OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 27, 2010

ROBERT F. BERNSTOCK
PRESIDENT, MAILING AND SHIPPING SERVICES

DOUGLAS A. TULINO
VICE PRESIDENT, LABOR RELATIONS

SUBJECT: Audit Report – U.S. Postal Service's Use of Employees in Rehabilitation Status (Report Number HR-AR-10-002)

This report presents the results of our audit of the U.S. Postal Service's use of rehabilitation status employees (Project Number 10YG003HM000). Our objective was to evaluate whether Postal Service employees in rehabilitation status can perform contract call center work. The deputy postmaster general requested the audit, which addresses operational risk. See Appendix A for additional information about this audit.

The Postal Service has a legal responsibility to employees with job-related disabilities. The National Reassessment Process is a key Postal Service initiative for finding appropriate and productive assignments for employees who experience on-the-job injuries, and are covered under the Workers' Compensation program. Management provides a rehabilitation assignment when the effects of an injury are considered permanent and the employee has reached Maximum Medical Improvement (MMI).[1] Under rehabilitation assignments, employees can complete work outside of their craft and work facility.

In the late 1990s, the Postal Service established a centralized corporate call management approach for corporate programs and local initiatives, to improve customer satisfaction and provide opportunities to grow additional revenue. As a result, all calls went to a unified call center. In 2003, the Postal Service entered into a fixed price incentive agreement with Convergys for contact call center support. The Postal Service currently has a successful in-sourcing pilot program in Detroit staffed by rehabilitated employees who have reached MMI status. See Appendix A for additional background information.

[1] According to the employee's treating physician, the employee is unlikely to recover further.

Conclusion

The Postal Service has spent, on average, $71 million per year contracting out for call center work that employees in rehabilitation status could perform. The Postal Service could realize cost savings of approximately $349 million over 10 years if they in-sourced contract call center work utilizing Postal Service employees in rehabilitation status. [2]

Outsourcing Call Center Work

The Postal Service has spent, on average, $71 million per year contracting out for call center work that employees in rehabilitation status could perform. The Postal Service currently has an in-sourcing pilot program in Detroit staffed by rehabilitated employees who have reached MMI status. A senior Postal Service official stated that he agrees the Detroit Customer Care Center (CCC) demonstrates that properly trained and managed in-source agents can handle incoming customer calls. However, the Postal Service and the American Postal Workers Union (APWU)[3] have not reached an agreement regarding how the call centers will be staffed.[4] In addition, the Postal Service has not established a plan to expand the Detroit pilot. We estimated the Postal Service could realize a cost savings of approximately $349 million over 10 years if they eliminate the call center contract and staff call centers with Postal Service employees in rehabilitation status.[5] See Appendix B for our detailed analysis of this topic.

We recommend the president, Mailing and Shipping Services, require Postal Service officials at Customer Contract Solutions to:

1. Establish a plan to in-source all call center work, including a staffing and training plan.

We recommend the vice president, Labor Relations:

2. Expedite negotiations and finalize an agreement with the American Postal Workers Union that addresses staffing for in-sourced call center work.

[2] This savings is based on the Postal Service staffing call centers with all rehabilitation employees. According to management, there are other scenarios the Postal Service may negotiate with the unions that could include a percentage of preferred bid jobs for the call center work; in which case, the potential savings could be lower.
[3] The APWU represents 250,000 clerks in post offices across the U.S.
[4] These negotiations have been ongoing for more than 14 years. However, according to Postal Service officials, they have made progress regarding these negotiations and they are working on the percentage of bid versus non-bid positions that will be used to staff the call centers.
[5] The Postal Service will have to establish an appropriate infrastructure and train 893 employees to prepare to in-source all call center work by the end of the last option period of the current contract (January 2013). As they implement the call center infrastructure and train employees, the Postal Service may be able to reduce the size and scope of the current contract in phases for upcoming option periods and realize additional savings.

Management's Comments

Management agreed with both recommendations, stating that they would develop a full plan to in-source call center work, including detailed cost estimates and a timeline of activities. With regard to expediting negotiations with the unions, management stated they recognize the potential benefits of in-sourcing certain call center work to rehabilitation employees; however, this requires reaching an agreement with the APWU, as it cannot in-source work unilaterally. Discussions with the APWU about this type of agreement, which predate the U.S. Postal Service Office of Inspector General (OIG) audit, are continuing.

Management only agreed with $10.8 million of the $349 million cost savings identified in the audit report, stating that the audit does not include significant operating costs for items such as call monitoring and management; manager and supervisor salaries; non-injured craft employees' salaries in preferred assignments; IVR support; technology; and reporting costs. They also stated it is uncertain what percentage of rehabilitation employees will be negotiated in the contract with the union and savings will depend on the extent to which they can use rehabilitation employees. Management presented a financial summary with an eight-year analysis period with four cash flow scenarios. In addition, management stated that the current contract cost is $67.1 million, not the $71 million used in the calculation. See Appendix D for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and their corrective actions should resolve the issues identified in the report. Regarding the monetary impact, management used different methodologies in their analysis of potential cost savings, including an eight year analysis period and several possible scenarios that the OIG did not consider in assessing whether employees in rehabilitation status could perform call center work.

We used a conservative approach to estimate the cost savings, taking into consideration the supplemental information provided by management regarding start-up costs and operating expenses including facility costs, IVR support, hardware, telephones, computers and technical support.

There may be various possible scenarios with regard to the union negotiations; however, we conducted this audit to show what the Postal Service could save if they used employees in rehabilitation status. Thus, we did not include human resources costs in our analysis. Even with the various scenarios presented by management, we do not believe that a plan to in-source call centers would require additional hiring, because current Postal Service staffing has not declined commensurate with the significant decline in mail volume.

Regarding contract costs, these costs have varied in past years. Thus, we used an average cost of $71 million per year based on what the Postal Service has actually spent in the past 3 years on this contract. We subtracted the operating costs provided by management, from that amount to calculate the potential savings. We used a 10-year period in our calculations based on the contract period.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea Deadwyler, director, Human Capital and Security, or me at 703-248-2100.

E-Signed by Mark Duda
VERIFY authenticity with ApproveIt

Mark W. Duda
Deputy Assistant Inspector General
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service has a legal responsibility to employees with job-related disabilities. Providing gainful employment within medically defined work restrictions has proven to be in the best interest of both employees and the Postal Service. In many cases returning to work has helped employees reach maximum recovery.

The National Reassessment Process is a key Postal Service initiative for finding appropriate and productive assignments for employees who experience on-the-job injuries and are covered under the Workers' Compensation program. The process helps evaluators re-examine the status of employees in rehabilitation assignments, ensuring that every evaluated employee has the opportunity to return to work where appropriate.

Management provides a rehabilitation assignment when the effects of the injury are considered permanent and the employee has reached MMI. As with limited duty assignments, management reviews all rehabilitation jobs to determine if employees are properly placed in duty assignments. Under rehabilitation assignments, employees can complete work outside of their craft and work facility.

In February 1995, a team of industry and Postal Service experts were commissioned to map the Corporate Call Management vision by studying current Postal Service telephone handling procedures. They recommended consolidating the Postal Service's 281 1-800 numbers, corporate programs, and local initiatives into one centralized corporate call management approach to improve customer satisfaction and provide opportunities to grow additional revenue.

In the late 1990s, all calls went to a unified call center staffed by Postal Service employees,[6] and in 2003, the Postal Service awarded Convergys the call center contract. When the Postal Service decided to outsource call center activities, the union was against outsourcing at the national level and supported in-sourcing efforts. A senior Postal Service official stated the APWU[7] believes that every preferred union assignment should be a bid assignment.[8] Management stated they are uncertain what percentage of rehabilitation employees will be negotiated in the contract with the union.

The Postal Service entered into a fixed price incentive agreement with Convergys on February 1, 2003, for contact center support. The contact center has a "one-call-does-it all" philosophy which provides a centralized channel for Postal Service customers. The contract is a 4-year base contract with six 1-year renewal options. The Postal Service

[6] These were not employees in rehab status.
[7] The APWU represents 250,000 clerks in post offices across the U.S.
[8] Posted duty assignments for which only bargaining employees can apply.

has two 1-year renewal options left on the Convergys contract and if they exercise those option periods, the contract will expire January 31, 2013.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate whether Postal Service employees in rehabilitation status could perform contract call center work.

To accomplish our objective, we interviewed the manager, Health and Resources Management, to obtain an understanding of how the Postal Service defines and assigns limited duty and rehabilitation status employees. To determine the number of employees in limited duty and rehabilitation assignments during fiscal years (FY) 2006 through 2009, we analyzed data from each Postal Service district. We reviewed the Postal Service's *Employee and Labor Relations Manual*, Section 546, covering employees in limited duty and rehabilitation assignments. We interviewed the manager of In-Sourcing Programs to discuss Detroit CCC pilot program operations, training, agent assignments, call types serviced, schedules, and the possibilities of call center expansion. To assess call center operations, we visited the Detroit CCC. We interviewed the manager to gain an understanding of call center operations, call types and assignments, call tracking, and agent productivity. In addition, we identified the number of agents and agent assignments.

We also interviewed the manager, Contract Administration, Labor Relations, regarding arbitration that was put on hold. We interviewed officials from Corporate Customer Care, Customer Contact Solutions, the Convergys' contracting officer, and the contracting officer representative to obtain information relating to contract re-negotiation penalties; call type training to reduce contractor complement; and steps required to eliminate contract call center operations.

We conducted this performance audit from October 2009 through May 2010 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on March 23, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG did not identify any prior audits or reviews related to the objective of this audit.

APPENDIX B: DETAILED ANALYSIS

Outsourcing Call Center Work

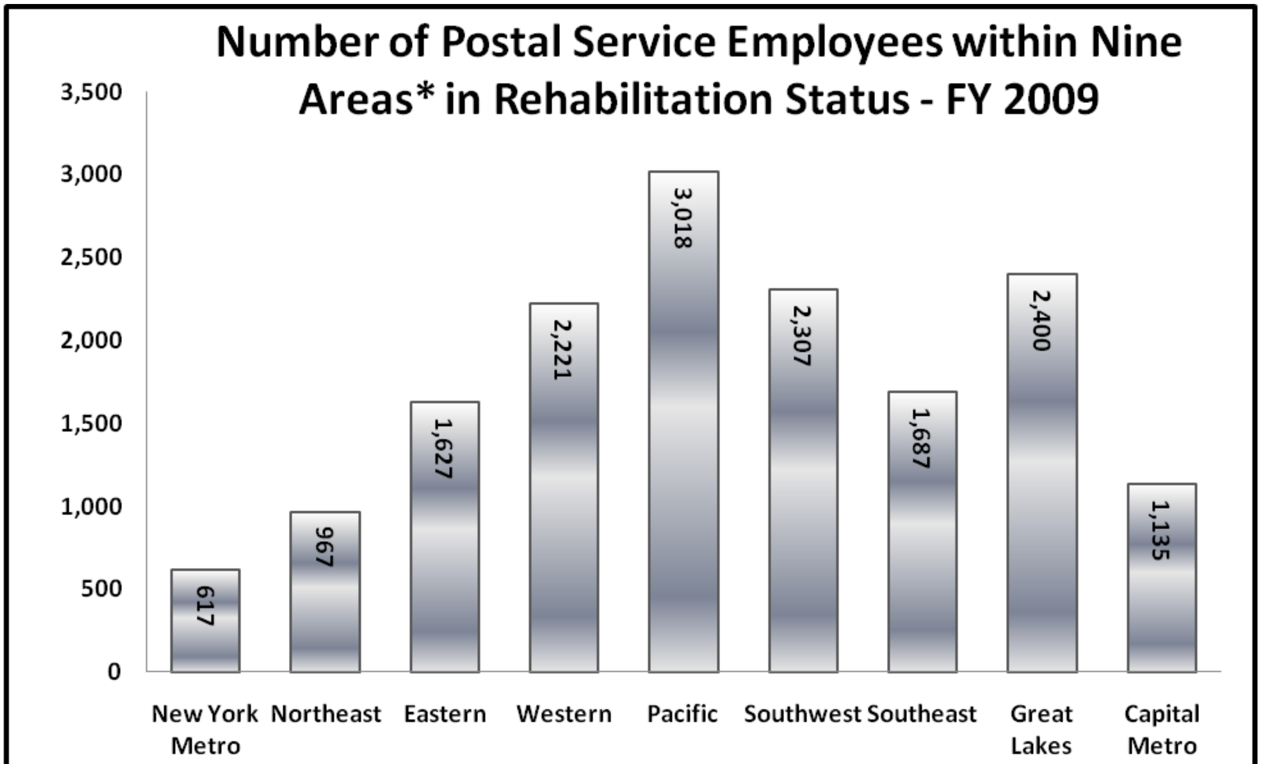
The Postal Service has spent, on average, $71 million per year contracting out for call center work that employees in rehabilitation status could perform. Our audit concluded that the Postal Service could realize significant cost savings if they in-source contract call center work using employees in rehabilitation status. While Postal Service officials stated they have made progress in negotiations with the union regarding how the in-sourced call centers would be staffed, the Postal Service has been in negotiations with the union for more than 14 years.[9] Based on the financial difficulties the Postal Service is experiencing, it is critical that they find ways to reduce costs and realize efficiencies in their operations. Using existing employees in rehabilitation status to perform contract call center work would result in a savings of approximately $349 million over a 10-year period beginning in 2013. They could potentially realize additional savings if they reduce the current contract in phases in the upcoming option years, as they establish the infrastructure and train Postal Service employees to perform call center duties.

Rehabilitation Employees

Management provides a rehabilitation assignment when the effects of an injury on an employee are considered permanent and/or the employee has reached MMI. Rehabilitation assignments vary by district. Wherever the National Reassessment Program has been implemented and assignments have been made, the assignment is necessary and within the medical restrictions of the assigned employee.

We noted during our audit that the Postal Service had 15,979 employees on rehabilitation assignments in the nine Postal Service areas. According to Postal Service officials, approximately 4,800 (or 30 percent) of the rehabilitation employees did not have work (see table below).

[9] There is question as to how the call centers will be staffed and the percentage of bid versus non-bid positions the Postal Service will use.



*As of this report date, Postal Service has eight areas. The former Postal Service districts (excluding the Caribbean District) within New York Metro Area are now part of the Northeast Area.

Detroit In-Sourcing Pilot

The in-sourced call center in Detroit is a pilot program that started in March 2007. The center currently has 77 agent assignments and handled over 1.8 million calls in 2009. The injured-on-duty (IOD) employees at MMI working in Detroit as call agents are from the three major craft unions and include carriers, clerks, and mail handlers. The center operates 6 days per week, Monday through Saturday.

The operation has been engineered to maximize ease of use for the IOD call agents interacting with inquiring customers. While navigating Interactive Voice Response (IVR),[10] the customer selects one of the five pilot center categories and a pilot center call agent responds to customer concerns. The agents respond to customers using a desktop response system that accesses *usps.com* (the Postal Service's website). The call categories available for customer response are: ZIP Codes, Domestic Rates, Hold Mail, Redelivery, and Passports.

The Detroit CCC has served as an effective and successful proof of concept test site for in-sourcing call centers. It currently provides productive work for 80 long-term

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[10] All call centers (in-sourced/out-sourced) will use IVR. The IVR is for all Postal Service telecommunications support, including external-facing call centers and internal-facing employees call center activity.

IOD employees serving as in-sourced call center agents. Since March 2007, the pilot has handled more than 5 million customer inquiries and has performed better than the service performance target in every year of its operation.[11]

However, despite its success, the Postal Service has not reached agreement with the union regarding how it will staff the call centers. In addition, the Postal Service has not established a plan to expand the Detroit pilot. The Strength, Weaknesses, Opportunities, and Threats (SWOT)[12] analysis for the call center as performed by Supply Management's Category Management Center, Professional Printing and Creative Services suggests the Postal Service should in-source with "rehab" employees.

Convergys Contract

The Postal Service has two 1-year renewal options left on the Convergys contract. The current contract base is set for 975,000 calls per month, based on the recent negotiated option year agreement. The 975,000 base level contract cost is $4.175 million per month, or roughly $50 million per year. If the contractor answers more than 975,000 calls there is a cost of between 50 cents and 80 cents per call depending on the call volume over the base. Management stated they negotiated a new contract amount of $67.1 million for the period ending January 31, 2011; however, this amount could vary depending on call volume.

The contract currently consists of five contract centers employing approximately 893 agents who handled over 51 million calls in 2009. Four of the five contact centers are outsourced, while Postal Service employees source the fifth (Detroit CCC).

In-Sourcing Effort

Postal Service officials stated they could eliminate the current contract starting in February 2011 without penalties. However, the biggest challenges for in-sourcing will be the information technology portion of the implementation effort, including obtaining software licenses. Currently, calls go through the contractor's IVR. The Postal Service is in the process of procuring an IVR and installing a desktop system and other items in support of other telecommunication needs. These items can also support the in-house call center operation. Management expects it will complete the desktop system by the end of FY 2010 and should complete procurement of the IVR by the end of FY 2011.[13]

[11] The service performance target for postal call center performance is 80 percent answered in 40 seconds or less. However, the Detroit CCC's success is based on handling five call types compared to the 25 or more call types handled by the contractor.
[12] SWOT analysis is part of the Commodity Sourcing Strategy Plan (CSSP) developed by Supply Management Category Management Center managers. The CSSP for the call center was done on May 31, 2007.
[13] Management stated they have purchased the desktop system and are in the process of reviewing proposals for the IVR. Also, management stated they may need to contract out for some telecommunication services and technological support. These details will be included in the DAR.

In addition, the Postal Service will need to train 893 rehabilitation employees (including clerks)[14] to eliminate contract staff at the four contract centers. Management estimates it will take approximately 18 to 24 months to train 893 employees (at an estimated cost of $3,100 to $5,000[15] per employee) and establish the infrastructure required to establish the call centers. In addition, management stated the technical support services for the Internet CCC and support for customers using usps.com related products would need to be contracted out at an estimated cost of $2.2 million annually. Further, they mentioned there are considerations regarding absenteeism for rehabilitation employees to ensure they are accommodated for health and injury issues.

[14] The Postal Service has rehabilitation status employees that include craft and supervisors positions. Crafts positions are clerks, mail handlers, and carriers represented by major Postal Service unions. Arbitration between the Postal Service Labor Relations and the APWU is, in part, to ensure the clerk craft has bid positions for call center work. Management stated they are uncertain of whether an agreement will be reached and, if so, what percentage of rehabilitation employees will be in the agreement.
[15] This includes 3 weeks of training (2 weeks of training and 1 week of closely supervising trainees on the calling center floor). Some outside contractors would also be required to train the employees.

APPENDIX C: MONETARY IMPACTS

FUNDS PUT TO BETTER USE[16]										
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Change in Call Center Contract Value	$0	$0	$71,414,826	$71,414,826	$71,414,826	$71,414,826	$71,414,826	$71,414,826	$71,414,826	$71,414,826
Training and Infrastructure	($25,071,902)	($406,480)	($406,480)	($406,480)	($406,480)	($406,480)	($406,480)	($406,480)	($406,480)	($406,480)
Utility and Custodial Costs	($419,782)	($425,074)	($430,433)	($435,859)	($441,354)	($446,918)	($452,553)	($458,258)	($464,035)	($469,886)
Technical Support Service for Specialized Calls Cost	($2,268,266)	($2,313,631)	($2,359,904)	($2,407,102)	($2,455,244)	($2,504,349)	($2,554,436)	($2,605,524)	($2,657,635)	($2,710,788)
Total	**($27,759,950)**	**($3,145,185)**	**$68,218,009**	**$68,165,385**	**$68,111,748**	**$68,057,079**	**$68,001,357**	**$67,944,563**	**$67,886,676**	**$67,827,672**
Discounted Total	($27,759,950)	($2,939,426)	($59,584,251)	($55,643,259)	$51,962,126	$48,523,757	$45,312,175	$42,312,459	$39,510,663	$36,893,759
Present Value	$349,043,074									

- The average Convergys contract cost for FYs 2006 through 2009 was $71,414,826.[17]

- Calendar year 2011 shows the estimated start-up infrastructure and training costs for 893 employees to be $25,071,902. This includes costs for training, IVR, software licenses, facilities, furniture, telephone equipment, and desktop requirements.

- The training and infrastructure costs are taking place in tandem with the current contracted call center effort. The average training cost per employee is $5,000. The training shown in calendar years 2012 through 2020 represents the ongoing training effort based on attrition rate of 9.1037 percent.

- The utility and custodial costs are for the proposed four Postal Service call center sites at the following locations: Palatine Processing and Distribution Center (PDC), (Palatine, IL); Morgan PDC, (New York, NY); North Texas PDC, (Coppell, TX); and Detroit CCC also known as Rosa Parks, (Detroit, MI); and the sites have roughly 4.4 million total square feet.[18] The square footage estimated to be utilized for call

[16] Funds that could be used more efficiently by implementing recommended actions.
[17] Management stated the current contract price is estimated to be $67.1 million based on newly negotiated rates for the period ending January 31, 2011. However, we used the historical cost data for the average contract costs from FYs 2006 through 2009 because management also stated that the price could vary depending on call volume.
[18] The four proposed postal sites and total square footage for each site is: Palatine – 682,874 sq. ft.; Morgan – 2,023,632 sq. ft.; North Texas – 629,249 sq. ft.; and Detroit PDC – 1,042,373 sq. ft.

centers at the four facilities is 57,868[19]; utility and custodial costs is assumed based on this square footage.

- The technical support service for specialized call types is estimated to cost $2,223,790 from February 1, 2010, through January 31, 2011. A 2 percent escalation factor was used to calculate the technical support services costs from calendar years 2011 through 2020.

- The "Total" row shows the "Change in Call Center Contract Value" minus "Training Cost and Infrastructure".

- The discounted total is the total dollar amount for a given year stated in terms of present dollars. The "Discounted Total" is calculated by dividing the "Total" by 1 plus the 7 percent discount rate to the time period.

- "Present Value" equals the sum of the values within the "Discounted Total" row.

We estimated the Postal Service can save $349,043,074. If the Postal Service used the last two 1-year option periods of the contract to establish the infrastructure and train 893 rehabilitation employees, the cost savings would start in 2013 when the Postal Service phases out the contract. [20]

[19] Estimated square footage for in-sourced call centers at the proposed postal facilities is: Palatine – 10,684 sq. ft.; Morgan – 21,000 sq. ft.; North Texas - 19,184 sq. ft.; and Detroit PDC – 7,000 sq. ft.

[20] The cost savings do not provide for an offset of human resources costs as our calculations assume the use of current Postal Service employees to staff call centers.

APPENDIX D: MANAGEMENT'S COMMENTS

UNITED STATES
POSTAL SERVICE

May 18, 2010

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – U.S. Postal Service's Use of Employees in Rehabilitation Status (Report Number HR-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

In the Draft Audit Report – The U.S. Postal Service's Use of Employees in Rehabilitation Status (Report Number HR-AR-10-Draft), dated April 26, the Office of the Inspector General (OIG) concludes that the Postal Service could realize cost savings of approximately $349 million over ten-years if they in-sourced contract call center work utilizing Postal Service employees in rehabilitation status.

Postal Service management disagrees that the Postal Service could realize cost savings of approximately $349 million over ten-years if they in-sourced call center work utilizing Postal Service employees in rehabilitation status. Savings resulting from in-sourcing call center work in this manner would not approach $349 million because the audit does not include significant operating costs including: call monitoring and management; manager and supervisor salaries; non-injured craft employees' salaries in preferred assignments; IVR support; hardware and telephones, email and personal computers; software – licenses, telephony and agent desktops software support; technology; telecommunications costs; equipment replacement costs; and reporting of metrics and data.

The overall cost for non-injured craft employees in preferred assignments is dependent upon the terms and conditions of an agreement with the American Postal Workers' Union (APWU), which is currently pending negotiation.

The table below summarizes the preliminary analysis that was conducted in Quarter 1, Fiscal Year (FY) 2010. The financial summary provides an eight-year analysis period with four cash flow scenarios including preferred bid positions of 25, 50, 70, and 100 percent. The analysis is based on staffing the call centers with a total of 700 Postal Service employees. An employee split of 25 percent preferred assignments with 75 percent maximum medical improvement (MMI) assignments yields a return on investment of 18 percent, a net present value of $10.8 million. Based on the preliminary analysis, the call centers will require a minimum of 700 call agents, and staffing these positions with at least 525 MMI employees (75 percent rehabs) would result in a positive net present value. This is the best case scenario for a positive return on investment for in-sourcing the call center program.

In the attached supplement, we are providing a detailed cost analysis of the range of potential outcomes driven by estimated operating cost and differentiated by the percentage use of rehabilitation employees serving as call center agents. This report and management's response do contain information that may be exempt from disclosure under the Freedom of

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In the attached supplement, we are providing a detailed cost analysis of the range of potential outcomes driven by estimated operating cost and differentiated by the percentage use of rehabilitation employees serving as call center agents. This report and management's response do contain information that may be exempt from disclosure under the Freedom of Information Act (FOIA). Cost estimates for in-sourced call center services will be sent out for competitive bid in the pre-Decision Analysis Report (DAR) process. Publication of this estimated cost data may jeopardize the Postal Service's ability to negotiate the best available price for services.

FINANCIAL SUMMARY ($000) **Eight-Year Analysis Period**

Percent New Preferred Bid Positions	25%	50%	70%	100%
Total Investment	$ (25,072)	$ (25,072)	$ (25,072)	$ (25,072)
Total Operating Variance	$ 48,007	$ (50,178)	$ (128,725)	$ (246,546)
Net Cash Flow	$ 22,935	$ (75,250)	$ (153,797)	$ (271,618)
Net Present Value discounted @ 7%	$ 10,836	$ (63,177)	$ (122,386)	$ (211,201)
Return on Investment	18%	N/A	N/A	N/A

While the Draft Audit Report indicates that the Postal Service paid on average $71.4 million annually for the work outsourced to Convergys from FY2006 through FY2009, the current annual contract commitment to Convergys is $67.1 million. The OIG concludes in the Draft Audit Report that the Postal Service could realize cost savings of approximately $349 million over ten years if the organization eliminates or reduces the size and scope of the Convergys contract; however, our preliminary financial analysis indicates that an initiative to in-source call center operations would result in a substantially lower net present value when all operational costs, technology costs, telecommunications costs, labor costs, and infrastructure costs are considered.

These cash flow scenarios were based on an eight-year analysis period as opposed to a ten-year analysis period which was used to develop the cash flow in the OIG's audit report since cash flow analyses should be based on the useful life of the equipment, which Corporate Accounting has determined to be five years. Since the project will have a three-year implementation period, the cash flow analysis consists of the three-year implementation period plus five full operating years for a total of eight years. According to section 5-4.4.2 of Handbook F-66, *General Investment Policies and Procedures*, "The useful life of the facility or equipment in the recommended alternative normally determines the time period for the economic evaluation of all the alternatives." The Manager, In-Sourcing Call Center Programs, will also develop a cash flow based on the implementation period plus five full operating years when preparing the official DAR to request the approval of funding.

The draft OIG audit report does not contain information that is essential to evaluate the associated costs, savings, and net present value of the proposed investment.

Since there is the potential to reduce costs for in-sourcing call center operations depending on the results of union negotiations and final cost estimates, management will fine tune the analysis that was conducted in Quarter 1, FY2010. Towards that end, management requests the supporting back-up material that was used to develop the cash flow provided in this audit.

The Postal Service management comment on presenting a range of outcomes was not addressed by the OIG. The report still assumes 100 percent staffing of rehabilitation employees. The report states that "The USPS could realize cost savings of approximately

$349 million over ten years if they in-sourced contract call center work utilizing USPS employees in rehabilitation status." While the OIG analysis now includes the initial investment of $25 million, the investment will not occur in one year, but will occur as the project is implemented over a three-year period. The OIG financial analysis does not include management support or the annual operating expenses for an in-sourced operation; including these costs significantly reduces the savings.

The OIG bases their Convergys cost on the average amount paid from 2006-2009 ($71 million); the actual current contract costs is $67.1 million. The OIG also assumes that the Postal Service will eliminate the entire Convergys contract, which is not the case. Your estimates are that we would be able to eliminate approximately $42 million of the contract annually.

Given the cost of investment is unconfirmed, management must consider all applicable costs and the rights of APWU members as set forth in the APWU National Agreement. Management has been working closely with Labor Relations to ensure that all contractual requirements will be satisfactorily addressed.

Recommendation:

The OIG recommends that the President, Mailing and Shipping Services, require Postal Service officials at Customer Contract Solutions to:

1. *Establish a plan to in-source all call center work, including a staffing and training plan.*

Response:

The President, Mailing and Shipping Services, agrees to develop a full plan to in-source call center work, to include detailed cost estimates and timeline of activities, in order to enable the Postal Service Executive Committee to make determination of feasibility and efficacy of in-sourcing call center agent work.

The methodology (may include contract support) to provide telecommunications services and technological support for in-sourcing have not been determined. The cost will be assessed in the development work that prepares a DAR to evaluate the feasibility of in-sourcing.

At this time, it is uncertain what percent of rehabilitation employees will be negotiated in the contract with the union. Cost savings may be available if the Postal Service is able to use a high percentage (75 percent) of rehabilitated employees to staff the in-sourced call centers. The exact amount of savings is dependent on the extent to which rehabilitated employees are utilized.

Outsourced support for certain activities will be required on an ongoing basis and will impact the amount of savings captured by in-sourcing. These skills are not expected to be available in the rehabilitation employee base. Examples of these skills are: support for handling highly specialized call types, i.e., "Click-N-Ship"; technical systems support, i.e., "help desk support"; and foreign language skills, i.e., language certifications for Spanish, Cantonese, Mandarin, and Polish.

Regarding the contact center support contract with Convergys, the audit report references two one-year renewal options which, if exercised, will allow the contract to expire January 31, 2013. The Postal Service has no specific plans to exercise those renewal options periods and would not want to publicly state any plans we may or may not have at this time. This report and management's response do contain information that may be exempt from disclosure under the FOIA. We request that this audit be excluded from FOIA access.

Recommendation:

We recommend the Vice President, Labor Relations:

2. *Expedite negotiations and finalize an agreement with the American Postal Workers Union that addresses staffing for in-sourced call center work.*

Response:

Management has long recognized the potential benefits of in-sourcing certain call center work to be performed by rehabilitation employees. However, this requires reaching agreement with the APWU as it cannot be implemented unilaterally. The discussions with the APWU about this type of agreement, which predate the OIG audit, are continuing. Such discussions require sensitive, good-faith negotiation and cannot be preordained.

It is significant to note that any eventual settlement will most likely not result in 100 percent of the work being performed by rehabilitation employees as was assumed in the OIG audit. This report and management's response do contain information that may be exempt from disclosure under the FOIA.

In response to items in Appendix A: Additional Information, the following points are critical regarding the evaluation of the in-sourcing program:

Staffing issues must be resolved prior to DAR preparation, review, validation, and approval. At this time, it is uncertain what percent of rehabilitation employees will be negotiated with the union.

We agree that Postal Service employees in rehabilitation status can perform simplistic call center agent work. The pilot call center staffed by injured postal employees was established in Detroit, Michigan in March 2007. The Detroit pilot site handles only the most simple call types using usps.com instead of an agent desktop software tool. It is expected that these employees will be trained to use systems and software that will allow them to handle more complex issues. Levels of customer satisfaction are to be met or exceeded for even the most complex call types, such as international searches. Levels of staffing are assumed to be predictable and sufficient despite the expectation that rehabilitation employees will have greater levels of absenteeism and accommodations for health/injury issues.

At this time, the parameters for staffing in-sourced call centers have not been finalized and the financial data is included only as a preliminary analysis; we can only estimate the anticipated timeframe. If a negotiated staffing settlement is accomplished by the beginning of Quarter 4, FY2010, then our estimate is that we can initiate the DAR process before the end of Quarter 1, 2011.

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While we agree that it is in the best interest of the Postal Service to establish a plan to in-source all call center work, including a staffing and training plan, the Postal Service must conduct due diligence to ensure that all of the appropriate costs and savings are identified and documented.

Robert F. Bernstock
President
Mailing and Shipping Services

Doug A. Tulino
Vice President
Labor Relations

Attachments

cc: Sally K. Haring

In-Sourcing Cash Flow Summary

In-Sourcing

CASH FLOW

25% Preferred Bids

FISCAL YEAR	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	
CAPITAL INVESTMENTS									
Infrastructure Investment	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
TOTAL CAPITAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -		$ (25,071,902)
EXPENSE INVESTMENTS									
Expense Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL EXPENSE INVESTMENT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
OPERATING VARIANCES									
Convergys Contract Cost Savings	$ -	$ 11,798,250	$ 33,378,040	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 256,936,790
Personnel Expenses									
Clerk Craft (PS-06)	$ -	$ (6,702,007)	$ (14,756,984)	$ (14,950,851)	$ (15,145,212)	$ (15,342,100)	$ (15,541,547)	$ (15,743,687)	$ (98,184,289)
Management Support (EAS-21)	$ -	$ (2,102,952)	$ (4,831,087)	$ (4,691,271)	$ (4,752,267)	$ (4,814,037)	$ (4,876,619)	$ (4,940,015)	$ (30,808,219)
Annual Operating Expenses									
Operating Expenses w/o Facility Costs	$ -	$ (8,000,000)	$ (11,141,319)	$ (11,275,015)	$ (11,410,315)	$ (11,547,239)	$ (11,685,806)	$ (11,826,035)	$ (76,885,729)
Utility and Custodial Costs		$ (419,782)	$ (425,074)	$ (430,433)	$ (435,859)	$ (441,354)	$ (446,918)	$ (452,553)	$ (3,051,972)
TOTAL OPERATING VARIANCE	$ -	$ (5,426,491)	$ 2,421,596	$ 11,004,530	$ 10,608,456	$ 10,207,371	$ 9,801,210	$ 9,389,909	$ 48,006,580
NET CASH FLOW	$ (500,000)	$ (21,426,491)	$ (6,150,306)	$ 11,004,530	$ 10,608,456	$ 10,207,371	$ 9,801,210	$ 9,389,909	$ 22,934,678
CUMULATIVE NET CASH FLOW	$ (500,000)	$ (21,926,491)	$ (28,076,798)	$ (17,072,268)	$ (6,463,811)	$ 3,743,559	$ 13,544,769	$ 22,934,678	
NET PRESENT VALUE discounted at 7.0%	$ 10,835,679								
RETURN ON INVESTMENT	18.2%								

Note: Preliminary estimates does not reflect budgetary process.

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In-Sourcing Cash Flow Summary

In-Sourcing

CASH FLOW

50% Preferred Bids

FISCAL YEAR	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	
CAPITAL INVESTMENTS									
Infrastructure Investment	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
TOTAL CAPITAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -		$ (25,071,902)
EXPENSE INVESTMENTS									
Expense Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL EXPENSE INVESTMENT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
OPERATING VARIANCES									
Convergys Contract Cost Savings	$ -	$ 11,798,250	$ 33,378,040	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 256,036,700
Personnel Expenses									
Clerk Craft (PS-06)	$ -	$ (13,404,013)	$ (29,517,969)	$ (29,901,702)	$ (30,290,425)	$ (30,684,200)	$ (31,083,095)	$ (31,487,175)	$ (196,368,579)
Management Support (EAS-21)	$ -	$ (2,102,952)	$ (4,631,067)	$ (4,691,271)	$ (4,752,257)	$ (4,814,037)	$ (4,876,619)	$ (4,940,015)	$ (30,808,210)
Annual Operating Expenses									
Operating Expenses w/o Facility Costs	$ -	$ (8,000,000)	$ (11,141,319)	$ (11,276,015)	$ (11,410,316)	$ (11,547,230)	$ (11,685,806)	$ (11,826,035)	$ (76,885,729)
Utility and Custodial Costs		$ (419,782)	$ (426,074)	$ (430,433)	$ (435,859)	$ (441,354)	$ (446,918)	$ (452,553)	$ (3,051,972)
TOTAL OPERATING VARIANCE	$ -	$ (12,128,498)	$ (12,337,389)	$ (3,946,321)	$ (4,536,756)	$ (5,134,730)	$ (5,740,338)	$ (6,353,678)	$ (50,177,709)
NET CASH FLOW	$ (500,000)	$ (28,128,498)	$ (20,909,291)	$ (3,946,321)	$ (4,536,756)	$ (5,134,730)	$ (5,740,338)	$ (6,353,678)	$ (75,249,611)
CUMULATIVE NET CASH FLOW	$ (500,000)	$ (28,628,498)	$ (49,537,789)	$ (53,484,110)	$ (58,020,866)	$ (63,155,595)	$ (68,895,933)	$ (75,249,611)	
NET PRESENT VALUE discounted at 7.0%	$ (63,176,515)								
RETURN ON INVESTMENT	N/A								

Note: Preliminary estimates does not reflect budgetarry process.

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In-Sourcing Cash Flow Summary

In-Sourcing

CASH FLOW

70% Preferred Bids

FISCAL YEAR	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	
CAPITAL INVESTMENTS									
Infrastructure Investment	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
TOTAL CAPITAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -		$ (25,071,902)
EXPENSE INVESTMENTS									
Expense Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL EXPENSE INVESTMENT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
OPERATING VARIANCES									
Convergys Contract Cost Savings	$ -	$ 11,798,250	$ 33,378,040	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 256,936,790
Personnel Expenses									
Clerk Craft (PS-06)	$ -	$ (18,765,619)	$ (41,325,156)	$ (41,862,383)	$ (42,406,594)	$ (42,957,880)	$ (43,516,333)	$ (44,082,045)	$ (274,916,011)
Management Support (EAS-21)	$ -	$ (2,102,952)	$ (4,631,067)	$ (4,691,271)	$ (4,752,257)	$ (4,814,037)	$ (4,876,619)	$ (4,940,016)	$ (30,808,219)
Annual Operating Expenses									
Operating Expenses w/o Facility Costs	$ -	$ (8,000,000)	$ (11,141,319)	$ (11,275,015)	$ (11,410,316)	$ (11,547,230)	$ (11,685,806)	$ (11,826,035)	$ (76,885,729)
Utility and Custodial Costs		$ (419,782)	$ (426,074)	$ (430,433)	$ (435,859)	$ (441,354)	$ (446,918)	$ (452,553)	$ (3,052,973)
TOTAL OPERATING VARIANCE	$ -	$ (17,490,104)	$ (24,144,576)	$ (15,907,002)	$ (16,652,926)	$ (17,408,410)	$ (18,173,576)	$ (18,948,548)	$ (128,725,141)
NET CASH FLOW	$ (500,000)	$ (33,490,104)	$ (32,716,478)	$ (15,907,002)	$ (16,652,926)	$ (17,408,410)	$ (18,173,576)	$ (18,948,548)	$ (153,797,043)
CUMULATIVE NET CASH FLOW	$ (500,000)	$ (33,990,104)	$ (66,706,582)	$ (82,613,584)	$ (99,266,510)	$ (116,674,919)	$ (134,848,495)	$ (153,797,043)	
NET PRESENT VALUE discounted at 7.0%	$ (122,386,270)								
RETURN ON INVESTMENT	N/A								

NOTE: Preliminary estimates does not reflect budgetary process.

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In-Sourcing Cash Flow Summary

In-Sourcing									
CASH FLOW									
100% Preferred Bids									
FISCAL YEAR	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	
CAPITAL INVESTMENTS									
Infrastructure Investment	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
TOTAL CAPITAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -		$ (25,071,902)
EXPENSE INVESTMENTS									
Expense Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL EXPENSE INVESTMENT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL INVESTMENT	$ (500,000)	$ (16,000,000)	$ (8,571,902)	$ -	$ -	$ -	$ -	$ -	$ (25,071,902)
OPERATING VARIANCES									
Convergys Contract Cost Savings	$ -	$ 11,798,250	$ 33,378,040	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 42,352,100	$ 256,936,790
Personnel Expenses (PS-06)									
Clerk Craft (PS-06)	$ -	$ (26,808,027)	$ (59,035,938)	$ (59,803,405)	$ (60,580,840)	$ (61,368,400)	$ (62,166,189)	$ (62,974,350)	$ (392,737,168)
Management Support (EAS-21)	$ -	$ (2,102,952)	$ (4,631,067)	$ (4,691,271)	$ (4,752,257)	$ (4,814,037)	$ (4,876,619)	$ (4,940,015)	$ (30,808,219)
Annual Operating Expenses									
Operating Expenses w/o Facility Costs	$ -	$ (8,000,000)	$ (11,141,319)	$ (11,276,015)	$ (11,410,315)	$ (11,547,239)	$ (11,686,806)	$ (11,826,035)	$ (76,886,729)
Utility and Custodial Costs		$ (419,782)	$ (425,074)	$ (430,433)	$ (435,856)	$ (441,354)	$ (446,918)	$ (452,553)	$ (3,051,972)
TOTAL OPERATING VARIANCE	$ -	$ (25,532,512)	$ (41,855,358)	$ (33,848,023)	$ (34,827,181)	$ (35,818,930)	$ (36,823,432)	$ (37,840,853)	$ (246,546,288)
NET CASH FLOW	$ (500,000)	$ (41,532,512)	$ (50,427,260)	$ (33,848,023)	$ (34,827,181)	$ (35,818,930)	$ (36,823,432)	$ (37,840,853)	$ (271,618,190)
CUMULATIVE NET CASH FLOW	$ (500,000)	$ (42,032,512)	$ (92,459,771)	$ (126,307,795)	$ (161,134,976)	$ (196,953,906)	$ (233,777,337)	$ (271,618,190)	
NET PRESENT VALUE discounted at 7.0%	$ (211,200,903)								
RETURN ON INVESTMENT	N/A								

NOTE: Preliminary estimates does not reflect budgetary process.

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