requirements.

been requiring daily rather than the contracted weekly maintenance to sustain performance. The monetary impact of vendor noncompliance for 46 minutes of daily preventive maintenance, or 106,340 workhours yearly, is approximately $29.5 million over 10 years. We question additional preventive maintenance time spent to maintain operational performance when the vendor's contractual compliance has not been fully addressed.

We recognized that the DAR and the Postal Service budget included daily maintenance. Therefore, bringing the vendor into compliance and adjusting the operational budget accordingly would raise the planned 16.6 percent return on investment.

The premise of monetary impact considers that preventive maintenance time saved can be used to reduce current trends in maintenance overtime for processing equipment, as noted in Appendix D. Electronic and mail processing equipment technicians in a range of pay levels were cross-trained to perform maintenance on other processing equipment, as described in Appendix C. We also confirmed through interviews with maintenance managers and supervisors that these technicians were performing maintenance on other processing equipment.

Recommendation

We recommend the vice president, Engineering, in coordination with the vice president, Supply Management:

1. Require compliance with the contract requirements for weekly preventive maintenance for Flats Identification Code Sort components or seek consideration.

Management's Comments

Management agreed with the recommendation and is in the process of seeking consideration for noncompliance with the contract requirements. Management also concurred with the rationale used to calculate the $40.8 million of monetary impact due to the contractor not complying with the requirement for weekly maintenance only. They noted that the DAR planned for 1 hour of daily maintenance, and management administered the budget to the field sites accordingly.

Evaluation of Management's Comments	Management's actions taken or planned are responsive to the findings and recommendation and should correct the issues identified in the finding. The draft report had two recommendations. Based on management's decision to seek consideration from the vendor, recommendation 2 is no longer applicable. Therefore, recommendation 2 is not included in the final report.

APPENDIX A. FICS PERFORMANCE REVIEW

Productivity Before and After FICS Reactivation

SITE	Pre-FICS Productivity[3]	Post-FICS Productivity[4]	Difference
Brockton, MA	2,149	2,594	445
Charlottesville, VA	2,391	1,831	-560
Southern, MD	736	447	-289
New Orleans, LA	1,415	1,985	570
Dallas, TX	1,528	1,747	219
Rochester, NY	1,453	1,401	-52
Suburban, MD	1,932	1,879	-53

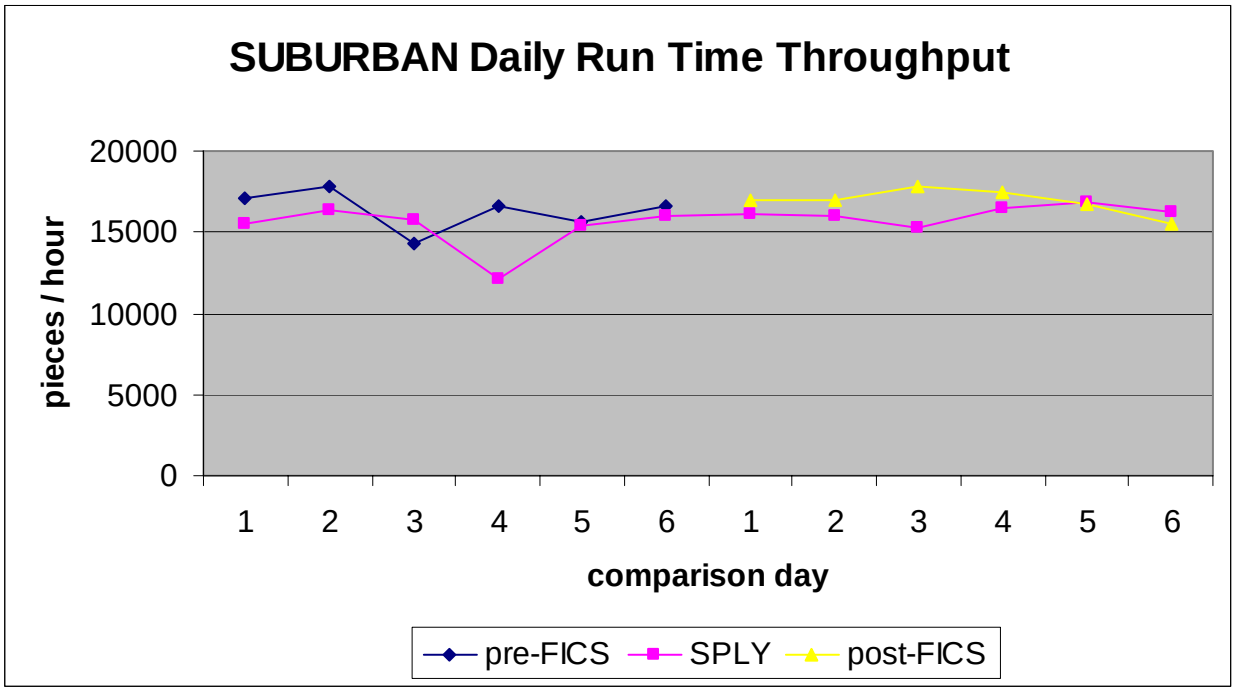
Pre-FICS periods: January 13 - 15 and January 17 - 19, 2005.
Post-FICS periods: January 27 - 29 and January 31 – February 2, 2005.

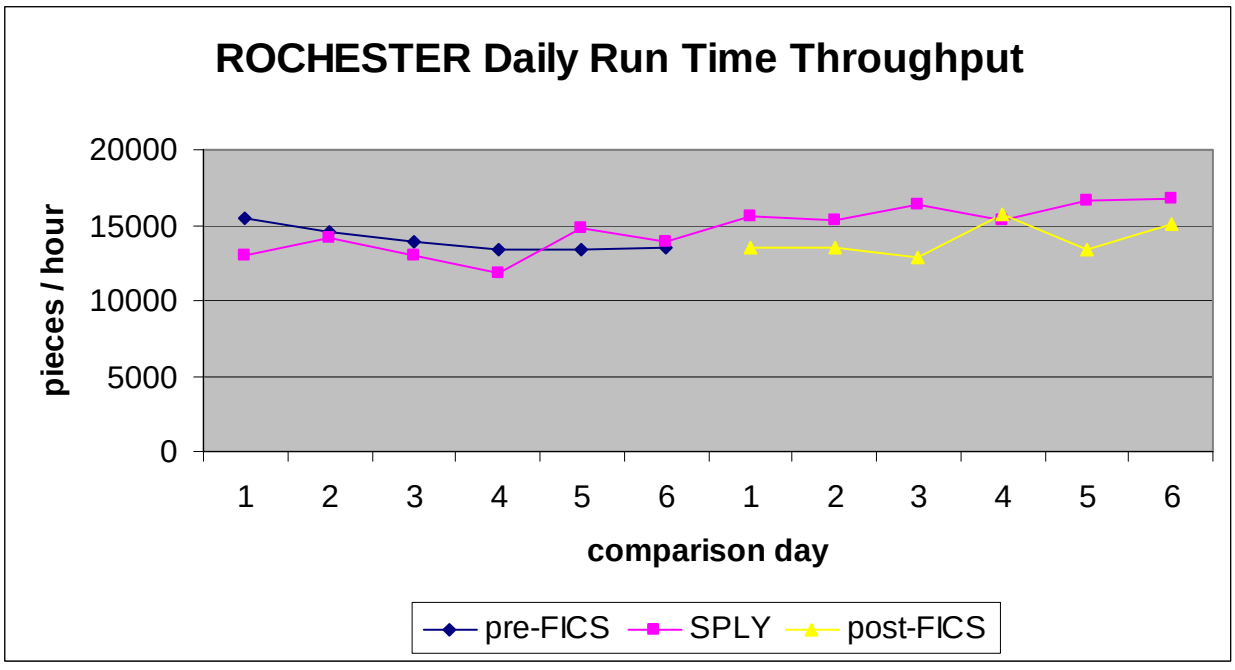
Positive differences indicate that post-FICS productivity increased.
Negative differences indicate that post-FICS productivity decreased.

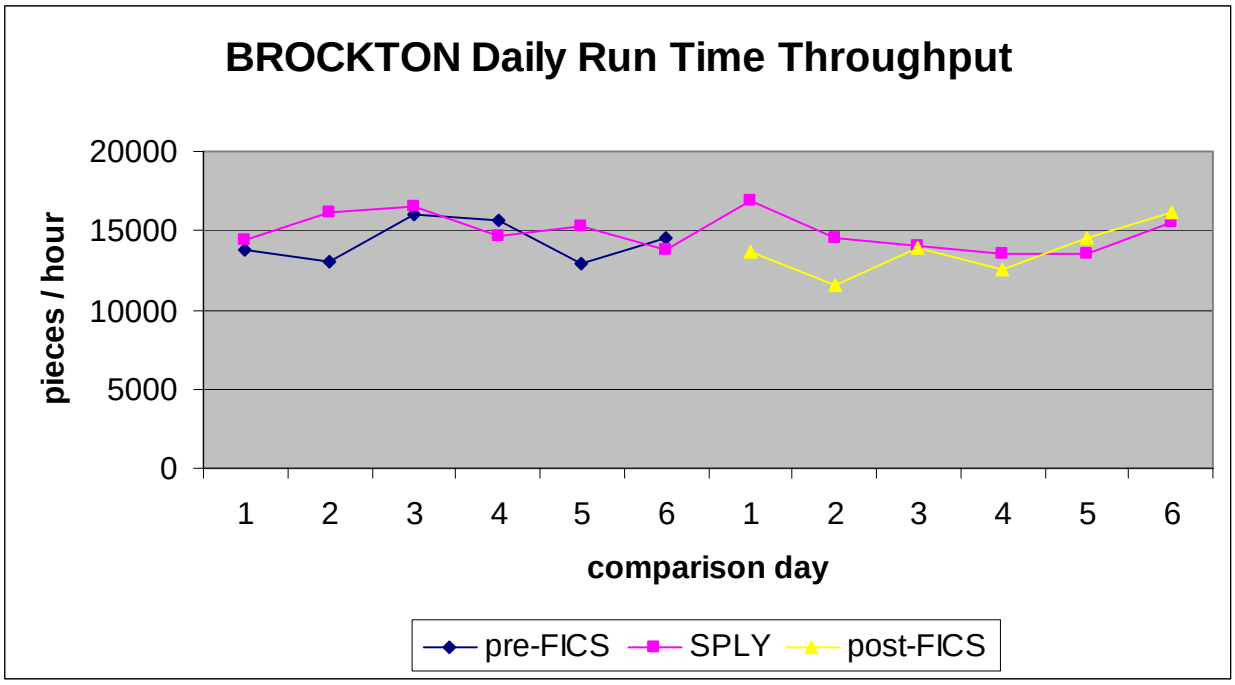
[3]Productivity is first handled pieces processed on the AFSM 100 (throughput) divided by workhours for FICS outgoing mail–operation codes 331 and 332 and AFSM operators, labor distribution code 12, respectively. Source data WebMODS daily run time.
[4]Post-FICS productivity measured after retrofit installed.

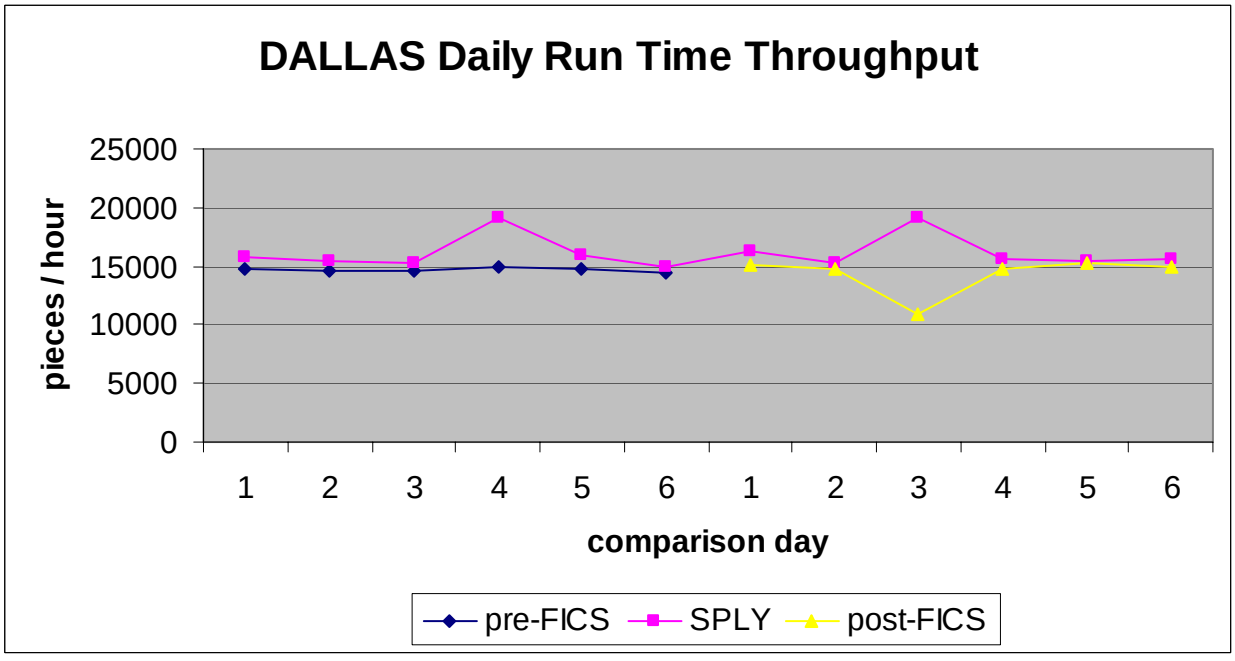
FICS Throughput Performance

Sites Generally Following SPLY Trend

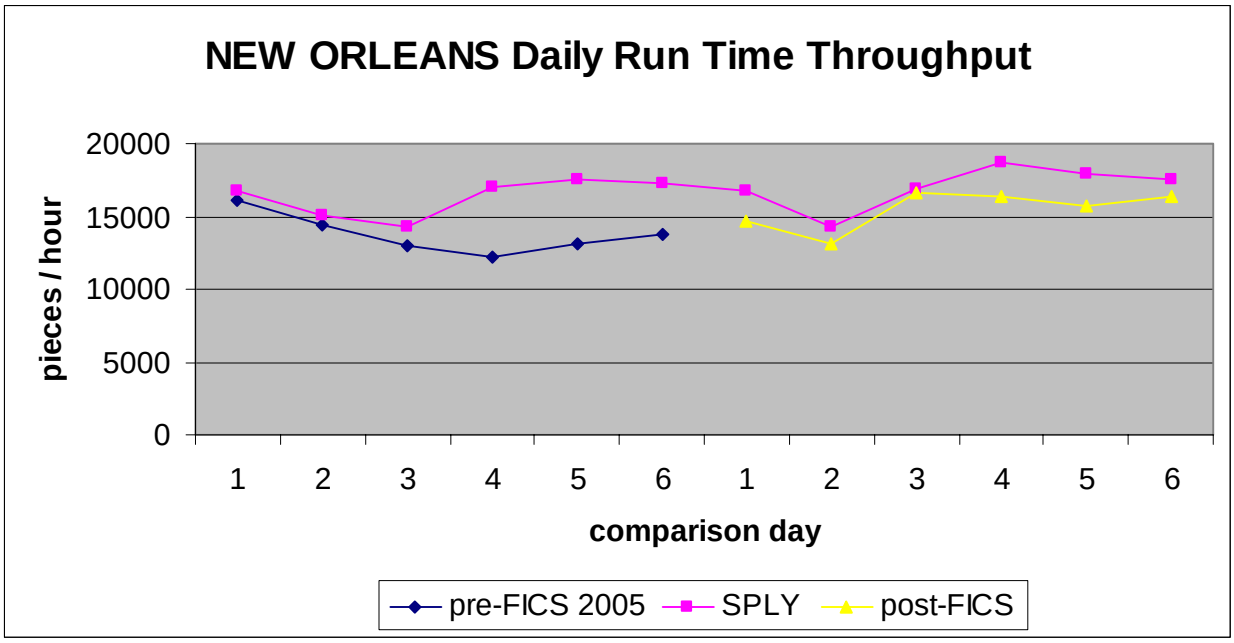


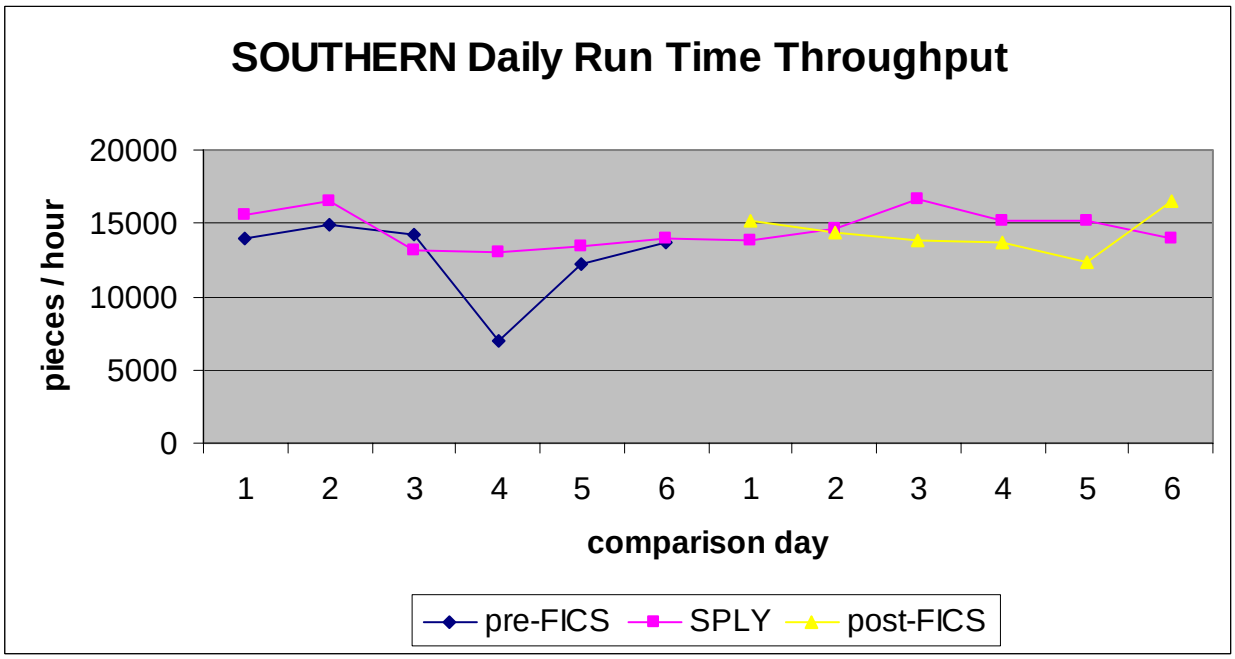



BROCKTON Daily Run Time Throughput
pieces / hour
20000
15000
10000
5000
0
1 2 3 4 5 6 1 2 3 4 5 6
comparison day
pre-FICS
SPLY
post-FICS

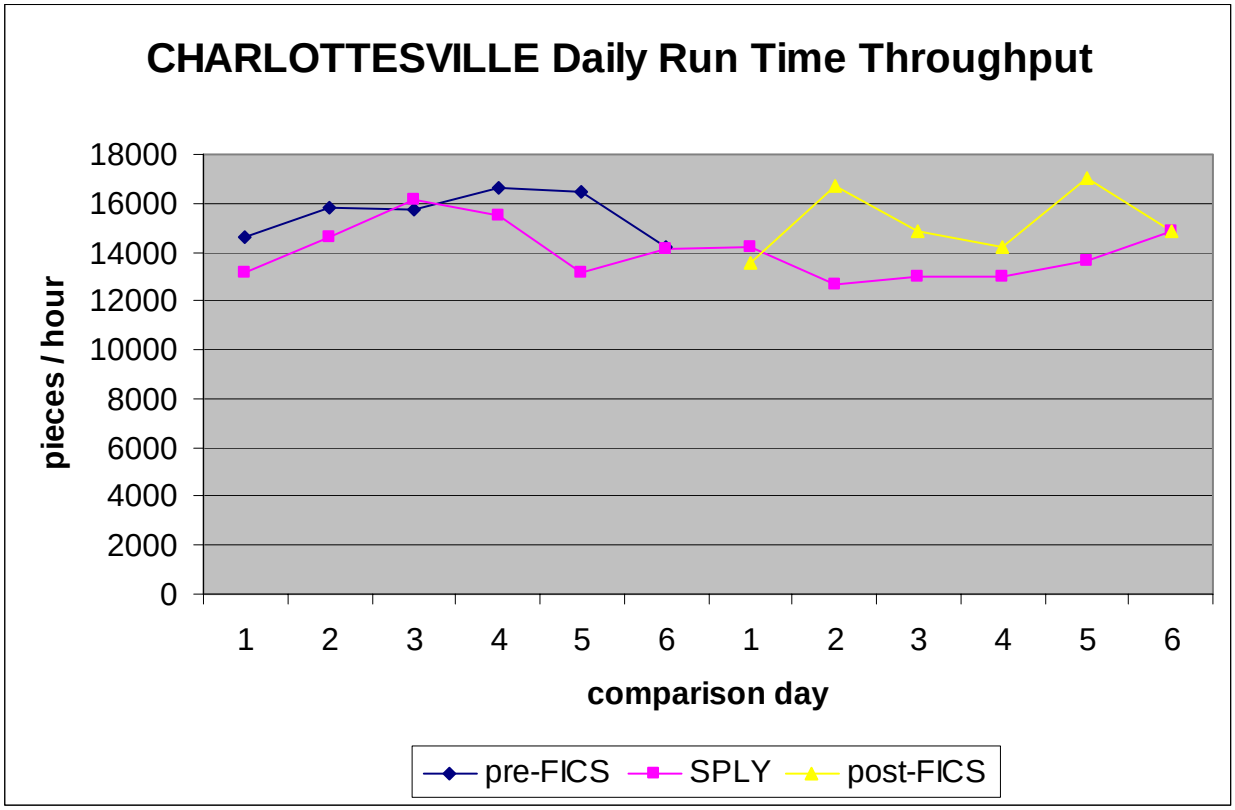

DALLAS Daily Run Time Throughput
pieces / hour
25000
20000
15000
10000
5000
0
1 2 3 4 5 6 1 2 3 4 5 6
comparison day
pre-FICS
SPLY
post-FICS

Sites Below SPLY Trend





Site Above SPLY Trend



APPENDIX B. MONETARY BENEFITS REVIEW

FUNDS PUT TO BETTER USE

Recommended Action	Workhour Reduction Because of Change in Maintenance Plan	Time Frame: 10 Fiscal Years (2006 – 2015)	
		Undiscounted Savings	Discounted Savings (Net Present Value)
Maintenance provides preventive maintenance 12 minutes less per day for FICS Labeler component	27,820	$10,109,351	$7,711,005
Total	**27,820**	**$10,109,351**	**$7,711,005**

Notes

- Cost avoidance is calculated using planned workhour reductions multiplied by the average overtime labor rate for FICS-trained personnel.
- Labor rates are based on the average annual salary of FICS-trained personnel divided by 2,080 hours.[5]
- Calculation of reduced workhours calculation based on 12 minutes less maintenance per day per machine. Five excess days per week was used because the vendor did not comply with the contract provisions.
- Calculation is discounted cash flow over a 10-year period beginning in CY 2006.
- The Postal Service's published (April 15, 2005) cost of borrowing, 5.0 percent, was used as the discount rate.
- The Postal Service's published (April 15, 2005) labor escalation rate of 3.1 percent was used to appreciate labor costs.

Funds Put To Better Use: Funds that can be used more efficiently by implementing recommended actions.

[5]The average salary for a sample of 614 of 766 FICS-trained maintenance personnel is $42,103. Salary information was taken from the employee master file as of June 2005. The average hourly rate based on 2,080 annual workhours is $20.24, and the average overtime rate is $30.36.

UNRECOVERABLE COSTS

Recommended Action	Workhours in Excess of Statement of Work Requirement	Period: January 2005 – December 2005 Unrecoverable Costs
Preventive maintenance performed once a week on all FICS components	115,923	$3,551,291
Total	**115,923**	**$3,551,291**

Notes

- Calculation is for the period January through December 2005. Some FICS devices were deployed as early as March 2004, but a conservative approach was used.
- Unrecoverable costs are calculated using excess workhours multiplied by the average overtime labor rate for FICS-trained personnel.
- Labor rates are based on the average annual salary of FICS-trained personnel divided by 2,080 workhours.[6]
- Calculation of excess workhours based on 58 minutes maintenance per day per machine. Five excess days per week was used because the vendor did not comply with the contract provisions.

Unrecoverable Costs: Costs that should not have been incurred and are not recoverable. In this case, additional preventive maintenance costs occurred during CY 2005. However, those costs are unrecoverable.

[6]The average salary for a sample of 614 of 766 FICS-trained maintenance personnel is $42,103. Salary information was taken from the employee master file as of June 2005. The average hourly rate based on 2,080 annual workhours is $20.24, and the average overtime rate is $30.36.

QUESTIONED COSTS

Recommended Action	Workhours in Excess of Statement of Work Requirement	Time Frame: 10 Fiscal Years (2006 – 2015)	
		Undiscounted Excess Costs	Discounted Excess Costs (Net Present Value)
Maintenance provides preventive maintenance once a week on all FICS components	106,340	$38,642,287	$29,474,775
Total	**106,340**	**$38,642,287**	**$29,474,775**

Notes

- Questioned costs are calculated using excess workhours multiplied by the average overtime labor rate for FICS trained personnel.
- Labor rates are based on the average annual salary of FICS-trained personnel divided by 2,080 workhours.[7]
- Calculation of excess hours is based on 46 minutes per day per machine when no additional maintenance time adjustment is planned. Five excess days per week was used because the vendor did not comply with the contract provisions.
- Calculation is discounted cash flow over a 10-year period beginning in CY 2006.
- The Postal Service's published (April 15, 2005) cost of borrowing, 5.0 percent, was used as the discount rate.
- The Postal Service's published (April 15, 2005) labor escalation rate of 3.1 percent was used to appreciate labor costs.

Questioned Costs: A cost that is questioned because it is believed to be unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

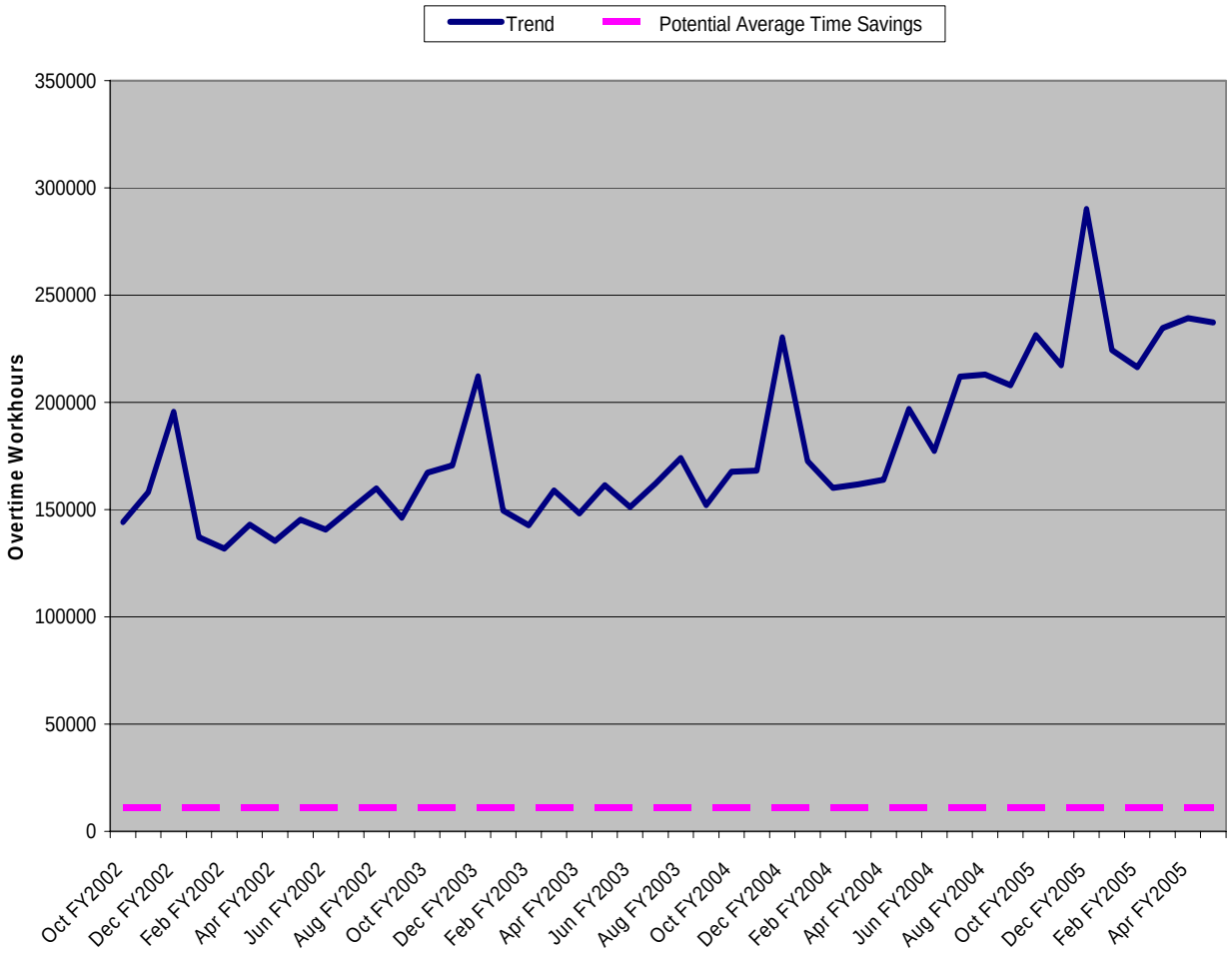
[7]The average salary for a sample of 614 of 766 FICS-trained maintenance personnel is $42,103. Salary information was taken from the employee master file as of June 2005. The average hourly rate based on 2,080 annual workhours is $20.24, and the average overtime rate is $30.36.

APPENDIX C. REVIEW OF MAINTENANCE TRAINING

Location	Finance Number	Technician Trained on Multiple System including FICS
Wichita, KS	199714	Yes
Syracuse, NY	358361	Yes
Oshkosh, WI	566285	Yes
Houston, TX	484147	Yes
North Houston, TX	484143	Yes
Newburgh, NY	355306	Yes
Wilmington, DE	096821	Yes
Indianapolis, IN	174038	Yes
Kearny, NJ	335980	Yes
New Castle, PA	415886	Yes
Erie, PA	412544	Yes
Honolulu, HI	142401	Yes
Trenton, NJ	338552	Yes
San Antonio, TX	487981	Yes
St. Louis, MO	287142	Yes
New York, NY	355831	Yes
North Rearing, MA	244591	Yes
Eugene, OR	402850	Yes
Little Rock, OR	045131	Yes
Clarksburg, WV	551569	Yes
San Diego, CA	056770	Yes
Chicago, IL	161547	Yes
Chicago, IL	161547	Yes
Dayton, OH	382094	Yes
City of Industry, CA	050109	Yes
Stockton, CA	057526	Yes
Tucson, AZ	038881	Yes
New Orleans, LA	216567	Yes
Orlando, FL	116916	Yes
Charlottesville, VA	511719	Yes

None of the 30 was trained solely for FICS maintenance. With a 5.0 percent risk of over reliance on the sample, this result means that no more than 9.5 percent of the 766 personnel trained on FICS were trained on FICS only.

APPENDIX D. NATIONAL TREND IN OVERTIME WORKHOURS FOR MAINTENANCE – ALL POSTAL SERVICE OPERATING EQUIPMENT Labor Distribution Code 36[8]



[8]Potential Average Time Savings is based on annual excess time associated with vendor noncompliance.
Data Source: WebEIS, June 2005.

APPENDIX E. MANAGEMENT'S COMMENTS

WALTER O'TORMEY
VICE PRESIDENT
ENGINEERING

UNITED STATES POSTAL SERVICE.

September 30, 2005

COLLEEN A. MCANTEE

SUBJECT: Draft Audit Report – Flat Identification Code Sort for Automated Flats Sorting Machine 100 (Report Number DA-AR-05-DRAFT)

Management has reviewed the subject draft audit report. Attached is management's response to the two recommendations addressed to Engineering and Supply Management.

The Flat Identification Code Sort program exceeded the field expectations and continues to produce work hour savings benefits for the Postal Service. We look forward to providing future improvements to the system that can generate even more operational savings.

We appreciate the cooperation and input from your staff during the audit. The Vice President, Supply Management concurs with this response. Please contact John Keegan, Manager Automation Equipment, at 703-280-7230 if you have any concerns or questions regarding this response.

Walter F. O'Tormey

Attachment

cc: Mr. Galligan, Jr. (all w/attachment)
Mr. Strasser, Jr.
Mr. Phelps
Mr. Strange

8403 LEE HIGHWAY
MERRIFIELD VA 22082-8101
703-280-7001

ATTACHMENT

Engineering and Supply Management Response
OIG Report DA-AR-05-DRAFT
Flat Identification Code Sort for Automated Flat Sorting Machine 100

COMMENTS ON OIG REPORT FINDINGS

Management concurs with the rational used to calculate the $40.8 million of monetary impact due to the contractor not complying with the requirement for weekly maintenance only. However, the Decision Analysis Report (DAR) planned for one hour of daily maintenance, and management administered the budget to the field sites accordingly.

RESPONSES TO OIG REPORT RECOMMENDATIONS

Preventative Maintenance

We recommend that the vice president, Engineering, in coordination with the vice president, Supply Management:

1. Require compliance with the contract requirements for weekly preventative maintenance for Flat Identification Code Sort components or seek consideration.

Management Response: Management agrees with the OIG audit report recommendation and is in the process of seeking consideration from the supplier for not meeting the contract requirements. The FICS Statement of Work specified that the machine operate without daily preventive maintenance. This design requirement set a higher standard than the DAR to challenge the supplier to achieve an increased level of performance. However, after some live mail testing at processing centers, we determined that this requirement was not achievable with the current state of technology. The finding is also consistent with all the other high speed label applicator equipment currently installed at USPS sites. Therefore, the consideration we plan to seek from the supplier will be based on reasonable efforts in our judgment, to enhance maintenance performance to the maximum practical level.

We recommend that the vice president, Engineering:

2. Modify the operational budget and adjust workload scheduling accordingly to reduce maintenance overtime after corrective actions are completed.

Management Response While we agree with the recommendation, our engineering assessment indicates that the consideration for improved maintenance performance will not be significant enough to warrant an adjustment to the operational budget and workload scheduling.