



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

**Grievance Settlements and Payments
Follow Up**

Audit Report

September 27, 2013

Report Number HR-AR-13-008



HIGHLIGHTS

BACKGROUND:

National agreements between the U.S. Postal Service and four major unions include grievance-arbitration procedures that Postal Service management, bargaining unit employees, and union representatives must follow to resolve workplace disputes, disagreements, and complaints. The Postal Service paid \$97 million and \$87 million in grievance settlements during fiscal years (FY) 2011 and 2012, respectively.

In FY 2010 we conducted an audit of grievance settlements and payments and found that management controls needed to be strengthened. As a result, Postal Service management issued additional guidance and enhanced internal controls.

We conducted this audit to follow up on prior findings. Additionally, we received two hotline complaints regarding the grievance-arbitration process, and the U.S. Postal Service Board of Governors expressed concerns over grievance costs. Our objective was to assess internal controls over grievance settlement decisions and payments. Specifically, we evaluated whether the grievance settlement decisions and payments were adequately supported and whether staff complied with established internal controls and documentation requirements.

WHAT THE OIG FOUND:

Management has strengthened internal controls, and documentation supporting

grievance settlements and payments has significantly improved since our prior audit. We reviewed 600 randomly selected grievance case files from 10 districts and found that 503 (or 84 percent) contained all required documentation. However, 97 (or 16 percent) did not contain one or more of the required documents, such as written appeals, decision letters, and payment documentation. Of these, 46 did not have specific support for settlements and payments, resulting in about \$3.4 million in unsupported questioned costs.

We identified various reasons contributing to unsupported payments and missing case file documentation, to include improper storage and transferring of case files and issues with grievance monitoring.

We also conducted interviews and reviewed grievance case files in response to the hotline complaints we received; however, we did not find sufficient evidence to support that there were systemic issues related to the allegations.

WHAT THE OIG RECOMMENDED:

We recommended that management issue a reminder in writing re-emphasizing the importance of adhering to the existing internal control guidelines for grievances.

[Link to review the entire report](#)



September 27, 2013

MEMORANDUM FOR: DOUGLAS A. TULINO
VICE PRESIDENT, LABOR RELATIONS

An e-signature block showing a handwritten signature in grey ink. Above the signature, it reads "E-Signed by Michael A. Magalski" and "VERIFY authenticity with eSign Desktop". A small yellow question mark icon is in the top right corner of the signature box.

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop

FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – Grievance Settlements and Payments Follow
Up (Report Number HR-AR-13-008)

This report presents the results of our follow-up audit of Grievance Settlements and Payments (Project Number 13YG006HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea L. Deadwyler, deputy director, Human Resources and Support, 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 follow-up audit of Grievance Settlements and Payments (Project Number 13YG006HR000). Our objective was to assess internal controls over grievance settlement decisions and payments. Specifically, we evaluated whether the grievance settlement decisions and payments were adequately supported and whether staff complied with established documentation requirements. This audit was self-initiated based on hotline complaints¹ we received and concerns expressed by the U.S. Postal Service Board of Governors over grievance costs. See [Appendix A](#) for additional information about this audit.

Most Postal Service bargaining unit employees are represented by one of the four major unions.² The national agreements signed by senior management and the four union presidents include grievance-arbitration procedures that Postal Service management, bargaining unit employees, and union representatives must follow. These procedures provide guidance for resolving workplace disputes, disagreements, and complaints. In fiscal year (FY) 2011 and FY 2012, the Postal Service paid \$97 million and \$87 million, respectively, in grievance settlements. As a result, it is important to continuously assess internal controls over grievance settlement decisions and payments.

In FY 2010 the U.S. Postal Service Office of Inspector General (OIG) conducted an audit of grievance settlements and payments. Our audit revealed that management controls over grievance settlements and disbursements needed to be strengthened, oversight of the the grievance settlement process was not consistent among districts, and that union representatives received grievance payments to which they may not have been entitled. In response to our previous audit, the vice president, Labor Relations issued a memorandum to area human resources and labor relations managers detailing the Grievance and Arbitration Tracking System (GATS) internal controls and the managers' responsibilities.

Conclusion

Management has strengthened the internal controls, and documentation supporting grievance settlements and payments has significantly improved since FY 2010. We reviewed 600 randomly selected grievance case files from 10 districts and found that 503 (84 percent) contained all required documentation and 554 (92 percent) of the settlements and payments were adequately supported. However, 97 files did not contain all of the required documentation, including 46 that did not have support for

¹ The OIG received two hotline complaints from labor relations personnel concerning grievance decisions and procedures not being followed.

² The American Postal Workers Union, the National Association of Letter Carriers, the National Postal Mail Handlers Union, and the National Rural Letter Carriers' Association.

settlements and payments, resulting in about \$3.4 million in unsupported questioned costs. We identified various reasons contributing to unsupported payments and missing case file documentation, to include improper storage and transfer of case files, and issues with grievance monitoring. See [Appendix B](#) regarding our monetary impact.

We also conducted interviews and reviewed grievance case files in response to the hotline complaints we received regarding whether decisions were being made properly and whether the established grievance procedures were being followed. We did not find sufficient evidence to support the allegations.

Internal Controls Over Grievance Settlements and Payments

We determined that, generally, grievance payments were adequately supported and staff complied with established internal controls. However, we identified a small number of grievance payments that were not supported. We conducted interviews and reviewed 600 randomly selected grievance case files from 10 districts and determined the following:

- 503 (84 percent) contained all required supporting documentation.
- 554 (92 percent) contained adequate support for settlements and payments. (Compared to 366 or 61 percent in FY 2010).
- 97 did not contain all required supporting documentation,³ including 46 that did not include support for grievance settlements and payments. (In FY 2010 we identified 234 unsupported payments). See [Appendix C](#) for additional information on missing documentation.
- Eight of the 10 districts conducted periodic reviews of grievance case files to monitor compliance.
- Six of the 10 districts used GATS alerts⁴ to monitor grievance activity. Four districts did not use GATS alerts; however, two used other reporting features in GATS.⁵

Postal Service supervisors and managers are required to conduct periodic reviews to ensure that grievance settlements are valid, accurate, and properly allocated and should monitor grievance activity within their area of responsibility using GATS alerts. They are also required to maintain the following supporting documentation in grievance case files:⁶

³ These cases were missing one or more of the required documents such as written appeals, time extension agreements, decision letters, and payment documentation.

⁴ Alerts can be set in GATS to notify users of grievance activity based on established criteria such as the number of grievances over a certain payout amount.

⁵ GATS also provides automatically scheduled reports such as pending cases.

⁶ *Employee and Labor Relations Manual 34*, Appendix-Records Control Schedules, March 2013. *Grievance and Arbitration Tracking System Internal Controls*; February 3, 2011.

- Explanation of original grievance to include written appeals.
- Documentation of time extension agreements, if necessary.
- GATS decision letters that document the reason for the settlement and timeframes of the incident.
- Documentation that explains how management determined the payment amount.
- Informal adjustment letters that include the issues and timeframes of the dispute and the names of each individuals and amounts to be paid.

Labor relations managers were not aware of the requirement to use GATS alerts or that the alert feature existed. Regarding the case files that were missing required documentation and the 46 unsupported grievance payments, human resources and labor relations managers indicated various reasons that contributed to these issues, to include:

- Files were misplaced while being transferred.
- Incomplete files were transferred.
- Files were not stored properly.

As a result, there is no assurance that at least \$3.4 million in payments were justified in FYs 2011 and 2012. See [Appendix B](#) for our calculation of unsupported questioned costs.

Hotline Complaints Concerning Grievance Procedures and Decisions

The OIG received two hotline complaints from labor relations personnel in two districts regarding grievance procedures. Concerns were raised over whether decisions were being made properly and whether the established grievance procedures are being followed.

Grievance Decisions and Instructions to Settle

In one district, a labor relations manager indicated the staff was instructed to settle grievances that he believed should be denied or negotiated. The manager also expressed concern over settlements made at the area level.

We interviewed other labor relations personnel in that district regarding the hotline complaint. Although they agreed with the complainant, they could not provide documentation because they stated the instructions to settle were given verbally. We also interviewed area labor relations personnel about grievances they settled. They indicated that grievance decisions were based on merit or impact to the Postal Service. Potential settlement amounts are also considered when deciding to settle a grievance.

After conducting our interviews, we noted isolated issues with communication between individuals at the area and district levels that may have contributed to misunderstandings regarding why grievances were being settled. Those individuals are no longer involved in the grievance process for this district, and as a result, we believe communication will improve.

Additionally, we reviewed 15 randomly selected grievance case files from the district to assess issues related to the complaint. The files included a clear explanation of the issue or violation, the remedy sought, and the decision and payment rendered. As a result, we did not find evidence to support the allegation and will not make a recommendation on this matter.

Decisions Not Matching Original Grievance, Simultaneous Filings, and Frivolous Grievances

In a second district, an operations manager indicated area labor relations personnel made settlement decisions that did not match the original grievance filed. The manager also alleged that unions filed grievances and appeals simultaneously, and that union stewards filed frivolous grievances.

The complainant provided examples of grievances in which area level decisions did not match the original grievance. However, we interviewed area labor relations personnel and they stated that grievances can be settled based on contract language not cited in the original grievance to apply the most appropriate section of the collective bargaining agreements.

The complainant also provided a few examples of grievances and appeals that were filed simultaneously. We reviewed the collective bargaining agreements and found that they stipulate the timeframes for filing grievances and appeals, and the requirement to wait for management's response within the contractual timeframes before appealing to the next level. We also interviewed labor relations officials, who stated simultaneous filings were rare, but when it happens, they work with the appropriate union officials to resolve the issues.

Regarding frivolous grievances, we reviewed the documents provided by the complainant and interviewed district and area labor relations personnel. They agreed some grievances can be viewed as frivolous; however, in accordance with the collective bargaining agreements, employees have the right to file grievances.

We reviewed 15 randomly selected grievance case files from the district and did not find any that supported the complaint. Based on the interviews and documentation we reviewed, we did not identify any systemic issues and, as a result, we will not make a recommendation regarding these issues.

Recommendation

We recommend the vice president, Labor Relations, direct district managers, Labor Relations, to:

1. Issue a reminder re-emphasizing to managers the importance of adhering to existing internal control guidelines, specifically as they relate to using Grievance Arbitration Tracking System alerts to monitor grievance activity and document handling to ensure completeness of grievance case files.

Management's Comments

Management agreed with the recommendation and plan to reissue its February 3, 2011, memorandum on Grievance and Arbitration Tracking System Internal Controls to the Managers, Labor Relations (District) with an emphasis on GATS alerts and file documentation.

Management disagreed with the conclusion of a potential \$3.4 million in unsupported questioned costs identified in the report, stating that missing settlement documentation in a case file does not necessarily correlate to unsupported and questionable costs. Management further stated they conducted a review of grievances we identified in the audit, using GATS. They stated their review revealed that all grievances contained decision letters; however, 21 decision letters were missing the names of the payee in the decision and of the 21 grievances, only two lacked the requisite justification for the payout. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

While management agreed with our recommendation, they did not agree with the unsupported questioned costs. We projected the monetary impact using a 95 percent confidence level based on our review of 600 statistically sampled grievance case files. In addition, our review of case files was conducted from March through April 2013, and identified grievance payments that were not supported by adequate documentation. We assessed the grievance data contained in GATS and the hard copy case files at that time, and management has not provided any additional support for the payments we identified. As a result, we consider the monetary impact to be valid.

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

Appendix A: Additional Information

Background

Most Postal Service bargaining unit employees are represented by one of the four major unions. The national agreements signed by senior Postal Service management and the four union presidents include grievance-arbitration procedures that Postal Service management, bargaining unit employees (also referred to as craft employees), and union representatives must follow. These procedures allow bargaining unit employees and the unions to resolve workplace disputes, disagreements, and complaints. The Postal Service paid \$97 million and \$87 million in grievance settlements during FYs 2011 and 2012, respectively.

The grievance procedures generally consist of four steps. The first step requires bargaining unit employees who feel aggrieved to discuss the issues with their immediate supervisor. The supervisor has authority to settle the grievance at any time. However, if they do not reach a resolution, the employee can file a formal grievance through the union or the union can do so on its own initiative. The next three steps involve formal discussions between postal officials at the appropriate level (local, regional, or national) and union representatives. The procedures also allow the appeal of unresolved grievances to arbitration, where a Postal Service and union selected arbitrator make a binding decision.

The GATS is a web-based tool used primarily by headquarters and field labor relations and human resources personnel to monitor and track grievances and pending arbitrations. Labor relations specialists also use the GATS to process lump-sum pay adjustments resulting from grievance decisions. The GATS allows users to create and retain grievance decision letters. Operations and Finance personnel also use the GATS when processing pay adjustments.

Objective, Scope, and Methodology

Our objective was to assess internal controls over grievance settlement decisions and payments. We also evaluated whether staff complied with established internal controls and documentation requirements. The project scope included the review period from FY 2011 through FY 2012. Additionally, the OIG reviewed two hotline complaints regarding the grievance-arbitration process to determine whether there was support for the claim.

To accomplish our objective, we determined whether grievance settlement decisions and payments were supported with written documentation. Specifically, we reviewed a random sample of 600 grievance payments from 10 of the 67 Postal Service districts. This sample included 60 grievance payments from the 10 selected districts. In addition, we reviewed contracts between the Postal Service and the four major unions and the *Employee and Labor Relations Manual* for any relevant information on the Postal Service's responsibilities related to grievance payments. We sent emails to each of the

10 districts requesting documentation to support grievance payments. We received responses for all 600 grievance payments and reviewed supporting documentation for each.

We contacted the districts and requested additional information pertaining to missing documents or reasons they were unable to provide additional information. We also interviewed area and district management as well as labor relations personnel in association with the hotline complaints. This was done to gain an understanding of the complaints and to determine whether there was support for the claim.

We conducted this performance audit from October 2012 through August 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 27, 2013, and included their comments where appropriate.

We relied extensively on computer-processed data contained in the GATS and Enterprise Data Warehouse. We traced sampled data to source documentation as a part of our review to determine whether we can rely on those systems. We also interviewed officials knowledgeable about the data and concluded that the GATS data were reliable to support the audit findings.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Grievance Settlements and Payments</i>	HR-AR-10-003	7/1/2010	\$27.8 million
<p>Report Results: Grievance payments were often not supported by adequate documentation and, as a result, \$27.8 million in unsupported questioned costs were identified. It was also found that oversight of the grievance settlement process was not consistent among the districts and that the union representatives received grievance payments to which they may not have been entitled. Management agreed with one recommendation and had implemented an internal control process in response to Sarbanes-Oxley Act of 2002 requirements. They also stated that they have an extensive list of training courses. Management disagreed with several aspects of the report, including the conclusion that grievance payments were often not supported by adequate documentation. Management also disagreed with the monetary impact.</p>			
<i>Grievance Overpayments in the Baltimore District</i>	HR-AR-10-001	3/8/2010	\$1.67 million
<p>Report Results: The Baltimore District made grievance overpayments of about \$1.67 million. The Postal Service agreed with our recommendations and has initiated action to recover these overpayments. We also found that internal controls over disbursements of grievance payments were insufficient.</p>			

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Unsupported Questioned Costs ⁷	\$3,388,305

We estimated the unsupported questioned costs using a two-stage sampling methodology. First, we reviewed a sample of 600 grievance payments from 10 districts for support documentation. Table 1 provides what we observed in our sample. We then used two-stage sampling⁸ theory to project our observations to the universe. The total dollar value for our universe was \$183,995,146: \$97,237,758 in FY 2011 and \$86,757,388 in FY 2012 for the 67 Postal Service districts. Based on our findings, we are 95-percent confident that at least \$3,388,305 worth of grievance payments were unsupported in FYs 2011 and 2012.

Table 1. Grievance File Review – Unsupported Payments Results by District

District	Sample	Unsupported Payments	
	Dollar Value	Number	Dollar Value
Alabama	\$14,599.07	2	\$5,020.00
Capital	6,111.61	17	2,296.91
Cincinnati	4,696.26	4	135.22
Colorado/Wyoming	5,332.02	5	1,335.87
Greater Indiana	10,698.98	7	1,086.10
Honolulu	5,722.66	3	350.00
Mississippi	12,950.00	0	0.00
Northern Ohio	8,477.90	2	490.50
Richmond	9,038.59	6	1,722.50
South Florida	3,343.96	0	0.00
Sample Results Total	\$80,971.05	46	\$12,437.10

Source: OIG analysis.

⁷ A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures but does not necessarily connote any real damage to Postal Service.

⁸ Sampling from a population whose members are themselves sets of objects and then sampling from the sets selected in the first sampling.

Appendix C: Grievance File Review - Missing Documents Results by District

Districts	Written Appeals	Decision Letters	Payment Documentation	Informal Adjustment Information
Alabama	3	1	2	0
Capital	13	16	17	0
Cincinnati	3	2	4	0
Colorado-Wyoming	1	2	5	5
Greater Indiana	16	10	7	10
Honolulu	3	2	3	0
Mississippi	17	5	0	0
Northern Ohio	12	0	2	0
Richmond	7	5	6	5
South Florida	2	2	0	6
Total*	77	45	46	26

Note: *Although we identified 97 files with missing documentation, some files were missing multiple documents; therefore, the totals shown in the table do not equal 97.

Source: OIG analysis.

Appendix D: Management’s Comments

DOUG A. TULINO
VICE PRESIDENT, LABOR RELATIONS



September 23, 2013

JUDITH LEONHARDT

SUBJECT: Draft Audit Report – Grievance Settlements and Payments
Follow Up (Report Number HR-AR-13-DRAFT)

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

Labor Relations’ Comments Regarding OIG Conclusions

While the audit by the Office of Inspector General (OIG) determined that grievance payments were adequately supported, it “identified a small number of grievance payments that were not supported.” Specifically, the OIG randomly sampled 600 grievance files. Of those 600, it found 97 files that lacked supporting documentation, “including 46 that did not include support for grievance settlements and payments, resulting in about \$3.4 million in unsupported questioned costs.”

During the August 29 draft discussion meeting, my staff requested specifics about the 46 files with “unsupported payments.” On September 9, the OIG identified 42¹ grievances. The Labor Relations office evaluated the OIG’s conclusion by conducting a review of the 42 grievances using the Grievance Arbitration Tracking System (GATS). The GATS review revealed that all grievances contained decision letters, 21 decision letters were missing the names of the payee in the decision², and of the 21 grievances, only 2 lacked the requisite justification for the payout.

Based on the GATS review, Labor Relations does not agree with the OIG’s conclusion of a potential \$3.4 million in unsupported questioned costs and request this statement be eliminated or corrected. As demonstrated by the GATS review, missing settlement documentation in a case file does not necessarily correlate to unsupported and questionable costs. In footnote 9 of the Audit Report, the OIG admits that this claim “does not necessarily connote any real damage to Postal Service.”/sic/

Moreover, the discrepancy between the number of grievances cited in the report and the

¹ The list provided by the OIG contained 45 grievance numbers. Three of the 45 grievance numbers were listed twice.

² The decisions stated that the names of the payees would be provided by the union and each payee was listed with the amounts of payment in the payout history.

actual number of grievances identified also calls into question the validity of the OIG's analysis.

Recommendation

We recommend vice president, Labor Relations direct district managers, Labor Relations, to: /sic/

1. Issue a reminder re-emphasizing to managers the importance of adhering to existing internal control guidelines, specifically as they relate to using Grievance Arbitration Tracking System alerts to monitor grievance activity and document handling to ensure completeness of grievance case files.

Response

Labor Relations agrees to re-issue its February 3, 2011, memorandum on Grievance and Arbitration Tracking System Internal Controls to the Managers, Labor Relations (District), with an emphasis on GATS alerts and case file documentation.



Doug A. Tulino