Office of Inspector General | United States Postal Service

Audit Report

Mail Processing Overtime

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Highlights

Objective

The objective of our audit was to assess the U.S. Postal Service's management of mail processing overtime during fiscal year (FY) 2018.

The Postal Service had a goal to reduce mail processing staffing costs by about $130.5 million in FY 2018. While the Postal Service uses overtime to provide flexibility and meet its operational requirements, it must be managed efficiently. Overtime is paid at one and one-half times the employee's hourly rate; and penalty overtime pay is paid, under specific conditions, at double the employee's hourly rate.

From FYs 2012 to 2016, mail processing (Function 1, or F1) overtime increased by about $339 million (or 9.7 million workhours). Penalty overtime increased by $42.5 million (or 806,000 workhours). In FY 2017, the Postal Service experienced slight reductions in overtime and penalty overtime workhours. In FY 2018, the Postal Service planned to reduce overtime workhours by 1.3 million and reduce penalty overtime workhours by 93,000. However, mail processing overtime costs increased by $257 million (31 percent) from FY 2017.

In FY 2018 as overtime costs were increasing, processed mail volume declined by five billion pieces (1.65 percent). However, total mail processing complement decreased by about 5,000 career employees, and workhours decreased by 4.3 million (or 2.1 percent). Even with the decline in total workhours, overall mail processing staffing costs increased by $37.4 million (or 0.44 percent), due in part to the increase in overtime, as well as contractual general increases and cost of living adjustments.

What the OIG Found

The Postal Service did not effectively manage mail processing overtime in FY 2018. It planned for total overtime costs of about $732 million, but actually incurred $1.09 billion, a difference of $358 million, or 49 percent.

Specifically, the Postal Service planned for about 18.5 million overtime workhours and 767,000 penalty overtime workhours for FY 2018. The actual overtime

workhours used were 26.7 million (44 percent over plan) and the actual penalty overtime workhours used were 1.7 million (126 percent over plan).

This occurred, in part, due to implementation of the F1 Scheduler at the beginning of FY 2018. The F1 Scheduler is a modeling tool used to optimize employee schedules and set a Postal Service-wide standard for establishing complement levels. Employee schedules and complement levels were calculated using FY 2017 week 41 (July) as the base week. However, week 41 was not representative of mail processing operations for all facilities and, as a result, it did not always schedule the right people, in the right place, at the right time.

Specifically, while the F1 Scheduler results contributed to the decrease in the overall mail processing complement by 5,000 career positions, there were also changes to many employees' schedules and positions, which required the rebidding of over 53,000 mail processing positions, a 36 percent increase from FY 2017. The complexities of processing the large number of position bids along with the overall reduction in complement, increased the need for overtime. However, the average number of mail processing employees working during FY 2018 (82,000) still exceeded the average number of employees allowed by the F1 Scheduler (76,500).

The Postal Service is currently rolling out an updated version of the F1 Scheduler to facilities which is based, among other things, on a representative week for each processing facility. At the end of FY 2018, changes to the F1 Scheduler were tested to address concerns with employee schedule and complement issues. As changes to the F1 Scheduler were in the development and testing phases

> *"The Postal Service did not effectively manage mail processing overtime in FY 2018. It planned for total overtime costs of about $732 million, but actually incurred $1.09 billion, a difference of $358 million, or 49 percent."*

> *"We also noted that employee availability was an issue, as there were over 13.6 million sick leave hours and 13 million leave without pay hours in FY 2018, with an average of 5,600 employees unavailable every day."*

during FY 2018, and are not yet fully implemented, we did not include them in the scope of this audit and are not making recommendations on the new methodology in this report.

Opportunities also exist to address management oversight to prevent unauthorized overtime, reduce grievances, and increase employee availability.

Unauthorized overtime occurs when an employee's clock time exceeds eight hours in a day or 40 hours in a week without prior authorization from a manager. The employees must be paid for this time worked. In FY 2018, $136.6 million of overtime was not authorized. This was 3.4 million overtime workhours and 13 percent of total overtime, a significant increase over FY 2017 numbers (1.1 million overtime workhours and 7 percent of total overtime). We noted an effective practice implemented by management at the Milwaukee Processing and Distribution Center (P&DC) to manage unauthorized overtime. For each tour, the Lead Manager, Distribution Operations (MDO), provided each Supervisor, Distribution Operations, a document which includes the employee's name, the operation the employee would report to, and at what time, and how many hours the employee was authorized. MDOs also made frequent workroom floor observations to ensure compliance with the plan. Because of these actions, the Milwaukee P&DC had zero unauthorized overtime workhours in FY 2018.

In FY 2018 there were over 47,000 mail processing overtime grievances filed, costing the Postal Service about $8 million, compared to less than 43,000 in FY 2017, costing the Postal Service about $7.6 million. The grievances were filed for various reasons, including managers not offering overtime based on a volunteer-basis or seniority.

We also noted that employee availability was an issue, as there were over 13.6 million sick leave hours and 13 million leave without pay hours in FY 2018, with an average of 5,600 employees unavailable every day. Failure to maintain regular attendance negatively impacted employee availability, resulting in increased overtime. In FY 2018, the Postal Service established a district-level Attendance Control Office to provide necessary oversight to ensure unscheduled absences are being recorded appropriately, reviewed timely, and action is being taken.

Lastly, we noted that while area vice presidents, district managers, and plant managers are responsible for planning, budgeting, and monitoring performance against their operating expense budgets, no performance incentives were in place to effectively manage overtime.

What the OIG Recommended

We recommended management:

- Evaluate and test the updated F1 Scheduler results on a periodic basis to ensure proper implementation of position bid assignments and accurate complement levels and make adjustments as necessary.

- Issue supplemental guidance on management oversight to reduce unauthorized overtime, ensure compliance with overtime policy to reduce grievances, and increase employee availability.

- Establish appropriate performance incentives for managers to effectively manage overtime.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 13, 2019

MEMORANDUM FOR: ROBERT CINTRON
    VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop
Darrell E. Benjamin, Jr.

FROM: Darrell E. Benjamin, Jr.
    Deputy Assistant Inspector General
    for Mission Operations

SUBJECT: Audit Report – Mail Processing Overtime
    (Report Number NO-AR-19-005)

This report presents the results of our audit of Mail Processing Overtime (Project Number 18XG017NO000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Margaret McDavid, Director, Network Processing, or me at 703-248-2100.

Attachment

cc: Postmaster General
    Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the management of mail processing (Function 1, or F1)[1] overtime, including penalty overtime (Project Number 18XG017NO000). The objective of our audit was to assess the U.S. Postal Service's management of mail processing overtime during fiscal year (FY) 2018. See Appendix A for additional information about this audit.

Background

The Postal Service had a goal to reduce mail processing staffing costs by about $130.5 million in FY 2018. While the Postal Service uses overtime to provide flexibility and meet its operational requirements, it must be managed efficiently. Overtime is paid at one and one-half times the employee's hourly rate;[2] and penalty overtime pay is paid, under specific conditions,[3] at double the employee's hourly rate.[4]

From FYs 2012 to 2016, mail processing overtime increased by about $339 million (or 9.7 million workhours). Penalty overtime increased by $42.5 million (or 806,000 workhours). In FY 2017, the Postal Service experienced slight reductions in overtime and penalty overtime workhours. In FY 2018, the Postal Service planned to reduce overtime workhours by 1.3 million and reduce penalty overtime workhours by 93,000. However, mail processing overtime costs increased by $257 million (31 percent) from FY 2017.

In FY 2018 as overtime costs were increasing, processed mail volume declined by five billion pieces (1.65 percent). However, total mail processing complement decreased by about 5,000 career employees, and workhours decreased by 4.3 million (or 2.1 percent). Even with the decline in total workhours, overall mail processing staffing costs increased by $37.4 million (or 0.44 percent), due in part to the increase in overtime, as well as contractual general increases and cost of living adjustments.

We conducted site visits at 14 Processing and Distribution Centers (P&DC). To provide a reasonable basis for identifying underlying factors of overtime, two facilities from each of the seven areas were selected for review. See Table 3 in the Scope and Methodology section for the facilities visited.

Finding #1: Management of Mail Processing Overtime

The Postal Service did not effectively manage mail processing overtime in FY 2018. The Postal Service Headquarters' field budget group establishes each Postal Service area's planned percentage of overtime hours annually. For FY 2018, the Postal Service planned for about 18.5 million overtime workhours and 767,000 penalty overtime workhours. However, the actual overtime workhours used were 26.7 million (44 percent over plan), and the actual penalty overtime workhours used were 1.7 million (126 percent over plan).

This occurred, in part, due to implementation of the F1 Scheduler at the beginning of FY 2018; management oversight over unauthorized overtime, grievances, and employee availability; and no performance incentives in place for management to effectively manage overtime.

> "*In FY 2018, the Postal Service planned to reduce overtime workhours by 1.3 million and reduce penalty overtime workhours by 93,000. However, mail processing overtime costs increased by $257 million (31 percent) from FY 2017.*"

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1   Postal Service work activities are divided into 10 distinct functions which, in turn, are subdivided into labor distribution categories. Function 1 includes mail processing work activities.

2   Overtime is paid for workhours in excess of eight paid hours in a day, 40 paid hours in a week, or on a nonscheduled day.

3   As defined in Handbook F-401, *Supervisor's Guide to Scheduling and Premium Pay,* Section 3, Premium and Overtime Pay Situations, dated August 2000, two examples of penalty overtime include overtime hours worked in excess of 10 paid hours on a regularly scheduled day and in excess of eight paid hours on a nonscheduled day.

4   *Employee Labor and Relations Manual,* Issue 45, Section 434, Overtime and Premium Pay, dated September 2018.

Function 1 Scheduler

The F1 Scheduler is a modeling tool used to optimize employee schedules and set a Postal Service-wide standard for establishing complement levels. Employee schedules and complement levels were calculated using FY 2017 week 41 (July) as the base week because management believed it was a representative week based on projected mail processing volume. However, week 41 was not representative of mail processing operations for all facilities and, as a result, it did not always schedule the right people, in the right place, at the right time.

> "Based on the F1 Scheduler results, facilities decreased their complement by almost 4,000 career employees through the first half of FY 2018."
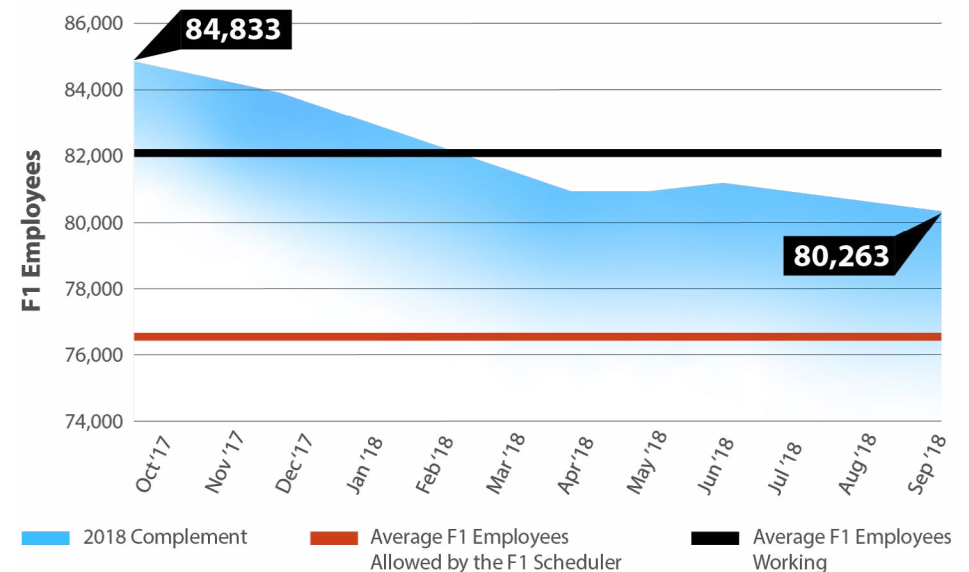
Specifically, to comply with the F1 Scheduler results, there were changes to many employees' schedules and positions, which required the rebidding of over 53,000 mail processing positions, a 36 percent increase from FY 2017. Many of these positions also had variable start times which also added to the complexity of rebidding these positions. During site visits, we noted instances where operations were not right-sized, that is the workforce did not match the workload. For example, at the Santa Ana P&DC, mail arrived at 6 p.m. but employees began work at 8 p.m. This disrupted operations and caused management to authorize overtime because mail needed to be processed to meet dispatch times. We also noted instances at both the Tulsa and Memphis P&DCs where one tour[5] had five and six different reporting times for employees, respectively.

Based on the F1 Scheduler results, facilities decreased their complement by almost 4,000 career employees[6] through the first half of FY 2018. However, the average number of mail processing employees working during FY 2018 (82,000) still exceeded the average number of mail processing employees allowed by the F1 Scheduler (76,500). See Figure 1.

Figure 1. FY 2018 Complement Levels

Sources: Field Staffing and Support, and Postal Service Office of Inspector General (OIG) analysis.

In-plant support has been responsible for the F1 Scheduler since the beginning of FY 2014. There have been some minor changes to the model since then, but the basic instructions have not changed significantly. Management at all 14 facilities we visited reported the implementation of the F1 Scheduler results was required. However, once the 14 facilities determined it was causing overtime to increase, they reduced compliance with the results of the F1 Scheduler. At the end of FY 2018, changes to the F1 Scheduler were tested to address some of the same concerns identified in this report such as employee schedule and complement issues.

First, in the updated model, headquarters and the area will provide each facility a base week to use, unlike the previous model which selected the same base week for all facilities. Additionally, in the updated model, if the base week provided is not representative of a facility's operations, the facility is able to submit an exception request. Second, there were issues with the manageability of employee

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5   A Postal Service work day is made up of three tours of eight hours each.
6   Part of this decrease was due to voluntary early retirements that were offered in FY 2018. Nearly 800 clerks and mail handlers accepted this offer.

schedules with the previous F1 Scheduler. About two-thirds of the modeled positions had variable start times. The updated model will align workhour requirements with the processing needs of the model to facilitate creation of schedules that can be implemented and managed more effectively. As changes to the F1 Scheduler were in the development and testing phases during FY 2018, and are not yet fully implemented, we did not include it in the scope of this audit and are not making recommendations on the new methodology in this report. The Postal Service is currently rolling out the updated F1 Scheduler to facilities.

> ### Recommendation #1
> The **Vice President, Network Operations**, evaluate and test the updated Function 1 Scheduler results on a periodic basis to ensure proper implementation of position bid assignments and accurate complement levels, and make adjustments as necessary.

Management Oversight

Opportunities exist to address management oversight to prevent unauthorized overtime, reduce grievances, and increase employee availability. See Table 1 for a summary of which facilities had opportunities for improvement.

Table 1. Management Oversight Issues

Facility	Unauthorized Overtime	Grievances	Employee Availability
Greensboro, NC, P&DC	✓	✓	✓
Baltimore, MD, P&DC		✓	✓
Memphis, TN, P&DC		✓	✓
South Jersey, NJ, P&DC		✓	✓
Michigan Metroplex, MI, P&DC		✓	✓
Milwaukee, WI, P&DC		✓	✓
Brooklyn, NY, P&DC		✓	✓
Mid-Island, NY, P&DC		✓	✓
Sacramento, CA, P&DC	✓	✓	✓
Santa Ana, CA, P&DC	✓	✓	✓
New Orleans, LA, P&DC	✓	✓	✓
Tulsa, OK, P&DC		✓	✓
West Valley, AZ, P&DC	✓	✓	✓
Albuquerque, NM, P&DC	✓	✓	✓

Sources: Enterprise Data Warehouse (EDW), Grievance Arbitration Tracking System (GATS),[7] Time and Attendance Collection System, and OIG interviews.
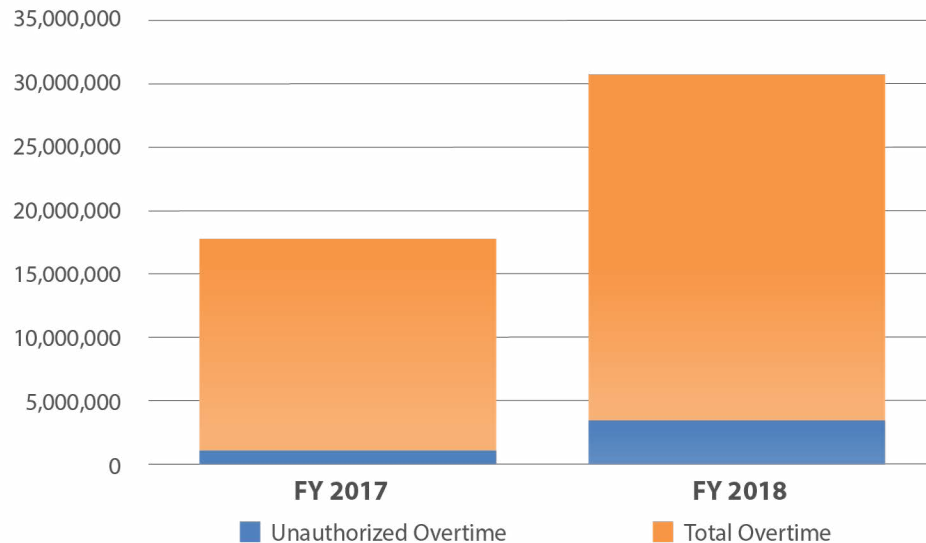
Notes: A '√' indicates that the facility had opportunities for improvement in the identified area. A blank cell indicates that the facility did not have an issue in the identified area.

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7   GATS is a Postal Service system that provides for the tracking of grievances and grievance payouts.

Unauthorized Overtime

Employees must be paid for all work performed, even if the employee's work time was not authorized. Unauthorized overtime occurs when an employee's clock time exceeds eight hours in a day or 40 hours in a week without prior authorization from a manager.[8] In FY 2018, $136.6 million of overtime was not authorized. This was 3.4 million overtime workhours and 13 percent of total overtime, a significant increase over FY 2017 numbers (1.1 million overtime workhours and 7 percent of total overtime) (see Figure 2).

Figure 2. Amount of Unauthorized Overtime

Sources: EDW and OIG analysis.

During site visits we identified a lack of supervision, including a lack of communication between tour supervisors. This was due, in part, to eleven of the 14 facilities exceeding the employee to supervisor ratio.[9] At the Greensboro P&DC, one supervisor said their ratio was 1:48, leading to unauthorized overtime.

Further, based on our site visits, we determined at eight of the facilities, a lack of experience and training also contributed to unauthorized overtime.

To control unauthorized overtime, we noted an effective practice implemented by management at the Milwaukee P&DC. For each tour, the Lead Manager, Distribution Operations (MDO), would approve, post, and provide to each Supervisor, Distribution Operations an after-tour overtime call. The document included the employee's name, the operation the employee would report to, and at what time, and how many hours the employee was authorized. MDOs also made frequent workroom floor observations to engage with the employees, enhancing their accountability, and to ensure compliance with the plan. Because of these actions, the Milwaukee P&DC had zero unauthorized overtime workhours in FY 2018.

Grievances

Grievances are defined as a dispute, difference, disagreement or complaint between the parties related to wages, hours, and conditions of employment.[10] In FY 2018, the GATS contained over 47,000 mail processing overtime grievances, costing the Postal Service about $8 million. In FY 2017, there were 43,000 overtime grievances (10 percent fewer) costing the Postal Service about $7.6 million.

The overtime grievances were filed for various reasons, including managers not properly administering the overtime desired list,[11] and managers not offering overtime based on a volunteer-basis or seniority. We noted issues with

"To control unauthorized overtime, we noted an effective practice implemented by management at the Milwaukee P&DC."

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8   Handbook F-401, *Supervisor's Guide to Scheduling and Premium Pay*, Section 5, Management Control Activities, dated August 2000.
9   The span of control for Supervisor, Distribution Operations (SDO) is 1:25 ratio, based on on-rolls mail processing.
10 Handbook EL-912, *Agreement between United States Postal Service and American Postal Workers Union,* Article 15, Grievance-Arbitration Procedure, dated 2015-2018.
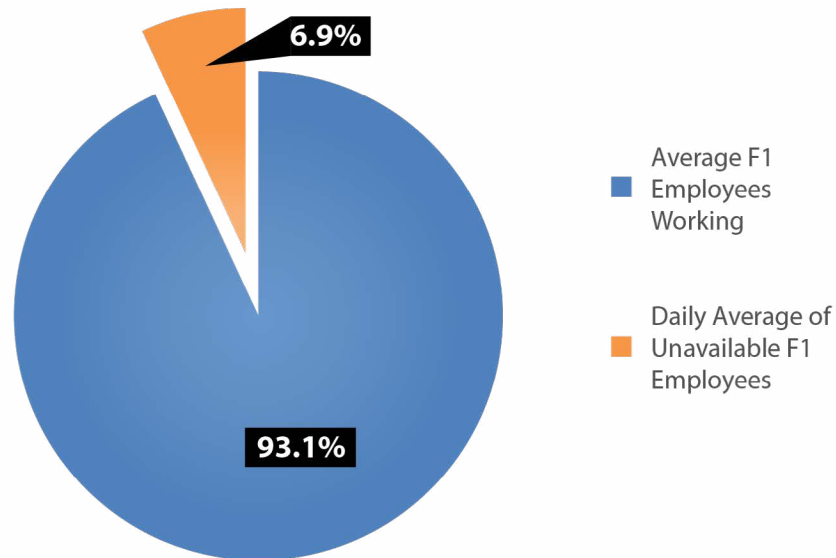11 All full-time regular employees desiring to work overtime during a specific quarter are able to place their names on an "Overtime Desired" list. When during the quarter the need for overtime arises, employees with the necessary skills having listed their names will be selected in order of their seniority on a rotating basis.

grievances at all 14 sites we visited which suggests a nationwide solution is needed to address this issue.

Employee Availability

Employee availability compares actual straight time workhours of career employees to the workhours which would have been accumulated if employees had not used sick leave or leave without pay (LWOP). In FY 2018, there were over 13.6 million sick leave and 13 million LWOP workhours,[12] with an average of 5,600 career employees unavailable every day (see Figure 3).

Figure 3. Career Employees Unavailable Every Day (FY 2018)

6.9%

Average F1 Employees Working

Daily Average of Unavailable F1 Employees

93.1%

Management at all 14 facilities stated that employee availability was one of the major reasons for increased overtime in FY 2018, and we noted issues with employee availability at all 14 sites, which suggests a nationwide solution is needed. Only 15 percent of the managers had a passing score for the NPA[13] employee availability indicator.[14] Failure to maintain regular attendance negatively impacted employee availability, resulting in increased overtime.

In addition, over 36,000 employees took sick leave and also worked overtime on a scheduled day off in the same week they took sick leave. Further, over 14,000 employees took LWOP and also worked overtime on a scheduled day off in the same week they took LWOP. This may indicate that some employees were taking sick leave or LWOP to not work more than five straight days and earn additional pay with overtime. Supervisors are responsible to remind employees of attendance expectations when they take unscheduled leave. For example, at six facilities, we determined supervisors were not regularly addressing unscheduled absences and conducting "Return to Work" activities[15] as required. At one facility, management stated the progressive discipline was not implemented because they could not afford to lose any employees.

In FY 2018, the Postal Service established a district-level Attendance Control Office (ACO)[16] to provide necessary oversight to ensure unscheduled absences are being recorded appropriately, reviewed timely, and action is being taken.

> **Recommendation #2**
> The **Vice President, Network Operations**, issue supplemental guidance on management oversight to reduce unauthorized overtime, ensure compliance with overtime policy to reduce grievances, and increase employee availability.

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12 These hours include both career and non-career employees.

13 A web-based system that collects performance-related metrics from source systems across the organizations. These metrics are translated into web-based balanced scorecards that can be used to monitor the performance of both the entire enterprise and of individual units across the nation.

14 The Postal Service reported their employee availability scores increased nationally by 0.23 percent (from 93.38 percent in FY 2017 to 93.62 percent in FY 2018). However, they were still below their target of 95.18 percent.

15 These activities provide supervisors the opportunity to remind employees of the attendance expectations, to ensure requested documentation is submitted, to determine if the leave is approved, and to assess whether further action is necessary.

16 The ACO manages the district-wide employee availability and attendance control programs while ensuring compliance with national policies, guidelines, and procedures.

Performance Incentives

Area vice presidents, district managers, and plant managers are responsible for planning, budgeting, and monitoring performance against their operating expense budgets;[17] however, no performance incentives were in place to effectively manage overtime.

While NPA includes total operating expense (TOE) as an indicator that measures the total of all expenses to plan it does not include a specific overtime indicator.

Even though the TOE includes mail processing overtime and penalty overtime, managers at facilities can still meet their TOE without meeting overtime goals. As labor costs are about 80 percent of the Postal Service's TOE, it is important for management to concentrate on the control of personnel expenses. All seven Postal Service areas were over their TOE for FY 2018; however, three of the areas would have met their TOE had they met their overtime goal (see Table 2).

Table 2. TOE and Overtime Plan Variance

Area	TOE Plan	TOE Actual	TOE Plan Variance	Overtime Plan Variance	Meet TOE, if Met Overtime Plan
Capital Metro	$6,079,148,443	$6,100,102,130	$20,953,687	$61,163,846	✓
Eastern	$8,645,495,141	$8,679,536,311	$34,041,170	$38,612,588	✓
Great Lakes	$6,873,565,763	$6,957,046,810	$83,481,047	$47,621,961	
Northeast	$8,694,835,108	$8,747,365,983	$52,530,875	$72,739,074	✓
Pacific	$6,285,990,739	$6,342,428,463	$56,437,724	$42,920,614	
Southern	$10,651,118,749	$10,831,653,019	$180,534,270	$78,053,371	
Western	$9,117,056,594	$9,283,104,672	$166,048,078	$56,314,135	

Sources: EDW, eFlash, National Payroll Hours Summary Report, and OIG analysis.

Notes: A '✓' indicates that an area would have met its TOE, if it met its overtime goal. A blank cell indicates that an area would not have met its TOE, even if it did meet its overtime goal.

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17 Handbook F-2, *Functional Management,* Section 2-3, Postal Service Field: Area, District, and Plant Managers, dated July 2014.

> **Recommendation #3**
> The **Vice President**, **Network Operations**, establish appropriate performance incentives for managers to effectively manage overtime.

As a result of not effectively managing overtime, the Postal Service incurred additional overtime costs of $358 million in FY 2018, 49 percent above plan. Specifically, the Postal Service planned for total overtime of about $732 million, but actually incurred $1.09 billion.

Management's Comments

Management generally agreed with the finding, agreed with recommendation 1 and partially agreed with recommendation 2, but disagreed with recommendation 3 and the monetary impact.

Regarding recommendation 1, management stated the F1 Scheduler is run annually, at a minimum, and results are evaluated with each run of the model. The model establishes appropriate levels of staffing and provides proposed schedules to drive efficiency and operational compliance to operating plans. The target implementation date is September 30, 2019.

Regarding recommendation 2, management stated the Vice President, Network Operations, provides guidance and tools to field operations to assist in managing overtime. The area vice president, district manager, plant manager, and line level management have the full authority and responsibility to oversee district and facility management to reduce unauthorized overtime and ensure compliance with overtime policy. The target implementation date is September 30, 2019.

Regarding recommendation 3, management disagreed because the incentives for managers to effectively manage overtime are built into the NPA system. Managers are tasked with reducing the TOE and overtime is one of the factors that impacts TOE.

Regarding the monetary impact, management agreed with the penalty overtime calculation but disagreed with the overtime calculation. They stated the overtime workhours were needed to process the mail and should have been worked by non-career F1 Postal Support Employees (PSE) at a less expensive

rate. Therefore, the monetary impact for overtime should be calculated at the difference in rate between overtime and a non-career F1 PSE. They stated the new total monetary impact should be $189,672,839. See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1 and 2 and corrective actions should resolve the issues identified in the report.

Regarding recommendation 3, we noted in our report that the NPA includes TOE, which contains mail processing overtime and penalty overtime, as an indicator; however, the NPA does not include an indicator specific to overtime. In FY 2018, all seven Postal Service areas exceeded their TOE. Three of the areas would have met their TOE had they met their overtime goal; therefore, it is important for management to concentrate on controlling personnel expenses, including overtime and penalty overtime.

Regarding the monetary impact, the overtime rate we used to calculate the monetary impact was the actual FY 2018 average rate the Postal Service reported in its annual financial performance reports. Therefore, the overtime rate is accurate, and all FY 2018 overtime costs have been accounted for by the Postal Service. We cannot retroactively apply a different rate for FY 2018 workhours based on an assumption that the additional overtime should have been worked by non-career F1 PSEs instead because they were not. In addition, the Postal Service also assumes all overtime workhours were necessary; however, as noted in the report, over 3.4 million overtime workhours were unauthorized in FY 2018.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information

Scope and Methodology

The scope of this project was a nationwide audit of the Postal Service's management of mail processing overtime and penalty overtime workhours during FY 2018. To accomplish our objective, we:

- Interviewed Postal Service headquarters, area, and district management to determine how overtime is budgeted and distributed among the facilities and identify causes of increased overtime and penalty overtime.

- Obtained and analyzed FY 2018 mail processing planned overtime workhour ratio and compared that to the actual overtime workhour ratio.

- Identified two facilities in each area to visit by analyzing percent of overtime workhours compared to total workhours, as well as the amount of penalty overtime. The facility that had the highest overall rank, within each area, was judgmentally selected for review. A second facility within each area was judgmentally selected based on having a lower rank (but was comparable based on a combination of workhours and volume) to the highest ranked facility (see Table 3).

- Analyzed workforce mix, complement utilization, employee availability, grievances filed, unauthorized overtime, and overtime usage by day of the week and labor distribution code.

- Conducted observations at selected facilities:

  - Interviewed plant managers, in-plant support staff, and operations managers and supervisors related to the mail processing workhours and overtime/penalty overtime.

  - Identified and analyzed any tools or systems used to manage mail processing overtime/penalty overtime.

  - Obtained and reviewed local memorandum of understandings.

  - Identified best practices for managing overtime/penalty overtime use.

Table 3. Facilities Selected for Review

Area	Facility
Capital Metro	Greensboro, NC, P&DC
	Baltimore, MD, P&DC
Eastern	Memphis, TN, P&DC
	South Jersey, NJ, P&DC
Great Lakes	Michigan Metroplex, MI, P&DC
	Milwaukee, WI, P&DC
Northeast	Brooklyn, NY, P&DC
	Mid-Island, NY, P&DC
Pacific	Sacramento, CA, P&DC
	Santa Ana, CA, P&DC
Southern	New Orleans, LA, P&DC
	Tulsa, OK, P&DC
Western	West Valley, AZ, P&DC
	Albuquerque, NM, P&DC

Source: EDW, Labor Utilization Reporting System, Management Operations Data System, and OIG analysis.

We conducted this performance audit from September 2018 through June 2019, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on May 14, 2019, and included their comments where appropriate.

We assessed the reliability of overtime data by observing mail processing operations, interviewing knowledgeable managers, and comparing the data with other related data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
Management of Overtime in the Northeast Area	Assess the Postal Service's management of overtime in the Northeast Area during FYs 2015 and 2016.	HR-AR-17-014	9/14/2017	$308

Appendix B: Management's Comments

June 5, 2019

LAZERICK C. POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Mail Processing Overtime
(Report Number - NO-AR-19-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report.

Management disagrees with the Monetary Impact.

Recommendation #1:
The Vice President, Network Operations, evaluate and test the updated Function 1 Scheduler results on a periodic basis to ensure proper implementation of position bid assignments and accurate complement levels, and make adjustments as necessary.

Management Response/Action Plan:
Management agrees with this recommendation. The F1 scheduler results are evaluated with each run of the model. The model is ran annually, at a minimum, in order to establish appropriate levels of staffing due to changes in mail volumes and/or equipment deployments. Additional benefits allow sites to improve compliance of and the implementation of improved bid position structures. The tool is used to determine the appropriate levels of employees by craft based upon specific operations and MPV targeted performance expectations derived from established targets built within the model. As a result, it provides proposed schedules to drive efficiency and operational compliance to operating plans. The proper implementation of position bid assignment and accurate complement levels are subject to local management's ability and methods to adjust complement and staffing schedules while complying with National Labor agreements which may include other HR processes such as attrition and relocation. Furthermore, the Informed Visibility Employee System (IVES) is used for the weekly scheduling of craft employees for straight time and overtime hours. Line supervisors and managers are expected to complete these schedules on a weekly basis, altering the Non-career schedules as warranted to reduce overtime.

Target Implementation Date:
September 2019

Responsible Official:
N/A

Recommendation #2:
The Vice President, Network Operations, issue supplemental guidance on management oversight to reduce unauthorized overtime, ensure compliance with overtime policy to reduce grievances, and increase employee availability.

Management Response/Action Plan:
Management partially agrees with this recommendation. The Vice President, Network Operations, provides guidance and tools to field operations to assist in the management of overtime, tools such as the OTAdmin Tool. Additional resources are provided through the use of Informed Visibility Dashboards identifying opportunity areas of operations. Area Vice President, District Manager, Plant Manager and line level management staff have the full authority and responsibility to oversee District and facility management in order to reduce unauthorized overtime and ensure compliance with overtime policy setup by Network Operations HQ.

Target Implementation Date:
September 2019

Responsible Official:
Manager Processing Operations, Network Operations

Recommendation #3:
The Vice President, Network Operations, establish appropriate performance incentives for managers to effectively manage overtime.

Management Response/Action Plan:
Management disagrees with this recommendation. The incentives for managers to effectively manage overtime has been built into the National Performance Assessment (NPA) system. Managers are tasked with reducing the Total Operating Expenses (TOE), and overtime is one of the factors that impacts TOE.

Target Implementation Date:
N/A

Responsible Official:
N/A

F1 OT and Penalty OT Monetary Impact:

1. Penalty Overtime Hours Included in Overtime Hours - ISSUE WITHDRAWN
   The regular OT hours times the regular OT rate, and Penalty OT hours times
   the Penalty OT rate which is correct. Management has no issue with the
   Penalty OT portion and withdraw this issue

2. Excess Overtime Hours vs. Plan Would Have Been Replaced With a
   Cheaper Hour.

The premise of the audit is that the Overtime Hours were not managed properly and
exceeded plan by 8.2M hours. However an overtime hour is only one type of hour
that can be used to accomplish necessary work. Other hours could have been
used. The audit does not speak to how that remaining work would have been
accomplished if not through overtime. Since those hours were needed to process
the mail, they should have been worked by non-career F1 PSE employees.
Therefore, the monetary impact should be calculated at the difference in rate
between overtime ($37.30) and a non-career F1 PSE ($20.54). This difference is
$16.76 which lowers the overtime impact to $137,560,213. Counting the full $306M
against us goes away from the issue of overtime management and into the scope of
total work hour management and productivity, and assumes that work was not
needed at all.

The revised Monetary Impact should be $137,560,213 for overrunning the F1
overtime hour plan PLUS the additional $52,112,626 for overrunning the F1 Penalty
Overtime hour plan. The new total Monetary Impact should be $189,672,839.

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Robert Cintron
Vice President, Network Operations

cc: David E. Williams
    Corporate Audit and response Management

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