



June 14, 2011

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SUBJECT: Audit Report – New Approaches to Reduce Costs
(Report Number FF-AR-11-009)

This report presents the results of our audit to determine whether the U.S. Postal Service can implement new approaches to reduce costs (Project Number 10BO010FF000). The objective of the audit was to evaluate Postal Service opportunities to increase efficiency and reduce costs associated with U.S. Postal Inspection Service's activities and armed security forces, postage stamp management, and employee benefits. This self-initiated audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

In fiscal year (FY) 2010, the Postal Service continued to see a decline in mail volume and revenues, resulting in a loss of nearly \$8.5 billion. This was due to the recent recession, continuing economic pressures, migration of mail to electronic media, and mandatory prefunding of retiree health benefits. The Postal Service has initiated unprecedented cost cutting in recent years, saving more than \$9 billion in FYs 2009 and 2010 alone, primarily by cutting workhours, renegotiating contracts, and significantly decreasing capital spending. The Postal Service has also sought congressional relief in the form of restructuring the payments to the retiree health benefits fund, flexibility in closing Post Offices, and the ability to deliver mail less frequently. Without substantial and continued cost reductions, the FY 2011 loss is expected to be comparable to or larger than the FY 2010 loss.

Conclusion

The Postal Service has opportunities to save \$143 million annually and as much as \$1.4 billion over the next 10 years, by reducing costs for investigative activities and armed security forces, expanding the Forever[®] stamp program, and reducing employee benefits to align with other federal government agencies.

Reduce Postal Service Costs for Investigative Activities

The Postal Inspection Service conducts investigations that are not inherently related to Postal Service operations or mission. We found that more than 34 percent of investigative activities do not directly support protection of Postal Service assets, Postal Service employees, or the mail system. Further, by pursuing work outside of these core areas, the Postal Inspection Service has moved away from its primary responsibility to protect the Postal Service, secure the nation's mail system and ensure public trust in the mail. These non-postal investigative activities involve areas where other agencies have primary jurisdiction; the casework benefits all Americans, not solely postal ratepayers; or the work does not align with the mission of the Postal Service. Eliminating these activities could realize annual cost savings of \$77 million or \$766 million over the next 10 years. For example:

- The Postal Inspection Service expended approximately [REDACTED] workhours in mail fraud investigations through February 2010. However, according to the U.S. Attorney's Criminal Resource Manual, the Federal Bureau of Investigation (FBI) has primary investigative jurisdiction for mail fraud. Mail fraud is the largest single Postal Inspection Service program area, yet investigations are not limited to defrauding the Postal Service. These cases can be ancillary to other crimes being committed against the public, and use of the mail may be incidental to the fraud committed. These cases could be handled by the primary investigative agency with jurisdiction. Cases in which mail fraud is a significant factor in the crime being committed could be handled jointly with the Postal Service.
- The Postal Inspection Service expended nearly [REDACTED] workhours in mail and identity theft. The U.S. Secret Service is the primary federal agency tasked with investigating identity theft and fraud and its related activities. These investigations often involve investigating other related crimes. The FBI, U.S. Immigration and Customs Enforcement (ICE), and the Postal Inspection Service are also empowered to investigate identity theft. The Social Security Administration Office of the Inspector General might be involved when the crime involves the theft and misuse of Social Security numbers.

The U.S. Postal Service Office of Inspector General (OIG) has informally communicated this concern to the Postal Service and the Postal Inspection Service in the past. However, the Postal Inspection Service has continued to conduct these investigations. One alternative the postmaster general should consider is combining all investigative

activities of the Postal Inspection Service and OIG into one organization that only conducts investigations that are inherently related to Postal Service mission and operations. Although further analysis is needed, the Postal Service could benefit by expanded investigations of workers' compensation and contract fraud against the Postal Service. In addition to the savings identified through expanded investigations in those areas, combining the organizations could provide efficiencies in reducing duplicate management and support functions. Further, merging some overlapping program areas, such as internal and external mail theft, could lead to more effective and cost efficient investigations. Finally, if consolidated, the combined organization would conduct investigations that are inherently related to Postal Service operations and missions. Thus, the consolidation could realize an additional annual cost savings of \$15 million or \$146 million over the next 10 years.

We recommend the postmaster general, chief executive officer:

1. Evaluate the efficiencies of consolidating all investigative activities into a single law enforcement agency within the U.S. Postal Service, to include eliminating duplicate management and support functions and program overlap.
2. Evaluate the savings that would come from discontinuing investigations related to areas not inherently related to Postal Service mission and operations, such as mail fraud involving a small number of mailpieces associated with a crime in which other law enforcement agencies have primary jurisdiction.

Management's Comments

Management did not agree or disagree with recommendation 1 but stated the consolidation of investigative activities into a single law enforcement agency is not a concern at this time. Management also stated the Postal Inspection Service's investigative jurisdiction is broader than that of the OIG and that both have combined jurisdiction over criminal activity internal to the Postal Service; however, they noted there is no duplication of investigations as ensured by the current designation of functions. Management suggested that shifting certain investigative functions from OIG to the Postal Inspection Service may achieve efficiencies and allow the OIG to focus more on the oversight of law enforcement operations.

Management disagreed with recommendation 2, rejecting the premise that the Postal Inspection Service carries out investigations not inherently related to the Postal Service's mission. Based on a report to evaluate Postal Inspection Service priorities, resources, and better ways to manage the organization, management cited a Giuliani Security & Safety report that found nearly all work performed by the Postal Inspection Service has a relationship to the Postal Service, its employees, facilities, the mail, or its customers and consumers.¹ Based on this report, management does not believe the OIG has any basis for its claim that 34 percent of the work does not support the

¹ Giuliani Security & Safety LLC, *Report to the US Postal Service-Mission Review of the U.S. Postal Inspection Service*, dated June 10, 2009.

protection of the Postal Service, its assets, and mail system. Further, management noted the Postal Inspection Service's complement has been reduced by 20 percent since the beginning of FY 2009. Additionally management stated that shared jurisdiction with law enforcement agencies of other Federal departments does not mean the Postal Service should cede their investigative role and that mail fraud investigations are core to the Postal Service's business. The law authorizes the attorney general with the postmaster general to request the Postal Inspection Service to investigate violations of other statutes that have a detrimental effect on Postal Service operations. They stated that investigation efforts enhance brand image and integrity and public trust in the mail; and their duties include defense of the nation's mail system from illegal or dangerous use. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to recommendations 1 and 2. We do not believe the comments provide a sufficient basis for dismissing an evaluation of organizational alternatives that could save scarce Postal Service resources. However, the objective of this report was to provide the Postal Service with opportunities to increase efficiency and reduce costs, and the report provides issues for management's consideration and study. Although we are not going to pursue these recommendations through audit resolution, the information below provides additional perspective in response to management's comments.

The investigative jurisdiction of the Postal Inspection Service is not necessarily broader than that of OIG, but may include some duties not currently within the function of the OIG (such as the security of Postal Service facilities and employees). However, current statutes provide the OIG with the authority to have primary jurisdiction over all fraud committed against the Postal Service by external parties. Further, the OIG has jurisdiction over internal investigations. When Congress amended the Inspector General Act in 1996 to establish an independent Inspector General for the Postal Service, it effectively mandated that the Postal Inspection Service cease auditing and investigating internal criminal matters. Congress was concerned that the combination of management functions and reporting relationships and investigative and audit responsibilities prevented the Postal Inspection Service from maintaining independence and objectivity over internal matters.

Management did not address our finding that Inspection Service activities do not directly support protection of Postal Service assets, employees, or the mail system, or our discussion surrounding primary and shared jurisdiction. Even though there may be a Postal Service nexus to a crime, this does not mean that the Postal Inspection Service has primary jurisdiction over such matters. In fact, primary jurisdiction often lies with other law enforcement agencies. Further, we agree that some Postal Inspection Service mail fraud investigations have some relationship to mail; however, these cases are usually ancillary to the main crime investigated (committed against others outside the Postal Service, where the mail was used during the crime). We also recognize that assisting the attorney general is commendable; however, it may not be the best use of

scarce Postal Service resources and often results in expenditures of money from ratepayers being used towards investigations that should more legitimately be funded by taxpayers.

We did not question the 66 percent of the investigations the Postal Inspection Service conducts which enhance the brand and public trust, such as those regarding the security of mail or employees, and illegal or dangerous use of the mail. However, 34 percent of their investigative time consists of investigations relating to identity theft, mail fraud, child pornography, money laundering, and cyber crimes. These are activities beneficial to the general public, not just postal customers. Further, the Giuliani Security & Safety report also determined that nearly 40 percent of Postal Inspection Service investigations are not clearly aligned with the Postal Service but support other needs where benefits to the Postal Service are difficult to assess.

Reduce Security Force Costs through Contracting

The Postal Service can reduce costs by contracting for armed security guards. Currently, postal police officers (PPOs) fulfill those duties. Although, the background and training requirements for contract security guards are similar to those for PPOs, the average hourly rate for armed contract security guards is approximately \$19 and \$12 less than postal police supervisors and PPOs' fully loaded rates, respectively. Using armed contract security services would allow the Postal Service to reduce security force costs as much as \$9.5 million annually, or \$80 million over the next 10 years, while not compromising employee security.

We recommend the chief postal inspector:

3. Conduct a review to evaluate the benefits of contracting for armed security services.
4. If the review supports contracting for security, implement a strategy to utilize contract staffing to supplement or replace Postal Service security force positions.

Management's Comments

Management agreed with recommendations 3 and 4 and has initiated a review to evaluate contracting for armed services. However, management disagreed with the savings methodology, questioning the accuracy of the hourly rate for craft and supervisory postal police officers and the number of workhours the Postal Service could save by contracting out armed security services. Further, management noted there were legal and labor-relations ramifications of totally contracting out these services that should be considered. Management agreed to provide other comments relative to the recommendations once the current review is complete but did not provide an estimated completion date.

Evaluation of Management's Comments

Although management did not provide an expected completion date, the OIG considers management's comments responsive to the significant recommendations and corrective actions should resolve the issues identified in the report. Regarding our methodology surrounding labor rates and workhours, the OIG analysis was based on the bargaining PPOs' and supervisory PPOs' fully loaded rates in the Postal Service's *National Payroll Hour Summary Report*, Pay Period 20, FY 2009. Using the FY 2009 rates, we then projected the FY 2010 hourly rates based on the Postal Service *Decision Analysis Report* escalation factor for Postal Service employees. The Postal Inspection Service provided the OIG lists of posts/patrols from each work site, which also included the posts/patrols operating hours. We estimated the contract hours based on the operating hours of the posts/patrols provided. We then projected the PPOs' workhours based on the Postal Service Productive Workyear Factor.

The number of workhour savings was derived from the difference between the projected PPOs' workhours and estimated contract hours. We took individual differences in security needs at each work sites into consideration and considered the number of workhours saving calculations to be conservative and reasonable. In addition, the comparison to U.S. Department of Labor Guard II was for obtaining contract armed guards' rates. We understood that contract security guards might not have many of the same powers given to the postal police and acknowledged that in a footnote to our report. Further, although the bargaining PPOs are covered by a no-layoff clause, the Postal Service could still reduce its security force. Cost savings could be realized through attrition or reassigning employees to other vacancies instead of filling those vacancies externally.

We acknowledge there will be other legal and labor-relations issues that should be considered and believe those should be included in the Postal Inspection Service's review to evaluate the benefits of contracting for armed security services.

Reduce Postage Costs by Expanding the Forever Stamp Program

In December 2010, the Postal Service announced the expansion of its Forever stamp program, whereby almost all 1-ounce stamp products issued in 2011 will be issued as Forever stamps. However, further expansion of the Forever stamp program to coils of 3,000 and 10,000 First-Class Mail[®] 1-ounce stamp products will allow Postal Service the readiness and flexibility to respond to changes in economic and customer behavior.

We calculated that the Postal Service will destroy approximately 48,000 coils of 3,000 and 10,000 First-Class[™] 1-ounce denominated stamps purchased in FYs 2008 and 2009. We estimate the printing costs for these products at about \$445,000. If the Postal Service implemented the Forever stamp for all First Class, 1-ounce mail products, we estimate the Postal Service would save approximately \$215,000 annually, or \$2.2 million over the next 10 years.

We recommend the vice president, Government Relations and Public Policy:

5. Conduct a review to evaluate the benefits of converting all coils of 3,000 and 10,000 First-Class 1-ounce denominated stamps to the Forever stamp.
6. If the analysis supports conversion, convert all coils of 3,000 and 10,000 First-Class 1-ounce denominated stamps to the Forever stamp.

Management's Comments

Management disagreed with recommendations 5 and 6 and the associated cost savings. They stated that the customer base for these products differs from those serviced by the other 1-ounce Forever stamps. Management asserted these large customers are more likely to purchase stamps or convert permit and postage meter mailings to stamps to offset rate increases; and arbitrage the price adjustment in their favor. They noted our methodology was based on prior fiscal year data, which does not reflect the current demand, production volumes, and distribution network. Management stated they do not anticipate the same destruction levels as in previous years.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to recommendations 5 and 6. We agree that the customer base is different for the 3,000 and 10,000 stamp coils. However, we do not believe management comments provide a sufficient basis for not reviewing the benefits of converting the 3,000 and 10,000 First-Class 1-ounce coil denominated stamps to the Forever stamp. However, as noted previously, the objective of this report was to provide the Postal Service with opportunities to increase efficiency and reduce costs, and the report provides issues for management's consideration and study. Although we are not going to pursue these recommendations through audit resolution, the information below provides additional perspective in response to management's comments.

The Postal Service has the ability to control stamp inventories before rate increases to minimize large mailers from taking advantage of short-term price arbitrage. Further, the First-Class Mail price increase can be no more than the Consumer Price Index. Companies would have to decide whether borrowing money to arbitrage stamps that are not refundable for cash is a better use of funds than investing elsewhere. We recognize that some large mailers may take advantage of short-term price arbitrage; however, similar behavior is currently practiced by traditional individual customers during price increases. Furthermore, maintaining denominated stamps complicates the inventory management and purchasing process. The Postal Service would benefit by receiving the revenue in advance and letting the large mailers assume the risk of maintaining the stamp inventory.

Management also expressed concern with our cost savings methodology; however, we considered current customer demand and production volumes by using actual sales data as of January 2011. We then considered production volumes by removing the stamps the Postal Service no longer plans on purchasing and applying a ratio to over purchased stamps based on actual purchased from the suppliers as of January 2011. We did not apply a factor in our calculation to account for the reduction in the stamp distribution network because the consolidation only occurred 1 year ago. There was no past information available to support the impacts on rate changes to the new stamp network.

Reduce Employee Benefit Costs by Aligning Benefits with Other Federal Agencies' Policies

Changes to annual leave exchange (ALE), annual leave carryover, advanced annual leave, and direct deposit policies would align Postal Service benefits with other federal agencies' policies and reduce costs. In total, these changes could save approximately \$43 million annually, or as much as \$433 million over the next 10 years.

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

7. Review the benefits of making changes to future employee leave and direct deposit policies to save money and align with those used by other federal agencies, and in accordance with all applicable laws.

Management's Comments

Management disagreed with recommendation 7 and the reported savings. Management stated that most of the savings are attributed to ALE; however, management noted the report did not establish evidence of overstaffing and the zero replacement of work performed by first line supervisors and above. Further, management stated the report did not account for premium pay and higher replacement costs for employees below the supervisory level; learning curve offsets of replacement work; potential for more full-time employees to cover a higher rate of paid absence; discontinuation of benefits that require negotiations with unions and inclusions in pay consultations with management groups; and the 2011 Postal Service redesign of administrative positions. In addition, management stated changes to carryover and advanced annual leave are minimal, and current policy provides value as an employee motivation. They did not address changes to the direct deposit policy.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to recommendation 7. We do not believe that management comments provide a sufficient basis for not reviewing the benefits discussed. However, as noted previously, the objective of this report was to provide the Postal Service with opportunities to increase efficiency and reduce costs, and the report provides issues for management's consideration and study. Although we

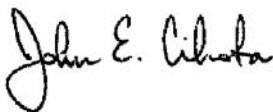
are not going to pursue these recommendations through audit resolution, the information below provides additional perspective in response to management's comments.

During the audit, in consultation with management, we adjusted monetary benefits before issuing the draft report. We reduced estimated savings by 25 percent to account for premium and overtime pay. Further, most other federal agencies effectively function without these types of benefits. The OIG believes the Postal Service can also effectively manage their workforce if these benefits were discontinued. Regarding staffing levels, the scope period of our audit was before the postmaster general's announcement of the 2011 redesign. However, the announcement does not eliminate savings opportunities. The OIG believes opportunity remains to reduce costs by having employee benefits align with other federal agencies. Further, suggested changes to annual leave carryover and advanced annual leave are not minimal. The Postal Service can save \$1 million a year and could have avoided forgiving \$12.9 million in advanced annual leave debt during leave years (LY) 2008 and 2009.

See [Appendix B](#) for our detailed analysis of these topics and [Appendix C](#) for the details of the monetary impact.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed for recommendations 3 and 4. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation(s) can be closed. Because we are not going to pursue recommendations 1, 2, 5, 6, and 7 through audit resolution, we consider those recommendations closed.

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, Field Financial - East, or me at 703-248-2100.



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Joseph Corbett
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is an independent establishment of the Executive Branch mandated to offer a fundamental service to the American people. Operations are almost completely self-funded, independent of taxpayer support. In July 2009, the Government Accountability Office (GAO) listed the Postal Service as one of its “high-risk” government agencies.² GAO stated that the Postal Service urgently needs to restructure to achieve financial viability.

In FY 2010, the Postal Service continued to see a decline in mail volume and revenues, resulting in a loss of nearly \$8.5 billion. This was due to the recent recession, continuing economic pressures, migration of First-Class Mail to electronic media, and requirements to pre-fund retiree health benefits. The Postal Service has initiated unprecedented cost cutting in recent years, saving more than \$9 billion in FYs 2009 and 2010 alone, primarily by cutting workhours, adjusting contracts, and significantly decreasing capital spending. One area of focus has been the 10-year payment schedule required to fund retiree health benefits, which includes average annual payments of \$5.6 billion. A large part of the Postal Service’s current debt (and net loss) is a direct result of making these payments. The Postal Service has sought congressional relief in the form of restructuring the payments to the retiree health benefits fund, flexibility in closing Post Offices™, and the ability to deliver mail less frequently. Without substantial and continued cost reductions, the FY 2011 loss is expected to be comparable to or larger than the loss in FY 2010 (including its prefunding of retiree health benefits and excluding any workers’ compensation liability adjustments).

Postal Inspection Service

As the law enforcement, crime prevention, and security arm of the Postal Service, the Postal Inspection Service is a highly specialized, professional organization performing investigative and security functions essential to a stable and sound postal system. The mission of the Postal Inspection Service was to protect the Postal Service, secure the nation's mail system, and ensure public trust in the mail. During our audit, this mission was updated. The new mission statement is to support and protect the Postal Service and its employees, infrastructure, and customers; enforce the laws that defend the nation’s mail system from illegal or dangerous use; and ensure public trust in the mail.

In 2003, the president established a commission on the Postal Service tasked to identify the operational, structural, and financial challenges facing the Postal Service; examine potential solutions; and recommend steps to ensure long-term viability. The report³ stated that taxpayers, not ratepayers, should bear the cost of law enforcement operations that track broader crimes committed through the mail. Further, in 2009, the

² GAO *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability* (Report Number GAO-09-937SP, dated July 28, 2009).

³ Report of the President’s Commission on the U.S. Postal Service, *Embracing the Future, Making the Tough Choices to Preserve Universal Mail Service*, July 31, 2003.

Postal Service commissioned an independent mission review study on the Postal Inspection Service's programs and activities⁴ that identified a number of functions that Postal Service law enforcement personnel do not need to perform. It determined that nearly 40 percent of Postal Inspection Service investigations are not clearly aligned with the Postal Service but support other needs where benefits to the Postal Service are difficult to assess. These include investigations in mail fraud, money laundering, identity theft, child pornography, and administrative investigations. The report recommended the Postal Service and the Postal Inspection Service clearly align priorities, including identifying programs that have a substantial connection to the mail.

Postal Service Security Force

The Postal Service security force is administratively under the control of the Postal Inspection Service and consists of unarmed and armed security personnel. The Postal Service contracts for unarmed security personnel, whereas it employs its armed security personnel (including PPOs). These employees consist of postal police managers, supervisors, and uniformed PPOs who are assigned to Postal Service facilities throughout the country. PPOs provide perimeter security by controlling access to Postal Service facilities and patrolling parking lots and loading dock areas, and they escort high-value mail shipments. Additionally, they make arrests and testify in court on violations within their assigned authority. As of March 2010, the Postal Inspection Service maintained a security force of ■■■ managers, ■■■ supervisors, and ■■■ bargaining unit PPOs.

Stamp Production

The Postal Service purchases an average of 31 billion postage stamps annually through printing contracts with three suppliers, at an average cost of \$66 million over the past 3 fiscal years.⁵ These suppliers print definitive and commemorative stamps in large quantities.⁶ Stamp Services is the department of the Postal Service responsible for creating, purchasing, distributing, and maintaining adequate quantities of postage stamps, stationary products, and philatelic products for nationwide sales. Stamp services:

- Establishes stamp printing quantities by format and the distribution of stamps to Postal Service retail units.
- Determines the quantity of stamps to be printed with the suppliers by identifying past printing requirements, recent changes in mail volume, and monitoring stamp

⁴ Giuliani Security & Safety LLC, *Report to the US Postal Service-Mission Review of the U.S. Postal Inspection Service*, dated June 10, 2009.

⁵ The number of pieces of accountable paper (including stamps, envelopes, and postal cards) shipped and the corresponding manufacturing costs were as follows: FY 2008 - 37 billion pieces costing \$79 million; FY 2009 - 30 billion pieces costing \$64 million; and FY 2010 - \$26 billion pieces costing \$55 million.

⁶ Definitive stamps are regular postage stamps that are issued in unlimited quantities and remain on sale until the rates are increased. Commemorative stamps pay tribute to people and events and are issued in limited quantities and remain on sale until the official date of withdrawal.

requisitions from stamp distribution offices (SDOs) and stamp distribution centers (SDCs).

Since FY 2008, Stamp Services has reduced stamp purchasing costs by 30 percent. Further, the Postal Service recently consolidated its stamp fulfillment distribution network from 65 SDOs, four Accountable Paper Depositories, and two stamp services centers into six SDCs and three SDOs.

Employee Benefits

The Postal Service can provide employee benefits that differ from those provided by federal agencies. However, benefits cannot be less than those provided to other federal government employees.⁷ This audit addresses savings opportunities for the Postal Service by limiting benefits to those available to other federal employees.

ALE Program – This program provides eligible employees with the opportunity to receive cash in exchange for leave they will earn during the next leave year. Accumulated leave and leave accrued during the current leave year cannot be exchanged under the program. Some bargaining unit agreements provide a leave exchange program for covered full-time and part-time regular employees. Internal Revenue Service regulations prevent Postal Service employees from exchanging leave already earned that exceeds the Postal Service leave carryover limit.

Annual Leave Carryover – Postal Service policy allows employees to carry over annual leave each year. For Postal Career Executive Service (PCES) employees the ceiling is unlimited; however, these employees must use at least 2 weeks of leave annually. The maximum carryover amount for Executive and Administrative Schedule (EAS) employees is 70 days (560 hours). The maximum leave carryover for bargaining unit employees is 55 days (440 hours).

Advanced Annual Leave – At the beginning of the leave year, employees are credited with the total number of annual leave hours they will earn for the leave year. This advanced leave is available for use but has not yet been earned. Employees who leave before the end of the leave year are indebted to the Postal Service for unearned annual leave taken. Deductions are made from the funds due the employees when they separate. Collections are not required in cases of death or in case of separation due to disability.

Direct Deposit – The Debt Collection Improvement Act of 1996⁸ requires the Postal Service use electronic funds transfers for payments. However, the law provides a provision where the recipient may request a waiver if the recipient does not have an account with a financial institution or an authorized payment agent. The costs of disbursing money electronically is \$6.74 less per transaction than the costs of printing, mailing, and processing paper checks.

⁷ 39 U.S. Code (USC) § 1005.

⁸ Public Law 104-134.

OBJECTIVE SCOPE AND METHODOLOGY

Our overall objective was to identify new approaches for the Postal Service to find efficiencies and cost reductions. Specifically, we evaluated:

- Opportunities for efficiencies and cost reductions in the Postal Inspection Service.
- Opportunities for cost reductions in the management of postage stamp production.
- Opportunities for cost reductions in the employee benefits area.

To accomplish these objectives, we performed the following activities:

- Interviewed Postal Inspection Service headquarters personnel, and reviewed associated criteria and program outputs and workhours from the Postal Inspection Service Integrated Information System (ISIIS) database.
- Reviewed Postal Inspection Service program guidelines as well as laws and regulations as they related to the audit objectives. Specifically, we reviewed federal statutes and regulations, investigative authorities, policies, and procedures related to the mail fraud, child pornography, money laundering, identity theft, and cyber crimes.
- Reviewed Postal Service policies and contract files related to hiring qualifications and training requirements for security personnel currently provided by a contract.
- Used the Postal Service's *National Payroll Hour Summary Report*, Pay Period 20, FY 2009,⁹ to project the FY 2010 hourly rates for the PPOs.
- Estimated costs for contracting for armed security guards' hourly rate:
 - Obtained the wage, health, and welfare (H&W) rates for the armed guards based on the published FY 2010 Department of Labor Wage Determination.
 - Incorporated supervision¹⁰ costs into our calculations.
 - Estimated suppliers' costs,¹¹ that could include taxes, benefits, oversight, direct costs, and training.
- Reviewed Postal Service efforts to better manage its stamp stock inventory and expand the Forever stamp program.

⁹ This was the last pay period in FY 2009.

¹⁰ The number of supervisors added to the contract was based on the supervisor staffing matrix. Three types of supervisors: lead officer, sergeant, and lieutenant, who were paid \$1 to \$3 more than guards' wages.

¹¹ Suppliers' costs (contractors' markup) are approximately 50 percent of the total cost of labor base pay and H&W, including independent establishments and government corporations.

- Discussed with Postal Service Headquarters and field officials the management of postage stamps purchasing and destruction and the impacts of expanding the Forever stamp program.
- Reviewed the selling trends of stamps and analyzed stamp sales data for FYs 2008 and 2009 using the Stamp Services System (SSS) and Enterprise Data Warehouse (EDW).
- Analyzed data from Postal Service surveys related to stamp destruction for FYs 2008 and 2009.
- Analyzed annual leave carryover amounts, ALE amounts, direct deposits, and leave balances for current and former employees.
- Benchmarked Postal Service benefits policy with other government agencies.

Federal Agencies

- U.S. Department of Defense (DOD).
- Department of Transportation (DOT).
- U.S. Department of Agriculture (USDA).
- U.S. Department of Veterans Affairs (VA).

Quasi-Federal Agencies¹²

- Federal Deposit Insurance Corporation (FDIC).
- Federal Reserve Board (FRB).
- National Credit Union Administration (NCUA).
- Office of Thrift Supervision (OTS).
- Tennessee Valley Authority (TVA).

This audit was conducted from December 2009 through June 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on different occasions, the last of which was March 17, 2011, and included their comments where appropriate.

We traced recorded financial transactions contained in the SSS, EDW, and payroll systems by verifying the computer records to source documents. We determined that the data used was sufficiently reliable for the purposes of this report.

¹² A quasi-federal agency is a colloquial term used in this report to describe non-traditional federal executive branch entities, including independent establishments and government corporations.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing</i>	GAO-08-787	7/24/2008	The GAO reported that, although the Postal Service had difficulty measuring outsourcing success, it viewed outsourcing as an important strategy for achieving cost savings. The GAO recommended the postmaster general establish a process to track the results of outsourcing activities that are subject to collective bargaining and report those results to Congress. The Postal Service agreed with the findings and recommendations but not with providing Congress with outsourcing results.
<i>Postal Inspection Service's Postal Police Officers</i>	SA-AR-04-001	4/21/2004	The Postal Inspection Service used several methodologies to support its decision to eliminate PPOs at six facilities. However, no documentation was available to assess the validity of its methodology. The OIG recommended the chief postal inspector update, document, and validate the methodology. Postal Inspection Service management agreed with the recommendation and indicated they would substantiate the methodology used.
<i>Stamp Distribution Operations</i>	MS-MA-09-002	1/12/2009	The Postal Service initiated efforts to re-engineer its accountable paper fulfillment operations to achieve cost savings. Supply Management was preparing a Decision Analysis Report requesting funding to implement the results of prior studies in this area. Management expected to save between \$2 million and \$14 million annually by consolidating operations. We did not make any recommendations.

APPENDIX B: DETAILED ANALYSIS

Reduce Postal Service Costs for Investigative Activities

The Postal Inspection Service is involved in a number of activities where investigative responsibility also falls on other federal and local law enforcement agencies. The Postal Service incurs significant costs for these activities that do not directly support protection of Postal Service assets, Postal Service employees, or the mail system. Further, by pursuing work in these areas, we believe the Postal Inspection Service has moved away from its primary responsibility to protect the Postal Service, secure the nation's mail system, and ensure public trust in the mail. We identified a number of areas where other federal law enforcement agencies are responsible for the same criminal investigations. Although federal law assigns broad investigative authority to the Postal Inspection Service to investigate postal offenses and civil matters relating to the Postal Service,¹³ investigations in these shared areas address broader crimes that, while having a nexus to the mail, generally improve society as a whole.

The Postal Inspection Service records investigative case information in ISIS (see Table 1). This management information system allows the Postal Inspection Service to track cases jacketed, arrests, and workhours, and collect and report data in connection with those cases. However, not all related investigative and administrative costs are tracked in association with these cases. Management told us that it is hard to forecast program costs, because the case loads change based on the nature of the work. Additionally, headquarters' priorities may shift investigative work to other areas from year to year. However, work in these shared areas, as a percent of the total investigative time, has remained relatively consistent over the past few years.

¹³ 39 USC § 404(a)(6).

Table 1 – Postal Inspection Service FY 2010 Program Workhours as of February 2010¹⁴

Program	Arrests	Cases Jacketed	Workhours	Percent of Total Hours
Theft (Mail & Identity)	1,140	961		
Mail Fraud	375	316		
Security/Prevention	1	692		
Prohibited Mail Narcotics	626	553		
Revenue Fraud	20	140		
Assault	94	288		
Dangerous Mail Investigations	56	216		
Child Pornography	53	73		
Homeland Security/National Security	0	84		
Robbery	20	31		
Administrative Investigations	0	56		
Money Laundering	28	37		
Money Order Investigations	46	70		
Miscellaneous	37	80		
Burglary	22	60		
Cyber Crimes	3	5		
Fraudulent Workers Compensation ¹⁵	0	31		
Total	2,521	3,693		100.0%

Criminal investigations of child exploitation and pornography, and financial crimes including identity theft, investment and mortgage fraud, and money laundering, contain a high societal worth, yet often have marginal connection and benefit to the Postal Service. Further, federal law enforcement agencies count the same statistics when more than one of them participates in the investigative and arresting activities.¹⁶ Of investigations in shared areas that involved postal inspectors in FYs 2008 and 2009, the Postal Service recouped less than 0.02 percent of the nearly \$17 billion in fines, restitutions, and recoveries from mail fraud investigations.

We believe that more than 34 percent¹⁷ of the Postal Inspection Service’s investigative activities involve areas where other agencies have primary jurisdiction; casework benefits all Americans, not solely postal ratepayers; and/or work does not align with the mission of the Postal Service. The Postal Service may realize significant cost savings

¹⁴ The Postal Inspection Service provided us with workhour information through February 2010. In a follow-up meeting in late May 2010, Postal Inspection Service personnel confirmed that these program workhour percentages remained consistent with that presented above.

¹⁵ The OIG has overall responsibility in this area; however, the Postal Inspection Service investigated allegations of workers’ compensation fraud through an initiative lasting through FY 2010.

¹⁶ *Federal Law Enforcement-Information on Use of Investigation and Arrest Statistics*, (Report Number GAO-04-411, dated March 2004).

¹⁷ The 34 percent consists of investigations of identity theft, mail fraud, child pornography, money laundering, and cyber crimes.

by assessing the benefit to postal ratepayers for criminal investigations in the following areas.

Mail Fraud

The Postal Inspection Service expended approximately [REDACTED] workhours in mail fraud investigations through February 2010. However, according to the U.S. Attorney's *Criminal Resource Manual*, the FBI has primary investigative jurisdiction for mail fraud. The investigation of mail fraud is a consumer protection statute originally enacted after the Civil War to protect citizens from fraud schemes initiated through the mail.¹⁸ Mail fraud is the largest single Postal Inspection Service program area, yet investigations are not limited to defrauding the Postal Service. These cases are usually ancillary to other crimes being committed against the public and use of the mail is incidental to the fraud committed. The Postal Service is not the only carrier of printed and delivered material covered by the mail fraud statute. In 1994, Congress broadened the application of the mail fraud statute to matter sent or delivered by any private or commercial interstate carrier.¹⁹ We estimate the total cost to the Postal Service for mail fraud investigations for FY 2010 was \$69 million.

Mail and Identity Theft

The Postal Inspection Service classifies mail and identity theft under the same program area. Since FY 2007, when internal mail theft investigative responsibility was transferred to the OIG, all Postal Inspection Service investigations of mail theft involved crimes external to the Postal Service workforce. The FBI and local law enforcement agencies have similar authority to investigate theft of mail crimes. However, Postal Inspection Service officials informed us that due to differing priorities and inadequate resources, these agencies will not dedicate the same level of investigative effort to mail theft. Further, all Postal Inspection Service personnel we spoke with mentioned that mail theft investigations instill a sense of pride about the work they do to protect the image of the Postal Service. From October 2009 through February 2010, postal inspectors spent 18 percent of their total investigative time on external mail theft, at an estimated cost of \$25 million.

Identity theft is a crime that victimizes people and businesses in every community and robs victims of their individual freedoms. Identity thieves misuse personal or financial information to gain something of value, and such crimes facilitate other criminal activity and affect the economy and security of the U.S.²⁰ Local, state, and federal law enforcement agencies all conduct investigations of identity theft. The U.S. Secret Service, though, is the primary federal agency tasked with investigating identity theft and fraud and its related activities.²¹ These investigations often involve investigating other related crimes. The FBI, ICE, and the Postal Inspection Service are also

¹⁸ 18 USC §1341.

¹⁹ Public Law 103-322, Title 25, Sec. 250006, *Violent Crime Control and Law Enforcement Act of 1994*.

²⁰ Congressional Research Service Report for Congress, *Identity Theft: Trends and Issues*, January 5, 2010.

²¹ *U.S. Attorneys Criminal Resource Manual*, Title 9, Chapter 9-64.400, False Identification 18 USC § 1028.

empowered to investigate identity theft. The Social Security Administration Office of the Inspector General might be involved when the crime involves the theft and misuse of Social Security numbers.

Additionally, the Postal Inspection Service participates in financial crimes task forces around the country. Members of task forces educate consumers about identity theft through public awareness campaigns primarily through the Internet. We estimated Postal Service program area costs for identity theft in FY 2010 to be \$28 million.

Child Exploitation

The FBI is the primary investigative agency responsible for crimes against children; however, several federal agencies, including ICE and the Postal Inspection Service, investigate child sex exploitation offenses. The Postal Inspection Service has long been recognized as the leading federal law enforcement agency combating the production and distribution of child pornography and other crimes exploiting children through the mail. In the 1980s, the mail was the primary means of distributing child pornography. Since that time, Internet availability and computer-facilitated crimes against children have increased dramatically.²² The most recent Bureau of Justice Statistics (BJS) research shows that the FBI referred about one-half of all sex exploitation suspects to U.S. Attorneys for prosecution in 2006.²³

The Postal Inspection Service investigates sexual exploitation crimes against children committed through the mail and, when it involves the mail, over the Internet. It coordinates law enforcement activities with U.S. Attorneys, U.S. Department of Justice (DOJ) Criminal Division's Child Exploitation and Obscenity Section, state and local law enforcement agencies, and advocacy organizations such as the National Center for Missing and Exploited Children. In addition, to help combat sexual predators and child pornographers, the Postal Service participates in initiatives such as the DOJ's Project Safe Childhood, and Internet Crimes Against Children (ICAC) task forces.

Almost all child exploitation cases investigated by the Postal Inspection Service in FY 2009 involved the Internet. Our estimate of FY 2010 Postal Service costs for these investigations was \$9 million.

Money Laundering

The Money Laundering Control Act makes it a crime to launder proceeds from unlawful activities.²⁴ The U.S. Secret Service monitors money laundering activities through other financial crimes such as financial institution fraud, access device fraud, food stamp fraud, and counterfeiting of U.S. currency. However, the Postal Inspection Service's authority to investigate money laundering violations is controlled by a memorandum of understanding between the departments of Justice and U.S. Department of Treasury

²² BJS Bulletin, *Federal Prosecution of Child Sex Exploitation Offenders, 2006*, NCJ 219412, December 2007.

²³ BJS, NCJ 219412, December 2007.

²⁴ 18 USC § 1956-57, and §1961 (Racketeer Influenced and Corrupt Organizations Act).

and the Postal Service. The Postal Inspection Service investigates financial crimes as well as concealment of proceeds from illegal acts through money laundering. According to the Postal Inspection Service, these investigations usually involve the use of postal money orders. In FY 2010, we estimated the Postal Service spent \$3.9 million to support these investigations.

Summary

By reducing investigative activities to areas directly aligned with Postal Service operations or mission, the Postal Service may realize annual cost savings of \$77 million. This equates to cost savings of \$766 million over the next 10 years.

Combining All Investigative Activities

We estimate the Postal Inspection Service spends approximately 66 percent of their investigative time conducting investigations directly related to protecting the Postal Service. The Postal Inspection Service employs 429 staff to support its activities. Table 2 outlines those duties.

Table 2 – Professional, Technical, and Administrative Personnel

Personnel Classification	Number of Employees
Program Operations Specialist and Analysts	180
Technical Services	124
Forensic Laboratory Staff	45
Administrative Support	45
Security	20
Business Operations	15
Total	429

Source: Postal Service Web Complement Information System.

The OIG also employs staff to support its separate investigative duties. We believe consolidating all investigations into a single law enforcement organization can reduce support personnel by as much as \$146 million over a 10-year period, saving \$15 million annually.²⁵

Reduce Security Force Costs through Contracting

The Postal Service used several methodologies to support the need for PPOs’ presence at assigned facilities. These methodologies included studies and analyses; professional judgment based on interviews with local police, Postal Service managers, the Postal Inspection Service, and security force managers; and recommendations from the most

²⁵ These savings are an estimate of what could occur over 10 years through attrition. However, the total amount that could be saved is dependent upon the results of the study recommended in Recommendation 1.

recent security force surveys.²⁶ Although there are definable needs for the armed security force coverage at these facilities, opportunities exist to reduce the security force costs by contracting out these security services. For example, based on our analysis, we determined that using the armed contract security services could save the Postal Service about \$19 and \$12 per hour for postal police supervisors and PPOs, respectively.²⁷ Furthermore, we estimated that contracting out armed security services would reduce workhours by 73,675 per year.

The Postal Service has no statutory restrictions on the use of armed contract security guards. The authority for utilization and deployment of staffed security rests solely with the chief postal inspector in the role of security officer of the Postal Service. In FY 2009, the postal security force salary and benefits totaled approximately \$52.5 million nationally. Additionally, the Postal Service incurred approximately \$24.5 million for the unarmed contract security services. Unarmed contract security guards were assigned to the low-risk posts where they assist in maintaining a safe work environment. The average hourly rate for unarmed contract guards was approximately one-half that of the fully loaded rates of postal police.²⁸ Although using unarmed contract security guards has resulted in significant savings, the Postal Service has not conducted any formal studies to determine the cost benefit of using armed contract security guards.

We estimated costs for contracting armed security services and determined the weighted average hourly rate for the armed contract security services would be \$34.23, including supervision costs. In comparison, the fully loaded rates for postal police supervisors and PPOs are \$53.40 and \$45.76 per hour, respectively.

Our analysis of postal security workhours also indicated the Postal Service could be more efficient in its security operation by contracting for the services. For example, contracted security guards are generally provided under terms of a contract that includes supervision.²⁹ The Postal Service uses postal police supervisors to provide direction or backup to PPOs. As of March 2010, the Postal Service had [REDACTED] supervisors and [REDACTED] PPOs assigned to [REDACTED] posts/patrols in [REDACTED] U.S. cities and Puerto Rico. However, because of staffing shortages, the Postal Service has cut back on hours or eliminated some of the 166 posts/patrols. As a result, we estimate [REDACTED] workhours per year are required to perform the security function by these employees.

In comparison, we estimated the contract hours based on the original staffing hours of the posts/patrols. Additionally, we assumed the contractors would be deployed during regular business hours at those posts/patrols that have been eliminated. These assumptions would assure the security of Postal Service employees will not be

²⁶ These methodologies include the Manpower Allocation Model, Facility Risk Rating Model, and Physical Security Surveys.

²⁷ FY 2010 projected rates.

²⁸ In FY 2009, the fully loaded hourly rates for postal police supervisors and PPOs were \$49.91 and \$42.77, respectively. The average hourly rate, including supervision costs, for unarmed contract guards was \$23.57.

²⁹ Except in cases of imminent safety or security concerns, the Postal Service security force managers or supervisors will not directly supervise contract personnel to avoid co-employment liability.

compromised. As a result, we believe armed contract security guards would result in an annual reduction of 73,675 hours to 963,924 hours annually at these posts.

Personnel Qualifications

We reviewed the Postal Service policies and contract statement of work related to hiring qualifications and training requirements for PPOs and contracted security guards. As shown in Table 3, we found that the background and training requirements for contracted security guards are compatible with those for PPOs. However, we noted that though the personnel qualifications are similar and contracted security guards would have many of the same powers given to the PPOs, contract security guards would be limited to stopping offenses committed in their presence on Postal Service property.³⁰

Table 3 – Prerequisite Skills and Experience

Prerequisite Skills And Experience	PPOs	Contracted Guards
Age	21 years of age or older.	21 years of age or older.
Experience	Employed as career Postal Service employee for 1 year and achieve a passing score on the PPO entrance exam.	Have previous satisfactory experience as a security guard or demonstrate satisfactory work performance.
Physical Condition	Pass physical assessment test.	In good general health without physical defects or abnormalities that would interfere with the performance of duties.
Security	Postal Service sensitive clearance.	Postal Service sensitive clearance.
Training	Pass an 8-week in-residence PPO basic training program.	Have satisfactorily completed the basic training as described in the contract statement of work.
Citizenship	U.S. citizen.	U.S. citizen or a permanent resident alien.

Source: Standard Position Description for bargaining unit PPOs and Statement of Work for Security Guards.

PPOs have previous experience as Postal Service employees and have an understanding of the culture and business process. Additionally:

- There is an expectation of permanency, stability, quality, and loyalty of the PPOs.

³⁰ If designated by the Board of Governors, contract security forces could exercise a modicum of authority on Postal Service property, although they would be barred from conducting investigations.

- PPO's training can be held to uniform standards consistent with Postal Service requirements.
- PPO's performance and evaluation in accordance with prescribed Postal Service policies and discipline can be controlled and administrated by management.

On the other hand, contracted security guards provide a more flexible and efficient service to the Postal Service. Although postal police managers have expressed concerns regarding the contract guards' turnover rate and line authority issues,³¹ we do not believe these are matters that would prevent contract security guards from satisfactorily performing Postal Service security force duties.

Current Federal Government Environment

As of FY 2010, other government agencies such as the Federal Protective Service (FPS) had about 15,000 contract security guards deployed at about 2,360 federal facilities across the country.³² GAO recently reported that FPS faces challenges with overseeing its contracted guards.³³ For example, FPS had not taken actions against some contracted guards who did not have valid certifications and training records; furthermore, FPS did not always evaluate contractors' performance as required. As a result, FPS hampered its ability to protect federal facilities. FPS is now rethinking its strategy to use contracted security services at all federal facilities.

Although the Postal Service should consider using contract staffing to replace postal security force positions, the relationship between the Postal Service and contractors needs to be strengthened. Moreover, the procurement process must be designed in a way that the quality of training, personnel, management, and operations are properly considered in the terms of the contracts. By using armed contract security services, the Postal Service could reduce security force costs of approximately \$80 million over the next 10 years.

Reduce Postage Costs by Expanding the Forever Stamp Program

The Postal Service has opportunities for savings in printing, managing, and destruction costs by expanding the Forever stamp program. For example, stamp inventories could be better managed by avoiding the need to destroy stamps whose denomination is no longer needed. We calculated that the Postal Service will destroy approximately 48,000 of the 3,000 and 10,000 First-Class 1-ounce denominated stamp coils purchased in FYs 2008 and 2009. We estimate the printing costs for these products at about

³¹ The Postal Inspection Service currently uses the postal police managers as contracting officer representatives. The postal police managers certify monthly invoices, observe delivery of security services, and work with the contractor's managers on delivery or service issues. For most issues, the postal police managers have to contact the contractors' representative and have them give the contract security officers the non-emergency commands.

³² Although FPS does not use guards at the remaining 6,700 facilities under its protection, it uses other security countermeasures such as cameras and perimeter lighting to help protect these facilities.

³³ *Federal Protective Service's Contract Guard Program Requires More Oversight and Reassessment of Use of Contract Guards* (Report Number GAO-10-341, dated April 2010).

\$445,000. Additionally, the Postal Service's readiness and flexibility to respond to changes in economy and customer behavior will be increased.

The Forever stamp continues to be very popular with customers and has begun to dominate dramatically the market for stamps. It is conceivable that within a few years, the vast majority of stamp purchases will be the Forever stamp. Because of the impact the Forever stamp has had on purchases of denominated stamps, the Postal Service has discontinued printing other denominated stamps in booklet format. Further, the sale of the Forever stamp in FY 2008 was 30 percent of all First-Class stamps sold. In FY 2009, the sale of the Forever stamp increased to 41 percent of all First-Class stamps sold.³⁴ Survey results provided by Postal Service noted that 62 percent of stamp customers say they use the Forever stamp regularly. We received positive responses from our blog³⁵ for expanding the Forever stamp program. If the Postal Service moved to converting coils of 3,000 and 10,000 First-Class 1-ounce stamps to the Forever stamp, we estimate that the Postal Service will save approximately \$215,000 annually, or \$2.2 million over the next 10 years.

Reduce Employee Benefit Costs by Aligning Benefits with Other Federal Agencies' Policies

The Postal Service offers extra benefits to its employees to maintain compensation and benefits comparable to the private sector, as mandated by law.³⁶ In some cases, as discussed below, these benefits are more generous than those provided to the rest of the federal and quasi-federal agencies' employees. These benefits include ALE for cash, annual leave carryover limits, advanced leave, and non-mandatory use of direct deposit. Changes to these programs would align Postal Service benefits with other federal agencies' policies and reduce costs. In total, we estimate these changes could save approximately \$43 million annually or as much as \$433 million over the next 10 years.

- The Postal Service's ALE program was not comparable to the federal and quasi-federal agencies we benchmarked. Specifically, the program was not offered to the other federal employees.
 - In FY 2010, the Postal Service paid more than 17,000 employees \$65.6 million under the ALE program.
 - In FY 2009, the Postal Service paid nearly 18,000 employees \$66.7 million under the ALE program.

We estimate the Postal Service could save approximately \$42 million annually or \$421 million over 10 years, if it did not offer this benefit to its employees.

³⁴ Data obtained from the Retail Data Mart (RDM), comparing sales for booklet, coils, definitive and commemorative stamp sales in FYs 2008 and 2009.

³⁵ [How Can the Postal Service Reduce the Costs Associated with Postage Stamps?](#), posted on January 25, 2010.

³⁶ 39 USC § 1003.

- The Postal Service's earned annual leave amount for bargaining³⁷ and non-bargaining³⁸ employees was comparable to the federal and quasi-federal agencies we benchmarked. However, we did note that the annual leave carryover amounts for the Postal Service employees were higher than the federal and quasi-federal agencies we benchmarked against. We estimated the Postal Service could save approximately \$600,000 per year or \$6.3 million over 10 years by capping annual leave carryover at 240 hours per year for bargaining, non-bargaining, and EAS employees and 720 hours per year for PCES employees, amounts that would be comparable to the rest of the federal and quasi-federal agencies.
- The Postal Service's policy of advancing annual leave resulted in more than 88,000 current and former employees using advance leave of more than \$81 million without the employees either earning the leave back or reimbursing the Postal Service during LYs 2008 and 2009.³⁹ If the Postal Service stopped advancing annual leave, we estimate it could save approximately \$400,000 per year or \$3.9 million over 10 years.
- Postal Service employees are given the opportunity to have their paychecks directly deposited in their bank accounts as are other federal government employees. However, the Postal Service did not require direct deposits for employees as mandated by the other federal and quasi-federal agencies we benchmarked against. Specifically, we identified 136,222 of 688,139, or 20 percent, active employees who did not have their pay directly deposited. According to Postal Service Human Resources personnel, the option to receive a payroll check was part of the terms and conditions of employment. Currently, the Postal Service is reviewing the concept of providing direct debit cards to employees who receive paychecks. We estimated the Postal Service could have saved approximately \$1.9 million over 2 years if its direct deposit policy had been the same as most other federal and quasi-federal agencies benchmarked.

Table 4 provides a comparison of these activities to federal and quasi-federal agencies we benchmarked against.

³⁷ Bargaining employees are represented by labor unions that negotiate with the Postal Service for wages, hours, and other terms and conditions of employment. These employees include city and rural letter carriers, clerks, mail handlers, special delivery messengers, maintenance employees, and motor vehicle operators.

³⁸ Non-bargaining employees are career and non-career employees in supervisory professional, technical, clerical, administrative and management positions in the EAS who are not subject to collective bargaining agreements.

³⁹ The 2008 and 2009 leave years are for the period January 5, 2008, through January 1, 2010.

Table 4 – Comparison of the Employee Benefits as of January 1, 2010

Agency	ALE	Annual Leave Carryover PCES ⁴⁰	Annual Leave Carryover Below PCES ⁴¹	Advance Leave	Direct Deposit
Postal Service	Yes	Unlimited	560/440 ⁴²	Yes ⁴³	Voluntary
FDIC	No	240	240	No ⁴⁴	Mandatory
FRB	No	360	360	Yes	Mandatory
NCUA	No	720	240	No	Mandatory
OTS	No	720	240	No	Mandatory
TVA	No	720	240	No	Mandatory
DOD	No	720	240	No	Mandatory
DOT	No	720	240	No	Mandatory
USDA	No	720	240	No	Mandatory
VA	No	720	240	No	Mandatory

Source: Employee and Labor Relations Manual, Issue 22, October 2010; Handbook EL-380, *Postal Career Executive Service*, November 2007; and Human Resource personnel at other federal agencies listed.

The following provides additional details associated with each of the benefits outlined above.

[Annual Leave Exchange](#)

The Postal Service’s ALE program for its employees was not offered by other comparable federal and quasi-federal agencies we benchmarked. Table 5 shows the amount of leave exchanged in FYs 2009 and 2010:

Table 5 – ALE Paid in FYs 2009 and 2010

Year	Number of Employees	Number of Annual Leave Hours Exchanged	Amount Paid
FY 2009	17,875	1,857,253	\$66,747,069
FY 2010	17,211	1,794,255	\$65,636,034

Source: Postal Service’s Payroll Application System.

⁴⁰ For other agencies, PCES equivalent is called Senior Executive Service.

⁴¹ For other agencies, Below PCES is called General Schedule.

⁴² Postal Service has two categories: EAS and bargaining employees.

⁴³ Postal Service policy is to advance annual leave to full-time and part-time career employees at the beginning of the leave year.

⁴⁴ All federal and quasi-federal agencies benchmarked, except FRB employees, may request advance leave on a case-by-case basis.

We estimated the Postal Service could save \$421 million over 10 years with changes to the ALE policy.

Annual Leave Carryover

The Postal Service's earned annual leave amount for bargaining and non-bargaining employees was comparable to the federal and quasi-federal agencies we benchmarked. However, we did note that the annual leave carryover amounts for Postal Service employees differed from the federal and quasi-federal agencies we benchmarked against.

We noted 183 of 765 PCES and other employees exceeded the maximum carryover for other government agencies' executive level personnel of 720 hours. Further, we identified more than 29,000 EAS and 98,000 bargaining employees who exceeded the maximum carryover for other government agencies' staff and manager level personnel of 240 hours. By capping the annual leave carryover similarly to the rest of the federal government, we estimated the Postal Service could save approximately \$600,000 per year or \$6.3 million over 10 years.

Advanced Annual Leave

The Postal Service policy of advancing annual leave resulted in more than 88,000 current and former employees owing the Postal Service more than \$81 million as of January 1, 2010, the end of the 2009 LY (see Table 6). The employees neither earned the leave nor reimbursed the Postal Service, where applicable, before the end of the leave year. Postal Service management stated they were reluctant to discontinue the advanced leave program, because doing so could affect operations and employee morale. Although we understand management's concerns, the Postal Service could save \$400,000 per year or \$3.9 million over 10 years in interest by discontinuing the program. Additionally, the Postal Service could have avoided forgiving as much as \$12.9 million in advanced annual leave debts for personnel who died or retired with disabilities.

Table 6 – Advanced Annual Leave Outstanding

	Number of Employees	Hours Owed	Value
Current Employee Outstanding Balances as of the End of the 2009 LY	62,125	1,668,488	\$42,000,000
Former Employee Balances When Service Ended in 2008 and 2009 LYs	26,416	1,585,334	39,500,000
Total	88,541	3,253,822	\$81,500,000

Source: Postal Service's Payroll Application System.

Table 7 – Additional Information

	Number of Employees	Hours Owed	Value
Current Employees with Outstanding Balances at The End of LYs 2008 and 2009	26,022	961,913	\$24,200,000
Employees Who Ended Service in LYs 2008 and 2009 Whose Debts Were Forgiven ⁴⁵	6,088	514,642	\$12,916,190
Employees Who Ended Service in LYs 2008 and 2009 Whose Debts Were in Collection	17,294	961,990	\$23,900,000

Source: Postal Service's Payroll Application System.

[Direct Deposit](#)

Although the Postal Service provides bargaining and non-bargaining employees the opportunity to have their paychecks directly deposited in their bank accounts, they are not required to use direct deposit like other federal and quasi-federal agencies we benchmarked against. Specifically, we identified 136,222 of 688,139 (20 percent) active employees who did not have their pay direct deposited. According to Postal Service personnel, the option to receive a payroll check was part of the terms and conditions of employment. Currently, the Postal Service is reviewing the concept of providing direct debit cards to employees who receive paychecks. We estimated the Postal Service could have saved nearly \$1 million a year if its direct deposit policy had been consistent with other federal and quasi-federal agencies benchmarked against.

⁴⁵ In the case of disability retirements or death of the employee, the Postal Service did not initiate collection actions for overdrawn annual leave totaling \$12.9 million. Although costly, this policy is consistent with Office of Personnel Management policy.

APPENDIX C: MONETARY IMPACTS

Funds Put to Better Use⁴⁶

Finding	Amount
Reduce Postal Service Costs for Investigative Activities	\$765,597,535
Consolidate Investigative Activities Into One Law Enforcement Operation	146,099,773
Reduce Security Force Costs Through Contracting	79,935,157
Reduce Postage Costs By Expanding the Forever stamp Program	2,153,111
Reduce Employee Benefit Costs by Aligning Benefits With Other Federal Agencies Policies	432,870,254
Total	\$1,426,655,830⁴⁷

Reduce Postal Service Costs for Investigative Activities

Limiting investigative activities to work directly benefiting ratepayers would provide the Postal Service funds for other operating activities. Further, combining all investigative activities would result in additional savings. We calculated the related monetary impact as \$912 million based on Postal Inspection Service labor rates and work year factors for FY 2010.

Reducing Investigative Activities Costs ⁴⁸	Amount (in millions)
Postal Inspector Costs	\$64.7
Related Postal Inspection Service Overhead	11.8
Consolidate Investigative Activities	14.6
Average Annual Savings	\$91.1
Present Value of Investigative Activities Funds Put to Better Use for a 10-Year Period ⁴⁹	\$911.7

⁴⁶ Funds that could be used more efficiently by implementing recommended actions.

⁴⁷ This appendix recognizes monetary impact for the four areas listed using present value computations.

⁴⁸ We determined 34.6 percent of Postal Inspection Service investigative workhours benefits all Americans

⁴⁹ Using the Postal Service's current cost of capital rate of 3.875 percent, OIG policy allows monetary impact to be calculated for a 10-year period.

Reduce Security Force Costs through Contracting

Using similar factors as above, we determined the Postal Service could realize annual savings of \$9.5 million when the current contract expires in April 2012.

Postal Security Force Costs	Amount (in millions)
Postal Service Security Force ⁵⁰	\$42.1
Less Contract Security Force Costs ⁵¹	32.6
Net Average Annual Savings	\$9.5
Present Value of Security Force Costs for a 10-Year Period	\$79.9

Reduce Postage Costs by Expanding the Forever Stamp Program

Excess stamp stock inventory costs the Postal Service in printing costs. We based the related monetary impact of \$215,000 annually, or \$2.2 million over 10 years, assuming a conversion of over produced stamps to the Forever stamp.

Costs of Over Purchased Stamps	Amount (in millions)
Printing Costs FY 2008 ⁵²	\$0.28
Printing Costs FY 2009 ⁵³	\$0.17
Net Average Annual Savings	\$0.22
Present Value of Stamp Program Funds Put to Better Use for a 10-Year Period	\$2.20

Reduce Employee Benefit Costs by Aligning Benefits with Other Federal Agencies Policies

Changes to annual leave exchange, annual leave carryover, advanced annual leave, and direct deposit policies would align Postal Service benefits with other federal agencies' policies and reduce costs. In some cases, these changes will result in additional replacement costs at a higher of level pay to cover those employees out on leave. In total, these changes could save approximately \$43 million annually, or as much as \$433 million over the next 10 years.

⁵⁰ We estimated annual security hours at the national level for PPOs and supervisors using March 2010 data.

⁵¹ We estimated that the average hourly rate for armed contract security services was \$34.23; however, we used \$35.00 for our calculation to provide for more conservative estimated cost savings.

⁵² We compared the inventory received from suppliers in SSS to the stamp sales in the RDM.

⁵³ We applied the average daily sales for stamps currently on sale.

Reduction in Employee Benefits	Amount (in millions)
Annual Savings on Annual Leave Exchange	\$42.1
Annual Interest Savings on Annual Leave Carryover ⁵⁴	0.6
Annual Interest Savings on Advanced Annual Leave ⁵⁵	0.4
Net Annual Savings	\$43.1
Two-Year Costs for Printing and Mailing Payroll Checks ⁵⁶	\$1.9
Present Value of Employee Benefit Costs Put to Better Use for a 10-Year Period	\$433

⁵⁴ We averaged the hourly rate for all PCES and EAS employees to determine the value of annual leave balances over other federal agencies limit.

⁵⁵ We used the average of the FYs 2008 and 2009 outstanding balance of \$23.9 million to calculate the interest savings.

⁵⁶ We reduced cost estimates by 10 percent to account for employees without bank accounts.

APPENDIX D: MANAGEMENT'S COMMENTS

ANTHONY J. VEGLIANTE
EXECUTIVE VICE PRESIDENT
AND CHIEF HUMAN RESOURCES OFFICER



May 17, 2011

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – New Approaches to Reduce Costs
(Report Number FF-AR-11-DRAFT)

Please accept this document in direct response to your draft audit report entitled New Approaches to Reduce Costs (Report Number FF-AR-11-DRAFT). After careful review of your recommendations we have made the following determinations in each of the categories identified including, investigative activities, contracting, postage costs, and benefits.

Reduce Postal Service Costs for Investigative Activities

Recommendation:

1. Evaluate the efficiencies of consolidating all investigative activities into a single law enforcement agency within the U.S. Postal Service, to include eliminating duplicate management and support functions and program overlap.

Response:

The consolidation of investigative activities into a single law enforcement agency within the U.S. Postal Service is not a concern at this time. While the United States Postal Inspection Service (USPIS) and the Office of the Inspector General United States Postal Service (OIG) may share some investigative jurisdiction for internal crimes there is no duplication of investigations as ensured by the current designation of functions.

Furthermore, the investigative jurisdiction of the U.S. Postal Inspection Service is broader than the investigative jurisdiction of the USPS Inspector General. For example, the investigations of questionable solicitations by mail-order firms that may deceive the public would be outside of the IG function as would security functions, the mailing of narcotics and other criminal misuse of the mails by non-employees. Likewise external mail theft, robbery, burglary and assaults are all investigative activities outside the purview of traditional Inspector General investigative activity. All of these programs are integral to maintaining public trust in the Postal Service and its products and ensuring employee safety and security.

The mission and priorities of the (USPIS) and the (OIG) need to be acknowledged. Independence is the hallmark of an Inspector General and serves as the cornerstone of the entire Inspector General system. For the Inspection Service, integration of investigative and protective efforts with USPS programs and operations is imperative in order to ensure brand integrity and continued public confidence in the mail. The Postmaster General has authority over the investigative priorities of the U.S. Postal Inspection Service and can direct investigative efforts as needed to support USPS programs and operations in the enforcement of laws regarding property in the custody of the Postal Service, property of the Postal Service, the use of the mails, and other postal offenses.

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In September of 1996 the GAO produced a Report to the Chairman, Subcommittee on the Postal Service, Committee on Government Reform and Oversight, House of Representative entitled Inspectors General: A Comparison of Certain Activities of the Postal IG and Other IGs. In the report, it is noted that because of the dual responsibilities exercised when the Chief Postal Inspector was also the Inspector General, the Postal IG was not organizationally independent of law enforcement operations and could not perform audits of those operations in accordance with required standards.

The report also noted that in four other federal departments, the IGs are organizationally independent from the offices and bureaus responsible for their departments' major law enforcement operations and do audit them according to generally accepted government auditing standards. A shifting of certain investigative responsibilities from the Inspector General to the Inspection Service in order to achieve efficiencies may allow the IG to focus more on the oversight of law enforcement operations while conducting less criminal investigations.

The designation of functions between the USPIS and OIG was revisited 5 years ago. If the Inspector General desires to transfer certain investigative activities back under the Inspection Service this could be considered; however, the current designation of functions serves the agency well.

Target Implementation Date: None

Responsible Official: Guy Cottrell, Chief Postal Inspector

Recommendation:

2. Evaluate the savings that would come from discontinuing investigations related to areas not inherently related to Postal Service mission and operations, such as mail fraud involving a small number of mailpieces associated with a crime in which other law enforcement agencies have primary jurisdiction.

Response:

The Postal Service rejects the premise that the Inspection Service carries out investigations not inherently related to the USPS mission. The Postal Service retained the services of Giuliani Security & Safety (GSS) while it was engaging in a process to gain efficiencies and generate revenue as mail volume is decreasing. The PMG recognized it was an opportune time for the Inspection Service to reevaluate its priorities, the existing use of its resources as well as identifying better ways to manage the organization. Since the beginning of FY 09 Inspector complement has been reduced from 1754 to 1400, a reduction of 20%. Regarding the work performed by the Inspection Service, GSS found, "[a]most without exception all of the work performed by the Inspection Service has a relationship in one form or another to the Postal Service, its employees, facilities, the mail itself, or its customers and consumers."

Background Information

Among the salient findings of the GSS report was that the Inspection Service is regarded within the Postal Service and among the law enforcement community as a highly competent and respected organization. Regarding the work performed by the Inspection Service, GSS found, "[a]most without exception all of the work performed by the Inspection Service has a relationship in one form or another to the Postal Service, its employees, facilities, the mail itself, or its customers and consumers."

Mail Fraud investigations, for the most part, strike at the very core of the Postal Service's core business, ensuring integrity and product branding. This was validated during the GSS study which also made recommendations regarding the focus of our mail fraud investigations. We

have, as a result, re-focused our mail fraud efforts especially with regard to our consumer fraud program, who are customers of the Postal Service. The comments in the OIG draft report regarding the FBI's role in mail fraud investigations do not accurately reflect the true nature of this work.

The OIG took but one sentence from the U.S. Attorney's Manual – there are several chapters addressing mail fraud and the section which the OIG quotes is simply the first sentence of one chapter. That paragraph continues, "the Postal Inspection Service of the United States Postal Service may initiate mail or wire fraud investigations...the investigations are usually continued by the agency initiating the investigation. Reports of investigation are disseminated directly to the appropriate United States Attorney." The fact that another agency shares jurisdiction does not mean the US Postal Service should cede their role. For instance the Inspector General shares the ability to investigate with other agencies as well and has worked with the FBI, IRS and the DOL OIG on matters of shared jurisdiction.

Additionally, as a matter of law, the power and authority vested in Postal Inspectors is exercised "in the enforcement of laws regarding property in the custody of the Postal Service, property of the Postal Service, the use of the mails, and other Postal offenses..." Further, as a matter of law, the Attorney General of the United States, in coordination with the Postmaster General can authorize Postal Inspectors to investigate violations of other statutes, as long as they have a detrimental effect upon the operations of the Postal Service.

On page two of the draft audit report, the OIG claims, "[t]he Inspection Service conducts investigations that are not inherently related to the Postal Service operations or mission." As noted above, the GSS report contradicts this assessment and found all Inspection Service activities relate to the mission of the Postal Service. Thus, there is no basis for the claim that 34% of Inspection Service investigative activities do not support the protection of the Postal Service, its assets and mail system. Further, while the OIG acknowledges some benefits are difficult to assess, there is no accounting for Inspection Service efforts enhancing brand image and integrity and public trust in the mail.

Additionally, Congress continues to recognize the Postal Service and Inspection Service role in protecting its citizens and customers from victimization through mail fraud and other schemes. On February 17, Representative Ted Deutch introduced H.R. 773, the Seniors Financial Fraud Prevention Act of 2011, a bill to establish an office with the Federal Trade Commission to prevent fraud targeting seniors. The measure states the newly created office will monitor the market for mail, telemarketing, television and Internet fraud targeting seniors. H.R. 773 says the office will consult with the Attorney General, Health and Human Services, the Postmaster General, and the Chief Postal Inspector to provide consumer education. Additionally, procedures will be established within the office to record complaints, which will be referred to appropriate entities, including appropriate law enforcement agencies, for potential law enforcement action.

In the GSS report, one recommendation was to "amend the current mission statement of the USPS to explicitly state that *supporting the USPS* is the key purpose for the USPIS." As a result of this recommendation, the Inspection Service changed the language of their mission statement and it was subsequently approved by the Postal Service. The Inspection Service's new mission statement is "The mission of the U.S. Postal Inspection Service is to support and protect the U.S. Postal Service and its employees, infrastructure, and customers; enforce the laws that defend the nation's mail system from illegal or dangerous use; and ensure public trust in the mail."

The tremendous respect of the US Postal Service as "the Most Trusted Government Agency" is due in part to the fine efforts of the Postal Inspection Service. With our ability to deliver correspondence and serve commerce to all American households comes a corresponding duty to ensure we enforce the laws that defend the nation's mail system from illegal or dangerous use.

Target Implementation Date: Recommendation rejected.

Responsible Official: Guy Cottrell, Chief Postal Inspector

Reduce Security Force Costs through Contracting

Recommendation:

3. Conduct a review to evaluate the benefits of contracting for armed security services.
4. If the review supports contracting for security, implement a strategy to utilize contract staffing to supplement or replace Postal Service security force positions.

Response:

The Inspection Service initiated a comprehensive review of its Postal Police Force operations prior to the issuance of the OIG Draft Audit Report. The Inspection Service regularly engages in reviews of its operations to ensure it effectively achieves its mission in a manner which is cost effective. The Inspection Service agrees to include in its current review, an evaluation of the benefits of contracting for armed security services.

While we agree with the spirit of the recommendation, we are not in total agreement with the premise or methodology upon which the recommendation was made. In sum, it does not appear the loaded hourly rates for craft and supervisory Postal Police Officers (PPO) accurately reflect the actual rates received by these employees in that the rates cited in the draft report are higher than are currently paid.

Further, we do not agree with the methodology utilized in determining the number of work hours which could be saved by contracting out armed security services. The report did not reflect the individual differences in security needs at the various work sites. Additionally, we do not, at this point, agree that the comparison to a Department of Labor, Guard II accurately reflects all of the duties performed by PPOs.

Finally, the draft report did not indicate the legal and labor relations-related ramifications of totally contracting out these services. The craft PPOs are members of a collective bargaining unit recognized by the National Labor Relations Board. The craft employees are covered by a no-layoff clause, so even assuming services were contracted out, their employment is guaranteed, regardless of the position they hold, which would affect the purported savings. Additionally, the report did not consider the legal costs related to the protracted litigation and potential liability the Postal Service would face from the action of attempting to replace a duly recognized collective bargaining unit with contracted employees on a wholesale basis.

Target Implementation Date: Once the Inspection Service completes its current review, it will offer specific comments relative to the recommendation contained in the report.

Responsible Official: Anthony J. Vegliante, Chief Human Resources Officer and Executive Vice President

Reduce Postage Costs by Expanding the Forever Stamp Program

Recommendation:

5. Conduct a review to evaluate the benefits of converting all coils of 3,000 and 10,000 First-Class 1-ounce denominated stamps to the Forever Stamp.

Response:

As the USPS has continuously reviewed and evaluated the Forever stamp since its implementation in April 2007, we will continue to do so for all stamp and stamp stationery production and formats. As a result of the ongoing analysis we determined in May 2010 to expand the Forever stamp to 1-ounce coils of 100 and in October of 2010 expand the program further to all other 1-ounce stamp formats with the exception of coils of 3,000 and 10,000 beginning in January 2011. We will continue to review and evaluate the benefits and the risks associated with the Forever stamp as we have done over the past four years.

We do not concur, at this time, with the recommendation that we specifically evaluate the benefits of converting the large coils of 3,000 and 10,000 to Forever stamps. We believe that the customer base for these products, who produce significantly large mailings using permit imprint, meter, and directly affixed postage from the coils of 3,000 and 10,000, is significantly different than the customer base serviced by the other 1-ounce formats that we have converted to the Forever stamp.

In an effort to negate confusion during rate changes, the forever stamps were originally issued as a convenience for our traditional individual customers, which are people buying stamps for personal use. The coils of 3,000 and 10,000 service our large mailers who are far more likely to purchase and use the stamps to offset the effects of rate increases and significantly arbitrage the pricing adjustment to their advantage. We also expect some large commercial mailers would convert mailings from permit or postage meter imprints simply to take advantage of the short term arbitrage around a price increase date thus obtaining stamps at a discounted rate.

Target Implementation Date: Under continuous review.

Responsible Official: Marie Therese Dominquez, Vice President, Government Relations and Public Policy

Recommendation:

6. If the analysis supports conversion, convert all coils of 3,000 and 10,000 First-Class 1-ounce denominated stamps to the Forever Stamp.

Response:

While we are continually analyzing the effect of the Forever stamp program we do not believe that, under the current pricing structure, in conjunction with the stamp manufacturing volume reductions that have occurred over the past three years, an economic benefit will be realized by converting the coils of 3,000 and 10,000. We have serious concerns with the methodology that was utilized in providing the final recommendation.

Data was used based on fiscal years that are no longer pertinent to current customer demand and production volumes, as well as the distribution matrix that currently exists. With the reduction of the Stamp Distribution Network from 80 locations to 6 Stamp Distribution Centers (SDC) and 3 Stamp Distribution Offices (SDO), production can now be reduced to meet the needs of the distribution centers in a more precise manner allowing for reduced and timelier production.

As an example, the four prime coils (44c) of 3,000 and 10,000 have inventory levels at the Stamp Distribution Centers far below the coils that were analyzed from previous years; and we do not anticipate having the same destruction levels as cited within the OIG report. Current inventories, as of April 18, 2011, for the current 44c one-ounce coils of 3,000 and 10,000, reveal a combined 190.44 million stamps, with an average monthly sales (Retail Data Mart) data of 25 million per month. That is approximately an 8 month supply, which can effectively be replenished, if needed, to the 6 Stamp Distribution Centers and 3 Stamp Distribution Offices with significantly reduced reprint volumes.

Target Implementation Date: None

Responsible Official: Marie Therese Dominquez, Vice President, Government Relations and Public Policy

Reduce Employee Benefit Costs by Aligning Benefits with Other Federal Agencies' Policies

Recommendation:

7. Review the benefits of making changes to future employee leave and direct deposit policies to save money and align with those used by other federal agencies, and in accordance with all applicable laws.

Response:

This audit report addresses annual leave benefits - Annual Leave Exchange (ALE), Annual Leave Carryover Limits (Carryover) and Advanced Annual Leave (Advance) - provided to career USPS employees. The table below provides a summary of savings that the audit report attributes to three different features of annual leave benefit.

Reduction in Employee Benefits	Amount (in millions)
Annual Savings on Annual Leave Exchange	\$42.10
Annual Interest Savings on Annual Leave Carryovers	\$0.60
Annual Interest Savings on Advanced Annual Leave	\$0.40
Net Annual Savings	\$43.10

Virtually all of the savings are assigned to the ALE. The report provides no explanation of how \$42 million ALE savings are arrived at. It is our assumption, based on earlier discussions with the auditors, that the ALE savings represent a simple average of the leave that was exchanged, in 2009 and 2010, by non bargaining employees in levels 18 and above. The auditors did acknowledge that:

"We don't know actual costs incurred when these employees take leave however, much of our original assumptions hold true. Postal Service is overstaffed, many of these positions will not be backfilled on a one to one basis, and annual leave can be balanced with operational needs. We can footnote the draft to include reference that any savings may be offset with additional personnel costs at higher level pay."

The report assumes that annual leave is replaced dollar for dollar for non bargaining employees at or below EAS 17. In assuming dollar for dollar replacement, it ignores the issue of premium pay and therefore higher replacement costs. More importantly, the assumption of zero replacement of the work performed by EAS 18 and above employees is based on the assumption that the Postal Service is "overstaffed". The report does not establish any evidence of "overstaffing". Assuming for a moment that the Postal Service may have pockets where resources (staffing) exceed workload, the report does not take into account the 2011 Organizational Redesign which affects every administrative function within the Postal Service at Headquarters and in the Field. Instead, the report takes the historical ALE data and extrapolates the savings assumptions to ten years in the future. As shown in Table below, more than half of the EAS level 18 and above employees are in Operations. These include managers, supervisors and Postmasters in Functions 1, 2, 3, 4 and 8. It is not logical to assume that none of these employees need to be replaced.

EAS POPULATION

LEVEL 18+

	2009	2010	2011 YTD
TOTAL EAS	27,409	26,302	25,606
Operations(F1, F2, F3, F4)	5,800	5,269	5,172
Postmasters	8,341	8,313	8,222
Total Operations & Postmasters	14,141	13,582	13,394
% of EAS Population (18+)	52%	52%	52%

Additional concerns with this recommendation are listed below:

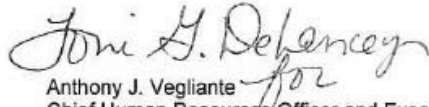
- If ALE is eliminated, employees will use more annual leave to avoid forfeiture. If employees take more time off, it will result in higher replacement costs in the form of overtime and/or higher level pay, and possibly more on-rolls career employees to cover a higher rate of paid absence.
- In many instances, replacement work will be performed less efficiently due to a learning curve or even not performed at all, with negative consequences. These are significant offsets to ALE savings and need to be accounted for.
- Annual leave is expensed as it is earned. It will be paid out either as pay for time not worked, or annual leave exchanged for cash, or terminal leave. Eliminating ALE does not change the fact that leave will have to be paid, and expensed when earned.
- Discontinuation of the ALE policy will require: Negotiations with unions for bargaining unit employees and inclusion of the proposed changes in pay consultations with management groups for non bargaining employees.

Finally, we believe the carryover and advanced annual leave savings are minimal at best. The Postal Service believes that the carryover and advanced features help provide employee motivation and are a good value versus benefit tradeoff.

The projected savings associated with the proposed changes to leave policy are based on incomplete assumptions and without sufficient evidence to support the claimed savings. If the purpose of this report is to identify opportunities based on process improvements or policy changes that will result in capturable savings, the report fails to do so as it does not properly assess all of the costs and benefits associated with the proposed changes. It is, therefore, difficult to see the estimated savings as being either realistic or attainable.

Target Implementation Date None.

Responsible Official: Anthony J. Vegliante, Chief Human Resources Officer and Executive Vice President



Anthony J. Vegliante
Chief Human Resources Officer and Executive Vice President

cc: Corporate Audit and Response Management

Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Joseph Corbett
Chief Human Resources Officer and Executive Vice President

Guy Cottrell
Chief Postal Inspector

Marie Therese Dominguez
Vice President, Government Relations and Public Policy