
**Hearing before the Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
Committee on Oversight and Government Reform
United States House of Representatives**



**Oral Statement On
Contracting Out of Services
By the
United States Postal Service**

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Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear today to discuss the Postal Service's contracting out of services. As you know, the Postal Accountability and Enhancement Act directs the Postal Service to develop an optimization plan to increase the efficiency and effectiveness of its mail delivery systems and facilities, while doing business in a new postage rate environment constrained by the Consumer Price Index. With key elements of current labor costs rising much faster than CPI, the Postal Service has no alternative but to consider lower labor costs in order to comply with the new law.

The Clinton and Bush administrations have favored public sector outsourcing. It was previously part of the Reinventing Government initiative and is now one of the four Presidential Management Initiatives — to move functions not inherently governmental to the private sector where possible. The President's Commission on the Postal Service also recommended outsourcing functions, believing that the private sector can provide services better and at a lower cost — an idea less aggressive than that of the White House.

Postal Service Outsourcing

Historically, the Postal Service has relied heavily on contractors, outsourcing most long-haul mail transportation to the commercial airlines, package shippers, and trucking companies; and contracting out most research and development and major automation development efforts. The Postal Service has more than 3,000 contract post offices operated and staffed by contractors. In sparsely

populated areas of the country, contractors have traditionally performed some delivery functions.

By offering mailers discounts to perform postal processing and transportation functions, the Postal Service is engaging in a form of outsourcing through worksharing. Today 75 percent of all mail has a workshare discount, saving the Postal Service over \$11 billion a year.

The Postal Service is not required to comply with OMB Circular A-76 regarding outsourcing requirements. Negotiations between the Postal Service and its unions traditionally determine outsourcing decisions, as anticipated in the Postal Reorganization Act in 1970. Today, the policy question before Congress is whether to take outsourcing of delivery off of the bargaining table.

Office of Inspector General (OIG) Work

Annually, the Postal Service manages a contract portfolio valued in excess of \$40 billion. The integrity of contract awards and contract management are essential for such a major portfolio. The Postal Service uses commercial purchasing procedures rather than the government's Federal Acquisition Regulation. As a result, the Postal Service and its stakeholders are unusually dependent on the OIG for assuring the integrity of contract awards, since court challenges are more restricted. Misconduct by contractors also represents a significant area of concern.

My office dedicates considerable resources to reviewing and investigating contractual activities. Audits of contract administration over the past several years have allowed for increased management action to reduce costs and recoup funds. Our audit work in 2007 has identified more than \$300 million in questionable costs for management's action. Contract investigations have resulted in cost recoveries as large as \$10 million. We have also investigated individual contractors, such as contract postal units and highway contract routes. In the last 12 months, we have conducted 47 contract postal unit embezzlement cases, resulting in termination of contracts and arrests. In one case, OIG agents arrested a contract post office operator for embezzling over \$100,000 in postal money orders to finance a gambling habit.

To present a balanced picture, the OIG has also apprehended substantial numbers of letter carriers, postmasters, and clerks for theft, embezzlement, and misconduct. The process for contract worker and postal employee investigations is virtually the same.

Conclusion

To conclude, Congress is demanding a leaner and more efficient Postal Service. The Postal Service will need to employ all the tools at its disposal to meet this demand. There are opportunities to find efficiencies through additional

outsourcing; however, the Postal Service is faced with powerful and contradictory imperatives from its stakeholders regarding such cost control measures.

There are compelling calls for lean networks for mail processing and delivery to keep postage as inexpensive as possible. Conversely stakeholders also exert pressure for legislation to maintain a large public workforce and unneeded facilities. The challenge for the Postal Service is to find a way to navigate through this very difficult environment of contradicting imperatives while fulfilling the requirements of the new postal law.