

July 2008

U.S. POSTAL  
SERVICE

Data Needed to Assess  
the Effectiveness of  
Outsourcing





Highlights of [GAO-08-787](#), a report to congressional requesters

# U.S. POSTAL SERVICE

## Data Needed to Assess the Effectiveness of Outsourcing

### Why GAO Did This Study

The U.S. Postal Service (the Service) has a long history of contracting out postal functions, such as mail transportation, mail delivery in rural areas, vehicle and equipment maintenance, and retail postal services. However, postal employees also perform many of these same functions and unions representing these employees have concerns about the scope and impact of outsourcing. The objectives of this requested report are to assess (1) the circumstances under which the Service can outsource postal functions, how it decides to outsource, and the extent to which it has outsourced; (2) how the Service’s management processes compare for contractors and postal employees; and (3) the results, including any savings, and key challenges related to the Service’s outsourcing activities. GAO reviewed applicable statutes, collective bargaining agreements, postal processes and outsourcing data, and interviewed postal union and management officials.

### What GAO Recommends

To determine the effectiveness of postal outsourcing, improve management accountability, and support congressional oversight, GAO recommends that the Postmaster General should establish a process to track the results of outsourcing activities that are subject to collective bargaining and report these results to Congress. The Service generally agreed with our findings and first recommendation, but not to provide Congress with information about outsourcing results.

To view the full product, including the scope and methodology, click on [GAO-08-787](#). For more information, contact Katherine Siggerud at (202) 512-2834 or [siggerudk@gao.gov](mailto:siggerudk@gao.gov).

### What GAO Found

The Service has no statutory restrictions on the type of work it may outsource, but collective bargaining agreements with its unions impose some process requirements and limitations. When evaluating outsourcing proposals, the Service must consider five factors—public interest, cost, efficiency, availability of equipment, and qualification of employees—and determine whether outsourcing will have a “significant impact” on work performed by postal employees covered by collective bargaining agreements. If so, it must compare the costs of performing proposed work with postal employees and with a contractor, notify the affected union that it is considering outsourcing, and consider union input before making a decision. We could not determine the Service’s total outsourcing contracts related to bargaining unit work, because the Service does not separately track these contracts. It did provide data on some outsourcing that has impacted work by employees of its four major unions in the areas of retail, processing, transportation, and delivery.

The Service evaluates contractors and postal employees using similar suitability and performance standards, but uses different management processes. The Service recently revised its drug screening procedures so they are now similar for both groups. The Service manages contractors through specific performance requirements, as compared to Service policies and collective bargaining agreements for postal employees. Finally, the Service has mechanisms to evaluate performance and take actions related to performance problems for both, but does not compile performance data to permit comparisons between contractors and postal employees.

The Service does not have a comprehensive mechanism for measuring results, including any actual savings; therefore, it could not provide information on the effectiveness of its outsourcing. Without cost-savings data, postal managers, stakeholders and Congress cannot assess the risk and value of outsourcing. Also, accountability for results is limited. The Service has stated that it will explore outsourcing opportunities, and postal unions are concerned that the Service’s use of contractors for delivery service is growing as shown below. Proposed legislation to limit the Service’s outsourcing is pending in Congress, which the Service says could limit its ability to contain costs. Key challenges include whether the Service and its unions can reach agreement on outsourcing issues through collective bargaining and whether the Service can provide analysis to substantiate the benefits of outsourcing.

**Comparison of Portion of Total Number and Growth in Delivery Routes Served by City, Rural, and Contract Letter Carriers, Fiscal Years 1998 and 2007**

Carrier type	Percentage of total routes		Percentage of growth
	1998	2007	in total routes 1998 to 2007
City	71.2	66.3	-2.3
Rural	26.5	31.0	22.5
Contractor	2.3	2.7	22.9

Source: GAO analysis of Service data.

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### Abbreviations

AMC	Air Mail Center
APWU	American Postal Workers Union
CDS	Contract Delivery Service
OIG	U.S. Postal Service Office of Inspector General
SIAG	Strategic Initiatives Action Group

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United States Government Accountability Office  
Washington, DC 20548

July 24, 2008

The Honorable Tom Carper  
Chairman  
The Honorable Tom Coburn, M.D.  
Ranking Member  
Subcommittee on Federal Financial Management,  
Government Information, Federal Services, and  
International Security  
Committee on Homeland Security and  
Governmental Affairs  
United States Senate

The Honorable Danny K. Davis  
Chairman  
The Honorable Kenny Marchant  
Ranking Member  
Subcommittee on Federal Workforce, Postal  
Service, and the District of Columbia  
Committee on Oversight and Government Reform  
House of Representatives

The United States Postal Service (Service) continues to face the challenge of generating sufficient revenue from a changing, less profitable mix of mail while operating under a cap that limits price increases for certain classes of mail to the rate of inflation. Obligations stemming from the Service's universal service mandate, to provide postal services to all parts of the country, continue to increase the number of deliveries by about 1.7 million new addresses per year. Meanwhile, since fiscal year 2000, the number of mail pieces delivered to each address and the average revenue per delivery have decreased. To address these challenges, the Service stated in its 2002 Transformation Plan that it planned to achieve cost savings of \$5 billion over 5 years, partly by improving operational efficiency. Since then, the Service has reported achieving billions in cost-savings, improving productivity, and reducing its workforce by more than 100,000 employees. The Service set a goal to cut another \$5 billion in costs during fiscal years 2006 through 2010 by continuing to increase productivity and improve operations. To achieve this goal, it has initiatives under way to further reduce manual mail handling, increase the number of deliveries for each mail route, and optimize its transportation and mail processing networks.

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Some of the Service's efforts to control costs involve outsourcing. Service officials have stated that through outsourcing, the Service seeks to improve its operations and customer service as well as save money. In this report, we use the term "outsourcing" to refer to services that are purchased from external entities and that are also, or may be, performed by postal employees covered by collective bargaining agreements, which, as of the end of fiscal year 2007, included about 85 percent of the Service's 685,000 career postal employees. The Service has a long history of outsourcing postal functions, such as mail transportation services, mail delivery in rural areas, contract stations for retail services, and vehicle and equipment maintenance. However, postal employees also perform many of these same functions and unions representing these employees have had long-standing concerns about the impact of outsourcing on job security.<sup>1</sup> Current collective bargaining agreements, and accompanying memoranda of understanding, between the Service and unions contain clauses that specifically address outsourcing.<sup>2</sup> At congressional hearings in 2007, the unions representing city and rural carriers raised concerns about the Service's expanded use of outsourcing to provide delivery services, including concerns about the Service's oversight of these services and the quality of services provided. Subsequently, the Service and its carrier unions agreed to discuss the scope of the Service's outsourcing. Currently, the parties plan to complete these discussions by the end of September 2008. In 2007, bills were introduced in the House and the Senate that could limit the Service's ability to outsource.<sup>3</sup> Service officials have said that these bills, if enacted, could significantly impede their efforts to reduce costs.

To assist Congress in understanding the Service's outsourcing activities, this report assesses (1) the circumstances under which the Service can outsource postal functions, how it decides to outsource, and the extent to which it has outsourced; (2) how the Service's management processes,

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<sup>1</sup>GAO, *U.S. Postal Service: Little Progress Made in Addressing Persistent Labor-Management Problems*, GAO/GGD-98-1 (Washington, D.C.: Oct. 1, 1997).

<sup>2</sup>The clauses set forth in the collective bargaining agreements refer to outsourcing as "subcontracting." In addition, for the purposes of this report, when we refer to collective bargaining agreements, we are also referring to the accompanying memoranda of understanding.

<sup>3</sup>See S. 1457, the Mail Delivery Protection Act of 2007, and H. R. 4236, the Mail Network Protection Act of 2007. Additionally, H. Res. 282 expresses "the sense of the House of Representatives that the United States Postal Service should discontinue the practice of contracting out mail delivery services."

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including suitability (hiring and screening procedures) and performance evaluation, for contractors compare to those for postal employees; and (3) the results—including any costs, savings, or other outcomes—of the Service’s outsourcing efforts and the challenges facing the Service related to outsourcing.

To address the circumstances under which the Service can outsource postal functions, we reviewed statutory and regulatory requirements and the Service’s most recent collective bargaining agreements with its four major unions.<sup>4</sup> We focused our review on the Service’s outsourcing activities related to major postal functional areas and the bargaining unit work of its four major unions, including transportation, delivery, mail processing, and retail functions. To determine how the Service decides to outsource, we interviewed postal officials at Service headquarters and the Southwest Area,<sup>5</sup> employee union representatives, management association representatives, and representatives of the National Star Route Mail Contractors Association and reviewed relevant postal documents. To evaluate the extent to which the Service has outsourced, we interviewed Service officials at headquarters and in the Southwest Area and obtained and reviewed documents related to the Service’s outsourcing efforts, including 46 national-level outsourcing initiatives since 1996, as well as proposed initiatives. In addition, we obtained, reviewed, and analyzed information on outsourced transportation and delivery, including data pertaining to routes and delivery points for the three types of carriers—city, rural, and contract delivery service. To compare the Service’s management processes for suitability and performance evaluation of contractors and postal employees, we reviewed the Service’s policies and procedures related to hiring qualifications, screening requirements, and performance evaluation for contractors and postal employees. To evaluate the results, including any costs, savings, and other outcomes of its outsourcing activities, we also reviewed the Service’s cost estimates, relevant budget information, and available performance data for the outsourcing projects initiated from 1996 through 2007. We requested comments on a draft of this report from the Service and we discuss its

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<sup>4</sup>Most postal employees represented by labor unions are called bargaining unit employees and the four major unions include the: (1) American Postal Workers Union (APWU), (2) National Association of Letter Carriers (City Carriers), (3) National Postal Mail Handlers (Mail Handlers), and (4) National Rural Letter Carriers’ Association (Rural Carriers).

<sup>5</sup>The Service manages its field operations by dividing the nation into nine geographic areas.

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comments, which appear in appendix III, later in the report. We conducted this performance audit from August 2007 through July 2008 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Results in Brief

The Service has no statutory limitations on the type of work that it can outsource and has processes and procedures for making outsourcing decisions, including a specific process to comply with the collective bargaining agreements with its unions, but we could not determine the extent of the Service's total outsourcing activities. Applicable statutes contain no specific restriction on outsourcing and specifically authorize the Service to enter into contracts for transportation services.<sup>6</sup> However, the Service's collective bargaining agreements with the postal unions may include provisions that restrict outsourcing in certain areas. For example, in its most recent agreement with the City Carriers, the Service and the union agreed to specific restrictions on outsourcing delivery services in areas where delivery is provided exclusively by city carriers. Additionally, Article 32 of the collective bargaining agreements defines procedural steps that the Service must follow when considering an outsourcing decision, which both the Service and unions say do not restrict the Service from outsourcing. Article 32 provisions require the Service to consider five factors—public interest, cost, efficiency, availability of equipment, and qualification of employees—when evaluating the need to outsource. In addition, the Service must determine whether the proposed outsourcing will have a significant impact on the bargaining unit and, if so, it must notify the union and allow it to provide input into the decision-making process. Service officials told us that when making these evaluations, they do not use formal criteria but consider such information as the numbers of employees and facilities affected, the number of work hours at issue, and the geographic distribution of the employees and sites affected. Postal employee unions have disagreed with a number of the Service's decisions related to outsourcing and grieved them but have also reached agreement with the Service through collective bargaining to some changes in its outsourcing decision-making process. Overall, the Service could not

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<sup>6</sup>39 U.S.C. §5005.



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provide information on the total extent of its outsourcing activities that have impacted bargaining unit work, because some contracts related to bargaining unit work are not separately tracked. Since 1996, the Service has evaluated and implemented 46 national-level outsourcing proposals under the requirements of Article 32 and determined that 5, which involved retail and mail processing functions, had a significant impact on bargaining unit work.<sup>7</sup> Most of the information provided by the Service on its outsourcing activities was related to these five proposals. In addition, the Service provided information related to its total contract costs for transportation of about \$6.5 billion in fiscal year 2007, but could not separately report on the subset of transportation contracts that have an impact on bargaining unit work. Outsourced delivery service accounts for approximately 2 percent of all deliveries, and all contracts for delivery service have an impact on bargaining unit work. The Postmaster General has testified that the Service has been exploring the expanded use of contracted delivery services since, according to the Service, it is one of the most cost-effective delivery modes available.

The Service evaluates contractors and postal employees using similar suitability and performance standards, while holding them accountable using different management processes.<sup>8</sup> For example, to determine suitability for employment, both potential contractors who would come into contact with the mail and applicants for Service employment are required to undergo background checks. In the fall of 2007, the Service revised its drug screening procedures so that it had similar criteria to evaluate both potential delivery service contractors and applicants. The performance criteria in contracts are similar to standards applied to postal employees or are designed to achieve the same goals. For example, both delivery service contractors and postal rural carriers have similar responsibilities for sorting and delivering mail to their routes within established time frames. Once the Service has contracted for an outsourced function or hired an individual as a full-time Service employee, the Service manages the contractor and the employee differently. The Service manages contractors through the terms of a contract, which generally includes specific performance requirements, while it manages

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<sup>7</sup>One of the five initiatives that had a significant impact, outsourcing of the Air Mail Centers (AMC), was considered in three separate initiatives but is counted as a single initiative in this report.

<sup>8</sup>For the purposes of this report, the term contractor includes an individual contract holder, employees of a contractor, or subcontractors.

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employees through various policies and provisions in the collective bargaining agreements. The Service has mechanisms to monitor and take actions related to performance problems for both contractors and postal employees. Furthermore, the Service has established procedures for actions it can take if a contractor deviates from or fails to achieve performance criteria, up to and including contract termination. Similarly, the Service has established procedures that employees are required to follow and can discipline employees for failure to comply. However, the Service does not know how the performance of postal employees compares to that of contractors since it does not centrally collect data on performance.

The Service lacks information and data about the results of its outsourcing efforts that could be used to determine whether they are effective and to support future outsourcing in the face of possible challenges. For example, the Service does not know the savings related to its outsourcing efforts because it does not have a process to evaluate the impact of outsourcing or to track actual savings. Instead, officials told us that the Service projects savings from a wide range of efforts and initiatives, including outsourcing, and reduces its budget accordingly. Postal employee unions have expressed skepticism about the value of outsourcing and have raised questions about the reality of cost savings and implications of outsourcing. Without information on results, such as costs, savings, or efficiency gains, Service managers, stakeholders, and Congress are not able to assess the risk and value of outsourcing and accountability for results is limited. Looking forward, the Service is considering another major outsourcing initiative involving its bulk mail processing network. This initiative is related to work covered by collective bargaining agreements with two unions. However, the Service faces a number of challenges related to outsourcing, including differing messages from pending legislation and the Administration on outsourcing and the potential impact of outsourcing on its relations with its employee unions. For example, the current and previous administrations have advanced proposals to promote more efficient and effective government operations, including by outsourcing. On the other hand, two bills pending in Congress would limit the Service's ability to outsource delivery service or require the Service to bargain with postal employee unions before entering into certain contracts. The Service has stated that these bills would constrain its ability to achieve cost reductions and that contractors may operate more efficiently than the Service in a number of ways including by compensating its employees at lower rates than the Postal Service and by employing more part-time workers. Postal unions have testified recently about their concerns related to the Service's expanded use of contractors

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for delivery service. Both the Postmaster General and postal union representatives have stated that issues related to outsourcing should be resolved within the context of collective bargaining agreements. The Service continues discussions with the City and Rural Carriers to reach agreement on how to define the scope of its delivery outsourcing activities. As Congress continues to debate the value of outsourcing, the Service lacks data to substantiate the results, including cost savings, it says it has achieved through outsourcing and to support its position that restrictions on outsourcing could constrain its efforts to reduce costs.

To determine the effectiveness of postal outsourcing, improve management accountability and support congressional oversight in this area, we are recommending that the Postmaster General should establish a mechanism to measure the results, including any savings, of outsourcing initiatives that are subject to its collective bargaining agreements and better inform Congress by including these results in its annual operations report to Congress. The Service generally agreed with our findings and our first recommendation. However, it did not commit to implementing our second recommendation to provide Congress with information about the results of its outsourcing initiatives, which we continue to believe is necessary to support congressional oversight.

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## Background

The Service has a long history of contracting for mail transportation dating back to the beginning of the Post Office in 1775. Since then, the Service has contracted for mail to be carried by steamship, stagecoach, horse, rail, airplane, motor vehicle, boat, snowmobile, and even mule train into the Grand Canyon. In 1845, Congress passed legislation to reduce mail transportation costs by moving from contracts with stagecoach companies to contracts with individuals to transport mail by horseback. The routes these individuals took became known as star routes. Most star route carriers had 4-year contracts and traveled by horse or horse-drawn vehicle until the early 20th century. In 1948, Congress allowed the Postmaster General to renew 4-year contracts to star route carriers with satisfactory service rather than requiring the contracts to be competitively bid. Between 1960 and 1970, star route miles more than doubled. In the 1970s, star routes officially became known as highway contract routes.

There are three different types of highway contract routes:

- Transportation routes: Contractors transport mail between postal facilities.

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- Contract delivery service (CDS) (commonly referred to as box routes): Contractors deliver mail and provide services similar to those provided by postal rural carriers.
  - Combination routes: Contractors provide a combination of mail transportation between postal facilities and mail delivery services to individual addresses along their routes.

In 2007, the Service had nearly 17,000 highway contract routes, including 8,968 transportation routes, 6,708 CDS delivery routes, and 1,218 combination routes. The Service also contracts for air mail transportation services with private contractors, including FedEx and seven commercial airlines. In addition, it contracts for mail to be transported by rail and boat.

The Service's outsourcing of mail transportation and some delivery services predates the ability of postal employee unions to collectively bargain. The Service established city delivery services provided by postal letter carriers on designated city routes in 1863, but did not initially extend delivery services to rural areas. Eventually, the Service set up permanent rural routes with postal rural letter carriers in 1902. The 1970 Postal Reorganization Act<sup>9</sup> authorized postal unions to collectively bargain with the Service on employee wages, hours, and other terms and conditions of employment. Subsequently, the unions negotiated for protection from layoffs. The act provided for binding arbitration if an impasse persists 180 days after the start of bargaining, unless parties agree to an alternate process. Four postal unions represent most non-management postal employees and negotiate for them during collective bargaining:

- The American Postal Workers Union represents various employees including clerks, building and equipment maintenance employees, motor vehicle operators, motor vehicle maintenance employees, and nurses;
- The National Association of Letter Carriers represents carriers who deliver mail on city routes;
- The National Rural Letter Carriers' Association represents carriers who deliver mail on rural routes; and

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<sup>9</sup>Pub. L. No. 91-375, 84 Stat. 719, Aug. 12, 1970.

- The National Postal Mail Handlers Union represents mail handlers who work in postal processing facilities.

The Service has separate bargaining agreements with each union and in 2006 or 2007 signed agreements with all four unions that expire in either 2010 or 2011.<sup>10</sup>

The total number of career postal employees, as well as the number of bargaining unit employees, declined 14 percent from 1998 through 2007 through attrition, as shown in table 1.

**Table 1: Change in Total Numbers of Bargaining Unit and Career Postal Service Employees from 1998 through 2007**

<b>Bargaining unit</b>	<b>1998 Employees</b>	<b>2007 Employees</b>	<b>Percentage of change</b>
City Carriers	240,813	222,132	-8
Rural Carriers <sup>a</sup>	52,241	67,584	29
Mail Handlers	62,247	57,882	-7
APWU	349,629	258,384	-26
<b>Total bargaining unit employment</b>	<b>704,930</b>	<b>605,982</b>	<b>-14</b>
<b>Total career Postal Service employment</b>	<b>792,041</b>	<b>684,762</b>	<b>-14</b>

Source: GAO analysis of Service data.

<sup>a</sup>Includes only full-time rural carriers.

The Service achieved these reductions without layoffs but improved its operational efficiency and productivity through increased automation and other initiatives. These efficiency gains allowed the Service to operate with fewer employees. According to the Service, there are significant cost advantages to contracting for transportation services. For example, although the service provided by the three different types of delivery—city, rural and contract—is generally similar, the Service states that there are significant cost differences between them, primarily due to differences in each of the carriers’ compensation systems. The systems for city and rural carriers are collectively bargained between the Service and its associated unions. Generally speaking, city carriers are compensated on an hourly basis, which can include overtime; rural carriers are

<sup>10</sup>Agreements with the APWU and the Rural Carriers expire in 2010; agreements with the Mail Handlers and the City Carriers expire in 2011.

compensated on a salary basis; and contract carriers are compensated via a contract. Similarly, there are significant cost differences between transportation provided by Service employees and highway contract routes. According to the Service, its fiscal year 2007 costs for delivery and transportation services provided by postal employees and contractors are shown in table 2.

**Table 2: Comparison of Fiscal Year 2007 Average Delivery and Transportation Costs for Postal and Contracted Providers**

<b>Delivery</b>	<b>Average annual cost per delivery</b>
City carrier	\$211.00
Rural carrier	175.00
Contract delivery service	109.00
<b>Transportation</b>	<b>Average cost per mile</b>
Postal Service	7.59
Highway contract route	1.91

Source: GAO presentation of Service data.

Furthermore, in the retail area, the Service establishes contract postal units because they can provide the same service as a post office but at less cost, since the Service does not incur building and operating expenses associated with maintaining post offices. In 2007, 4,026 of the Service's 36,721 post offices, stations, and branches—or 11 percent—were contract postal units.<sup>11</sup>

<sup>11</sup>Stations are units of a main post office located inside the corporate limits of a city or town while branches are units of a main post office located outside the corporate limits of a city or town.

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## The Key Requirements Related to Postal Outsourcing, the Service's Process for Making Outsourcing Decisions, and the Extent of Its Outsourcing

The Service has no statutory restrictions on the type of work it may outsource, but union collective bargaining agreements impose some limitations. Additionally, statutes and regulations authorize and guide the Service's outsourcing process. The Service follows its normal purchasing procedures for all outsourced services but additional procedural steps are required to comply with collective bargaining agreements in some outsourcing cases. Through the collective bargaining process, employee unions have reached agreement with the Service that resulted in changes to its outsourcing decision-making process. However, the unions have also grieved a number of the Service's decisions to outsource. Overall, we could not determine the extent of the Service's outsourcing that has impacted bargaining unit work because the Service does not separately track the subset of transportation contracts that impact bargaining unit work. The Service did provide data related to some of its outsourcing, including in its retail, processing, and delivery functions. Since 1996, the Service evaluated 46 national-level outsourcing proposals under the requirements of Article 32 and determined that 5 had a significant impact on bargaining unit work. The Service also provided data showing that outsourced delivery service accounts for approximately 2 percent of all deliveries.

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## Statutory Requirements and Collective Bargaining Provisions Related to the Service's Outsourcing

Outsourcing is accomplished through the Service's purchasing function and statutes and regulations that apply to the Service's purchasing function also apply to outsourcing.<sup>12</sup> Applicable statutes contain no specific restriction on outsourcing, and specifically, 39 U.S.C § 5005 authorizes the Service to enter into contracts for transportation services. Additionally, the Service may negotiate or enter into certain contracts without competition.<sup>13</sup> For example, the Service negotiated and awarded a contract without competition to FedEx for air transportation services and

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<sup>12</sup>We discussed these statutes and regulations in GAO, *U.S. Postal Service: Purchasing Changes Seem Promising, but Ombudsman Revisions and Continued Oversight Are Needed*, GAO-06-190 (Washington, D.C.: Dec. 15, 2005). We note that the Service has not been subject to most federal laws, regulations, and directives applicable to most federal purchasing, including (1) the Federal Acquisition Regulation, which establishes the uniform set of policies and procedures for acquisition by all executive branch agencies, and (2) the Competition in Contracting Act, which establishes, among other things, the federal policy of "full and open competition" for most federal contracts. Additionally, the Service is not subject to the Office of Management and Budget's Circular No. A-76, which requires agencies to identify activities that are inherently governmental and are therefore, exempt from A-76.

<sup>13</sup>39 U.S.C. §§ 5402, 5605.

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can renew highway transportation contracts without competition. In addition, Congress has applied certain purchasing-related requirements to the Service that apply to other federal government agencies but are not applicable to private entities. For example, the Service Contract Act of 1965 requires some Service contractors to pay minimum prevailing wages and benefits to employees.

Collective bargaining agreements with the postal employee unions may impose limitations on outsourcing in certain areas. For example, the most recent City Carrier's collective bargaining agreement restricts the Service from outsourcing delivery services in areas where only city carriers provide mail delivery. Similarly, APWU's collective bargaining agreement restricts some contracts for custodial services based on the size of the area to be maintained.

The Service's collective bargaining agreements also each contain a provision, Article 32, which establishes certain procedural requirements to be conducted when making an outsourcing decision, but does not, according to the Service and the unions, restrict the type of work that can be outsourced. For example, Article 32 requires the Service to evaluate how outsourcing proposals would affect bargaining unit employees and, under certain circumstances, to notify the unions of its intent to consider outsourcing and allow the unions to have input into the decision-making process.

According to the Service, neither its purchasing regulations nor the collective bargaining agreements restrict or limit a contractor's ability to subcontract work it is contractually required to perform or provide to the Service. However, the Service may include provisions in a contract that govern subcontracting. For example, a contract may require a contractor to notify the Service of its intent to subcontract, thereby allowing it to assess the qualifications of the proposed subcontractor with the same criteria used to assess the contractor's qualifications.

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## The Service's Process for Making Outsourcing Decisions

The Service uses its purchasing process for implementing outsourcing decisions and performs additional steps when required to comply with procedures in Article 32 of the collective bargaining agreements. Outsourcing is formalized through a contractual relationship between the Service and the service provider, whether the provider is a large



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corporation or an individual. The Service recently changed its purchasing regulations and procedures to streamline its purchasing process and create a more flexible, efficient, businesslike approach to purchasing.<sup>14</sup> The revised process covers all purchasing, including outsourcing, and is divided into six general steps:

- Identify needs.
- Evaluate sources. This step includes developing a request for proposals and soliciting bids.
- Select suppliers. This step includes awarding a contract.
- Deliver and receive requirements.
- Measure and manage supply. This step includes managing contract performance.
- End of life.

GAO reviewed these changes in a report issued in December 2005 and found them generally consistent with the principles and practices of leading organizations.<sup>15</sup> Accordingly, in this review, we limit our discussions to portions of the purchasing process that are relevant to outsourcing.

In addition to these purchasing steps, to comply with the Article 32 provisions, the Service must conduct two evaluations of outsourcing initiatives under consideration. First, it must address five factors—public interest, cost, efficiency, availability of equipment, and qualification of employees—when evaluating the need to outsource. Second, it must determine whether the outsourcing will have a “significant impact” on work performed by bargaining unit employees. Service officials told us that when making these evaluations, they do not use formal criteria and none of the five factors carries more weight than the others. Further, officials said that the five factor evaluation is similar to the type of analysis

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<sup>14</sup>The Service’s Supplying Principles and Practices manual provides guidance for the entire purchase process and includes additional guidance for purchasing specific services, such as for mail transportation.

<sup>15</sup>See [GAO-06-190](#).

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performed to make other business decisions and that the collective bargaining agreements do not contain specific guidance for performing the evaluations and do not define the term “significant impact.” However, the Service said that when determining whether a proposal has a significant impact, at a minimum, the initiative must be national in scope. In addition, the Service considers the material aspects of the initiative, including, but not limited to, the number of employees, work hours and facilities affected, the geographic distribution of the employees and sites affected, and any other factor that provides insight to the particular determination. Further, the Service said that no one factor will necessarily be determinative and not all factors will necessarily shed light on every project. If the Service determines that outsourcing will have a significant impact, Article 32 contains additional requirements. Although the specific requirements vary by agreement, the Service must always notify the affected union of its intent to consider outsourcing and must consider union input before making a decision. Conversely, if the Service determines the outsourcing will not have a significant impact, the Service may still have further actions it must take. Under its agreement with APWU, the Service has certain notification requirements for highway contract routes. In addition, if requested by the City or Rural Carriers, the Service must provide information on contracted delivery routes in certain circumstances.

We identified two different categories of outsourcing initiatives: (1) outsourcing that was approved at the national level, was unique and infrequent—occurring only 5 times since 1996, and had a significant impact on bargaining unit work; and (2) outsourcing that was approved at the field level, was purchased frequently and repeatedly, and, according to the Service, did not have a significant impact on bargaining unit work.

#### National-Level Decision-Making Process

The Service has established guidelines for evaluating proposed outsourcing initiatives and ensuring that certain factors are considered, such as whether an initiative is consistent with organizational goals, security, and integrity; offers a cost or service advantage; and will maintain quality levels. Additionally, the guidelines provide a framework for complying with Article 32 requirements. Overall responsibility for outsourcing proposals lies with a sponsor, typically a Service Headquarters Vice President. The sponsor’s responsibilities include developing and presenting the outsourcing concept, conducting financial and cost analyses, securing the necessary approvals, and ensuring compliance with all labor agreements.

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The sponsor presents the proposed outsourcing initiative to a Strategic Initiatives Action Group (SIAG), an internal cross-functional group formed to facilitate concept review and approval and ensure conformance with Article 32 requirements. The SIAG includes representatives from Service departments, including Labor Relations, Legal, Finance, Operations, Supply Management and Communications, who assist sponsors of proposed outsourcing initiatives with the various procedural steps required for outsourcing at the national level. SIAG evaluates the level of impact expected from the proposed outsourcing initiative by scrutinizing the functions to be performed in the initiative. If the SIAG determines that an outsourcing initiative will have a significant impact on work performed by bargaining unit employees, the affected unions must be notified and allowed to provide input into the analysis considered when comparing the performance of proposed work by postal employees and by a contractor. The final approval for an outsourcing initiative with a significant impact on bargaining unit work, supported by an evaluation of the five factors, must come from an approval board consisting of the Deputy Postmaster General/Chief Operating Officer, Chief Financial Officer, and Chief Human Resources Officer. If SIAG determines that national-level outsourcing will not have a significant impact, the Service will still perform the cost analysis that is part of the normal purchasing process; however, union notification and input are not required. The final decision to outsource a national outsourcing initiative that will not have a significant impact on the bargaining units is based on an evaluation of the five factors mentioned above and is made by management within the group that proposed the initiative.

One example of a national-level outsourcing proposal that the Service approved is a proposal to outsource certain functions previously performed by postal employees at AMCs across the country. Under the proposal, the AMC facilities would be closed and outsourcing would occur in contractor facilities. In the process of making the outsourcing decisions, the Service:

- determined that the proposal would have a significant impact on bargaining unit work,
- prepared a comparative analysis to document its consideration of the five factors,
- notified the affected unions at major milestones,

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- solicited and incorporated union input or responded in writing as to why specific concerns were not incorporated, and
  - decided to proceed with the outsourcing proposal.

In providing input to this AMC proposal, the union disagreed with assumptions underlying the Service's estimates of several factors that could affect the outcome of the analysis, including wage rates and experience levels for both contractors and postal employees, and the level of overtime required to perform the job.

## Field-Level Decision-Making Process

Most outsourcing is performed at the field level using established processes that include steps to comply with Article 32 requirements. Service officials told us that field-level outsourcing typically is for contract delivery, highway transportation, custodial and vehicle maintenance services, and involves thousands of contracts. Generally, outsourcing at the field level does not have a significant impact on bargaining unit work, according to the Service,<sup>16</sup> and consequently does not require consideration of union input. For example, the Service has an established process for contracting out delivery service that includes consideration of the five factors but does not require union notification or input. However, the City and Rural Carrier's collective bargaining agreements require the Service to provide cost information on contracted delivery routes in certain circumstances if requested by the union. Further, APWU's collective bargaining agreement with the Service has additional requirements the Service must meet when contracting out for highway transportation services. In this case, the Service has an established process set forth in a Service handbook, which incorporates steps required under Article 32 for transportation routes that meet certain criteria.<sup>17</sup> When contracting initially or renewing a contract for a transportation route that meets the criteria, the Service must perform a five factor evaluation, including a cost comparison, notify the union, and allow the union to have input into the outsourcing decision. The final decision to outsource is made at the field level.

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<sup>16</sup>If a field-level outsourcing proposal will have a significant impact, Service guidelines require the Service to follow the national-level process.

<sup>17</sup>Article 32.2 provisions apply to contracts for routes: with a value of more than \$100,000 per year for a fixed annual rate contract and not more than 350 miles in round-trip length; an annual or non-annual rate contract where estimated annual compensation will exceed \$45,000; and no more than 8 hours in operating time.

Table 3 summarizes the national and field-level outsourcing processes, compares the requirements, and includes examples of outsourcing.

**Table 3: Comparison of National- and Field-Level Outsourcing Processes**

Outsourcing decision level	Outsourcing examples	Would the outsourcing have a significant impact on bargaining unit work?	Is five factor consideration required?	Is union notification required?	Is union input required?
<b>National</b>					
	Commercial air contracts FedEx contract Contract renewals	No	No	No	No
	Site preparation Equipment installation	No	Yes	No	No
	Air mail centers Corporate call centers	Yes	Yes	Yes	Yes
<b>Field</b>					
	Contract postal units Most highway contracts	No	No	No	No
	Contract delivery service Vehicle maintenance	No	Yes	No <sup>a</sup>	No
	Specific highway contract routes and contract renewals	No	Yes	Yes	Yes

Source: GAO analysis of Service procedural documents and union collective bargaining agreements.

<sup>a</sup>Unless requested by the City or Rural Carriers.

### Increased Emphasis on Delivery Outsourcing

With the overall number of deliveries growing each year, on average, by about 1.7 million deliveries, the Service has taken steps to minimize the impact of these additional deliveries. For example, area and district managers are expected to have a growth planning process in place, conduct cost analyses on the type of delivery to provide, and examine the feasibility of offering CDS service in lieu of rural or city delivery service, consistent with the Service's contractual obligations. However, the Service must consider a variety of factors before assigning new deliveries to a particular type of delivery, including the type of carrier historically used in the area, Article 32 requirements, including cost, and projected population growth. To ensure that these policies are consistently applied and the appropriate factors are considered, the Service introduced a computerized growth management tool. This tool standardizes the process that field officials use to determine whether new deliveries should be assigned to

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city, rural or contract carriers. For example, if a new delivery is in an area served by city carriers, the address will likely be assigned to a city carrier route. Conversely, if a new delivery is in an area that does not have existing delivery service, the Service must compare the costs of each different delivery type to comply with Article 32. The Postmaster General has testified that the Service has been exploring the expanded use of CDS, because it is one of the most cost-effective delivery modes available.

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### Postal Unions Have Disagreed with Some Postal Service Outsourcing Decisions

Postal employee unions have disagreed with the Service's outsourcing decisions including those related to the impact of proposed outsourcing on bargaining unit work. To address disagreements with the Service, unions have two options: formally grieving decisions using the process defined in collective bargaining agreements or addressing concerns in subsequent rounds of collective bargaining.<sup>18</sup> For example, according to a union official, the Mail Handlers grieved the Service's determination that outsourcing the processing of some military parcels did not have a significant impact on bargaining unit work.<sup>19</sup> In this case, the Service notified the affected union at the local level, but not at the national level. The grievance was eventually settled by an arbitrator, who, according to the Service, decided that the initiative did have a significant impact but did not reverse the Service's outsourcing decision. In another example, APWU grieved the Service's 1991 decision to outsource certain jobs in remote encoding centers, where employees manually read and enter address information for addresses on letters that cannot be read by automated mail processing equipment. A 1993 arbitration decision determined that the Service did not violate Article 32 because the Service had considered the five factors but also required the Service to offer jobs at these centers to postal employees before contracting out such work.

The unions have also addressed concerns about outsourcing through collective bargaining. The City Carriers' current collective bargaining agreement restricts the Service from outsourcing delivery services in areas where only city carriers deliver mail. Previously, APWU and the Mail

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<sup>18</sup>Article 15 in the collective bargaining agreements defines the Grievance-Arbitration Process, which ultimately could result in binding arbitration if the parties are unable to resolve a grievance.

<sup>19</sup>With the onset of military activities in Afghanistan and Iraq, the U.S. military activated its contingency zip code for processing and delivery of packages to this region. The outsourced work includes receiving and sorting packages, building pallets of packages, and transporting the pallets to an aviation supplier.

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Handlers agreed in a memorandum of understanding, applicable from 1998 through 2000, to a moratorium on most new, national-level outsourcing that would affect their bargaining unit. In addition, the collective bargaining process has resulted in modifications to Article 32 procedures. For example, arbitration proceedings that followed collective bargaining negotiations in 2000 changed Article 32 in each union's collective bargaining agreement to include a provision that the Service would meet with the unions while developing its initial comparative analysis for outsourcing proposals and include a statement of the unions' views and proposals in this analysis.

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### The Extent of the Postal Service's Outsourcing Is Unknown

Overall, the Service could not provide information on the total extent of its outsourcing activities that have impacted bargaining unit work because the contracts related to bargaining unit work are not separately tracked. Since 1996, the Service reviewed 46 outsourcing initiatives using its national-level decision-making process and determined that 5 impacted bargaining unit work, primarily related to retail and processing functions. The Service approved and implemented all five initiatives but terminated one in 2001. The Service did provide fiscal year 2007 expenditure data related to the remaining four outsourcing initiatives, as indicated in table 4. In addition, the Service provided information related to its total contract costs for transportation, but could not separately report on the subset of transportation contracts that have an impact on bargaining unit work. The Service's expenditures for transportation contracts totaled about \$6.5 billion in fiscal year 2007, which was about 8 percent of its total operating expenses, while expenditures for outsourced delivery services totaled about \$220 million. Finally, the Service also provided information related to the number of deliveries made by contractors. The Service said that, through outsourcing, it seeks to improve its operations and customer service, as well as save money, though not every initiative is expected to achieve every goal. For example, it may be sufficient for a contract to improve service, but not save money. Further, it said that contractors may operate more efficiently than the Service in a number of ways including by compensating its employees at lower rates than the Service and by employing more part-time workers. The Service cited these reasons for outsourcing in each of the five national outsourcing initiatives, as follows.

**Table 4: Five National Outsourcing Initiatives Having a Significant Impact on Postal Unions**

<b>Initiative</b>	<b>Description</b>	<b>Outsource time frame</b>	<b>Contract expenditures for 2007</b>
Corporate Call Management	National customer call centers	1996-ongoing	\$74,357,493
Mail Transport Equipment Service Centers	National service network for handling equipment, carts, pouches, trays, and other items	1997-ongoing	208,083,454
Air Mail Centers	Centers closed and terminal handling services provided from contractor facilities	2005-ongoing	978,953
Terminal Handling Service	Handling services associated with the FedEx transportation agreement	2001-ongoing	108,498,278
Priority Mail Processing Network	Priority mail network along the East Coast	1997-2001	Not applicable

Source: GAO analysis of Service documents.

## Retail and Processing Outsourcing

The Service implemented two of the five initiatives that impacted retail and processing functions, Mail Transport Equipment Service Centers and Corporate Call Management, about 10 years ago. The Mail Transport Equipment Service Centers initiative was intended to establish a national network of service centers for processing, repairing, and storing equipment and supplies used to move mail, such as mailbags, trays, and carts. The Service anticipated improving the availability and management of the mail equipment, saving money, and improving efficiency at mail processing facilities by reducing mail equipment administrative responsibility. The Corporate Call Management initiative was intended to establish national call centers to provide a single toll-free number that would give customers access to postal services and information. The Service anticipated improving customer satisfaction, saving money, and improving efficiency by contracting with companies with demonstrated success in call center operations. According to the Service, these functions were previously decentralized and inefficient when they were performed by postal employees at mail processing plants or at post offices.

Two other initiatives, Terminal Handling Services and AMCs, were implemented more recently and impacted work in the processing function. Mail that is transported by air needs to be delivered for a departing flight operated under a contract with either a commercial airline or FedEx, or picked up from an arriving flight. These activities are generally known as terminal handling services. The Service outsourced these services to various suppliers at about 60 airports where FedEx was providing air mail transportation services under a contract with the Service. The Service anticipated saving money, deferring large capital expenditures for facilities and equipment, and improving efficiency by contracting with companies that had demonstrated success in terminal handling operations. Similarly,



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for the AMC initiatives, the Service outsourced, or plans to outsource, for terminal handling services for mail transported by commercial carrier flights at 20 airports. In 2004, the Service had about 70 AMCs located across the country that processed mail arriving at and departing from airports and performed terminal handling operations. However, the need for these functions has decreased over time because of reductions in mail volumes, excess processing capacity at other processing facilities, and a reduction in the number of commercial air carrier contracts. The Service scrutinized the functions performed at each of its AMCs and, as of June 2008, decided to close 20 and outsource the required terminal handling services, retain 6 and continue operations with postal employees, and close the remaining AMCs. The Service anticipated saving money, closing facilities and improving efficiency by outsourcing with companies that had demonstrated success in terminal handling services.

The final initiative listed in table 4, Priority Mail Processing Network, was intended to be a pilot project to test whether the Service could improve Priority Mail delivery performance by using a dedicated processing and transportation network. The Service contracted with Emery Worldwide to operate a network of 10 Priority Mail processing centers located along the East Coast. The Service anticipated saving money and improving efficiency by allowing the contractor to structure its workforce outside the rules of the collective bargaining agreements. The Service ultimately cancelled the contract because of problems with the contractor's performance and cost overruns and brought these functions back in-house to be performed by postal employees.

The Service reviewed 41 other national-level outsourcing proposals and determined they did not have a significant impact on bargaining unit work. According to Service officials, many of these initiatives involve one time activities such as preparing sites for installing and testing mail processing equipment—activities required to obtain warranty coverage for the equipment. For example, the Service contracted for site preparation, installation, and testing of equipment for the Automated Package Processing System, as part of the deployment of this system. Additionally, the Service contracted with multiple suppliers for inspection, design, and construction services to bring 27,000 leased postal facilities into compliance with the Architectural Barriers Act,<sup>20</sup> which requires equal

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<sup>20</sup>Pub. L. No. 90-480 (Aug. 12, 1968), codified as amended at 42 U.S.C. §4151 et seq.

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access for persons with disabilities.<sup>21</sup> See appendix II for a list of the 41 outsourcing proposals that the Service determined did not have a significant impact on bargaining unit work. Finally, the Service explained that it has consistently maintained that contract postal units do not constitute outsourcing because they are not referenced in Article 32 or in any other provision of the collective bargaining agreements.

### Mail Transportation Outsourcing

Although the Service contracts for most of its mail transportation needs, only some contracted transportation services affect bargaining unit work and are thus considered outsourcing; however, the Service was not able to determine the actual value or number of these outsourced contracts. The Service moves mail around the country using both contracted services, such as highway contract routes and commercial air carriers, and Service-owned vehicles driven by postal employees. Only a portion of the more than 17,000 contracts for transportation services are subject to the provisions of Article 32 in the Service's collective bargaining agreement with APWU, which represents postal employees who are truck drivers. As previously discussed, these Article 32 provisions apply only to contracts for highway transportation routes that meet certain criteria: a value of more than \$100,000 per year for a fixed annual rate contract and not more than 350 miles in round-trip length; an annual or non-annual rate contract where estimated annual compensation will exceed \$45,000; and no more than 8 hours in operating time.

According to the Service, in fiscal year 2007 it spent about \$3.15 billion on contracts for highway transportation. However, to obtain the value or number of contracts affected by Article 32, it would be necessary to review each contract to determine the Service's actual costs, which may exceed the contracted costs if the contractor provides, for example, extra trips or services.

### Delivery Service Outsourcing

Data provided by the Service showed that outsourced deliveries represent less than 2 percent of all deliveries. The Service contracts for delivery services and all delivery contracts have an impact on bargaining unit work and are thus outsourcing. The Service delivers mail to residential and business addresses using employees, either city carriers or rural carriers, or CDS contractors. The Service has data on the number of deliveries it makes and the number of delivery routes. In general, the average number

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<sup>21</sup>42 U.S.C. §§4151, 4151a.

of deliveries per route is greatest for city carrier routes and lowest for CDS routes.

Since 1998, the number of deliveries made by all three delivery types (city, rural, and contractor) has increased, but the proportion of deliveries made by contractors has remained about the same, at 2 percent or less, as shown in table 5. However, over the past decade, the number of deliveries grew more for contractors, (39 percent) than for city carriers, (6 percent) and rural carriers, (34 percent). Similar trends are evident in the number and growth of routes. Over the past decade, the proportion of routes serviced by contractors has remained about the same, at less than 3 percent. However, the number of CDS routes grew about 23 percent, while city routes declined by 2 percent and rural routes also grew by 23 percent. A union official has expressed concern that, while contract delivery service is a relatively small percentage of deliveries now, it could expand rapidly because of continued new delivery growth. Table 5 compares the change in total number and growth in deliveries and routes by type of carrier for 1998 and 2007.

**Table 5: Comparison of Number and Growth in Deliveries and Routes for City, Rural, and Contract Letter Carriers, Fiscal Years 1998 and 2007**

Carrier type	Number of deliveries (Percentage of total)		Percentage of growth in deliveries	Number of routes (Percentage of total)		Percentage of growth in routes
	1998	2007	1998 to 2007	1998	2007	1998 to 2007
City	82,253,861 (73.0%)	86,880,556 (68.0%)	5.6%	167,262 (71.2%)	163,479 (66.3%)	-2.3%
Rural	28,584,565 (25.4%)	38,407,244 (30.0%)	34.4%	62,338 (26.5%)	76,390 (31.0%)	22.5%
Contractor	1,828,257 (1.6%)	2,545,687 (2.0%)	39.2%	5,424 (2.3%)	6,666 (2.7%)	22.9%
<b>Total</b>	<b>112,666,683</b>	<b>127,833,487</b>	<b>13.5%</b>	<b>235,024</b>	<b>246,535</b>	<b>4.9%</b>

Source: GAO analysis of Service data.

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## The Service Holds Both Contractors and Postal Employees to Similar Standards but Uses Different Processes to Manage Them

The Service evaluates contractors and postal employees using similar suitability and performance standards, while holding them accountable using different management processes.<sup>22</sup> A key concern of some stakeholders who may be affected by the Service's outsourcing decisions is whether contractors and subcontractors must have the same qualifications or meet the same suitability and performance standards as postal employees. To ensure that personnel are suitable to perform postal work, the Service uses similar screening criteria to evaluate both contractors and applicants for postal employment. Likewise, contractors and postal employees performing the same type of work generally have similar performance standards although the Service manages contractors differently from postal employees.

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## The Service Uses Similar Criteria When Screening Potential Contractors and Applicants for Postal Employment

The Service uses similar criteria to evaluate the suitability of both potential contractors and applicants for postal employment. The Service is responsible for ensuring the security and sanctity of the mail and ensuring a safe workplace for its employees. One way the Service meets this responsibility is by evaluating the suitability of potential contractors and applicants for postal employment. To do so, it investigates and verifies their employment, criminal, and driving histories and requires them to undergo an initial screening for drug use. In the fall of 2007, the Service revised its drug screening procedures so that it had similar criteria to evaluate both potential delivery service contractors and applicants. To be considered for a contract or postal employment, individuals must meet each of the applicable suitability standards shown in table 6.

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<sup>22</sup>As previously discussed, in this report, the term "contractor" includes an individual contract holder, an employee of a contractor, or a subcontractor.

**Table 6: Comparison of Suitability Standards for Potential Contractors and Service Employees**

Suitability standards	Contract applicants	Employment applicants
Employment history disclosed	Yes <sup>a</sup>	Yes <sup>b</sup>
Employment history verified	Yes	Yes
Background check	Yes	Yes
Criminal conviction history disclosed	Yes	Yes
Criminal history verified	Yes	Yes
Drug screening <sup>c</sup>	Yes	Yes
Driving record verified	Yes	Yes

Source: GAO analysis of Service documents.

<sup>a</sup>The Service requires a 5-year employment history for all contract applicants.

<sup>b</sup>The Service requires a 10-year employment history for all employment applicants.

<sup>c</sup>Truck drivers with a commercial driver’s license, including both contractors and postal employees, are required to be screened under the Department of Transportation drug screening process. CDS carriers are required to provide proof of a negative drug screening. Currently, there is no drug screening requirement for truck drivers who do not hold a commercial license and are not CDS carriers.

In general, these suitability standards apply to contractors and their employees or subcontractors who will have access to the mail or to postal facilities. For example, if an individual CDS contractor delegates his or her delivery responsibility to another person, such as a relative or an employee, the contractor is required to notify the Service and this other person is required to undergo the same screening process. However, not all employees of a contractor are required to be screened. For example, the Service requires companies providing terminal handling services to ensure that all employees who have access to the mail are screened and that measures are in place to limit access to areas where mail is stored or sorted but does not require that all employees be screened. In addition to these initial screening requirements, contractors who come into contact with the mail are periodically re-screened. For example, CDS contractors must be re-screened when their contract is renewed, which is typically every 4 years. Once hired, most postal employees are not re-screened, except for holders of commercial driver’s licenses.

**Contractors and Postal Employees Have Similar Performance Standards**

The Service holds both contractors and postal employees to similar performance standards. In many instances, contractors are performing essentially the same work as postal employees. For example, CDS, highway contract route, and custodial contractors perform essentially the

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same tasks as postal rural carriers, motor vehicle operators, and maintenance employees. In these cases, where the work is directly comparable, the Service expects the same level of performance regardless of whether the function is done by a contractor or a postal employee. In other instances, however, the work is not directly comparable, because contractors are performing the work differently from postal employees. A Service official told us that in these outsourcing cases, the Service establishes performance criteria in its contracts, such as processing air mail within specified time frames, to help it achieve overall goals, such as delivering mail on time. For example, the Service contracted with terminal handling service providers for work previously performed by postal employees at AMCs. In its contracts, the Service establishes performance criteria but does not specify how the contractor is to achieve them. To further illustrate these performance standards, we compare the work performed by CDS contractors and rural carriers, as well as by terminal handling service contractors and AMC employees below.

#### CDS Contractors and Rural Letter Carriers Have Similar Performance Standards

Both CDS contractors and rural carriers perform similar delivery service functions and serve similar geographical areas in meeting the requirements of their respective positions. Upon reporting for work, CDS contractors and rural carriers are expected to prepare and sequence the mail for delivery to customers on their routes. Next, the CDS contractors and rural carriers take the mail to their delivery vehicles. Both CDS contractors and rural carriers furnish and maintain the vehicle equipment necessary for mail delivery unless specifically assigned a Service-owned or leased vehicle. CDS contractors and rural carriers proceed to deliver and collect the mail along their assigned routes while meeting pre-designated time delivery standards. Finally, CDS contractors and rural carriers return to their respective postal facilities to hand-off the mail collected on their routes. Both CDS contractors and rural carriers are expected to follow all traffic safety laws and regulations while ensuring protection of the mail from theft, mishandling, or damage.

#### Contractors and Air Mail Center Mail Handlers Have Similar Performance Goals in Terminal Handling Operations

As previously discussed, the Service outsourced some terminal handling services to contractors. Formerly, postal employees performed these services at selected AMCs across the country. After the terminal handling responsibility moved to contractors, the performance expectations remained the same, but the performance standards differ. Prior to outsourcing, AMC postal employees were expected to carry out activities, such as receiving, sorting and delivering mail to the appropriate air carrier, to help the Service achieve overall delivery goals. Under the new arrangement, contract workers perform similar activities with similar performance expectations. Although the Service does not specify the

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processes that contractors must employ to achieve these expectations, it does set specific performance standards. For example in one contract, the Service requires that the contractor receive mail from an air carrier and make it available to postal employees within 1 hour. In another contract, the Service requires the contractor to reach an on-time performance standard 98 percent of the time. The Service includes similar performance standards in its contracts with all terminal handling service providers.

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### The Service Manages Contractors and Postal Employees Differently

The Service manages and conducts oversight of both contractors and postal employees, but uses different mechanisms. The Service manages contractors through the terms of a contract, which generally includes specific performance requirements, while the Service manages postal employees according to established policies in handbooks and provisions in collective bargaining agreements. Both methods provide specific disciplinary procedures, including termination. Although some stakeholders have raised concerns about the extent to which disciplinary problems or criminal behavior may be an issue with contractors, data are not available to allow a comparison between contractors and postal employees.

### The Service Manages Contractors through the Terms of a Contract

The Service uses contracts to define work requirements and performance standards to monitor performance. Common categories for measuring supplier performance are cost, quality, delivery, responsiveness, and technology. To provide oversight, the Service administers contracts using contracting officers and administrative officials. A contracting officer is authorized to award, alter, and terminate contracts and ensures that the contractor provides the services required under the terms of the contract. An administrative official is responsible for ongoing contractor oversight and monitoring, including

- screening all contractors before hiring,
- supervising the contractor's operations daily,
- investigating irregularities and complaints, and
- recommending establishment, discontinuance, or modifications in existing routes.

For example, an administrative official, such as a Postmaster, is required to document highway contract route performance, including contract delivery service, on a daily basis and monitor such metrics as reporting

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and departure times (for mail delivery) and deviations from the terms of the contract, such as safety deficiencies and operational failures. If the terms of the contract are not being met, the administrative official can take the following disciplinary actions as needed:

1. *Review*: the official reviews the irregularities, consults with the contractor, and takes appropriate action.
2. *Conference*: the official arranges a conference with the contractor and contracting officer to discuss irregularities of a serious nature and the need to immediately take corrective action.
3. *Written Warning*: If the conference does not rectify the service problem, the official warns the contractor in writing that the case will be forwarded to the contracting officer if service does not improve within 3 days.
4. *Recommendation*: If service has not improved within 3 days, the official forwards the case to the contracting officer with recommendations on actions to take, which could include a recommendation to terminate the contract.

The contracting officer has the sole authority to terminate the contract if the terms of the contract are not being met.

## The Service Manages Employees through Various Policies and Agreements

The Service manages employees in accordance with applicable collective bargaining agreements, statutes, regulations, policies, and handbooks. To discipline an employee, a supervisor must follow disciplinary procedures set forth in each of the respective collective bargaining agreements.<sup>23</sup> The agreements state that no postal employee may be disciplined or discharged except for just cause such as, but not limited to, insubordination, pilferage, intoxication (drugs or alcohol), incompetence, failure to perform work as requested, violation of the terms of the collective bargaining agreement, or failure to observe safety rules and regulations. The collective bargaining agreements set forth disciplinary actions that the service may take when disciplining a postal employee, including:

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<sup>23</sup>Article 16 of the collective bargaining agreements sets forth union disciplinary procedures.



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1. *Discussion*: a supervisor discusses minor offenses; these discussions are not disciplinary actions and are not grievable.
  2. *Letter of Warning*: a supervisor gives an employee a disciplinary notice in writing explaining the deficiency.
  3. *Suspension of 14 Days or Less*: an employee may be suspended for up to 14 days.<sup>24</sup>
  4. *Suspensions of More Than 14 Days or Discharge*: an employee may be suspended without pay for more than 14 days or may be terminated.
  5. *Indefinite Suspension Crime Situation*: an employee may be suspended indefinitely if the Service has reasonable cause to believe the employee committed a crime for which imprisonment could be imposed.
  6. *Emergency Procedure*: an employee may immediately be placed in off-duty status when an allegation involves intoxication, pilferage, failure to observe safety rules and regulations, or where retaining the postal employee on duty may result in damage to USPS property, loss of mail or funds, or where the employee may be injurious to self or others.

Any Service disciplinary actions initiated against postal employees are subject to the grievance-arbitration process provided for in their respective collective bargaining agreements. Furthermore, if a disciplinary action is later overturned, the Service may have to reinstate the employee and provide restitution in the form of back pay.

### The Extent of Disciplinary Problems or Illegal Activity by Contractors and Postal Employees Is Not Known

Although employee union officials have raised concerns about contractors' trustworthiness, we were not able to compare the extent to which contractors and postal employees have had disciplinary problems, because the Service does not centrally collect data related to disciplinary actions. Unions have cited examples of irresponsible or illegal activity by contractors that resulted in arrests or convictions, which they said could undermine the public's trust in the Service. But similar postal employee activity has also led to arrest or conviction. Contracting officers document disciplinary actions in individual contractor files and Service personnel, likewise, document disciplinary actions in records for each postal

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<sup>24</sup>The rural carrier's collective bargaining agreement does not differentiate between suspensions greater or less than 14 days.

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employee. These employee records are maintained at the facility where the employee works and any disciplinary documents are removed from an employee's file after 2 years, unless the disciplinary case has not yet been resolved or the employee has been cited in subsequent disciplinary actions. However, the Service does not maintain a comprehensive database of actions that have been taken against either contractors or postal employees.

For disciplinary actions of a more serious nature, such as criminal investigations, the Service investigates both contractors and postal employees in a similar manner. For example, the Service treats the theft of mail as a serious matter to be investigated regardless of whether the crime is committed by a contractor or a postal employee. A contractor or postal employee, if found guilty of mail theft, can be fined, imprisoned, or both.

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## The Service Lacks Data to Demonstrate the Results of Outsourcing and Address Challenges That May Limit Further Outsourcing

The Service lacks information and data about the results of its outsourcing efforts that impact work by its bargaining unit employees, which could be used to determine the effectiveness of its outsourcing and support future outsourcing in the face of possible challenges. For example, the Service does not know the savings related to its outsourcing efforts because it does not have a process to evaluate the impact of outsourcing or to track actual savings. Postal employee unions have expressed skepticism about the value of outsourcing and have raised questions about the reality of cost savings and implications of outsourcing on a variety of public policy issues. Without data to demonstrate results, Service management, stakeholders, and Congress are not able to assess the risk and value of outsourcing, accountability for results is limited, and the Service is not able to effectively address union concerns. In addition, the Service may encounter challenges that include resistance from its unions to new outsourcing initiatives and from legislation pending in Congress that could limit its ability to outsource.

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## The Service Lacks Data to Demonstrate Results of Outsourcing

The Service does not collect information about the results or effectiveness of its outsourcing efforts, which could limit its ability to determine whether outsourcing is achieving expected efficiencies and to generate support for future outsourcing efforts. For example, although the Service has processes in place to measure Service-wide performance—to capture savings and to measure operational efficiency improvements—neither of these processes provides information about the effectiveness of individual or aggregate outsourcing efforts or the extent to which outsourcing is contributing to these improvements. Further, the Service has agreed in its

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collective bargaining agreements to no layoffs for career bargaining unit employees; therefore, when it outsources functions previously performed by postal employees, those employees are generally moved to other positions within the Postal Service, but the specific efficiency gains related to these reassignments are not tracked.

The Service does not track savings resulting from its outsourcing efforts and instead tracks savings of all its cost-reduction efforts on an aggregate, Service-wide basis. The Service said it has a process where savings from all identified cost-reduction efforts, including those involving outsourcing, are removed from the budget during the planning process for the upcoming year in support of its annual \$1 billion cost-reduction goal. After those budget reductions are made, if the Service does not exceed its overall expense budget, it considers the overall cost-reduction goal to have been achieved. The Service said that because of the complexity and interrelationship of its many cost-reduction initiatives, it is difficult to track actual cost savings from individual initiatives and that it would require expenditures of additional resources to isolate the savings from each initiative. The Service achieved its overall annual cost-reduction goal in 4 of the last 5 years, but could not determine the specific contribution made by outsourcing efforts. Similarly, the Service does not measure whether outsourcing initiatives have resulted in more efficient operations. Instead, the Service said it uses a measure called Total Factor Productivity to determine the change in aggregate productivity, which is included in the Service's published quarterly financial statements and its annual report. The Service has reported that it has increased its Total Factor Productivity for 8 consecutive years, but could not demonstrate the extent to which outsourcing contributed to that improved efficiency.

The Service has used a performance measurement approach on a previous outsourcing effort and determined that it was not achieving desired results. In the late 1990s, the Service sought to establish, as a pilot test, a separate processing and transportation network for its Priority Mail business segment in order to improve service and to be more competitive in the marketplace. Ordinarily, Priority Mail was processed with other mail and was not achieving the level of service performance the Service desired. The Service awarded a contract worth more than \$1.7 billion to Emery Worldwide to create and operate a network of 10 processing centers on the East Coast. In its contract, the Service established specific performance measures, including (1) a 95 percent on-time performance for

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the 2-day delivery of mail and (2) the use of a contractor reliability index, independently verified, which measures contractor performance on each of eight quality indicators.<sup>25</sup> In 1999, the U. S. Postal Service Office of Inspector General (OIG) reported that Emery was not achieving the on-time performance goal or other performance measures. The Service eventually cancelled its contract and took over operations of the facilities because Emery was not achieving the desired results.

Despite its previous use of such measures, the Service has not used them in its most recent national-level outsourcing effort. In February 2008, the OIG reported on its audit of the outsourcing of some operations at the St. Louis AMC, which was part of the Service's AMC outsourcing initiative. The OIG found that, while Service management had generally complied with outsourcing policy, opportunities existed to enhance guidance for measuring results. Specifically, the Service had not established policies or procedures for determining if outsourcing initiatives achieved intended results and did not require a post-implementation review of outsourcing initiatives. Further, the OIG report stated that without such a review, there was no accountability or assurance that the outsourcing initiative achieved anticipated results. The Service agreed with the OIG's recommendation to establish a post-implementation review program that compares anticipated savings with actual results and stated that such a program would be developed by March 31, 2008. In June 2008, the Service told us it is working with the OIG to develop a review program but added that reviews of all outsourced AMCs would depend on the results of its initial reviews.

The Service did not indicate whether it would use a similar review for other outsourcing initiatives, but the Service has begun to track one indicator of outsourcing performance—cost savings. Service officials told us that for the AMC initiative, the Service saved, or expects to save by 2009, about \$117 million by eliminating facility lease and labor expenses at AMCs. Not all of these savings are attributable to outsourcing activities, however, because the Service also included the savings it realized by closing some facilities.

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<sup>25</sup>The eight quality indicators used are for mail that is: missorted; misrouted; delayed; late destinating to the Service; delivered to the wrong Service plant or facility; damaged by contractor; missent between Priority Mail processing centers; and delivered late to the Service.

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Without complete information about the results of its outsourcing efforts, Service management, stakeholders, and Congress are not able to assess the risk and value of outsourcing and accountability for results is limited. Specifically, the Service should be able to address the following questions:

- Does outsourcing, either of a specific function or at an aggregate level, save money? Result in increased effectiveness? Provide some other value?
- What are the risks associated with outsourcing?
- How cost-effective is outsourcing?
- Is the level of satisfaction of customers served by contractors comparable to those served by postal employees?
- What impact does increased use of contractors have on the safety of the mail, mail facilities, employees, and customers?

Looking forward, the Service is considering another major outsourcing initiative involving its bulk mail processing network, which could impact work done by two unions. Stakeholders may raise questions about effectiveness, cost savings, and other anticipated outcomes. Responses to these questions will be important to inform decision-making.

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## The Service Faces Challenges That May Limit Further Outsourcing

As it considers future outsourcing, the Service faces a number of challenges, including differing messages from Congress and the Administration on outsourcing and the potential impact of outsourcing on its relations with its employee unions. Two bills pending in Congress could affect the Service's outsourcing efforts. H.R. 4236 would require the Service to bargain with postal unions before it engages in outsourcing and S. 1457 would limit the Service's ability to outsource. Service officials say outsourcing is a critical tool to help the Service meet its financial goals but union officials oppose expanded use of outsourcing. Both the Service and unions have indicated that the appropriate way to resolve issues related to outsourcing is through the collective bargaining process. However, most unions have said the Service would not negotiate with them on this issue and have therefore sought congressional intervention. The Service agreed in the most recent collective bargaining process to try and resolve its differences on this issue with the two carrier unions.

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Public Policy Issues Related to  
the Scope of the Service's  
Outsourcing

Legislative and administration initiatives send differing messages to the Service on the scope of its outsourcing effort, from initiatives that support outsourcing as a means to reduce costs, increase efficiency, and improve quality, to initiatives that question the value of outsourcing and propose to curtail it. Support for the Service to operate more like a business dates back at least to 1970, when Congress passed legislation that gave the Service unique status as an independent establishment of the federal government and authorized it to finance its operations through sales of its products and services instead of appropriations.<sup>26</sup> Congress also stated in the 2006 Postal Accountability and Enhancement Act<sup>27</sup> that the Postal Service should implement commercial best practices in its purchasing policies to achieve greater efficiency and cost savings by taking full advantage of private-sector partnerships, as recommended in the July 2003 report by the President's Commission on the United States Postal Service.<sup>28</sup>

Similarly, the current and previous administrations have advanced proposals to promote more efficient and effective government operations, including outsourcing government operations. In particular, in 2001, the Bush Administration launched the President's Management Agenda to focus attention on ensuring that the resources entrusted to the federal government are well-managed and wisely used. The President's Management Agenda encourages opening federal commercial activities to competition among public and private sector sources to achieve increased savings and improve performance. These competitions are guided by specific criteria in Office of Management and Budget Circular No. A-76. Although the President's Management Agenda does not apply to the Service, it was one of many sources of information considered in the Service's 2002 Transformation Plan. The President's Commission on the Postal Service further recommended that the Service utilize outsourcing to help it accomplish cost-reduction goals and improve efficiency.

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<sup>26</sup>Postal Reorganization Act, Pub. L. No. 91-375, Section 2401, Aug. 12, 1970.

<sup>27</sup>Pub. L. No. 109-435, Section 1004(2), Dec. 20, 2006.

<sup>28</sup>President's Commission on the United States Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service* (Washington, D.C.: July 31, 2003). The Commission was established by executive order in 2002 to, among other things, recommend legislative and administrative reforms needed to ensure the viability of postal services.

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However, as previously noted, recent legislative efforts could restrict the Service's ability to outsource. Bills introduced in 2007, and pending with the appropriate oversight subcommittees, address the Service's use of outsourced mail delivery contractors. S. 1457 seeks to limit the extent that the Service could use outsourced delivery service, and H.R. 4236 would require the Service to bargain with postal employee unions before entering into certain contracts. Additionally, House Resolution 282, co-sponsored by 255 members as of July 2008, expressed "the sense of the House of Representatives that the United States Postal Service should discontinue the practice of contracting out mail delivery services."

Postal employee unions have questioned whether outsourcing actually achieves its intended results. For example, the president of the Mail Handlers described as false the Service's assumption that it will save money by allowing private contractors to perform work currently done by postal employees.<sup>29</sup> He further maintained that actual experience, such as with Emery, has shown that outsourcing has the opposite effect, costing the Service more than anticipated. In addition, he said that evaluations by the Service that compare the costs of performing work with contractors and with postal employees are incomplete and do not reflect the actual costs borne by the Service. APWU officials told us the Postal Service primarily uses wage factors as a basis for comparison. Since postal employees are relatively well paid, according to these officials, comparisons tend to find outsourcing to be less costly. Also, the officials noted such comparisons exclude the value of other factors, such as the higher levels of efficiency provided by a well-trained, dedicated career workforce. In addition, unions have expressed skepticism over the value of outsourcing, raising concerns about public policy issues related to the Service's mission or intended obligations as a government entity. For example, the Service has not clearly defined the functions it considers "inherently postal"—functions that should only be performed by the Service—and whether these functions should be outsourced. All four unions have questioned the wisdom of the Service outsourcing in what they consider its core functional areas, such as delivery or mail processing. Similarly, two unions expressed concerns that there are no limits to the extent the Service could outsource: if it outsources one delivery route, why not outsource all? They also noted that one impact of

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<sup>29</sup>Testimony of John F. Hegarty, National President of the National Postal Mail Handlers Union, before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, July 19, 2007.

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expanding outsourcing would be to replace long-term career employees with low-paid, no-benefit, non-career, and often transient workers. Finally, the unions have also raised the question of whether the Service, by hiring contractors, violates the public's trust and expectation of safe, efficient mail delivery or violates its responsibilities as an employer. For example, the president of the Mail Handlers stated in recent testimony that another impact of outsourcing is that the Service, which is currently one of the largest employers of veterans and disabled veterans, would reduce the number of job opportunities for veterans returning from combat and non-combat situations.<sup>30</sup>

The current uncertain economic environment serves to exacerbate the challenges facing the Service and contributed to lower than expected mail volumes and revenues in the first half of fiscal year 2008. The Service faces challenges such as generating mail volumes despite rate increases in May 2008; managing its costs in difficult economic conditions, and improving operational efficiencies through accelerated cost reduction strategies; maintaining, measuring, and reporting service; and managing its workforce. In its Transformation Plans and congressional testimony, the Service has acknowledged the value it places on outsourcing as a means to reduce costs and increase efficiency and its intent to continue to pursue outsourcing opportunities. The Service has a long history of outsourcing mail transportation, delivery services and other functions, much of which has been carried out within the framework of the Service's collective bargaining agreements with its employee unions.

### Continued Outsourcing Could Impact the Service's Relations with Its Employee Unions

Continued or expanded outsourcing by the Service could lead to problems with postal employee unions as evidenced by public statements by union officials. For example, the president of the Mail Handlers testified that continued outsourcing by the Service would drive a wedge between it and hundreds of thousands of postal employees.<sup>31</sup> Postal employees are critical to providing vital postal services to the American people and achieving a successful postal transformation. The President's Commission on the Postal Service concluded that as valuable as the Postal Service is to the nation, its ability to deliver that value is only as great as the capability, motivation, and satisfaction of the people who make possible the daily

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<sup>30</sup>Testimony of John F. Hegarty, National President of the National Postal Mail Handlers Union before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, May 8, 2008.

<sup>31</sup>Ibid.



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delivery of mail to American homes and businesses. However, we and others have reported that adversarial labor-management relations have been a challenge for the Service and its major labor unions.

In the past, we reported that autocratic management, persistent confrontation and conflict, and ineffective performance systems often characterized the Service's organizational culture on the workroom floor.<sup>32</sup> These problems resulted in an underperforming organization with major deficiencies in morale and quality of work life; huge numbers of grievances with high costs for the Service and its employees; and protracted, acrimonious contract negotiations. In our past reports, we found that these conditions have existed over many years because labor and management leadership, at both the national and local levels, have often had difficulty working together to find solutions to their problems. Under these circumstances, it was difficult for the parties to develop and sustain the level of trust necessary for maintaining a constructive working relationship and agreeing on major changes to maximize the Service's efficiency and the quality of work life. We are encouraged by recent progress in this area, such as reports by union officials of better communications, sharp reductions in the number of outstanding grievances, and three of four major labor contracts that were successfully negotiated between the parties without the need for binding arbitration. In addition, the Service has improved its productivity, which the Service reported has increased in each of the last 8 years.

However, continued or expanded outsourcing could be an impediment to improved relationships. Recent actions by the unions continue to indicate significant concerns about outsourcing. For example, in 2007, the Rural Carriers filed a grievance alleging that the Service's expanded use of contract delivery service violated the terms of its collective bargaining agreement. Similarly, collective bargaining agreement negotiations in 2007 between the Service and the City Carriers initially came to an impasse, primarily because of union concerns over increased outsourcing of delivery services. The parties reached an agreement, which was ratified by the union membership, after the Service agreed to limitations on its ability to outsource in certain areas served by city carriers over the life of the 5-year contract. In addition, the Service and union agreed to establish a joint committee, including the Rural Carriers, to discuss a mutually agreeable approach to the issue of outsourcing by March 2008. Because the

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<sup>32</sup>See [GAO/GGD-98-1](#).

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committee extended its reporting deadline to the end of September 2008, the results of this effort are not yet known.

The Service and employee unions have indicated that the appropriate means for resolving outsourcing issues is through the collective bargaining process. For example, the Postmaster General testified that, “beyond the specific subject of contract delivery, there is a bigger issue at stake. That is the ability of the parties, the Postal Service and its unions, to resolve their differences through the collective bargaining process. One of the most important accomplishments of the Postal Reorganization Act of 1970 was the extension of full collective bargaining rights to the postal unions. Over the course of more than 3 decades, these have served our employees, our unions and the Postal Service well. And, as we have seen, the process can—and does—work.” While most unions agree, they also stated that the Service has not always been willing to discuss outsourcing in collective bargaining negotiations. Some unions have already asked Congress to pass proposed legislation that would require the Service to collectively bargain with the unions on outsourcing proposals before they can be approved or that would limit the extent that the Service could use outsourced delivery service.

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## Conclusions

Although the Service has outsourced activities related to many of its key functions, its employee unions are now challenging its ability to expand outsourcing in areas where postal employees have performed or could perform these activities. The Service views outsourcing as an important strategy for achieving the cost savings it needs to operate successfully under a regulatory price cap. But because the Service does not track, and therefore cannot quantify, the actual results of its outsourcing activities, it cannot document the effectiveness of its outsourcing results for Service managers, stakeholders, and Congress. As a result, information to assess the risk and value of outsourcing and accountability for results is limited. Information on the effectiveness of outsourcing, including actual results, costs, and any savings achieved, could be useful as the Service considers additional outsourcing initiatives. Both the Service and its unions agree that the appropriate way to resolve outsourcing issues is through the collective bargaining process. A key challenge for both the Service and its unions will be to reach agreement on outsourcing issues through collective bargaining.

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## Recommendations for Executive Action

To improve management decision-making and accountability in this area, the Postmaster General should, first, establish a process to measure the results and effectiveness of Service outsourcing activities that are subject to collective bargaining. This process should include tracking actual costs and any savings, and comparing them with estimated costs and savings. Second, to support congressional oversight, the Postmaster General should include information on the results and effectiveness of these ongoing outsourcing activities in its annual operations report (Comprehensive Statement on Postal Operations) to Congress.

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## Agency Comments and Our Evaluation

The U.S. Postal Service provided written comments on a draft of this report in a letter from the Chief Human Resources Officer and Executive Vice President dated July 7, 2008. These comments are summarized below and are included, in their entirety, as appendix III to this report. In separate correspondence, the Service also provided minor technical comments, which we incorporated, as appropriate.

The Service generally agreed with our finding that it does not separately track the results of its outsourcing activities and with our first recommendation that a process should be established to measure the results and effectiveness of Service outsourcing initiatives that are subject to collective bargaining agreements, including tracking actual costs and any savings. However, the Service did not agree to implement our second recommendation to provide information on the results and effectiveness of these ongoing outsourcing initiatives in its annual operations report to Congress.

The Service agreed to establish a process, for future national-level outsourcing initiatives approved after July 2008, to compare the final financial comparative analysis assumptions with actual contract award data 1 year after project implementation. This step is commendable to begin assessing the impact and effectiveness of outsourcing efforts, specifically the cost savings achieved after 1 year. Our recommendation was not limited to costs and savings associated with outsourcing, but the Service did not commit to measuring other impacts, such as on service, customers, or employees. We continue to believe these are also important in a comprehensive assessment of the outsourcing efforts.

The Service did not agree to implement our second recommendation and proposed instead to retain information it collects on its outsourcing efforts internally. However, in order for the Service to effectively make its case to use outsourcing as a mechanism to contain costs, we believe that the

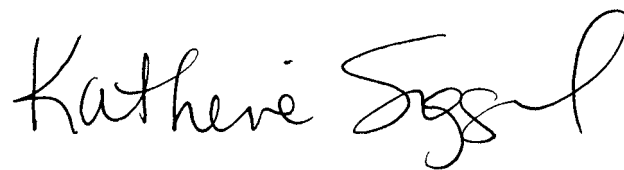
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Service must keep its stakeholders, including Members of Congress, customers, employees, and the public-at-large, fully informed of the merits, potential impacts, and the results of outsourcing. Several bills are pending before Congress that would affect the Service's ability to outsource. In conducting oversight and making its decisions, Congress would benefit from more data about the results and effectiveness of the Service's outsourcing activities that are subject to collective bargaining. Without transparency regarding its outsourcing initiatives, postal management, stakeholders and Congress are not able to assess the risk and value of outsourcing and accountability for results is limited. Thus, we believe that the Service should annually provide Congress with information about the results of outsourcing activities as discussed previously.

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We are sending copies of this report to the Chairman and Ranking Member of the House Committee on Oversight and Government Reform; the Chairman and Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs; the Postmaster General; and other interested parties. We also will provide copies to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff has any questions regarding this report, please contact me at [siggerudk@gao.gov](mailto:siggerudk@gao.gov) or by telephone at (202) 512-2834. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made key contributions to this report are listed in appendix IV.



Katherine Siggerud  
Managing Director, Physical Infrastructure Issues

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives for this report were to assess (1) the circumstances under which the Service can outsource postal functions, how it decides to outsource, and the extent to which it has outsourced; (2) how the Service's management processes, including suitability (hiring and screening procedures) and performance evaluation, for contractors compare to those for postal employees; and (3) the results—including any costs savings, or other outcomes—of the Service's outsourcing efforts and the challenges facing the Service related to outsourcing.

To address the circumstances under which the Service can outsource postal functions, we reviewed statutory and regulatory requirements and agreements with the Service's employee unions. Specifically, we reviewed applicable statutes and regulations pertaining to the Service, and the Service's most recent collective bargaining agreements, and accompanying memoranda of understanding, with its four major employee unions—the American Postal Workers Union (APWU), the National Association of Letter Carriers (City Carriers), the National Postal Mail Handlers Union (Mail Handlers), and the National Rural Letter Carriers' Association (Rural Carriers). In addition, we reviewed information on federal laws and regulations applicable to most federal purchasing, though not required of the Service, such as the Federal Acquisition Regulation, the Competition in Contracting Act, and the Office of Management and Budget's Circular No. A-76. We focused the scope of our review on the major postal functional areas—transportation, delivery, mail processing, and retail—that involve outsourcing activities related to the bargaining unit work of the Service's four major unions. To determine how the Service decides to outsource, we interviewed postal officials at Service headquarters and in the Southwest Area, and representatives of employee unions, management associations, and the National Star Route Mail Contractors Association. We reviewed the purchasing procedures the Service uses to guide its purchasing of specific services, including contracted services. We also interviewed the Strategic Initiatives Action Group (SIAG), an internal cross-functional group at headquarters that guides outsourcing through the decision-making process at the national level, and reviewed the group's policies and procedures. Finally, we discussed with Service officials, and obtained information on, the Growth Management Tool, a new software tool the Service can use in assigning delivery routes, including outsourced routes. To determine the extent of the Service's outsourcing, we interviewed Service officials at headquarters and in the Southwest Area and obtained and reviewed documents related to the Service's outsourcing efforts, including 46 national-level outsourcing initiatives since 1996, as well as proposed initiatives. In addition, we obtained, reviewed, and analyzed information on outsourced transportation and delivery, including data

pertaining to routes and delivery points for the three types of carriers—city, rural, and contract delivery service. We assessed the reliability of Service data for inconsistencies and determined that the data were sufficiently reliable for the purpose of this report.

To compare the Service’s suitability, performance evaluation, and management processes for postal employees and contractors, we reviewed the Service’s policies and procedures on qualifications, screening requirements, and performance evaluation for contractors and postal employees. We reviewed various Service contracts on Air Mail Centers, highway contract routes, and contract delivery service and compared contractual stipulations with applicable postal employee guidelines and collective bargaining agreements by respective occupation. Finally, we spoke with various Service national- and field-level officials about the Service’s suitability, performance evaluation and management processes for postal employees and contractors.

To evaluate the results, including costs, savings, and other outcomes related to outsourcing, we discussed with Service officials the processes and procedures currently in place for evaluating outsourcing activities. We also obtained and reviewed available cost estimates, relevant budget information, and available performance data for the outsourcing projects initiated between 1996 and 2007.

We conducted this performance audit from August 2007 to July 2008 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: National Outsourcing Initiatives Since 1996 That Did Not Have a Significant Impact on Postal Unions

Initiative	Description
Automated Package Processing System	Installation and testing of equipment
Singulate and Scan Induction Unit / Optical Character Recognition Program	Equipment installation
Hub and Spoke (HASP) Expansion/ Surface Transfer Centers (STC)	Controls the movement of mail through surface transportation.
Leased Space Accessibility Program	Inspection, design, and construction to bring 27,000 leased postal facilities in compliance with new Architectural Barriers Act amendment
Facilities Single Source Provider Program	Program addressing local Article 32 requirements for repairs and maintenance at field sites
Intelligent Mail Data Acquisition System Modification	Site preparation and electrical power issues
Shared Energy Savings Program	Site preparation and building retrofit issues
BMC Transition to RDC Concept (Regional Distribution Center)	Site preparation
Strategic Stocking Location (SSL)	Warehousing
Third Party Logistics (3PL)	Short-term warehousing and distribution
Stamp Fulfillment Center (SFS)	Philatelic item order-taking
Homeland Security Presidential Directive 12	Employee security credentials
Flat Sequencing System	Installation and site preparation
Automated Flat Sorting Machine/Automatic Induction	Site preparation, installation, and testing
Automated Flats Tray Lidder (AFTL)	Site preparation and installation
Automated Postal Centers	Site preparation, servicing, and machine relocation
Automated Tray Handling System (ATHS)	Site preparation and installation of equipment
Biohazard Detection Systems (BDS)	Site preparation, installation, and some maintenance
Delivery Bar Code System	Installation and testing
Distribution Quality Improvement Equipment	Installation and testing
Feeder Enhancer De-Stacker Retrofit (FEDR)	Site preparation prior to installation of equipment
Flat Identification Code Sort Program (FICS)	Site preparation prior to installation of equipment
Flat Recognition Improvement Program	Installation
Flat Remote Encoding System	Installation and testing
Hub and Spoke Facilities	Local mail transfer sites
Integrated Dispatch and Receipt	Site preparation and installation of equipment
Mail Processing Infrastructure (MPI)	Plant rewiring, site preparation, and installation of wiring
OCR Enhancement	Installation and testing
Package Detection System	Site preparation, installation, and testing
Postal Automated Reduction System	Installation and testing
Powered Industrial Vehicle Management System	Installation of equipment
Small Parcel and Bundle Sorter	Relocation of equipment and site preparation

**Appendix II: National Outsourcing Initiatives  
Since 1996 That Did Not Have a Significant  
Impact on Postal Unions**

<b>Initiative</b>	<b>Description</b>
Surface Transfer Centers	Local mail transfer site
Surface Visibility	Installation of wiring
Telephone Change of Address (TCOA)	System development and installation
Ventilation and Filtration Systems (VFS)	Site preparation, installation, warranty, extensive site design, fire protection, power distribution, and facility structural concerns
Vending Equipment	Maintenance and servicing of some machines
International Mail Claim Inquiries	Customer claims inquiry process
Point of Sale Replenishment	Initial product inventory to support activation of automated replenishment program
ReadyPost	Replenishment program for commercial packaging products at post offices
Mail Equipment Shops – Bag Shops	Transition from bags to trays, remaining limited need for bags satisfied via marketplace

Source: Postal Service.



# Appendix III: Comments from the U.S. Postal Service

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



July 7, 2008

Ms. Katherine A. Siggerud  
Managing Director, Physical Infrastructure Issues  
United States Government Accountability Office  
Washington, DC 20548-0001

Dear Ms. Siggerud:

Thank you for providing the United States Postal Service the opportunity to review and comment on the draft report, [U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing Results](#) (GAO-08-787).

As noted in the draft, support for the Postal Service to operate more like a business dates back at least to 1970. At that time, Congress passed legislation that gave the Postal Service unique status as an independent establishment of the federal government and authorized it to finance its operations through sales of its products and services, instead of appropriations. In addition, with the recent enactment of the Postal Accountability and Enhancement Act of 2006, the Postal Service is now urged to achieve greater efficiency and cost savings by taking full advantage of private-sector relationships through commercial best practices in purchasing.

At the same time, again as referenced in your report, we face possible restrictions to our ability to outsource, particularly the use of mail delivery contractors—though today such outsourced delivery service accounts for less than two percent of all deliveries. Both the Postmaster General and postal union representatives have stated that issues related to outsourcing should be resolved within the context of our collective bargaining agreements—not through legislative mandate. We continue to believe strongly that adherence to this principle is vital to maintaining the integrity of the collective bargaining process.

Like you, we are encouraged by the progress and improvements in communications between management and unions, the "sharp reductions in the number of grievances," and the fact that three of the four major labor contracts were successfully negotiated this year between the parties without the need for binding arbitration.

Together, management and unions have improved productivity over the last eight years and achieved our annual \$1 billion cost-reduction goal in four of the last five years. Though their specific contributions to these achievements are not segregated, outsourcing some work and avoiding major capital expenditures are significant factors in meeting our financial goals. At the same time, it should be noted that the Postal Service met these corporate goals without layoffs.

The outsourcing consideration process is very deliberative with the objective of making the best business decision for the Postal Service. In order to meet our congressionally mandated obligations to the American public, we need to reduce costs and increase efficiencies while functioning as an organization with no appropriated funds from Congress. Our business processes include constantly monitoring the results of contractor performance. As an example of this constant monitoring of contractor performance, as referenced in your report, the Priority Mail program was brought back 'in-house' when it did not achieve the desired results.

In our national labor agreements, Article 32, Subcontracting, establishes general criteria when considering outsourcing, requiring that due consideration be given to public interest, cost, efficiency, availability of equipment, and qualification of employees when evaluating the need to subcontract. Article 32.2 of the American Postal Workers Union agreement covers the highway movement of the mail. These provisions were negotiated and any modification should be made through collective bargaining. In fact, during the most recent round of negotiations, management and the National Association of Letter Carriers agreed to establish a joint committee to discuss a mutually agreeable approach to the issues of outsourcing and to invite the National Rural Letter Carriers' Association to participate. The dialogue continues today.

Notwithstanding the fact that the Postal Service does monitor contractor performance via pertinent, defined metrics and can account for and report on the difference in cost per delivery between city, rural, and contract delivery service as noted throughout the draft report, the Postal Service does not account for outsourcing contracts separately from other contracts. All contracts contain performance metrics and requirements which the Postal Service monitors for performance and costs. Partnerships are managed through an ongoing process—a continuous exchange of knowledge and communication, with measured performance objectives.

This draft report describes the GAO's recommendations for the Postal Service as follows:

To improve management decision-making and accountability in this area, the Postmaster General should first, establish a process to measure the results and effectiveness of Service outsourcing activities that are subject to collective bargaining agreements. This process should include tracking actual cost and any savings, and comparing them with estimated costs and savings. Second, to support congressional oversight, the Postmaster General should include information on the results and effectiveness of these ongoing outsourcing activities in its annual operations report (Comprehensive Statement on Postal Operations) to Congress.

The Postal Service concurs with the finding that the Postal Service does not "...separately track these contracts [total outsourcing contracts related to bargaining unit work]..." However, we do have data to support postal outsourcing decisions, e.g., cost differences between contracted transportation services versus postal vehicle services for those routes that met Article 32.2 criteria for FY2007. Recently the U.S. Postal Service Office of Inspector General completed audits regarding outsourcing activities and found that not only have estimated savings been achieved, but far exceeded.

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**Appendix III: Comments from the U.S. Postal Service**

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In response to the recommendations, the Postal Service will take a risk assessment approach and establish a process to compare the assumptions underlying the decision to outsource contained in the final financial comparative analysis with the actual contract award one year after implementation, with an adjustment for any ramp-up period. This data will be sourced through the appropriate contracting officer, a headquarters finance team, and the pertinent sponsoring organization. Such analysis will be completed for national Article 32.1.B. considerations approved after July 2008. The process will be monitored by the Strategic Initiatives Action Group, the cross-functional committee responsible for coordinating the processes involved in reviewing, approving, and monitoring proposed outsourcing initiatives. Findings will be presented to senior management on the outsourcing approval board. On the second recommendation, the Postal Service proposes to retain this information with our headquarters finance department, rather than publish the information in the Comprehensive Statement.

If you, or your staff, wish to discuss any of these comments further, I am available at your convenience.

Sincerely,



Anthony J. Vegliante

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Katherine Siggerud (202) 512-2834 or [siggerudk@gao.gov](mailto:siggerudk@gao.gov)

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## Acknowledgments

In addition to the individual named above, Teresa Anderson, Lauren Calhoun, Elizabeth Eisenstadt, Brandon Haller, David Hooper, Brian Howell, Karen Jarzynka, and Travis Thomson made key contributions to this report.

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## GAO's Mission

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