



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

Postal Service Warranty Process

Audit Report

September 25, 2013

Report Number DP-AR-13-011



HIGHLIGHTS

BACKGROUND:

A warranty is an agreement offered by the seller or manufacturer to replace or repair a faulty item, or to reimburse the purchaser in the event of a product failure. Warranty management is essential to the U.S. Postal Service because it owns and manages over 200,000 commercial products that have a manufacturer's warranty. These commercial products include items such as copiers, computers, and Automated Postal Centers; and communication devices such as cell phones and hand held scanners.

Another large category of warranties managed by the Postal Service is building roof warranties. The Postal Service owns 8,622 buildings. The roofs of these buildings have manufacturer's warranties covering about 200 million square feet with a replacement value of about \$3 billion.

The Postal Service's Maintenance Operations was previously responsible for the preventative maintenance of all Postal Service-owned roofs. However, roof replacement was occurring every 10 to 15 years before the projected life expectancy and manufacturers denied warranty coverage because the required preventative maintenance was not being performed. Therefore, in August 2011, the Postal Service outsourced all roof maintenance and warranty management to a national contractor.

Our objective was to determine whether the warranty claims process ensures that the Postal Service obtains a refund or replacement for purchases covered by a manufacturer's warranty.

WHAT THE OIG FOUND:

The Postal Service effectively managed the warranty claims process for commercial products and obtained a refund or replacement for items covered by a warranty. However, the Postal Service did not recognize \$2.7 million in expected annual labor savings from outsourcing the roof preventative maintenance program to a national contractor. Therefore, the Postal Service is paying for workhours that should have been saved because of outsourcing the roof preventative maintenance from Maintenance Operations to a national contractor.

WHAT THE OIG RECOMMENDED:

We recommended management reduce future employee workhours for the outsourcing of the roof preventative maintenance program using the Postal Service's Workhour Estimator Program criteria. In addition, we recommended management update their policy to quantify what constitutes major or significant labor savings.

[Link to review the entire report](#)



September 25, 2013

MEMORANDUM FOR: DAVID E. WILLIAMS, JR.
VICE PRESIDENT, NETWORK OPERATIONS

DOUGLAS A. TULINO
VICE PRESIDENT, LABOR RELATIONS

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Performance

SUBJECT: Audit Report – Postal Service Warranty Process
(Report Number DP-AR-13-011)

This report presents the results of our audit of the U.S. Postal Service Warranty Process (Project Number 13BG005FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Analysis and Performance, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the U.S. Postal Service Warranty Process (Project Number 13BG005FF000). Our objective was to determine whether the warranty claims process ensures that the Postal Service obtains a refund or replacement for purchases covered by a warranty. This audit was self-initiated. See [Appendix A](#) for additional information about this audit.

A warranty is an agreement offered by the seller or manufacturer to replace or repair a faulty item, or to reimburse the purchaser in the event of a product failure. The Postal Service relies on warranty programs associated with commercial products, such as copiers, computers, and Automated Postal Centers (APCs); and communication devices such as cell phones and hand held scanners. The Postal Service has over 200,000 computers and hand held devices that have a manufacturer's warranty. The Postal Service's Material Distribution Center in Topeka, KS, is the central office for handling commercial product warranties. The MDC tracks the forwarding and return of warranty items requiring service or replacement from vendors.

The Postal Service has a real estate portfolio of 8,622 owned buildings, with about 200 million square feet of roofs with a replacement cost of about \$3 billion. These roofs have manufacturer's warranties. As a condition of the roof warranties, the Postal Service is responsible for periodic inspections, clearing trash and debris off the roofs, and providing written reports on their condition. For all but 400 of the 8,622 building roofs, Maintenance Operations previously relied on local postmasters to perform these duties by requesting assistance from the Field Maintenance Offices. For the remaining 400 buildings, Maintenance Operations previously performed these duties because these large buildings were Maintenance Capable Offices (MCOs).¹ We estimate that the annual preventative maintenance labor cost for roofs on the 400 MCO buildings was \$2.7 million.

The Postal Service determined in 2010 that the existing roof preventative maintenance program for all 8,622 owned buildings was not effective for performing the required roof and warranty maintenance requirements. Roof replacement was occurring every 10 to 15 years before the projected life expectancy and manufacturers denied warranty coverage because the required preventative maintenance was not being performed. Therefore, in 2011 the Postal Service outsourced the roof maintenance program to a national contractor with an initial 2-year contract cost of about \$21 million.

¹ An office that has assigned maintenance personnel qualified to maintain a facility and the equipment installed at that facility. *Administrative Support Manual 13*, Chapter 5, Facilities and Equipment, Section 53, Maintenance, Subsection 531.51, Offices with Maintenance Capability, July 1999, updated through May 2, 2013.

The Postal Service reported that by contracting out the roof maintenance function it achieved a \$30 million cost avoidance,² however, this cost was not avoided, but deferred for about 5 years because the maintenance will still be incurred. The Postal Service used the \$30 million originally budgeted for roofing maintenance for other facility projects in fiscal year (FY) 2012, such as heating and air conditioning systems, parking lots, and building repairs. While the Postal Service outsourced this function to ensure the enforceability of their roof warranties, the program has not been in effect long enough to determine its success.

Conclusion

The Postal Service effectively managed the warranty claims process for commercial products such as copiers, computers, APCs, and communication devices and obtained a refund or replacement for purchases covered by a commercial product warranty. However, the Postal Service did not recognize \$2.7 million in expected annual labor savings from outsourcing the roof preventative maintenance program to a national contractor. Therefore, the Postal Service is incurring workhours that it should have saved because of outsourcing the roof preventative maintenance to the national contractor. As a result, we identified \$2.7 million of annual labor savings as questioned costs, and \$2.7 million of annual labor savings as funds put to better use.

Labor Savings Not Recognized

The Postal Service did not recognize \$2.7 million in expected labor savings from outsourcing the roof preventative maintenance program to a national contractor at the 400 MCO buildings. This occurred because the Postal Service committee who prepared the cost savings analysis³ did not communicate the expected workhour reductions to Maintenance Operations since Postal Service procedures⁴ did not require such notification. Maintenance Operations was also unaware of the expected workhour reductions because they were not part of the committee that performed the savings analysis. Additionally, even if management had implemented the workhour reductions, the amount of the expected reductions would not have been correct because the committee did not correctly calculate them, as discussed below. Consequently, the Postal Service did not realize \$2.7 million in annual labor savings or the equivalent of 28 full-time maintenance employees.⁵ See [Appendix B](#) for a discussion of the monetary impact calculation.

During subsequent discussions with management on August 12, 2013, management provided a standard operating procedure (SOP) *Guidelines for Considering National*

² The Postal Service defines this not as a cost savings but as an identifiable and measurable elimination of a new cost that would have otherwise occurred. *Supply Management*, Supplying Principles and Practices, Postal Service (PS) Number 6-End of Life, Subsection 6-3.2 Total Cost of Ownership Estimate.

³ The cost savings analysis refers to the National Article 32 Committee, which notifies Postal Service unions of a cost-benefit analysis performed when subcontracting previous Postal Service work responsibilities. This committee was comprised of two members each from the Supply Management and Facilities groups.

⁴ Handbook EL-912, *Agreement between United States Postal Service and American Postal Workers Union, AFL-CIO 2010-2015*, Article 32, Subcontracting.

⁵ The 28 employees refers to total employee equivalents over a 1-year period at 1,760 workhours per employee.

Outsourcing Initiatives, dated October 2009. This SOP indicates that identified labor savings do not need to be recognized unless the savings are major or have a significant impact. However, the SOP does not quantify what is considered a major or significant labor savings. Consequently, management believed they did not need to institute the labor savings.

The Postal Service's cost savings analysis calculated labor savings⁶ of 10 full-time equivalents (FTEs), or about \$956,000 per year. However, using the Postal Service Workhour Estimator Program (WHEP),⁷ as discussed in detail below, we calculated workhour reductions of 28 FTEs, totaling about \$2.7 million per year. We also determined that Maintenance Operations incurred overtime and penalty overtime of 156 and 150 FTEs for FY's 2011 and 2012 respectively. Therefore, we believe the labor savings identified are significant and would complement the Postal Service's Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiative to Optimize Network Operations, including an objective for maintenance craft staffing to achieve savings of \$26.5 million.

Workhour Reduction Calculation

The Postal Service committee did not properly calculate the expected workhour reduction. Specifically, the committee developed their own methodology to calculate an 18,160-workhour reduction. However, using the prescribed Postal Service methodology resulted in a reduction of 49,053 workhours — a difference of about 31,000 workhours.

The Postal Service issued the WHEP in FY 2001, as guidance to determine the number of workhours required for maintenance programs. The WHEP identifies the average amount of time Postal Service maintenance personnel should spend doing certain roofing functions. Maintenance Operations performed the roof preventative maintenance duties at the 400 MCOs, which included about 360 of the largest Postal Service buildings. Their responsibilities included checking roof expansion and control joints, marking locations requiring repair, checking roof penetrations for damages and problems, cleaning trash and debris from drains, and preparing roof condition reports. However, the committee did not use WHEP to determine labor savings because it received guidance from the Strategic Initiatives Action Group (SIAG)⁸ for calculating the workhour reduction. The guidance included requesting an estimate from Maintenance Operations of 2.5 workhours per site visit to perform roof preventative maintenance.

⁶ Management calculated labor savings using Labor Distribution Code (LDC) 37 for preventative maintenance workhours.

⁷ *Maintenance Management Order (MMO)*, MMO-074-00, October 10, 2000.

⁸ This is Postal Service cross-functional group responsible for coordinating the processes involved in reviewing, approving, and monitoring proposed outsourcing initiatives.

The Postal Service committee calculated the labor hours by applying the 2.5 hour estimate as an average amount of time per roof visit. Based on 3,632 phone calls requesting roof assistance received in FY 2010,⁹ the Postal Service projected it could save 18,160 workhours, or the equivalent workhours of 10 employees. Table 1 shows how the Postal Service calculated this reduction.

Table 1. Postal Service Workhour Reduction Calculation

Fiscal Year	Semiannual Visits	Roof Visits	Average Hours per Roof Visit	Total Hours	Employee Hours per Year	Total Employee Equivalents
2011	2	3,632	2.5	18,160	1,760	10

Source: Memorandum of Due Consideration of Article 32 Factors Related to Roof Asset Management Services, June 9, 2011.

However, using the approved methodology, we calculated the workhour reduction and determined a savings of 30,893 more workhours and 18 more full-time staff equivalents than the Postal Service committee calculated.

Table 2 shows the U.S. Postal Service Office of Inspector General's (OIG) calculated workhour reduction that is equivalent to the workhours of 28 employees.

Table 2. OIG Workhour Reduction Calculation

Total Preventative Maintenance Hours per WHEP	Semiannual Visits	Total Hours	Average Number of Employees per visit (Maintenance & Safety Monitor)	Total Hours	Employee Hours per Year	Total Employee Equivalents
16,351	2	32,702	1.5	49,053	1,760	28

Source: Postal Service WHEP criteria, MMO-074-00, October 10, 2000; and Postal Service letter, *Working Safely on Roofs*, June 9, 2001.

Further, the Postal Service committee did not communicate to Maintenance Operations the estimated labor savings and they, therefore, did not implement the expected workhour savings. Therefore, the Postal Service is paying for workhours that should have been saved because of outsourcing the roof preventative maintenance from Maintenance Operations to a national contractor. This resulted in the Postal Service not recognizing \$2.7 million in annual labor savings or the equivalent of the workhours of 28 maintenance employees.

⁹ The Facilities Single Source Provider receives and consolidates all repair and alteration requests for the Facilities group. There is a dedicated call number for each area. Requests for service are routed through a call center, prioritized, tracked, and resolved.

Recommendations

We recommend the vice president, Network Operations, direct the manager of Maintenance Operations:

1. To reduce future employee workhours for the outsourcing of the roof preventative maintenance program using the Postal Service Workhour Estimator Program criteria.

We recommend the vice president, Labor Relations:

2. Update the standard operating procedures, *Guidelines for Considering National Outsourcing Initiatives*, to quantify what constitutes major or significant labor savings.

Management's Comments

Management disagreed with the reported findings, recommendations, and the monetary impact.

Network Operations Management did not agree with recommendation 1. Management provided the following factors supporting their determination.

- Changes to MMO-074-00 WHEP must be done through Article 19 and there is currently a Lean Six Sigma (LSS)¹⁰ project to recommend changes in this area.
- Management does not agree with the OIG's assumption that time is capturable in the form of full time equivalent (FTE). Management stated that staffing is developed by each facility, independent of other facilities, and rounded up or down to develop the authorized FTE by facility. Since roof maintenance is nominal, more than likely, it would not change the FTE count.
- Onsite maintenance personnel are necessary to address the impact of wide scale weather changes.
- Further, extreme weather conditions, such as a hurricane, require critical roof tasks be completed by building maintenance personnel prior to the ensuing storm.

Labor Relations Management did not agree with recommendation 2. Management disagreed with the OIG's interpretation of the criteria (*Guidelines for Considering National Outsourcing Initiatives*) utilized in developing the recommendation. The phrase "Significant Impact" in the *Guidelines for Considering National Outsourcing Initiatives* does not refer to cost avoidance or cost savings in a subcontracting project. That

¹⁰ LSS - Lean management focuses on reducing waste and improving process flows while Six Sigma methodologies concentrate on reducing variation or defects and improving quality.

phrase has to do with the impact on bargaining unit work and primarily with significant changes in conditions of employment, significant impairment of job tenure, employment security, or reasonably anticipated work opportunities. Further, because the phrase “significant impact” originates from the four different National Agreements, the Postal Service has to comply with the contractual obligations set by each.

Management further states that a process is already in place to capture the benefit the draft report seeks to gain from its recommendation. When evaluating the need to subcontract, Article 32 of our respective National Agreements requires the Postal Service to give due consideration to public interest, cost, efficiency, and availability of equipment and qualification of employees. Subcontracting project sponsors present the SIAG a memorandum of Due Consideration of the Article 32, which is reviewed prior to determining the level of impact on bargaining unit work. Due consideration of the cost factor, involves determining whether there will be an anticipated cost avoidance or cost savings; and this factor is discussed at the SIAG meeting.

Management also noted that the draft report does not show a correlation between potential costs savings not being recognized and a lack of communication between Labor Relations, the SIAG or the subcontracting initiative sponsors.

Further, management said that the reference in footnote 5 regarding a National Article 32 committee is incorrect. Management further explained that the Article 32 committee did evaluate cost savings associated with this subcontracting initiative. Also, management disagreed with the OIG’s interpretation of the Article 32 process from initiation, evaluation, reviewing, and approval of the subcontracting initiative.

See [Appendix C](#) for management’s comments, in their entirety.

Evaluation of Management’s Comments

The OIG considers management’s comments unresponsive to recommendations 1 and 2.

Regarding recommendation 1, management disagreed with our recommendation to reduce future workhours by the amount of the workhour savings from the outsourcing of the roof preventative maintenance program.

- Management stated there is a current LSS project to evaluate changes to the Postal Service Workhour Estimator Program. However, changing the program will not affect the already outsourced roof preventative maintenance program we evaluated. In addition, management did not provide the OIG any specific details about the LSS project during the audit or in management’s response that would change our conclusions.
- Management disagreed with the methodology we used in determining workhour savings. Additionally, management provided a new annual roof preventative

maintenance workhours calculation of 20,000 workhours. These hours are equivalent to 11 FTEs as compared to the Postal Service's original calculation of 10 FTEs. However, as we noted in the report, the Postal Service calculation should have originally been 28 FTEs because the Postal Service did not follow their own preventative maintenance criteria.¹¹ As we further noted in the report, the reduced FTEs resulting from outsourcing the annual roof preventative maintenance work; whether 10, 11, or 28 FTEs can be reduced at a national level and not facility by facility. In addition, another opportunity to reduce the maintenance workhours from the outsourcing of the roof preventative maintenance program is overtime. The Postal Service incurred 156 and 150 FTEs of overtime workhours in these operational functions during FY's 2011 and 2012, respectively.

- We agree that general roof maintenance and storm preparation maintenance is necessary; however, our audit focus was on the preventative maintenance directly related to roof warranties and used as a justification for outsourcing the roof preventative maintenance program to a national contractor for \$21 million.

Regarding recommendation 2, Labor Relations disagreed with our recommendation to update the SOP, *Guidelines for Considering National Outsourcing Initiatives*, to quantify what constitutes major or significant labor savings. Additionally, management maintains the term "significant impact" only refers to the impact on bargaining union work. However, the SIAG Guidelines also recognize other decision factors such as consistency with organizational goals, retention of management responsibility, security and integrity, and whether quality levels will be maintained. Therefore, we believe the identified labor savings are significant and would support the Postal Service's DRIVE initiative to Optimize Network Operations, including an objective for maintenance craft staffing to achieve savings of \$26.5 million¹². Recommendation 2 addresses the need to quantify what is major or significant labor savings which in-turn will help the Postal Service make consistent management decisions.

Management stated they believe a process is in place to capture the labor savings benefit we identified in recommendation 2. However, as noted in our report, the Postal Service did not have a process to capture the identified labor savings and did not intend to recognize the labor savings.

Management also stated that the report does not show a correlation between potential costs savings not being recognized and a lack of communication between Labor Relations, the SIAG, or subcontracting initiative sponsors. However, we believe the report does show a direct correlation regarding labor savings not being recognized and the lack of communication. As noted in our report, management quantified the labor savings used for the justification to outsource the roof maintenance program, but did not communicate these savings to Maintenance Operations. During our audit, Maintenance Operations stated that they were not informed about the labor savings used in the justification to outsource the roof preventative maintenance program.

¹¹ MMO-074-000, October 10, 2000.

¹² *Drive Initiative Number 1*; Optimize Network Operations, Road Map Number 1.7 – Maintenance Optimization.

Management also stated the information in footnote 5 was incorrect as there is no National Article 32 committee. We agree there is no National Article 32, however, the committee referenced in our report dealt with an Article 32 issue with a nationwide impact. Our reference to Article 32 in Footnote 3 (not Footnote 5 as stated in management's response) states in part, "This committee was comprised of two members each from the Supply Management and Facilities groups." This specific committee was the "Sponsor" responsible for all aspects of the proposed outsourcing initiative. The sponsor then presented the results to the SIAG, which is a cross-functional group comprised of representatives from the Law Department, Finance, Operations, Supply Management, Public Affairs and Communications. The SIAG is responsible for coordinating the processes involved in reviewing, approving, and monitoring proposed outsourcing implementation, which includes notifying the national unions. During the audit, we determined that Maintenance Operations was not informed of any cost savings associated with this Article 32 outsourcing initiative. However, the *Guidelines for Considering National Outsourcing Initiatives* clearly states that

. . .if this review shows that major savings can be realized through operational adjustments and these adjustments can reduce the cost of in-house operations in a cost-effective and timely fashion, they should be implemented prior to the outsourcing initiative being completed¹³.

In our opinion, this resulted in \$2.7 million of annual savings not communicated to maintenance operations for consideration.

¹³ *Guidelines for Considering National Outsourcing Initiatives*, IV Developing Cost Data, Parameters of the Analysis (5), page 12, October 2009.

Appendix A: Additional Information

Background

The Postal Service owns and manages commercial products such as copiers, computers, and APCs; and communication devices such as cell phones and hand held scanners. Over 200,000 of these commercial products have a manufacturer's warranty. The four major products we reviewed were Ricoh, Hewlett Packard, International Business Machines (IBM), and Motorola. Each of these products had warranty programs administered by the vendor. The Postal Service monitors these warranty programs and maintains a relationship with the manufacturers.

The Topeka MDC warehouses and distributes repair parts, equipment, and supplies for the Postal Service. The MDC also manages warranty repaired parts returned from the supplier tracking the items for inclusion back into the Postal Service's inventory system. The Postal Service tracks material distribution, warehousing, and inventory management business functions through the Material Distribution and Inventory Management System. This includes all inventory items and accounts for purchases, usage, disposals, returns, and adjustments.

To assist in managing warranted items, the Postal Service accounts for warranted item transactions in general ledger account (GLA) 52190 Warranty Repair Cost. When a warranted asset is returned to a vendor the value of the asset is recorded in the account and when the vendor returns the asset, an offsetting entry is recorded. Therefore, the balance should reflect the value of assets the Postal Service has shipped and is awaiting return. We reviewed about 100,000 transactions processed through GLA 52190 during FYs 2011 and 2012 and reconciled the ending balance of \$6.4 million, indicating items were appropriately processed for warranty repairs and replacements.

The Postal Service's roof warranty program includes 8,622 owned buildings that require a roof preventative maintenance program. This roof preventative maintenance program requires semiannual inspections, including removal and disposal of all debris from roofs, cleaning and opening drains and gutters, and reattaching any loose metalwork (flashings, counter-flashings, gutters, and downspouts). Prior to August 2011, Maintenance Operations was responsible for the roof preventative maintenance of all 8,622 Postal Service-owned buildings and recorded their time in LDC 37.¹⁴

The Postal Service Supply Management and Facilities groups determined in FYs 2010 and 2011 that the existing roof preventative maintenance and roof repair programs were not benefiting the Postal Service. Facilities provided Maintenance Operations with specific roof preventative maintenance requests through the Facilities Single Source Provider in FY 2010. However, Maintenance Operations rejected 36 percent of Facilities

¹⁴ An LDC is assigned to each Postal Service employee. The LDC is a 2-digit code that identifies workhours by function. Handbook F-20A, *Accounting Services Systems and Processes*, Section 3-8.3 LDC, December 2009.

requests for roof preventative maintenance and only completed 67 percent of the preventative maintenance requests that were accepted. This occurred because Maintenance Operations only accepted responsibility for the 400 MCOs. Postal Service Facilities found that Maintenance Operations did not follow their own criteria¹⁵ when performing the required preventative maintenance. This included procedures such as cleaning trash and debris off the roofs and from roof drains, checking roof penetrations for damage or problems, note areas that need repair with spray paint and mark up roof drawings, and preparing a report on the roof condition and necessary repairs. As a result, Facilities completed a cost savings analysis, which resulted in the Postal Service obtaining an outside contractor to perform the required roof maintenance.

Once the cost savings analysis agreement between the Postal Service and the bargaining unit was completed, the Postal Service solicited requests for a roof asset management consultant and received 10 qualified bids to outsource roof maintenance. The main objectives of the roof maintenance program are to work with the roof manufacturers to ensure the existing roof warranties are viable, extend the useful life of the 8,622 Postal Service-owned property roofs, and develop a roof database for future reference. The scope of services was to provide all material, labor, and equipment through its own forces or through subcontracts to accomplish all or portions of the work as defined in each work order.

Objective, Scope, and Methodology

Our objective determined whether the warranty claims process ensured that the Postal Service obtained a refund or replacement for purchases covered by a warranty program.

To accomplish our objective, we reviewed the four major product warranty programs by interviewing all 14 Postal Service contract officers, contract officer representatives, and purchasing specialists to determine the warranty process. This included an examination of contract documents, an analysis of warranty claims transactions, and confirming the warranty claims process with 15 Postal Service end-users. We also conducted both on-site interviews and contract reviews in Greensboro and Raleigh, NC; Windsor, CT; and Washington DC. In addition, we:

- Reviewed Postal Service Supply Management Principles and Practices, the Federal Acquisition Regulations, and the 39 Code of Federal Regulations, Part 601 for the refund or replacement of purchases covered by a warranty.
- Obtained and reviewed financial data from the Postal Service Enterprise Data Warehouse,¹⁶ Accounting Data Mart,¹⁷ Facilities Management System,¹⁸ and the

¹⁵ MMO-074-00, October 10, 2000.

¹⁶ This is an organization-wide data storage and reporting system.

¹⁷ This is the repository for all accounting and financial data for the Postal Service.

¹⁸ Electronic contract document repository system that allows users to electronically store contract documents related to Postal Service real estate.

Roth Bros, Inc. website where Postal Service roofing data is managed and stored as required in the August 2011 contract. This database is used in developing future Postal Service roof repair and replacement schedules.

- Discussed and reviewed four warranty programs (Ricoh, Hewlett-Packard, Motorola, and IBM) and their administration with their program contracting officers. This included an examination of the vendor contract documents, analyzing the warranty claims transactions, and confirming that the Postal Service did not incur any additional cost and the product was replaced according to the warranty terms.
- We also reviewed about 100,000 transactions in GLA 52190 and reconciled the account balance of \$6.4 million to applicable inventory records. We also performed limited transaction testing to confirm that internal controls were operating effectively for the Ricoh and Hewlett-Packard warranties. Specifically, we judgmentally selected a sample of six of 34 Ricoh purchases in FY 2012 and a random sample of six of 596 Hewlett-Packard warranty items and traced the warranty transactions. Based on our analysis of the GLAs and transactions, we determined that the Postal Service is ensuring that they receive a refund or replacement for purchases covered by a manufacturer's warranty.
- Our review of APCs included interviews with the contracting officer and a review of the contract documents. The APCs include IBM software warranted for only 30-90 days, after which the Postal Service enters into a maintenance agreement for both software and APC parts. In addition, we interviewed the contracting officer for Motorola and reviewed their contract. Motorola maintained ownership of their communication devices and only provided the Postal Service with a data plan on each unit. Therefore, there was no warranty, as such, on the equipment, but Motorola would replace the equipment at no charge when a unit failed.
- Interviewed Postal Service Supply Management, Facilities, and Maintenance Operations personnel and reviewed their process for the roof asset management services outsourced to Roth in August 2011. Specifically, we reviewed National Article 32 justification documentation for outsourcing the Roof Asset Management Supplier program. We reviewed five site audits conducted by Facilities to determine whether Maintenance Operations performed the required preventative maintenance work. Further, we recalculated the National Article 32 committee's projected cost savings to the Maintenance Operations and estimated an increase in the projected savings to the Postal Service.
- Reviewed and confirmed all 131 scheduled roof replacement projects for FY 2012 that the Postal Service deferred for up to 5 years. Our review confirmed this deferred maintenance totaling \$29 million was returned to budget line 63 and used for other repair and alteration projects.

- Reviewed Postal Service Maintenance Operations policies directly related to their roofing preventative maintenance program.

We conducted this performance audit from October 2012 through September 2013 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 August 12, 2013, and included their comments where appropriate.

We assessed the reliability of warranty data by comparing a sample of the transactions to supporting documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount
1	Questioned Costs ¹⁹	\$5,351,808
1	Funds Put to Better Use ²⁰	5,351,808
Total		\$10,703,616

To determine the amount of questioned costs, we calculated Postal Service roof preventive maintenance schedule costs from the WHEP. In addition, the Postal Service Roof Safety Protocol requires the use of a safety monitor.²¹ We calculated workhours for safety monitoring using 50 percent of the total preventative maintenance hours. We multiplied total workhours by the fully loaded hourly rate for a PS-09 Building Equipment Mechanic in the National Average Labor Rates – FY 2011 Actual, FYs 2012 and 2013 Projections.²²

Table 3 provides a breakdown of how we calculated the estimated savings.

Table 3. Workhour Reduction Calculation

Total Employee Equivalents	Hourly Rate	Employee Hours per Year	Annual Savings
28 ²³	\$54.30	1,760	\$2,675,904

Source: Postal Service National Average Labor Rates – FY 2011 Actual, FYs 2012 and 2013 Projections.

We determined labor savings for the equivalent of 28 employees by dividing the total yearly workhours of 49,053 by 1,760. We identified \$5.4 million of the labor savings for FYs 2011 and 2012 as questioned costs over 2 years and \$5.4 of funds put to better use for 2 years (FYs 2013 and 2014).

¹⁹ Questioned costs are unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc. May be recoverable or unrecoverable and are usually the result of historical events.

²⁰ Funds that could be used more efficiently by implementing recommended actions.

²¹ Postal Service letter, *Working Safely on Roofs*, June 9, 2001.

²² National Average Labor Rates – FY 2011 Actual, FYs 2012 and 2013 Projection.

²³ Twenty-eight total employee equivalents are rounded up from 27.8710.

Appendix C: Management's Comments



September 12, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Postal Service Warranty Process (Report
Number DP-AR-13-DRAFT)

Thank you for the opportunity to review and comment on the subject draft proposal.

Recommendations:

We recommend the vice president, Network Operations, direct the manager of Maintenance Operations:

1. To reduce future employee workhours for the outsourcing of the roof preventive maintenance program using the Postal Service Workhour Estimator Program.

We recommend the vice president, Labor Relations:

2. Update the standard operating procedures, *Guidelines for Considering National Outsourcing Initiatives*, to quantify what constitutes major or significant labor savings.

Response:

Network Operations does not agree with the recommendation #1, as outlined in the Postal Service Warranty Process Draft Audit Report. The following factors were considered in making that determination.

- a. Changes to MMO-074-00 Work Hour Estimator Program (WHEP) must be done through Article 19 of the collective bargaining agreement. Currently there is an LSS project, started in Q3 FY 12, that will recommend changes to MMO-074-00. Currently those changes are under discussion with the APWU.
- b. The recommendation assumes that the time is capturable in the form of full time equivalent (FTE). Staffing is developed by facility, independent of other facilities and rounded either up or down to develop the authorized FTE for that facility. Based on the WHEP 07/10/2013 there were approximately 215 facilities that staffed for any roof work (P-20) and of those all but 5 took less than 500 hours annually. The total was approximately 20K annual hours. Since the roof maintenance is nominal, more than likely, it would not change the FTE count.

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WASHINGTON DC 20260

- c. Roof maintenance includes preventative tasks that should be continued by building maintenance employees. Consider the impact of wide scale weather changes. For required preventative maintenance actions to occur in the needed time frame on site personnel are necessary. In maintenance capable offices that responsibility belongs to the Building Equipment Maintenance employees. An example is the recent hurricane in the New York area (Sandy) this past October.
- d. One critical task is prior to the storm ensuring that all roof drains were clear and there were no loose items on the roof.

Labor Relations does not agree with recommendation # 2. The phrase "significant impact" as used in the *Guidelines for Considering National Outsourcing Initiatives* (SIAG SOP¹), originates from Article 32.1.B of the National Agreements between the USPS and its four major unions². Although the subcontracting provisions differ substantially between unions, they share the following similar relevant language:

B. The Employer will give advance notification to the Union at the national level when subcontracting which will have a significant impact on bargaining unit work is being considered... (*Emphasis added*)

The phrase "significant impact" as used in the National Agreements does not refer to cost avoidance or costs savings in a subcontracting project. Instead, the phrase "significant impact" refers to the impact on bargaining unit work. While this impact could be financial, it could also result from a significant change in conditions of employment or a significant impairment of job tenure, employment security or reasonably anticipated work opportunities. Further, because the phrase "significant impact" originates from the four different National Agreements, the Postal Service has to comply with the contractual obligations set by each.

A process is already in place to capture the benefit the draft report seeks to gain from its recommendation. When evaluating the need to subcontract, Article 32 of our respective National Agreements requires the USPS to give due consideration to public interest, cost, efficiency, availability of equipment and qualification of employees. Subcontracting project Sponsors present the SIAG a Memorandum of Due Consideration of the Article 32, which is reviewed prior to determining the level of impact on bargaining unit work. Due consideration of the cost factor, involves determining whether there will be an anticipated cost avoidance or cost savings; and this factor is discussed at the SIAG meeting. Present at these meetings are Finance personnel, who assist in the validation of costing.

The draft report does not show a correlation between potential costs savings not being recognized and a lack of communication between Labor Relations, the SIAG or subcontracting initiative Sponsors. On page 2, under the heading "Labor Savings Not Recognized," the draft report concludes in part, "The Postal Service did not recognize \$2.7 million in expected savings... This occurred because the Postal Service committee who prepared the cost savings analysis did not communicate the expected workhour

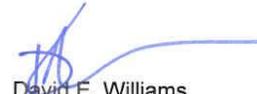
¹ "SIAG" refers to the Strategic Initiatives Action Group, (SIAG SOP p. 4).

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

reductions to Maintenance Operations since Postal Service procedures did not require such notification." Footnote #5 of the draft report makes reference to a National Article 32 Committee, comprised of two members from Supply Management and Facilities, which notifies Postal Service unions of a cost-benefit analysis when subcontracting previous Postal Service work responsibilities. This conclusion is simply incorrect. There is no National Article 32 Committee from Supply Management or Facilities which communicates with the unions, or which is part of the Article 32 or SIAG process. As explained in the previous paragraph, costs are evaluated as part of the Article 32 process and presented to the SIAG by the project sponsor prior to determining the impact on bargaining work.

Labor Relations will continue to provide guidance on all national outsourcing initiatives.


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