



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

**City Carrier
Management
and
Compensation**

**Management
Advisory Report**

Report Number
HR-MA-15-001

December 2, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service paid about \$1.2 million for city carrier overtime, per 100 bargaining employees; however, overtime for rural carriers was only \$236,000 per 100 bargaining employees.

Background

In fiscal year (FY) 2013, the U.S. Postal Service paid \$21.7 billion in carrier compensation — \$15.5 billion for city carriers and \$6.2 billion for rural carriers. Carriers represent about 48 percent of 491,000 career postal employees and are the largest personnel expense for the Postal Service.

Compensation for city and rural carriers is determined very differently. City carriers are generally full-time employees and are guaranteed 40 hours per week, 8 hours per day. Conversely, rural carriers are compensated based on a predetermined rate per route. That rate takes into account mail volume, daily miles traveled, number of mailboxes served, and fixed or variable time allowances. In addition, city carriers are paid overtime for work performed over 40 hours in a week, whereas rural carriers are typically paid overtime when they work more than 2,080 hours annually.

Carrier compensation has been discussed for many years, with studies on compensation costs conducted by the Postal Regulatory Commission dating back to 1992. Postal Service management is currently studying rural carrier time standards, which may impact the current rural carrier compensation system. This study, estimated to be completed in May 2015, will also focus on ensuring delivery time frames are fair and reasonable tasks are assigned to carriers.

Our objective was to assess city carrier management and associated compensation. This report is a follow-up to our *Postal Service Work Rules and Compensation Systems* audit report, dated September 19, 2011.

What the OIG Found

The Postal Service implemented a number of tools to track and manage city carrier operations; however it remains challenging to supervise city carriers. Also, the Postal Service continues to experience excessive supervisory, overtime and grievance costs related to city carriers.

Specifically, supervisors have more activities to manage for city carriers compared to rural carriers, such as managing daily workhours and work load activity. In addition, for each 100 bargaining employees, supervisory costs for city carriers, including salary and benefits, were about \$440,000 in FY 2013, compared to rural carrier supervisory costs of \$220,000. In addition, the Postal Service paid about \$1.2 million for city carrier overtime, per 100 bargaining employees; however, overtime for rural carriers was only \$236,000 per 100 bargaining employees. Furthermore, management handled about █ grievances with payouts totaling █ for city carriers for every 100 bargaining employees, compared to █ grievances totaling █ each for every 100 rural carriers. These costs are evidence that it is more costly and difficult to supervise city carriers in every neighborhood.

Furthermore, compensation costs per delivery are significantly higher for city carriers than for rural carriers – in FY 2013, city carriers' compensation costs averaged 58 cents per delivery point, while rural carriers' averaged 49 cents. There are about 133 million delivery points nationwide.

In addition to the higher overall administrative and compensation costs associated with city carriers, there is little incentive for carriers to be more productive and finish routes faster because they are paid hourly. Because of changes in the Postal Service's business environment, including an increase in the number of package deliveries and the adjustment of delivery routes, the Postal Service has an increasing need for carrier efficiency.

Developing a compensation system for city carriers based on time standards for specific tasks rather than hours worked would allow management to reduce supervisory costs, grievance payouts, and administrative costs, while increasing overall efficiency. Paying city carriers hourly results into longer workhours; whereas, a different compensation system could incentivize higher productivity. Therefore, such changes could reduce compensation costs by at least \$1.3 billion in FY 2015.

What the OIG Recommended

We recommended the chief human resources officer and executive vice president develop a city carrier compensation system based on time standards for specific tasks completed by a carrier.

In fiscal year (FY) 2013, the U.S. Postal Service paid \$21.7 billion in carrier compensation; \$15.5 billion for city carriers and \$6.2 billion for rural carriers.

City 

Rural 



Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 2, 2014

MEMORANDUM FOR: JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER AND
EXECUTIVE VICE PRESIDENT

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop


FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Revenue and Resources

SUBJECT: Management Advisory Report – City Carrier
Management and Compensation
(Report Number HR-MA-15-001)

This management advisory report presents the results of our review of City Carrier Management and Compensation (Project Number 14YG014HR000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

Because of changes in the Postal Service's business environment, including an increase in the number of package deliveries and the adjustment of delivery routes, the Postal Service has an increasing need for carrier efficiency.

Introduction

This management advisory report presents the results of our self-initiated review of City Carrier Management and Compensation (Project Number 14YG014HR000). The report is a follow-up to our *Postal Service Work Rules and Compensation Systems* audit report, dated September 19, 2011. Our objective was to assess city carrier management and associated compensation. See [Appendix A](#) for additional information about this review.

In fiscal year (FY) 2013, the U.S. Postal Service paid \$21.7 billion in carrier compensation; \$15.5 billion for city carriers and \$6.2 billion for rural carriers. Carriers make up about 48 percent of the 491,000 career employees and are the largest personnel expense for the Postal Service. Compensation for city and rural carriers is determined very differently. City carriers are generally full-time employees and are guaranteed 40 hours per week, 8 hours per day, whereas rural carriers are compensated based on a rate per route completed. This rate is calculated using mail volume, daily miles traveled, number of mailboxes served, and fixed or variable time allowance.

Conclusion

The Postal Service implemented a number of tools to track and manage city carrier operations; however it remains challenging to supervise city carriers. Also, the Postal Service continues to experience excessive supervisory, overtime and grievance costs related to city carriers. Specifically, supervisors have more activities to manage for city carriers, such as managing daily workhours and workload activities. In addition, for each 100 bargaining employees, supervisory costs for city carriers, including salary and benefits, were about \$440,000 in FY 2013, compared to rural carrier supervisory costs of \$220,000. In addition, the Postal Service paid about \$1.2 million for city carrier overtime; however, overtime for rural carriers was only \$236,000 per 100 bargaining employees. Management handled about █ grievances with payouts totaling █ for city carriers for every 100 bargaining employees, compared to █ grievances totaling █ each for every 100 rural carriers. These costs are evidence that it is more costly and difficult to supervise city carriers in every neighborhood. Furthermore, compensation costs per delivery are significantly higher for city carriers than for rural carriers — in FY 2013, city carriers' compensation costs averaged 58 cents per delivery point, while rural carriers' averaged 49 cents. There are about 133 million delivery points nationwide.

In addition to the higher overall administrative and compensation costs associated with city carriers, there is little incentive for carriers to be more productive and finish routes faster because they are paid hourly. Because of changes in the Postal Service's business environment, including an increase in the number of package deliveries and the adjustment of delivery routes, the Postal Service has an increasing need for carrier efficiency.

Postal Service management is currently studying rural carrier time standards, which may impact the current rural carrier compensation system. This study, estimated to be completed in May 2015, will also focus on ensuring delivery time frames are fair and reasonable tasks are assigned to carriers. Similarly, by developing a compensation system for city carriers based on time standards for specific tasks rather than hours worked would allow management to reduce supervisory costs, grievance payouts, and administrative costs, while increasing overall efficiency. Paying city carriers hourly results into longer workhours; whereas, a different compensation system could incentivize higher productivity. Therefore, such changes could reduce compensation costs by at least \$1.3 billion in FY 2015.

Carrier Management

The Postal Service faces significant challenges managing city carrier delivery operations. This is most evident in carrier supervision. The evaluated route system¹ used in rural delivery requires fewer management systems and controls than management of city carriers. Supervisors have more activities to manage for city carriers compared to rural carriers, such as managing daily workhours and workload activity. A comparison of the relative cost of city and rural carriers' supervisory functions, overtime, and overtime grievances, shows city carrier costs are significantly higher than those of rural carriers.

Management Tools

The Postal Service has 44 systems that contain city delivery data that it uses to manage city delivery.² The primary systems management uses include:

- Delivery Operations Information System (DOIS) — Centralized system that manages daily workhours and work load activity.
- Enterprise Data Warehouse (EDW) — Single repository for managing all of the Postal Service's operational data.
- Delivery Data Mart (DDM) — Provides easy access to delivery data and critical business information used for performance management, operational, and strategic analysis.
- eFlash — Provides combined data from delivery, mail processing, employee relations, labor relations, and finance on a weekly basis.

In total, these systems generated about 160 reports and contained thousands of data points.³ Management streamlined some reporting requirements, but they still have several systems to monitor and reports to review for city delivery operations. In contrast, rural delivery operations have about 15 management tools available to manage operations. Although rural operations do not have a centralized system, such as DOIS, management indicated the evaluated route system used by rural delivery does not require a daily centralized tool to meet delivery requirements.

Supervisory Costs

Supervisory costs,⁴ including salary and benefits, for carrier operations totaled about \$883 million in FY 2013, with city carriers accounting for \$736 million (83 percent) of supervisory costs and rural carriers accounting for just \$147 million (17 percent) (see [Table 1](#)).

1 Evaluation of a rural route is determined by mail volume, daily miles traveled, number of boxes served, and fixed or variable time allowances. Mail counts are conducted and include all classes of mail handled by each rural carrier and are performed daily during a specific period each year as identified by the union agreement.

2 *Delivery Operations Data Usage* (Report Number DR-AR-13-001, dated October 11, 2012).

3 Data points represent an identifiable element in a data set.

4 Workhour-related costs for about 10,781 first-line supervision of city delivery carriers and rural carriers and 7,000 postmasters who also may perform supervisory activities of solely rural carriers.

Table 1. FY 2013 Carrier Supervisory Costs

Category	Supervisory Costs (in thousands)	Percentage of Supervisory Costs	Number of Bargaining Employees	Cost Per 100 Bargaining Employees⁵
City Carrier	\$736,142	83%	167,365	\$440,000
Rural Carrier	146,591	17%	66,121	\$220,000
Total	\$882,733			

Source: U.S. Postal Service Office of Inspector General (OIG) Analysis including data from the Postal Service IOCS. ⁶

In general, supervisory activities have a direct correlation with cost. For example, supervisors have more management tools to monitor and higher labor costs to manage for city carriers than rural carriers. In addition, supervisors have to align and adjust city carrier routes to match changing workloads, monitor operational exceptions, and manage whether carriers arrive at locations along the route in a timely manner. In contrast, rural carrier supervisors use fewer management tools and rely on the annual evaluation of routes to determine the appropriate workload.

Overtime Costs

The Postal Service's carrier overtime costs totaled about \$2 billion for FY 2012, while overtime for FY 2013 increased 9 percent to about \$2.2 billion. City carrier overtime costs were 94 percent (\$1.9 billion) of total overtime costs in FY 2012 and 93 percent (\$2 billion) in FY 2013. Rural carrier overtime costs were only about 6 percent (\$112 million) of total overtime costs in FY 2012, and about 7 percent (\$156 million) in FY 2013 (see Table 2).

Table 2. Overtime Costs

Category	Fiscal Year	Total Overtime Costs	Percentage of Overtime Costs	Cost Per 100 Bargaining Employees
City Carrier	2013	\$2,027,562,537	93%	\$1,211,461
Rural Carrier		156,279,810	7%	\$236,354
Total		\$2,183,842,347		
City Carrier	2012	\$1,895,747,169	94%	\$1,072,292
Rural Carrier		111,922,834	6%	\$168,214
Total		\$2,007,670,003		

Source: Postal Service Payroll System.

⁵ Cost per 100 bargaining employees is used to show an equal comparison between city and rural carriers.

⁶ The In-Office Cost System (IOCS) is the primary probability sampling system used to distribute the labor costs of clerks, mail handlers, city carriers, and supervisors to the activities carried out by those employees, particularly activities related to the handling of mail.

City carriers are paid by the minute and hour, and must receive overtime pay for hours worked in excess of 40 hours per work week at a rate not less than time and one-half of their regular rate of pay.⁷ However, rural carriers are paid based on route evaluations conducted annually and only receive overtime for excess hours worked over the course of 1 year, not 1 week, unless they work more than 12 hours in 1 day, or 56 hours in a work week.⁸ As a result, city carriers have more incentive to work overtime than rural carriers.

Grievance Costs

Delivery managers handled over [REDACTED] grievances for city carriers and [REDACTED] grievances for rural carriers in FY 2013. More specifically, there were [REDACTED] grievances for every 100 city carrier bargaining employees compared to [REDACTED] for every 100 rural carriers (see Table 3).

Table 3. Total Grievances and Costs

Category	Fiscal Year	Number of Grievances	Grievances Per 100 Bargaining Employees	Total Grievance Costs	Cost Per 100 Bargaining Employees
City Carrier	2013	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	2012	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Rural Carrier	2013	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	2012	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Postal Service Grievance Arbitration and Tracking System (GATS).

In general, grievances can be time consuming and costly. Grievances are filed for a dispute, difference, disagreement, or complaint between parties related to wages, hours, and conditions of employment. Union grievances involve the interpretation or application of, or compliance with, the provisions of the agreement or any local Memorandum of Understanding not in conflict with the agreement.⁹

Additionally, the Postal Service paid over [REDACTED] and [REDACTED] in overtime grievance payments to city carriers in FYs 2012 and 2013, respectively, while rural carriers' grievance payments only totaled about [REDACTED] in FY 2012 and [REDACTED] in FY 2013 (see Table 4).

⁷ Fair Labor Standards Act (FLSA), Section 7(b) (2).

⁸ *Postal Service Work Rules and Compensation Systems* (Report Number HR-AR-11-002, dated September 19, 2011).

⁹ *Collective Bargaining Agreement between the American Postal Workers Union, American Federation of Labor - Congress of Industrial Organizations and the U.S. Postal Service*, Article 15, Section 1, page 87, November 21, 2010.

By developing a compensation system for city carriers based on time standards for specific tasks rather than hours worked would allow management to reduce supervisory costs, grievance payouts, and administrative costs, while increasing overall efficiency. Further, such changes could reduce compensation costs by at least \$1.3 billion in FY 2015.

Table 4. Overtime Grievance Costs

Category	Fiscal Year	Total Overtime Grievance Costs	Percentage of Overtime Grievance Costs	Cost Per 100 Bargaining Employees
City Carrier	2013			
	2012			
Rural Carrier	2013			
	2012			

Source: GATS.

According to management, the disparity between city and rural carrier overtime grievance costs is mainly the result of the differences in the use and administration of overtime. Management emphasized the evaluated rural route system and its impact on overtime, stating that overtime compensation is built into the annual salary received by rural carriers, which leads to less opportunity for administrative errors.

Compensation Cost

In FY 2013, city carriers averaged 58 cents (per delivery point) in compensation, whereas rural carriers averaged 49 cents. In addition, the average hourly rate was \$42.77 for city carriers while rural carriers averaged \$35.06. The compensation costs will continue to be higher for city carriers in FY 2015, when they will be paid about 54 cents per delivery compared to 49 cents for rural carriers. Using this 5 cent cost difference, we determined the Postal Service could save at least \$1.3 billion in FY 2015 if city carriers were compensated in the same way as rural carriers.

In addition to the higher overall administrative and compensation costs associated with city carriers, there is little incentive for carriers to be more productive and finish routes faster because they are paid hourly. Because of changes in the Postal Service’s business environment, including an increase in the number of package deliveries and the adjustment of delivery routes, the Postal Service has an increasing need for carrier efficiency.

Presently, the Postal Service is under severe financial pressure and needs to find ways to increase efficiency and reduce costs. Postal Service management is currently studying rural carrier time standards, which may impact the current rural carrier compensation system. This study, estimated to be completed in May 2015, will also focus on ensuring delivery time frames are fair and reasonable tasks are assigned to carriers. Similarly, by developing a compensation system for city carriers based on time standards for specific tasks rather than hours worked would allow management to reduce supervisory costs, grievance payouts, and administrative costs, while increasing overall efficiency. Further, such changes could reduce compensation costs by at least \$1.3 billion in FY 2015.

Recommendation

We recommend management develop a city carrier compensation system based on time standards for specific tasks completed by a carrier.

We recommend the chief human resources officer and executive vice president:

1. Develop a city carrier compensation system based on time standards for specific tasks completed by a carrier.

Management's Comments

Management disagreed with the finding, recommendation, and monetary impact. They expressed concern regarding the amount of monetary savings estimated by the OIG and the method used to calculate potential monetary savings. Management also believes the subject matter is inappropriate for an OIG advisory report because the compensation systems for city and rural carriers can only be addressed through the collective bargaining process. They pointed to similar comments in the OIG audit report, *Postal Service Work Rules and Compensation Systems* (Report Number HR-AR-11-002, dated September 19, 2011) where they expressed concerns regarding monetary savings and the impact of the audit report on collective bargaining negotiations underway at the time.

In regard to our assessment of management tools, management indicated the report lacked an explanation of the relevance of the systems, reports, and tools to the subject matter. They stated it is unclear whether the 15 management tools used by rural delivery operations are a system or a report. Management also stated only DOIS is used on a daily basis and that DDM and eFlash are not maintained by the delivery supervisor or used daily.

Management expressed concern regarding the use of supervisory costs in supporting the OIG's conclusion. They stated the OIG did not consider rural carriers supervised by postmasters. In addition, they stated all supervisory hours in city delivery are not attributed to management of city delivery routes. Rather, supervisor hours are also used to manage collections, parcel runs, and the vehicle fleet. Furthermore, management stated the OIG did not provide a formula for the supervisory costs; and therefore, they could not comment on the accuracy of the figures.

Regarding the analysis of overtime and grievance costs, management stated the OIG failed to account for the differences between overtime built into the evaluation of rural carrier routes and the city carrier routes, which do not include overtime. They also stated the OIG did not take into account the different sizes of the rural and city employee populations. As a result of the differing compensation systems, management indicated overtime opportunities for rural carriers are limited. Consequently, there will be higher number of disputes resulting in grievances related to overtime for city carriers. In addition, management indicated the OIG incorrectly referenced FLSA, Section 7(b)(2) as being applicable to city carriers.

For compensation costs, management stated the OIG did not consider the non-career workforce in determining labor costs. In addition, they stated the OIG assumes equivalent delivery processes for both city and rural carriers with the only difference being the compensation method. Management further stated they are currently engaged in a study to develop changes to the evaluated compensation system. As a result, they are deeply concerned that a report of this nature will negatively impact its ability to make change through that study.

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

Evaluation of Management's Comments

The OIG considers management's comments non-responsive to the recommendation in the report. Management states their reason for rejecting the recommendation is that such changes would have to be negotiated. We recognize pursuing such a change would require agreement among multiple organizations; however, the large potential for associated savings and efficiency gains would more than justify pursuing such a challenge.

The significance of reporting on the number of systems, reports, and tools is that it shows the disparity in what is required to manage the different carriers. In our prior audit *Delivery Operations Data Usage* (Report Number DR-AR-13-001, dated October 11, 2012), management agreed with our assessment that an evaluated compensation system requires fewer management systems and does not require a daily route management system. In addition, the OIG recognizes that supervisors may not maintain all the systems identified in this report or in the *Delivery Operations Data Usage* report. However, this report does not discuss the frequency of use for each system. As stated previously, identifying the number of systems only demonstrates the disparity in carrier management.

Regarding supervisory costs, we obtained the supervisory cost data from the IOCS system which the Postal Service uses to prepare the Cost and Revenue Analysis report, an annual report that the Postal Service files with the Postal Regulatory Commission. The Postal Service does not allocate labor costs of postmasters. Based on management's comments, we calculated a reasonable estimate of the cost of postmasters' supervision of rural carriers using the 7,000 postmasters that supervise rural carriers provided by management. Our estimate included a postmaster's hourly rate¹⁰ and an average supervisory time of 1.5 hours per day.¹¹ Using these assumptions, we revised supervisory costs for rural carriers from 88,000 to 220,000 per 100 bargaining employees and updated the report. Comparing these revised costs to supervisory costs for city carriers of \$440,000 per 100 bargaining employees. As shown, supervisory costs for city carriers were still significantly more than the supervisory cost for rural carriers. This estimate does not consider whether any of the 7,000 postmasters also supervised city carriers. Lastly, the supervisory costs obtained from the IOCS system included first-line supervision but do not include the indirect supervisory costs of managing collections, parcel runs and the vehicle fleet activities for either city or rural carriers.

Regarding overtime, we recognize rural routes can exceed 40 hours per work week because of the evaluated compensation system. However, as stated in the report and pointed out by management, the rural carriers are exempt from the FLSA requirement for weekly overtime compensation. They are typically paid overtime when they work more than 2,080 hours annually. In addition, we account for the different size in employee populations by displaying all cost figures based on cost per 100 bargaining employees. This ensures a more equitable comparison. Similarly, we believe the FLSA exemption for rural carriers is one reason for less overtime; and therefore, the lower overtime grievance costs. Furthermore, the reference to FLSA Section 7(b)(2) in the report only refers to the exemption applied to rural carriers. The report does indicate city carriers are not exempt from FLSA and receive the overtime rate when working more than 40 hours per week.

¹⁰ For postmaster salary, we used \$32.31 hourly rate, which corresponds to post offices under cost ascertainment group L. These offices have fewer than 36 revenue units.

¹¹ Postmasters could spend .5 to 2.5 hours per day managing rural carriers' activities based on OIG observations. Therefore, we used an average of 1.5 hours per day.

The OIG did not consider the non-career workforce because the career carriers represent about 48 percent of the 491,000 career postal employees and provided the greatest opportunity for cost savings. In addition, the OIG assessed the delivery processes for both city and rural carriers in our prior *Postal Service Work Rules and Compensation Systems* report, which indicated most of the carriers' activities were similar. However, the report noted slight differences such as administrative activities and possible differences due to the geographic location.

The OIG does not plan to formally pursue audit resolution. The significant recommendation will be closed with the issuance of this report. However, we will continue to evaluate opportunities for a compensation system based on time standards for specific tasks completed by a carrier would identify efficiencies that will assist the Postal Service in reducing costs.

Appendices

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Appendix A: Additional Information

Background

In fiscal year (FY) 2013, the U.S. Postal Service paid \$21.7 billion in carrier compensation — \$15.5 billion for city carriers and \$6.2 billion for rural carriers. Carriers represent about 48 percent of 491,000 career postal employees and are the largest personnel expense for the Postal Service.

The FLSA requires the Postal Service to pay employees one and one-half times their regular rate for any hours worked in excess of 40 hours per work week. This rule applies to most Postal Service bargaining unit employees, including city carriers; however, rural carriers are exempt from this requirement.¹² Pursuant to an agreement made as a result of collective bargaining between the Postal Service and the National Rural Letter Carrier Association rural carriers use an evaluated route system. Under this system, they are paid for overtime worked over 1 year, but not overtime worked over 1 week, unless they work more than 12 hours in 1 day, or 56 hours in a work week.

Evaluation of a rural route is determined by mail volume, daily miles traveled, number of mailboxes served, and 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 has a number of systems that contain critical data used to manage day-to-day city and rural delivery operations. City delivery's major system is DOIS, which was deployed for all Postal Service areas in FY 2001 at a cost of \$119.6 million. DOIS was designed to reduce delivery workhours by providing supervisors with actionable data on available resources to handle daily workload. Over the years, DOIS has evolved and now interfaces with other key systems, such as the EDW and, more specifically, the DDM, Customer Daily Variance, and eFlash. In addition, rural delivery has systems and data to manage operations, such as EDW, eFlash, and the Rural Delivery Variance.

The carrier compensation systems have been studied for many years. For example, the Postal Regulatory Commission conducted three studies related to Postal Service costs dating back to 1992. These studies included evaluations of city and rural carrier compensation costs.¹³

Postal Service management is currently conducting a study to evaluate rural carrier time standards, which will impact the compensation system. The current time standards are outdated and not based on engineering principles. This study, which is expected to be completed by May 20, 2015, will address this issue. In addition, the study will focus on fairness and reasonableness for tasks assigned.

¹² FLSA, Section 7(b) (2).

¹³ *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.

Objective, Scope, and Methodology

Our objective was to assess city carrier management and associated compensation. To accomplish our objective we:

- Analyzed FYs 2012 and 2013 carrier cost data for overtime, overtime grievances, and supervisory activities.
- Analyzed carrier compensation and the number of grievances.
- Conducted interviews to understand disparities between city and rural carrier costs.

We conducted this review from May through December 2014, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on September 15, 2014, and included their comments where appropriate.

We assessed the reliability of GATS, Time and Attendance Controls System, Address Management System data by tracing selected information to supporting source records and reviewing related internal controls. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Delivery Operations Data Usage</i>	DR-AR-13-001	10/11/2012	None
<p>Report Results: We found city delivery operations have a substantial amount of systems, reports, and data to manage operations. Further, our assessment of 32 prior delivery reports showed ongoing issues with data usage, availability, and accuracy. For rural delivery, there is no centralized system containing routes, workhours, and other management information. These conditions occurred because management had not streamlined city delivery data and reporting needs or re-emphasized data and report operating procedures for delivery managers. Management indicated the evaluated rural route structure does not require a daily route management system. Management agreed with the findings and recommendations.</p>			
<i>Postal Service Work Rules and Compensation Systems</i>	HR-AR-11-002	9/19/2011	\$2.5 billion
<p>Report Results: We determined that certain contract provisions and compensation arrangements limit the Postal Service's ability to manage its human resources effectively and efficiently. Delivery of the mail is the largest cost center in the Postal Service. The Postal Service spends about \$30 billion 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.</p> <p>To address these inconsistencies, management needed 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 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. Management disagreed with our findings, recommendations, and monetary impact.</p>			

Appendix B: Management's Comments

JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER
AND EXECUTIVE VICE PRESIDENT



October 16, 2014

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report—City Carrier Management and Compensation
(Report Number HR-MA-14-DRAFT)

This is in response to the above referenced draft audit report. As indicated in our reply to a similar audit report (HR-AR-11-002, dated September 19, 2011), the Postal Service has concerns over the amount of projected savings and the method used to calculate the estimated savings by the OIG team. We disagree with the findings and the monetary impact the OIG attributed to their recommended compensation change. The entire report should be classified as "restricted" and exempt from disclosure under the Freedom of Information Act. The report and response contains Pre-decisional and Privileged, Commercially Sensitive information that could be used to adversely impact contract negotiations of the collective bargaining agreements. This document is subject to FOIA Exemptions 3, 4, 5 and 39 USC 410 (c) (3).

In addition, and as an initial matter, the Postal Service believes that the subject matter is inappropriate for an OIG Advisory Report. The compensation system for Postal Service bargaining unit employees, including city and rural letter carriers, is a matter that can be addressed only in the collective bargaining process through mutual agreement of the parties or the decision of an arbitrator consistent with statutory obligations. The opinion of the OIG on bargaining unit compensation should not be relevant in that context. Unfortunately, however, as you may recall, prior work by the OIG in this context (e.g. Report HR-AR-11-002) was used by the National Rural Letter Carriers' Association (NRLCA) in an interest arbitration hearing over the terms of the 2010 collective bargaining agreement to argue against the Postal Service's position on adjusting the rural compensation system.

Further, as with the prior report, the Draft Management Advisory Report provides no analysis or rationale to support the conclusion that the difference in cost between city and rural carriers is due to the different compensation systems. More pointedly, the Draft Report fails to substantiate the assertion that there exists a potential savings in its recommendation of \$1.3 billion per year.

The report specifically references the following factors under *Carrier Management* in making the final conclusion: management tools, supervisory costs, overtime costs, grievance costs. In addition, *Compensation Cost* is addressed. Each item is discussed below:

Management Tools

The report asserts that the Postal Service uses 44 systems to manage city delivery and those systems generate a total of "about 160 reports." The report goes on to contend that "in contrast, rural delivery operations have about 15 management tools available to manage operations." It is unclear whether the referenced "15 management tools" are the same or similar to a "system" or "report" used for the management of city delivery operations or something else altogether. The report lacks an explanation of the relevance of these systems, reports and tools to the subject matter.

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The OIG report specifically identifies only four ("primary") systems used in city delivery operations: Delivery Operation Information System (DOIS), Enterprise Data Warehouse (EDW), Delivery Data Mart (DDM) and eFlash. The report does not specifically identify any of the approximately 160 reports used by the delivery supervisor or higher level management.

Of the systems mentioned only DOIS is used by a delivery supervisor on a daily basis. EDW, as the name describes, is a warehouse of information which is typically used by higher level management, not the delivery supervisor. DDM is a sub-set of EDW and includes data related to delivery. However, neither DDM nor eFlash is maintained by the delivery supervisor or used by a city carrier supervisor on a daily basis.

Regarding DOIS, that system is used by delivery supervisors on a daily basis to manage city carriers. The main function of DOIS is to assist the delivery supervisor in evaluating the daily workload and allocating the appropriate resources to that workload. This system also provides the supervisor with feedback related to the street activities of the routes and analysis of the street scans to help the supervisor identify where there may be potential issues for the carriers on the street.

Supervisory Costs

We have several concerns with the reports reliance on supervisory costs to justify your conclusion. The report only addresses supervisory costs related to managing delivery. It does not account for costs of supervising rural carriers in over 7,000 delivery units that are managed solely by postmasters.

With respect to the report's claim that "supervisors have to align and adjust city carrier routes to match changing workloads, monitor operational exceptions, and manage whether carriers arrive at locations along the route in a timely manner," we note that those tasks are facilitated by DOIS. As such, these tasks are not typically labor-intensive.

Furthermore, all supervisory hours in city delivery are not attributed to management of city delivery routes, as the report suggests. Rather, supervisor hours are also used to manage collections, parcel runs, and our vehicle fleet (including LLVs used by rural carriers).

The OIG report does not provide the formula used to calculate Table 5 (Carrier Supervisory Cost Trend) in Appendix B. As such, we cannot comment on its accuracy, including the reported 31 percent drop in rural supervisory costs between fiscal years 2011 and 2012.

Overtime Costs

We disagree with your analysis of overtime cost as a means to justify your recommendation. It is inaccurate to compare overtime use under two completely different compensation systems. For example, the Draft Report compares rural routes that have overtime built into the evaluation (with limited overtime opportunities outside the evaluated time) with city routes that are built purely on straight time hours. The report considers limited overtime used by rural carriers (rural opportunities are limited to one day per week for approximately 62 percent of all rural routes and the month of December for all routes) but does not account for overtime that is built into the routes and compares that to total city carrier overtime where generally overtime is not built into the routes and there are 303 days per year that overtime can be assigned. Failure to account for those differences results in inaccurate conclusions.

Furthermore, the report neglects to take into account the different sizes of the rural and city employee populations. There are currently approximately 162,400 full-time city letter carriers compared to approximately 65,900 regular rural carriers.

Additionally, rural carriers currently fall under an exemption to the Fair Labor Standards Act (FLSA)¹. For this exemption to be applicable to city carriers a change in the collective bargaining agreement and an exemption from the Department of Labor would be required.

Grievance Costs

As with the section on overtime, the Draft Report does not properly consider the different sizes of the rural and city employee populations in its analysis on grievances. As we noted above, there are currently approximately 162,400 full-time city letter carriers compared to approximately 65,900 regular rural carriers.

Additionally, the OIG report does not factor in that rural routes have overtime built into the evaluation and city letter carriers work on an hourly basis, with city carriers earning overtime after eight hours in a workday or 40 hours in any given service week. As a result of these differing systems, overtime opportunities for rural carriers are limited to once per week and the month of December while city carriers may work overtime six days a week throughout the year.

It follows that there will be a higher number of disputes resulting in grievances related to overtime from city letter carriers.

Compensation Cost

The methodology used in this Draft Report fails to acknowledge all applicable factors. For example, the non-career workforce does not appear to be considered when determining labor costs of either rural or city delivery.

Further, the Draft Report seems to assume equivalent delivery processes for both city and rural carriers, with the only difference being the compensation method. Rural delivery is primarily mounted curbside delivery, but city delivery has multiple route types, including walking routes, motorized routes, and park and loop routes. City delivery also has varied types and locations of delivery points which have an impact on the amount of time it takes to deliver.

As a result, all things are not equal, and differences like these must be accounted for when developing a realistic cost comparison.

The OIG recommendation and the Postal Service's response follow:

Recommendation: We recommend the chief human resources officer and executive vice president:

1. Develop a city carrier compensation system based on time standards for specific tasks completed by a carrier.

Management Response/Action Plan: Management rejects the recommendation.

As discussed, we disagree with the premise for the estimated savings stated in this Draft Report. The report suggests that the rural evaluated compensation system as currently constructed is optimal. The reality is the rural evaluated compensation system is outdated and difficult to change. In a business environment where creating new and innovative products and services are required, having a flexible workforce is a business necessity. The structure of an evaluated compensation system does not lend itself to changes and flexibility.

The 2010 collective bargaining agreement with the NRLCA required the parties to conduct a study to develop changes in the evaluated compensation system. The parties are currently engaged in that process and are awaiting the outcome. We are deeply concerned that another

¹ Footnote 10 of the Draft Report incorrectly references FLSA subsection 7(b)(2) as applicable to city letter carriers.

report of this nature will negatively impact our ability to make much-needed changes to the evaluated compensation system through the current study and in future bargaining with the NLRCA.

Lastly, as previously stated, any modification to the way we compensate our city carriers has to be addressed in the collective bargaining process through mutual agreement of the parties or by a decision of an arbitrator consistent with our statutory obligations. In the past the National Association of Letter Carriers (NALC) has opposed such a change. For obvious reasons, a published OIG report that indicates the city letter carrier bargaining unit would be economically disadvantaged by the change in compensation systems will not be likely to be helpful to the Postal Service in our efforts to effect change.

As stated in our response to Report HR-AR-11-002, and explained above, any public release of either the OIG report or our management response concerning the differing compensation systems will have significant adverse impact to the Postal Service's position in collective bargaining or interest arbitration. As noted earlier, the NRLCA used OIG Report HR-AR-11-002 as an exhibit in interest arbitration to support its position on compensation, including proposed modifications to the compensation system. Given our upcoming negotiations with the NRLCA and future NALC bargaining, I am profoundly concerned that a second report on this subject will further hinder our ability to achieve our bargaining objectives.

For all of the reasons stated above, I request that all discussion concerning compensation be withheld in its entirety.



Jeffrey C. Williamson



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