



September 19, 2011

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VICE PRESIDENT, LABOR RELATIONS

SUBJECT: Audit Report – Postal Service Work Rules and Compensation Systems
(Report Number HR-AR-11-002)

This report presents the results of our audit of U.S. Postal Service work rules (Project Number 10YG009HR000). Our objective was to determine the impact of labor union contract provisions on the Postal Service's ability to effectively and efficiently manage its human resources. Specifically, we analyzed certain contract provisions that impact carriers, retail clerks, plant clerks, and mail handlers. This self-initiated audit addresses operational and financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Reorganization Act (PRA) requires the Postal Service to engage in the collective bargaining process.¹ Most Postal Service employees are represented by one of four major unions.² The national union agreements include provisions that address the way the Postal Service compensates and deploys its employees.

In addition to being constrained by contractual and legal obligations, the Postal Service faces a number of challenges, which are compounded by the current economic environment. This includes declining mail volume combined with a growing number of delivery addresses. From fiscal year (FY) 2006 to FY 2010, mail volume declined 20 percent, from 213 billion pieces to 171 billion pieces while, on average, 1.4 million new addresses have been added every year. As part of its action plan to address these challenges, the Postal Service is pursuing workforce flexibility.³ The Government Accountability Office (GAO) also discussed the Postal Service's need to address workforce flexibility in its April 2010 report. Specifically, the report stated that the Postal Service might be able to improve its financial viability by "taking more aggressive actions to reduce costs and increase revenues within its current authority, using the collective bargaining process to address wages, benefits, and workforce flexibility."⁴

The Postal Service has taken action to address some of these issues in the recent collective bargaining process with the APWU. For example, the recently ratified

¹ 39 U.S.C. § 1201(a).

² The American Postal Workers Union (APWU), the National Association of Letter Carriers (NALC), the National Postal Mail Handlers Union (NPMHU), and the National Rural Letter Carriers' Association (NRLCA).

³ *Ensuring a Viable Postal Service for America, An Action Plan for the Future*, presented by the postmaster general on March 2, 2010, at the Envisioning America's Future Postal Service conference.

⁴ *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability* (Report Number GAO 10-455, dated April 2010).

contract⁵ provides for increased flexibility by permitting non-traditional full-time assignments of between 30 and 48 hours per week. Prior to the new agreement, the only full-time schedule was the minimum 40 hours per week. It also allows for creation of a new non-career position for Postal Support Employees (PSE). These employees will be paid lower wages than career employees but higher wages than transitional employees⁶ and casuals.⁷ The new APWU agreement allows for up to 20 percent of the workforce in most functional areas of the clerk craft to be comprised of PSEs.

Finally, the Postal Service recently announced a proposal to request from congress additional flexibilities to expand its ability to eliminate the lay-off provisions from its collective bargaining agreements to allow significant reduction of the size of the workforce.

Conclusion

We determined that certain contract provisions and compensation arrangements limit the Postal Service's ability to manage its human resources effectively and efficiently. For example, management's discretion is limited when temporarily assigning employees across crafts.⁸ In addition, limitations on the use of part-time employees reduce workforce flexibility and increase workhours. Furthermore, we found that certain contract provisions contribute to grievances filed by Postal Service unions.

Finally, delivery of the mail is the largest cost center in the Postal Service. Approximately \$30 billion is spent to deliver the mail annually. The three primary groups of mail carriers (city, rural, and contract) have very different compensation systems and performance standards. City carriers are generally paid by the hour, while rural and contract carriers are generally paid by the route. Additionally, substitute carriers for each group are paid differently. Performance standards for each group, when they exist, are established differently as well.

To address these inconsistencies in carrier compensation and the associated management limitations, management needs to conduct a study to determine optimum standards for carrier performance and pursue the changes necessary to achieve a compensation system that maximizes carrier efficiency. The inability to consistently use compensation systems to efficiently manage letter carriers who spend most of their time on the street rather than in the office is costly. We estimate the Postal Service could potentially save more than \$2.5 billion annually if it changed city letter carrier compensation to match the compensation for rural carriers. Such a change could also

⁵ Collective Bargaining Agreement Between APWU, AFL-CIO, and U.S. Postal Service; November 21, 2010, to May 20, 2015, ratified May 11, 2011.

⁶ An hourly rate, non-career bargaining unit employee hired and used for specific assignments according to the terms of the employee's respective collective bargaining agreement.

⁷ A non-career, non-bargaining unit employee with a limited term appointment who performs duties assigned to bargaining unit positions as described in the applicable national agreement or other collective bargaining agreements.

⁸ Questions regarding the crossing of crafts arise when members of one craft are temporarily assigned to perform work for which another craft is designated as the primary craft. Under such circumstances, management must meet the contractual requirements for that cross-craft assignment.

incentivize efficient performance. Additional potential savings could occur if the contract routes are considered as part of the optimal delivery study, as these are even less costly per delivery than either city or rural carrier routes.

Plant Clerks and Mail Handlers

Management at Postal Service plants is concerned that work rules inhibit their ability to manage effectively. We contacted all 259 processing and distribution center (P&DC) managers using a web survey and 152 (59 percent) responded. Of those responses, 118 (78 percent) indicated they “Strongly Agree” or “Agree” that contract provisions limit their ability to manage the workforce effectively. Furthermore, 111 (72 percent) cited the restriction on assigning employees across crafts as the one provision posing the biggest challenge to workforce flexibility. Respondents indicated that the other contract provisions that make it difficult to effectively manage the workforce are guaranteed workhours, overtime, and the reassignment process.⁹ In addition, 52 of 67 managers who selected workhours and overtime as limiting strongly agreed that converting full-time shifts to part-time would make it easier to manage more effectively. We determined that from FY 2007 through August 10 of FY 2010, the Postal Service spent approximately \$29 million in grievance costs directly related to these contract provisions. See Table 1.

Table 1. APWU and NPHMU Grievance Costs*

Fiscal Year	Crossing Crafts	Workhours	Overtime	Reassignments	Total
2007	\$3,667,263	\$695,892	\$2,062,122	\$472,819	\$6,898,096
2008	3,839,332	521,656	2,235,643	6,051,145	12,647,776
2009	3,587,503	437,505	1,697,956	768,304	6,491,268
2010	1,475,647	366,782	481,928	945,571	3,269,928
Total	\$12,569,745	\$2,021,835	\$6,477,649	\$8,237,839	\$29,307,068

*As of August, FY 2010.

Source: Grievance Arbitration Tracking System.

⁹ In the event of a reduction in force, the Postal Service can reassign certain employees to other positions or locations.

Retail Clerks

Some progress has been made in matching workload to workhours at retail facilities, but challenges remain. We interviewed several postmasters, managers, and supervisors at 18 retail facilities. At these facilities, we observed management using Customer Service Variance (CSV), Customer Service Adjusted Workload (CSAW), and Window Operations Service (WOS) to monitor workhours. At 10 of the facilities, management demonstrated how they identified opportunities to reduce workhours based on data from these systems. Specifically, managers reduced workhours by staggering start times for employees. This allowed them to align the workforce with the workload. Management credited its success in accomplishing these workforce alignments to effective collaboration with the local union representatives.

However, the emphasis on full-time employment and the 40-hour workweek guarantee still make it difficult to efficiently manage resources. For example, management at nine facilities stated the 40-hour workweek guarantee limited workforce flexibility. At 12 of the 18 facilities visited, management indicated that having more part-time employees would improve their ability to manage the workforce.

APWU leadership and the Postal Service in the recently negotiated agreement took a significant step toward relaxing the 40-hour workweek, providing managers with increased flexibility to use more part-time employees. In doing so, they enhanced the Postal Service's ability to achieve operational efficiency goals and cost savings.

City and Rural Carriers

We determined the Postal Service has implemented initiatives aimed at reducing delivery costs, such as aligning and adjusting carrier routes to match changing workloads, implementing the City Delivery Pivoting Opportunity Model (CDPOM),¹⁰ and adjusting city carrier routes. In FY 2010, the Postal Service and the NALC agreed to a Joint Alternate Route Adjustment Process¹¹ to address declines in mail volume.

However, even with these initiatives, delivery is still the major cost center at the Postal Service. Approximately \$99 million is spent each day delivering mail and cost savings in this area have trailed other operations in the organization. Additionally, the nature of the work that carriers perform makes managing their day-to-day activities challenging, as they are out on the street for most of their day.

In reviewing the delivery options, we found that there are three primary groups that deliver mail on a daily basis: city carriers, rural carriers, and contractors. However, much of what these different groups do is very similar. All three pick up the mail at

¹⁰ A scheduling tool that helps delivery managers deal with daily unstaffed routes by aligning available staff and resources with delivery needs.

¹¹ Memorandum of Understanding dated April 29, 2010, between the NALC and the Postal Service. The parties agreed to evaluate and adjust city delivery routes through a new jointly developed expedited evaluation and adjustment process.

delivery units, deliver mail to individuals and businesses throughout communities, and, in some cases, return to the office when deliveries are completed.

Performance measurement and compensation of these three groups is done very differently. City carriers are generally full-time employees and are guaranteed 40 hours per week, 8 hours per day. The Postal Service is required to provide city carriers with overtime pay for hours worked in excess of 40 in a given week. The sixth day of delivery for a city carrier route is generally performed by a full-time employee who is a substitute for multiple routes. This substitute carrier is paid at a similar (or sometimes higher) rate than a regular carrier and receives full benefits. The standard for city carriers is demonstrated performance, which is based on observation and agreement between the union and management. Management monitors demonstrated performance by observing work performed during scheduled time frames. Thus, it may not reflect the capacity of a carrier to complete assigned work more efficiently.

The basic workweek for regular rural carriers varies based on the type of route delivered and can be either 5 or 6 days a week, and daily schedules coincide with evaluation of the routes as periodically adjusted. The rural carrier's workday may vary above or below the evaluation of the route, as mail volume fluctuates. The rural carrier is paid by route and the cost for the route is based on an evaluation performed once per year.¹² Rural carriers are paid overtime as part of their route, based on these route evaluations, over the course of a year. A part-time employee who does not earn benefits generally performs the sixth day of delivery for a rural carrier route.

The Postal Service contracts out a small group of carrier routes, having approximately 6,578 of these routes as of September 30, 2010. The rate for these routes is determined primarily through a competitive bidding process, postal analysis of the route composition, and contracting officer approval.

The similarities in carrier activities present opportunities to streamline and potentially realize significant costs savings. Compensation systems that provide built-in efficiency incentives are very useful, especially in environments where direct supervision is difficult or impossible, such as when carriers are out on the street delivering mail. Currently, the rural carrier compensation system and the contracted out delivery routes provide such built-in incentives.

We determined that contract provisions regarding workhours and overtime pay for city and rural carriers are different and limit the Postal Service's ability to further reduce delivery costs. Postal Service management acknowledged that neither the city nor the rural compensation system is optimal.

In our analysis of city and rural compensation, we determined that the Postal Service could save an estimated \$2.5 billion annually if it changed city carrier compensation to

¹² The agreement between the Postal Service and NRLCA allows for an annual evaluation. The Postal Service may forgo the option to perform the evaluation.

match that of rural carriers. We measured the relative productivity of city and rural carriers and determined that, on average, the labor cost¹³ per delivery for city carriers is \$0.095 more than the cost for rural carriers. About \$1.4 billion¹⁴ of the \$2.5 billion is attributable to the difference in pay and benefits associated with substitute carriers.

In addition to the comparison between city and rural compensation, we also identified the costs for contracted delivery services to both the city and rural systems. We found that the cost per delivery for these routes at \$0.36 was even lower than that for rural routes. Thus, we agree that there are likely additional savings to be gained from transitioning to a more efficient optimal solution.

The difference in compensation systems has been reviewed in prior U.S. Postal Service Office of Inspector General (OIG) reports, and management agreed a change to an evaluated route system for city carriers is desirable but noted that achieving it would be difficult.¹⁵ We acknowledge that transitioning to a system incentivized for efficiency for all carriers is a challenge that requires agreement between multiple organizations, but we believe the large potential in associated savings and efficiency gains would more than justify pursuing such a challenge.

In order to support this transition, the Postal Service needs better data on a delivery system sized for optimal efficiency. Currently, Postal Service studies to determine standards for the various aspects of a delivery activity are limited, out-of-date, or otherwise not consistently usable. A full study to determine what an optimal route or delivery would cost would be very beneficial to determine not only broad efficiency goals for the delivery component but also individual standards for performance and compensation for carriers.

Benchmarking

Recognizing that other organizations have experienced circumstances similar to the Postal Service's current situation, we commissioned a study to benchmark the Postal Service against three private companies and one public entity, which also have unionized workforces, to determine their success in relaxing contract provisions affecting work schedules and assignment of employees based on changes in the economy or on the companies' financial condition. The three private companies were able to modify practices related to work schedules and assignments. One company implemented competitive operating agreements as part of its 2009 national agreement, which also allowed the company to qualify for federal loans. The second company entered bankruptcy and emerged with leaner operations and fewer unions. The third

¹³ Labor costs include wages and benefits.

¹⁴ We estimated the monetary impact associated with city delivery to be \$1.4 billion by taking the difference between the substitute costs per delivery for city and rural carriers and applying the result to 1/6th of the annual city deliveries for FY 2010.

¹⁵ *Management of City Letter Carriers' Street Performance* (Report Number DR-MA-09-001(R), dated March 26, 2009).

company established a new position that allowed more cross-crafting options. See [Appendix B](#) for our detailed analysis of these topics.

We recommend the vice president, Labor Relations, pursue:

1. Additional increased flexibility to temporarily assign employees across crafts.
2. Improved workforce flexibility through non-traditional career options, such as emphasizing part-time employment as a career choice or modifying full-time assignments.
3. A comprehensive study to determine the optimal incentive-based carrier compensation system.

Management's Comments

Management expressed concern that its comments, dated December 9, 2010, and February 25, 2011, on prior versions of this draft report were ignored. They expressed concern regarding the amount of monetary savings estimated by the OIG and the method used to calculate potential monetary savings. Management identified results in the OIG audit report, *Modes of Delivery* (Report Number DR-AR-11-006, dated July 7, 2011) as potentially conflicting with the results in this report. In addition, management stated they discussed with the OIG other major differences that account for the cost differential. They also stated that the collective bargaining process is ongoing and expressed concern about the impact of this report on the collective bargaining process.

Management did not state agreement or disagreement with recommendation 1, stating that the issue of cross-craft flexibility is an old one that has substantial legal implications that have not been discussed in the report. They re-emphasized the fact that each national bargaining agreement reflects the long history of the PRA and the National Labor Relations Board's (NLRB's) endorsements of management's responsibility to recognize the union as the exclusive bargaining representative of all bargaining unit employees. However, management indicated that, despite contractual and legal constraints, they have negotiated flexibility on cross-craft utilization and stated that they continue their efforts to improve their ability to enhance their flexibility within legal and contractual constraints.

Management did not state agreement or disagreement with recommendation 2; however, they stated that a part-time workforce in various postal operations has been a major issue in its collective bargaining process. They indicated that they appreciated the fact that the report acknowledges changes in the recent APWU national agreement that addresses this issue. However, management stated the report failed to grasp the significance of those changes, stating the new agreement provides for substantial increases in highly flexible, non-career assignments of varying hours per week. Management stated that these changes should fully satisfy the flexibility concerns

raised in the report with regard to both mail processing and retail clerks, and they have already achieved much of the workforce flexibility that the report recommends they pursue. Management also stated that negotiations with other bargaining units are ongoing and that they are pursuing greater workforce flexibility in those negotiations.

Management disagreed with recommendation 3, stating there is no rational basis for the savings estimate in the report. They also stated that any such change would have to be negotiated and the NALC has demonstrated a firm, historic opposition to such changes. Management further stated they are already in collective bargaining negotiations at this time and are pursuing significant changes to address critical Postal Service needs.

See [Appendix G](#) for management's comments in their entirety.

Evaluation of Management's Comments

Although management expressed concern that their comments and concerns were ignored, we have closely evaluated every comment and concern raised and have made changes as appropriate. We met with management on multiple occasions in an effort to identify other factors that could explain the cost differential between rural and city carrier compensation. Although management discussed many potential factors, including modes of delivery¹⁶ and substitute carriers, they were consistently unable to provide any supporting documentation or analysis that demonstrated the impact of these factors on the difference in carrier compensation. We conducted our own substantial additional analysis to assess some of these factors as suggested by management and, as indicated in the report, our additional analysis identified that about \$1.4 billion of the \$2.5 billion is attributable to the difference in pay and benefits associated with substitute carriers.

In addition, we attempted to evaluate whether we could relate costs of various modes of delivery to carrier compensation systems. We found that, although costly door-to-door delivery was more common among city carriers, the least expensive mode of delivery, centralized delivery,¹⁷ was also much more common among city carriers. Because management was unable to provide any data analysis of their own to support their contention in this area and our analysis showed some balance among most and least costly delivery modes, we did not make an adjustment for that factor. As a result of our findings and the significant analyses that were conducted in support of the findings, we continue to believe opportunities exist to achieve significant savings in this area.

With regard to management's assertion that the collective bargaining process is

¹⁶ Management cited one of the seven recommendations in the OIG audit report titled *Modes of Delivery* (Report Number DR-AR-11-006, dated July 7, 2011) as potentially conflicting with the recommendations of this report. In this report, we identified potential cost savings of \$4.5 billion by converting door-to-door delivery to curbside delivery, which management disagreed with. The potential savings identified in this report relate to the compensation system and the related composition of the delivery workforce.

¹⁷ This is also known as cluster box delivery.

ongoing and concern about the impact of this report on the collective bargaining process, we note that the OIG has a responsibility to conduct its work independent of the current political, social or economic environment. Labor costs comprise approximately 80 percent of Postal Service costs and the OIG does not have the option to not examine such a large portion of the Postal Service's costs.

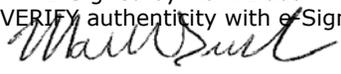
Although management did not state whether they agree or disagree with recommendations 1 and 2, we consider their ongoing and planned actions at least partially responsive to the recommendations. We recognize the Postal Service has negotiated some flexibility on cross-craft utilization and some increases in part-time assignments. We also agree that the new positions negotiated in the recent agreement with the APWU will enhance that flexibility significantly. Consistent with our recommendation, management stated they would continue to pursue opportunities to achieve additional flexibility in other crafts, and we believe this will result in opportunities for the Postal Service to realize additional efficiencies and cost savings.

We consider management's comments regarding recommendation 3 non-responsive. Management stated their reason for rejecting the recommendation was because such changes would have to be negotiated and the NALC has demonstrated firm opposition to such changes. In the report, we acknowledged that transitioning to a system incentivized for efficiency for all carriers is a challenge that would require agreement among multiple organizations but, as we stated, we believe the large potential for associated savings and efficiency gains would more than justify pursuing such a challenge.

However, most importantly, the recommendation was for management to conduct a study to determine the optimal compensation system. Conducting the study would not involve union negotiations but would provide support for the Postal Service in its pursuit of greater efficiency. During the audit, we requested any recent studies regarding carrier compensation and efficiency and were informed that there were no recent comprehensive studies on the subject. Also, in our discussions with management regarding the many factors that impact current carrier compensation systems, they acknowledged that neither of these systems is optimal. As a result, we believe a comprehensive study of this issue is warranted, especially considering the growing number of addresses to which the Postal Service delivers and its current financial crisis.

The OIG considers all the recommendations significant, therefore, requires OIG concurrence before closure. Recommendations 1 and 2 are considered closed based on ongoing and planned actions by management to pursue additional flexibility. We will conduct future work in this area to evaluate management's planned actions. Regarding recommendation 3, the OIG does not plan to formally pursue audit resolution; however, we will conduct further discussions with management to determine the feasibility of implementing the recommendation as stated, as we believe a comprehensive study of carrier compensation would identify efficiencies that will assist the Postal Service in reducing costs.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea Deadwyler, director, Human Resources and Security, or me at 703-248-2100.

E-Signed by Mark Duda 
VERIFY authenticity with eSign


Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Anthony J. Vegliante
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The PRA requires the Postal Service to bargain with its unions on wages, hours, and working conditions. Most Postal Service employees are represented by one of four major unions. The national union agreements include provisions that address how the Postal Service can deploy its employees. For example, certain contract provisions, like the ones described below, dictate when management can assign employees across crafts,¹⁸ how many hours employees can work, how employees are compensated, who is assigned to perform overtime work, and who is reassigned in the event of employee reductions.

Cross-Crafting: An extensive collective bargaining history and various legal requirements based on the National Labor Relations Act, the PRA and an executive order recognizing craft lines has posed numerous challenges with regard to assigning craft work. For example, as a result of the PRA, the Postal Service must recognize the four major unions as the exclusive bargaining representative for their respective employees. In an effort to eliminate restrictions on cross-crafting, the Postal Service filed a petition with the NLRB in 1981 to create a single union. This petition was denied and management and the unions established mail processing work assignment guidelines to address the issue of correctly designating the right craft to perform specified work.

Existing contract provisions discuss the circumstances under which management may assign employees across crafts temporarily. Generally, contract provisions regarding assigning employees across crafts require that work performed by employees in one craft not be performed by an employee in another. Furthermore, in the event of insufficient work or exceptionally heavy workloads, management may assign employees to any available work at the same wage level for which the employee is qualified. According to arbitrator Richard Bloch, management can use situations where employees cannot attain their respective workhour guarantees (such as insufficient work) or there is an exceptionally heavy workload, but only when those situations are unusual and reasonably unforeseeable.¹⁹ These exceptions are not intended to provide management with a tool to maximize efficient use of personnel, such as reducing overtime.

Reassignments: In the event of a reduction in force, the Postal Service can reassign certain employees to other positions. The process for reassigning these employees involves qualification requirements as well as various union and employee notifications, which are required up to 6 months in advance. In addition, the Postal Service has to adhere to numerous special provisions pertaining to the different scenarios where

¹⁸ Employees are organized along craft lines. The APWU represents clerks, motor vehicle operators, building and equipment maintenance personnel, and vehicle maintenance personnel; the NALC represents city delivery carriers; the NPHMU represents mail handlers; and the NRLCA represents rural delivery carriers.

¹⁹ Arbitration between the Postal Service and the APWU, H8S-5F-C 8027, April 7, 1982.

reassignments can take place, such as reassignments within an installation or consolidation of an installation. These special provisions involve seniority, bidding rights, distance of reassignment from original location, employees' rights to return to original location, separation of casuals, and reduction in part-time flexible hours.

Workhours: The Postal Service guarantees an 8-hour workday and a 40-hour workweek for many of its full-time bargaining unit employees. For certain clerk positions, the workflow is not conducive to an 8-hour workday. For example, clerks help prepare the mail for delivery in the morning and then experience a long interlude before carriers return to the station and they can prepare mail for dispatch to the plant. Under the new 2010-2015 APWU national agreement, employees hired as of May 11, 2011, are subject to a non-traditional full-time assignment, which allows for 30-48 scheduled workhours per week.

The Fair Labor Standards Act (FLSA) requires the Postal Service to work an employee no more than 40 hours per workweek, unless they compensate any hours in excess of 40 at one and one-half times the employee's regular rate.²⁰ This rule applies to most Postal Service bargaining unit employees, including city carriers; however, rural carriers are exempt from this requirement.²¹ Pursuant to an agreement made as a result of collective bargaining between the Postal Service and the NRLCA, rural carriers use an evaluated route system. Under this system, they are paid for overtime worked over the course of 1 year, but not overtime worked over the course of 1 week, unless the rural carrier works more than 12 hours in 1 day, or 56 hours in a particular workweek.²² Evaluation of a rural route is determined by: 1) mail volume, 2) daily miles traveled, 3) number of boxes served, and 4) fixed or variable time allowances. Annual mail counts are considered a key element of the evaluated compensation method. The mail counts include all classes of mail handled by each rural carrier and are performed daily during a specific period each year as identified by the agreement. The Postal Service completed the most recent National Rural Mail Count from February 27 to March 12, 2010.

Various studies have addressed the subject of Postal Service carrier compensation systems. For example, the Postal Regulatory Commission (PRC) conducted three studies related to Postal Service costs. These studies included evaluations of city and rural carrier compensation costs.²³

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine the impact of labor union contract provisions on the Postal Service's ability to effectively and efficiently manage its human resources.

²⁰ FLSA, Section 7(a) (1).

²¹ FLSA, Section 7(b) (2).

²² NRLCA Collective Bargaining Agreement, Article 9.2.A.1.i.

²³ *National Assessment of the Postal Service*, September 25, 2007; *A Cost Comparison of Serving Rural and Urban Areas*, April 20, 1993; and *Rural Delivery and the Universal Service Obligation: A Quantitative Investigation*, July 31, 1992.

Specifically, we analyzed the contract provisions that impact carriers, retail clerks, plant clerks, and mail handlers. This analysis included compensation issues related to city and rural carriers. We expanded our objective to include a comparison of job performance activities between city and rural carriers.

To accomplish our objective, we reviewed applicable collective bargaining agreements, policies, procedures, handbooks, and other pertinent documentation. We surveyed P&DC managers on the contract provisions that limit workforce flexibility. We interviewed headquarters and field managers regarding contract provisions and the nationwide management of city and rural delivery. We analyzed the impact of substitutes on the relative costs of delivering city and rural routes. We compared activities performed to accomplish the tasks associated with delivery for city and rural carriers.

Additionally, we obtained access to the Postal Service information and data systems necessary to perform our work. For example, we obtained grievance costs related to contract provisions from the Grievance Arbitration Tracking System (GATS). We reviewed information recorded by managers in the CSV, CSAW, and management systems. We obtained city and rural carrier workhour data to determine the amount of overtime paid to city and rural carriers and the WOS data for clerk operations from the Enterprise Data Warehouse (EDW). We judgmentally sampled seven high-performing, six average, and six under-performing units in three districts to observe operations and interviewed management to identify factors limiting workforce flexibility.

We commissioned a study to benchmark Postal Service contract provisions against three private companies and one public entity, which have unionized workforces, to determine their success in relaxing contract provisions based on changes in the economy or on the companies' financial condition. Criteria for selecting benchmarking organizations included a large unionized workforce, limits on the ability to strike, and economic distress.

We conducted this performance audit from November 2009 through September 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on December 22, 2010, and included their comments where appropriate.

To perform this audit we relied on computer-generated data from the GATS. The OIG has previously tested the accuracy of GATS data by performing transaction tests, which included tracing selected information to supporting source records. We also relied on data obtained from CSV, CSAW, and the WOS. We did not audit the CSV, CSAW, and the WOS but performed limited data integrity tests to support our data reliance. In

addition, we assessed the reliability of EDW data by reviewing existing documentation related to the data sources and performed reasonableness checks of the data extracted from EDW to determine if control totals matched. Additionally, we interviewed Postal Service officials knowledgeable about the data. Based on these tests, we determined the data was sufficiently reliable for the purposes of the audit.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Efficiency of Retail Customer Service Operations</i>	MS-AR-10-004	7/28/2010	We determined the Postal Service could reduce workhours for retail customer service by 14.3 million, resulting in an annual cost avoidance of \$613.7 million.
<i>Benchmarking Best Practices with Presort Bureaus</i>	EN-MA-10-004	6/7/2010	Postal Service employees work under collective bargaining agreements that ensure full-time pay, although full-time work may not be available. Presort mailers maintained a flexible workforce based on volume and assigned employees across crafts. Management agreed and there were no recommendations.
<i>Management of City Letter Carriers' Street Performance</i>	DR-MA-09-001 (R)	3/26/2009	We recommended the Postal Service study the costs and benefits of converting the existing city letter carrier hourly compensation system to an evaluated compensation system. Management stated the concept of moving city carrier hourly compensation to an evaluated compensation system is desirable; however, previous efforts to move in this direction were unsuccessful. Management plans to continue studying the feasibility and exploring options to move city letter carriers to a compensation system more like that of the rural carriers.
<i>Benchmarking Postal Service Parcel Productivity</i>	EN-MA-09-002	3/31/2009	We recommended the Postal Service review the benefits of negotiating to establish work standards and productivity measures for work activities and look for opportunities to promote continuous flow in processing operations. Management agreed with the recommendations.

Report Title	Report Number	Final Report Date	Report Results
<i>U.S. Postal Service: Action Needed to Facilitate Financial Viability</i>	GAO-10-624T	4/15/2010	The GAO reported that congress and the Postal Service need to pursue strategies and options necessary to make progress. The Postal Service and congress urgently need to require that any binding arbitration resulting from collective bargaining consider the Postal Service's financial condition.

APPENDIX B: DETAILED ANALYSIS

Plant Clerks and Mail Handlers

To understand the contract provisions impacting P&DC managers, we contacted all 259 managers using a web survey. The results indicated that these managers are limited by contract provisions. Provisions cited as particularly impactful are assigning employees across crafts, guaranteed workhours, overtime, and reassignments. They also indicated that converting full-time shifts to part-time would make it easier to manage more effectively.

There have been numerous arbitration hearings on the issue of assigning employees across crafts due, in part, to the phrasing of the contract language. For example, applying the condition of “insufficient work” and “exceptionally heavy workload periods,” which are not clearly defined, has been the basis for many arbitration decisions. In addition, one national arbitrator determined that management’s right to assign employees across crafts is “substantially limited.”²⁴ This limitation is further compounded given that combining work among different wage levels also poses a challenge for management. In recent decisions, issues concerning the assignment of employees across crafts and overtime were raised (for example, when mail handlers could work overtime instead of having clerks perform the work). One arbitrator indicated that, in these circumstances, the Postal Service is forced to balance its obligations to run an efficient operation against its requirement for overtime.²⁵

The GAO stated in its April 2010 report that certain contract provisions “limit the USPS’s flexibility to manage work efficiently and right size its workforce” and current collective bargaining agreements “limit managers from assigning work to employees outside of their crafts, such as having a retail clerk deliver mail.”²⁶

Additionally, an OIG report stated the Postal Service has limited workforce flexibility at its processing facilities compared to benchmarked companies.²⁷ The benchmarked companies predominantly use part-time employees in 4-hour shifts, assign schedules based on work volumes, and assign employees across crafts in response to workload. In addition, the GAO recently identified workforce flexibility as an issue preventing progress toward financial viability.²⁸ The decline in mail volume and implementation of tour consolidations within the P&DCs emphasize the need for flexibility in assigning employees across crafts. Pursuing changes to contract provisions for assigning employees across crafts would provide managers with greater flexibility to move employees between crafts during periods of down time. Management acknowledged

²⁴ Arbitration between the Postal Service and the APWU, H8S-5F-C 8027, April 7, 1982.

²⁵ Arbitration between the Postal Service and the NPMHU, A00M-1AC 08261985, November 13, 2009.

²⁶ *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability* (Report Number GAO 10-455, dated April 2010).

²⁷ *Benchmarking Postal Service Parcel Productivity* (Report Number EN-MA-09-002, dated March 31, 2009).

²⁸ *Postal Service: Action Needed to Facilitate Financial Viability* (Report Number GAO-10-624T, dated April 15, 2010).

difficulties with the existing process. We determined the Postal Service disbursed approximately \$29 million in grievance costs from FY 2007 through August of 2010 directly related to assigning employees across crafts, workhours, and reassignment issues. Relaxing these contract provisions could potentially reduce these costs.

Retail Clerks

We determined that greater workforce flexibility would help postmasters, managers, and supervisors better manage the workforce and align it with the workload. We visited 18 retail facilities and observed management using the CSV, CSAW, and WOS systems to optimize the workforce and monitor workhours. At 10 of the facilities, management identified opportunities to reduce workhours based on data from these systems. However, management at nine facilities stated the 40-hour workweek guarantee limited workforce flexibility and, at 12 of the 18 facilities visited, management indicated that having more part-time employees would improve their ability to manage the workforce. At facilities where managers were able to modify workforce distribution, they engaged local union representatives in the decision-making process. Our benchmarking study also identified this method as a best practice to achieving change.

In the OIG report titled *Efficiency of Retail Customer Service Operations* (Report Number MS-AR-10-004, dated July 28, 2010) we determined the Postal Service could reduce retail customer service workhours by 14.3 million, resulting in an annual cost avoidance of \$613.7 million. This would also result in the Postal Service achieving its goal of improving operational efficiency to 93 percent.²⁹ The report identified four opportunities to improve efficiency and realize workhour savings, including:

- Implementing best practices for Retail Customer Service operations at all facilities.
- Exploring opportunities to consolidate business mail acceptance operations at post offices, stations, and branches.
- Periodically evaluating operating efficiency by assessing performance against productivity targets and adjusting resources in response to workload changes.
- Re-deploying employees, as appropriate, to facilities where there is sufficient workload to support the workhours.

Under the new 2010-2015 APWU national agreement, the Postal Service has addressed some aspects of workforce flexibility by adding Non-Traditional Full-Time duty assignments, which allow between 30-48 scheduled workhours per week. Continued efforts to increase flexibility and use more part-time employees in other crafts would improve efficiency and provide for additional cost savings to the Postal Service.

²⁹ The lowest of the FY 2009 Retail Customer Service efficiency performance goals established by area offices.

City and Rural Carriers

The Postal Service is required by law to provide prompt, reliable, and efficient service to, as nearly as practicable, the entire U.S. population.³⁰ It is also required to maintain an efficient mail collection system. Provisions in Postal Service appropriations include mandatory 6-days-a-week delivery³¹ and certain levels of rural mail delivery. Table 2 illustrates how the type of carrier route affects delivery costs for city and rural delivery in FY 2010.

Table 2. Cost and Delivery Information for City, Rural, and Contract Delivery Services Routes, FY 2010³²

Carrier Type	Salary and Benefits (billions)	Number of Routes	Delivery Points (millions)	Average Deliveries per Route	Number of Carriers	Average Annual National Cost per Address
City delivery	\$15.6*	150,800	88.0	584	Career: 192,200 Casual/Temp: 8,400	\$201
Rural delivery	\$5.9	74,500	40.1	538	Career: 66,800 Non-Career: 51,800	\$169

* Numbers rounded

We determined that contract provisions regarding workhours and overtime pay limit management's ability to control delivery costs. We measured the relative productivity of city and rural carriers and determined that, on average, the labor cost per delivery for city carriers is \$0.095 more than the cost for rural carriers. Based on FY 2010 data, we estimated the Postal Service could potentially save \$2.5 billion in FY 2011 and \$2.6 billion in FY 2012 if city routes were evaluated and compensated like rural routes. See [Appendices C](#) and [D](#) for our methodology in calculating these savings and monetary impact.

From FYs 2007 to 2009, the Postal Service paid about \$42.3 million in city carrier grievances related to overtime issues compared to roughly \$113,000 in grievances paid

³⁰ 39 U.S.C. § 101(a) and 39 U.S.C. § 403(b).

³¹ Consolidated Appropriations Act, 2010 (Public Law 111-117, December 16, 2009). Note: On March 30, 2010, the Postal Service requested an advisory opinion from the PRC on its proposal for removing the 6-day delivery mandate and replacing it with 5-day delivery. On March 24, 2011, the PRC issued its advisory opinion stating that the Postal Service had overstated the estimated annual net savings resulting from the removal of the 6-day mandate by \$1.4 billion.

³² We obtained the data from multiple sources including the EDW, Postal Service management, the Intelligent Mail and Address Quality (IMAQ) system, and *2010 Postal Service Annual Report*.

to rural carriers. The variance in these costs relates to the difference in compensation methods applied to city and rural carriers.

City carriers' compensation is consistent with traditional compensation methods as stated in the FLSA. However, the NRLCA and the Postal Service agreed on an FLSA exception that allows rural carriers to be compensated on an evaluated basis. It is important to note that any effort by the Postal Service to effect a similar FLSA exception with the NALC must be pursued through the collective bargaining process, consistent with the national agreements.

The Postal Service has taken action to improve delivery efficiency, such as aligning and adjusting carrier routes to match changing workload, implementing the CDPOM, and adjusting city carrier routes. These efforts eliminated nearly 10 million delivery workhours while absorbing 2.7 million additional deliveries between FYs 2006 and 2008. In addition, in FY 2010, the Postal Service reached an agreement with the NALC to establish a Joint Alternate Route Adjustment Process to address declines in mail volume.³³ While Postal Service officials have taken steps to increase efficiency in response to declines in mail volume, additional opportunities exist to improve management's controls over delivery costs by pursuing changes in the compensation method used to pay city carriers.

In addition to the cost savings associated with moving to an evaluated compensation system for city carriers, such a change would also enable the Postal Service to better match city carrier schedules to workload and incentivize efficient delivery. It would also provide at least a partial solution to the inherent difficulties of supervising a distributed workforce. In our prior work on this topic, we reported on the issue of supervisors not consistently conducting required street observations of city carriers primarily because of higher priority work and limited staffing.

Delivery Standards

Postal Service officials explained that addressing some of the broader differences between city and rural delivery would be more meaningful than our comparison of the compensation systems. Specifically, the standard for city carriers is demonstrated performance, while for rural carriers it is an evaluated basis. They further explained that weaknesses exist in both systems. For example, the demonstrated performance standard for city carriers may not reflect the capacity of a carrier to complete assigned work more efficiently, since it is based solely on management's observations of work performed during scheduled time frames. With regard to the evaluated system used for rural carriers, it may impose a time standard that is unrealistic because it is based on mail counts performed once a year. Postal Service officials acknowledged that since the standards are subject to negotiation and agreement it is difficult to modify outdated practices that may be inefficient. Consequently, the Postal

³³ Memorandum of Understanding between the NALC and the Postal Service, dated April 29, 2010. The parties agreed to evaluate and adjust city delivery routes through a new jointly developed expedited evaluation and adjustment process.

Service is reluctant to fund analysis. They informed us that they have budgeted for this type of analysis on two occasions; however, the financial condition of the Postal Service has prevented funding approval.

We documented carrier activities for city and rural carriers and discussed these activities with Postal Service delivery officials. These officials cited several activities that were different for city and rural carriers; however, most of the carriers' activities are similar. Additionally, any differences that exist may be more related to the geographic location of the carrier than the carrier's craft, as we noted that slight differences are not uncommon within a craft. We documented carrier activities in respective flowcharts. See [Appendix E](#).

Carrier costs, standards, and performance are interrelated. A practical long-term approach to addressing the costs and ultimately determining the optimum compensation system for carriers may require evaluating how contract carriers and carriers in both crafts accomplish their work and assimilating the results.

Benchmarking

Recognizing that other organizations have experienced circumstances similar to the Postal Service's current situation — a declining market share compounded by economic uncertainty — we commissioned a benchmarking study to identify these organizations and determine their success in changing established contract provisions in response to the economy. We selected four organizations for benchmarking, three of which succeeded in effecting change to established contract provisions. We found that challenges existed in the relationships between labor and management in each of these organizations. For example, concessions were gained at two of the organizations only at or after bankruptcy. At these organizations, local negotiation and implementation were keys to overall success, once the national agreements facilitated cooperation. The third organization obtained limited concessions with assigning employees across crafts and hours of work, while the fourth has achieved none. See [Appendix F](#) for a summary of benchmarking results.

APPENDIX C: COST SAVINGS IF CITY CARRIER ROUTES ARE CONVERTED TO AN EVALUATED ROUTE SYSTEM

To determine potential cost savings if management evaluates city delivery carriers routes and compensates those carriers like rural route carriers, we queried the Payroll Hours Summary report in the EDW system. The report provides year-to-date (YTD) workhours, the YTD hourly rate, and the average combined salary plus benefit cost per workhour. We obtained this information for the entire Postal Service. The time period specified in the query was September 2010, so we obtained YTD amounts for FY 2010 and determined there were 302 delivery days during that period.

From the results of the query, we were able to obtain national total YTD workhours and the national average total labor cost per workhour for both city and rural delivery. We also obtained IMAQ system statistics from management for the number of total city and rural daily delivery points and the number of total city and rural routes.

We performed the following calculations for both city and rural delivery:

- Daily deliveries x 302 delivery days = total deliveries, FY 2010.
- Total deliveries/total workhours = average deliveries per workhour.
- National average labor cost per workhour/average deliveries per workhour = national average labor cost per delivery.

These calculations resulted in:

- City average labor cost per delivery = \$0.591.
- Rural average labor cost per delivery = \$0.496.
- A calculated difference in average labor cost per delivery between city and rural of \$0.095.³⁴

We then estimated the cost savings from converting city routes to evaluated routes. Under the assumption that management could convert all city routes to evaluated routes immediately, we determined the number of city deliveries per year by multiplying the city daily deliveries by 302 delivery days per year and determined:

- 87,578,760³⁵ daily deliveries x 302 delivery days = 26,448,785,520 deliveries per year.

³⁴ Ideally, we would have preferred to calculate the cost difference attributable solely to the difference in the method of route evaluation and compensation between city and rural delivery. In theory, there may be an effect related to the difference in the delivery type mix between city and rural delivery. Given the information available, we were unable to account for any effect of this type.

³⁵ FY 2009 data from the Postal Service's IMAQ system.

- The cost savings in FY 2010 dollars = 26,448,785,520 deliveries x \$0.095 per delivery = \$2,506,041,926.

To determine total cost savings for FYs 2011 and 2012, we escalated the calculated FY 2010 savings by the currently published Postal Service annual labor escalation rate of 1.7 percent for each year. We totaled the results for FYs 2011 and 2012. See [Appendix D](#).

Table 3. Total Estimated FYs 2011 and 2012 Savings

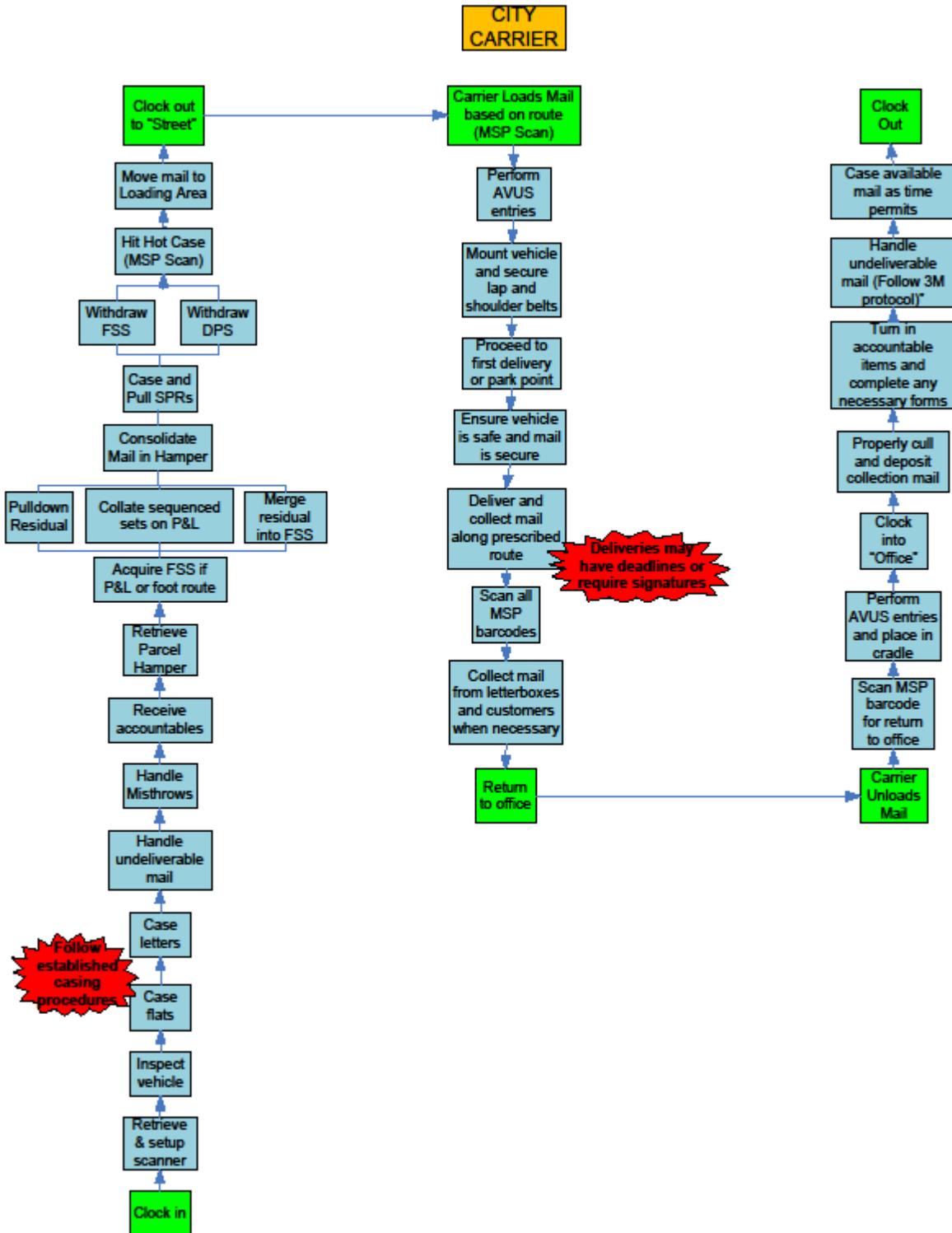
FY 2011 Estimated Savings	FY 2012 Estimated Savings
\$2,548,644,639	\$2,591,971,598

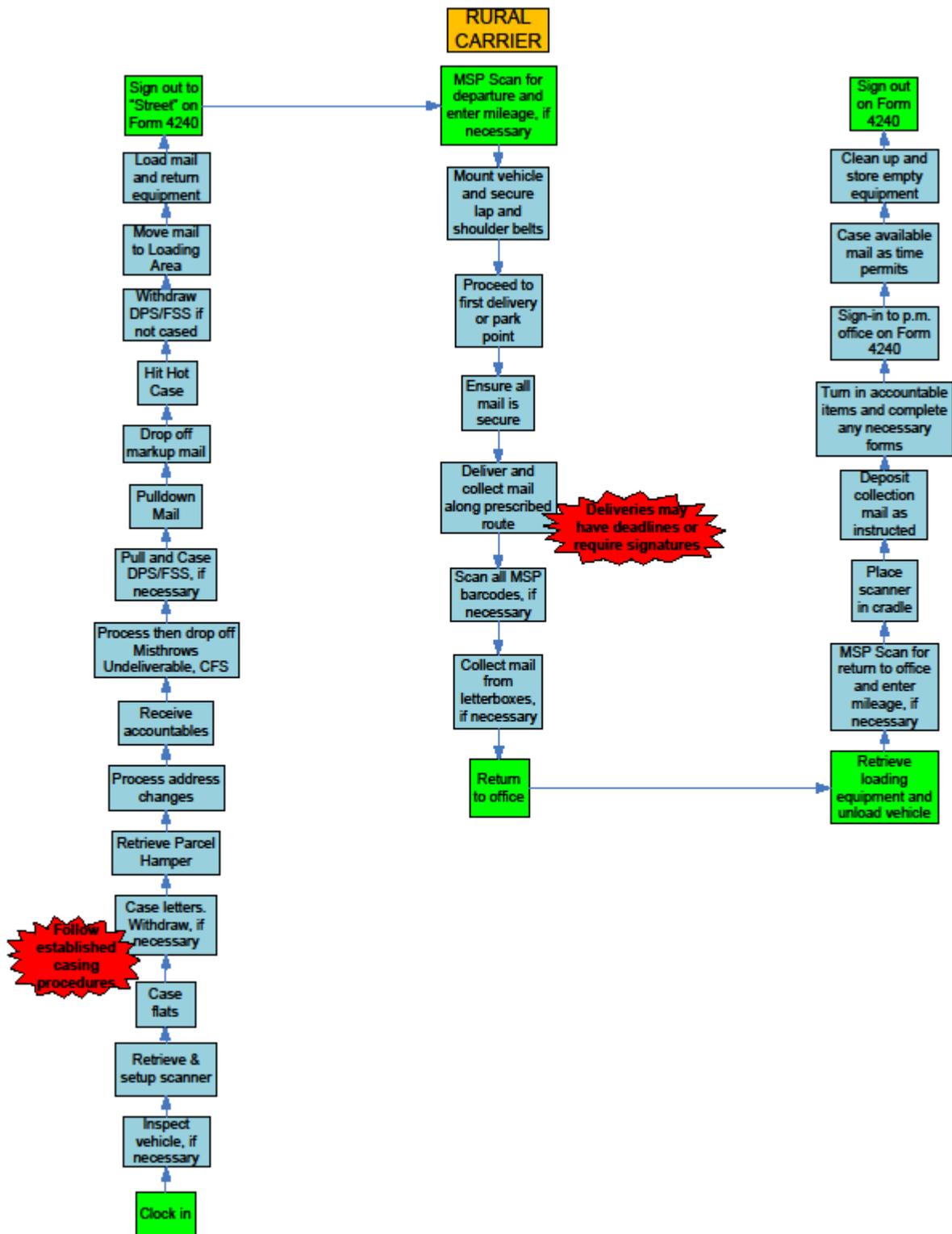
APPENDIX D: MONETARY IMPACT

Finding	Impact Category	Amount
Converting City Carrier Compensation System to an Evaluated Basis in FY 2012	Funds Put to Better Use ³⁶	\$2,591,971,598

³⁶ Funds that could be used more efficiently by implementing recommended actions.

APPENDIX E: CITY AND RURAL CARRIER FLOWCHARTS





APPENDIX F: BENCHMARKING RESULTS

Factor	Company 1	Company 2	Company 3	Company 4
Hours of Work	Now has complete flexibility to modify plants shifts as necessary, including introducing four 10-hour workday schedules and equipment maintenance schedules that include weekend days with no pay premium.	Has the flexibility to modify plant shifts as necessary, including introduction of four 10-hour workday schedules.	Achieved some flexibility in work scheduling in its 2004 agreements but does not have similar flexibility in all union agreements.	Has many restrictions on assigning work schedules. For example, start times for delivery routes in the same facility must be the same. Management must give 48 hours' notice to assign an employee to a different shift.
Posting and Reassignment	New rules establish the order of priority in filling job vacancies for employees laid off from closed plants and existing employees within specified geographical areas.	Contract provisions frequently give plant managers the flexibility to take action to maintain operational efficiency.	The company is constrained in reassigning employees if work is transferred more than 30 miles.	Filling job vacancies is tightly based on seniority. This especially hampers retail counter service, since these valued positions are not necessarily filled by persons most suitable for working with the public.
Work Assignments	Implemented agreements which have reduced number of skilled work classifications and introduced team work concepts to increase efficiency by facilitating more sharing of tasks among teams of employees with different skills.	Combined skilled trade classifications to create only two-three skilled trades in each plant. Many non-core job functions have been outsourced.	Introduced a utility worker position that could be assigned multiple tasks in its agreement with the American Service Workers Council; however, achieving flexibility in assigning employees across crafts is difficult because the employees are represented by many different unions.	An employee in one bargaining unit may not perform the work of another bargaining unit employee. If this happens, the company is liable to pay a member of the correct bargaining unit based on the time required to perform the work. The company must maintain a separate contingent of relief workers for each bargaining unit at a facility.
"No Layoff"	The Job Security Program, through which the company provided job security, was eliminated. Employees may be laid off and they are provided a reduced level of income protection for up to 2 years.	Management eliminated the Job Security Program. Employees now may be laid off and they are provided the option of a limited period of supplemental unemployment benefits or a one-time supplemental severance payment.	Provides income protection for closure of a route, reduction in frequency, closure of a maintenance shop facility, or transfer of work from the facility to another facility more than 30 miles away. Allowances are based on years of service.	Employees are protected against layoff and guaranteed full wages and benefits. In the event of a facility closure, they are not required to accept an alternative position if it is more than 25 miles away.

Appendix G: Management's Comments

DOUG A. TULINO
VICE PRESIDENT, LABOR RELATIONS



September 6, 2011

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Postal Service Work Rules, Report Number HR-AR-10 DRAFT

This is in response to the subject audit report draft. In my letters of December 9, 2010, and February 25, 2011, I described in significant detail numerous inaccuracies in prior discussion drafts. The OIG team corrected some of the minor inaccuracies I pointed out. However, I remain deeply troubled by the level of research and the lack of logical analysis. I am also disappointed that most of our extensive written feedback was ignored.

I am especially disturbed that the OIG continues to claim a monetary savings of an estimated \$2.5 Billion annually by changing the city letter carrier compensation to match the compensation system for rural carriers. The report contains no support for this conclusion.

The OIG determined that the average city labor cost per delivery was 59.1 cents while the average rural labor cost per delivery was 49.6 cents and then calculated the difference to determine a net savings of approximately \$2.5 billion per year. In so doing, the OIG erroneously assumes that the difference in cost between city and rural carriers is due to the different compensation systems. There is, however, no analysis or rationale in the report that even attempts to support this assumption. Indeed, as we have repeatedly explained, we know that this assumption is wrong.

The OIG in its July 7, 2011, Audit Report -- Modes of Delivery (DR-AR-11-006) recognizes that door-to-door delivery is significantly more expensive than curbside delivery. In fact, the report shows door-to-door delivery costs 57% more than curbside delivery. Forty one percent of city delivery is door-to-door compared to only 1% in rural delivery. This prior report concludes that the conversion of existing door-to-door delivery to curbside will save \$4.5 billion per year. This conclusion cannot be reconciled with the assumption in the current report that the cost difference between city and rural delivery is entirely attributable to the compensation system.

Moreover, we have discussed other major cost differences with the OIG to explain that cost differential. Due to sensitivities surrounding on-going collective bargaining negotiations and interest arbitration proceedings, it would not be appropriate to describe such factors in greater detail. In this regard, I note that we have expressed serious concerns, especially in my letter of March 29 to the OIG regarding various aspects of this report and its potential impact on the collective bargaining processes. I am disappointed that the OIG does not appear to be sensitive to those concerns.

Following are the recommendations and Labor Relations' responses:

Recommendation 1: Additional increased flexibility to temporarily assign employees across craft lines.

Management Response/Action Plan: Management is keenly aware of the desire for greater operational flexibility that flows from the ability to assign work across craft lines.

The issue of cross-craft flexibility is an old one that is regularly discussed and pursued with our unions. However, it is also an issue that has substantial and unique legal implications that have not been discussed in the report, despite my previous detailed written explanation and follow up discussion. I will not repeat that lengthy discussion, but I re-emphasize the fact that each national bargaining agreement reflects the long history of the Postal Reorganization Act and the National Labor Relations Board endorsements of management's responsibility to recognize the union as the exclusive bargaining representative of all employees in the bargaining unit. Management may not unilaterally change craft work.

Nevertheless, within these constraints, the Postal Service has negotiated flexibility on cross-craft utilization. We continue our on-going efforts to improve on our ability to enhance our flexibility within our legal and contractual constraints.

Target Implementation Date: Management will continue to work within the context of collective bargaining to gain enhanced flexibility. This is an on-going process.

Responsible Official: Vice President, Labor Relations

Recommendation 2: Improved workforce flexibility through non-traditional career options, such as emphasizing part-time employment as a career choice or modifying full-time assignment.

Management Response/Action Plan: The nature and extent of a part-time work force in various postal operations has been a major issue in postal collective bargaining dating back to the 1991 Interest Arbitration with the American Postal Workers Union, AFL-CIO, (APWU) and the National Association

of Letter Carriers, AFL-CIO, (NALC), where we were successful in increasing our ratio of part-time employees. Long before this report was initiated, management has pursued a strategy to gain a higher percentage of both part-time and non-career employees. This report's brief and generalized review does not add any depth of analysis or insight into this issue.

We appreciate that fact that the report acknowledges changes in the recent APWU National Agreement that directly addresses this issue. However, the report fails to grasp the significance of those changes. Not only does the new agreement provide for substantial increases in highly-flexible, non-career employees, it creates "non-traditional full-time assignments," which allow for bid assignments of varying hours per week. These changes would appear to fully satisfy the flexibility concerns raised in the report with regard to both mail processing and retail clerks. As such, management has already achieved much of the work force flexibility that the report recommends that we pursue.

With regard to other bargaining units, negotiations are ongoing. We have already indicated that we are pursuing greater work force flexibility in those negotiations. Therefore, management is already well past the OIG's recommendation to pursue a greater presence of a part-time workforce.

Target Implementation Date: The recommendation to pursue improved work force flexibility is already being implemented.

Responsible Official: Vice President, Labor Relations

Recommendation 3: A comprehensive study to determine the optimal incentive-based carrier compensation system.

Management Response/Action Plan: Management rejects the recommendation.

As discussed above, there is no rational basis for the savings estimate in the OIG report. Moreover, as I have explained before, any such changes ultimately would have to be negotiated, and the NALC has demonstrated a firm, historic opposition to such changes. Finally, and perhaps most importantly, we are already in collective bargaining negotiations at this time, and we are pursuing significant changes to address critical Postal Service needs that require significant time and resources.

Target Implementation Date: None.

Responsible Official: Vice President, Labor Relations

As I have stated before, any references made public concerning the differing compensation systems in the OIG report or our management response will have significant adverse impact to the Postal Service's position in its current negotiations with the NALC and interest arbitration with the National Rural Letter Carriers Association (NRLCA). I request that all discussion concerning compensation be withheld in its entirety.



Doug A. Tulino

cc: Anthony J. Vegliante
Dean J. Granholm
Manager, Corporate Audit Response Management