



March 8, 2010

C. MICHAEL HARLOW  
DISTRICT MANAGER, BALTIMORE DISTRICT

SUBJECT: Audit Report – Grievance Overpayments in the  
Baltimore District (Report Number HR-AR-10-001)

This report presents the results of our audit of grievance overpayments in the Baltimore District (Project Number 10YG007HR000). Our audit objective was to determine the value of grievance overpayments in the Baltimore District and evaluate the U.S. Postal Service's actions to recover them. This was a self-initiated audit based on information obtained through our Human Capital Optimization Risk Model (HCORM). This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

### **Conclusion**

We determined the Baltimore District made grievance overpayments of approximately \$1.7 million on October 29, 2008. The Postal Service has initiated actions consistent with established written policies and procedures to recover these overpayments. However, we found that internal controls over disbursement of grievance payments were not sufficient.

### **Baltimore District Grievance Overpayments**

Baltimore District officials approved disbursement of a grievance settlement for out-of-schedule<sup>1</sup> pay resulting in overpayments to affected clerks of approximately \$1.7 million. This occurred because the responsible manager made an error in preparing a Microsoft Office Excel (Excel) spreadsheet that overstated out-of schedule hours. The manager applied employee pay rates to the overstated hours on the Excel spreadsheet, resulting in approximately \$1.7 million in overpayments. We also determined internal controls over the settlement disbursements were not sufficient to ensure the payment amounts were accurate. As a result, although the Postal Service is seeking reimbursement, there is a risk that it will not be able to recoup all of the overpaid funds. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for monetary impact.

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<sup>1</sup> Employees are working out-of-schedule when performing duties outside of their assigned shift.

## **Recommendations**

We recommend the Baltimore District manager direct the manager, Labor Relations, to:

1. Establish and implement internal controls, such as peer/management reviews or reasonableness tests, to ensure the accuracy of grievance payment calculations.

## **Management's Comments**

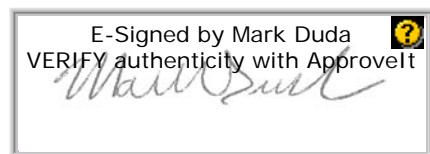
Management agreed with the findings and recommendation and has initiated corrective action. We have included management's comments, in their entirety, in [Appendix D](#).

## **Evaluation of Management's Comments**

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive and the corrective actions should address the issues identified in the report.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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 Resources and Security, or me at 703-248-2100.



Mark W. Duda  
Deputy Assistant Inspector General  
for Support Operations

## Attachments

cc: cc: Jerry D. Lane  
Jerry D. Clark  
Sally K. Haring

## **APPENDIX A: ADDITIONAL INFORMATION**

### **BACKGROUND**

A grievance is a dispute, difference, or disagreement between parties; or complaint by a party regarding wages, hours, or conditions of employment. A grievance includes, but is not limited to, an employee or union complaint involving the interpretation or application of, or compliance with, the provisions of a collective bargaining agreement or any local Memorandum of Understanding not in conflict with the agreements.<sup>2</sup> A common resolution to a grievance includes monetary payments to employees.

On October 19, 2007, the Postal Service and the American Postal Workers Union (APWU) settled a class-action grievance related to the Postal Service identifying clerk craft employees as “excess” in fiscal years (FY) 2006 and 2007.<sup>3</sup> The settlement established specific dates for returning senior clerks to duty and resolved out-of-schedule pay for affected clerk craft employees in the Baltimore District. On October 29, 2008, the Postal Service disbursed the out-of-schedule pay.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine the value of grievance overpayments identified in the Baltimore District and evaluate the Postal Service’s actions to recover the overpayments. To accomplish our objective, we interviewed Postal Service officials at headquarters, Capital Metro Area, and personnel in Baltimore District Labor Relations to confirm our understanding of events resulting in the overpayments, actual amounts owed, and the potential for recovery. We also reviewed the settlement agreement between the Postal Service and the APWU, as well as policies and procedures regarding the establishment and recovery of employee debts. Additionally, we reviewed grievance arbitration tracking system (GATS) payment data for FY 2009, Quarters 1 through 3 to identify instances of overpayments in other districts, their attempts to recover those funds, and other documents as appropriate.

We conducted this performance audit from October 2009 through March 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 findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations

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<sup>2</sup> Handbook EL-912 - *Agreement between United States Postal Service and American Postal Workers Union*, AFL-CIO 2006-2010, Article 15: Grievance-Arbitration Procedure.

<sup>3</sup> When the Postal Service determines that it has surplus employees in a craft, it is allowed to identify those employees as excess. Once identified as excess, the Postal Service and union agreements allow reassignment of these employees to alternate duties or schedules.

and conclusions with management officials on January 19, 2010, and included their comments where appropriate.

To perform this audit we relied on computer-generated data from GATS, the payroll system, and employee accounts receivable system. We tested the reliability of the data obtained from these systems by performing transaction tests, which included tracing selected information to supporting source records. Based on these tests, we determined the data was reliable for the purpose of the audit.

### **PRIOR AUDIT COVERAGE**

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

## APPENDIX B: DETAILED ANALYSIS

### Baltimore District Grievance Overpayments

The Postal Service uses GATS to capture grievance payments made in all districts. Grievance payments are an indicator in the OIG's HCORM. While updating the HCORM for FY 2009, Quarter 3, we identified a negative grievance payout of \$1,596,123 for the Baltimore District.<sup>4</sup>

We reviewed the Baltimore District's negative payout and determined that it represented a processing error related to a grievance settlement. The Baltimore District issued payments related to the grievance settlement totaling \$2.3 million. However, the district made approximately \$1.7 million of the payments in error. We discussed the error with Postal Service officials and determined a manager erred while preparing an Excel spreadsheet. The spreadsheet overstated out-of schedule hours and, as a result, the Postal Service overpaid 94 employees. The manager did not use internal controls, such as peer or management reviews or reasonableness tests built into the Excel spreadsheet. Implementing internal controls like those identified could prevent a similar mistake in future grievance payments.

Postal Service policy states that postmasters or installation heads are responsible for initiating the collection of debts owed to the Postal Service. The Postal Service is also required to issue demand letters to employees who are indebted.<sup>5</sup> Many of the overpayments to affected employees are substantial<sup>6</sup> and the employees have grieved the demand letters the Postal Service issued requesting reimbursement. If the union validates a case for financial hardship with regard to the repayment of these amounts, the likelihood of recovery by the Postal Service may be negatively impacted. Baltimore District officials indicated these grievances are currently at step 2 in the grievance-arbitration process.<sup>7</sup> As a result, the agency has recovered no monies.

### Other Matters

We also identified negative payouts in GATS of \$15,093 and \$245,686 for the Long Island and Louisiana Districts, respectively. A negative payout in GATS is an anomaly. Payouts reported in GATS represent the disbursement of cash to employees; as such, a negative payout would represent the collection of cash from employees, suggesting a grievance payment had been made by an employee to the Postal Service. We did not

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<sup>4</sup> The \$1,596,123 represents the net value of all grievance payments for the Baltimore District, as recorded in GATS for reporting period 7. The \$1.7 million represents the amount of overpayments related to the grievance settlement.

<sup>5</sup> *Employee and Labor Relations Manual*, Issue 19.2, Sections 462.11 and 462.12, dated April 2008 and updated with *Postal Bulletin* revisions through May 7, 2009.

<sup>6</sup> Forty-four of the 94 payments exceeded \$20,000.

<sup>7</sup> The APWU grievance-arbitration process generally consists of three steps to resolve grievances. The first step involves a discussion between the immediate supervisor and the grievant and/or the union representative. Steps 2 and 3 involve formal discussions with appropriate management and union representatives at the local, regional, or national level.

discuss the negative payouts in the Long Island District with management as we determined it was immaterial. However, we reviewed the Louisiana District's negative payout and determined that it represented duplicate grievance payments totaling \$372,675.<sup>8</sup> The duplicate payments were caused by a processing error and the payments were canceled prior to disbursement.

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<sup>8</sup> The dollar value reported in GATS represents a net figure. In January 2009 some grievance payouts were correctly paid. Those payments offset the \$372,675 of canceled checks and resulted in a net payment reported in GATS of \$245,686.

**APPENDIX C: MONETARY IMPACTS****Monetary Impacts**

Finding	Impact Category	Amount
1	Recoverable Questioned Costs <sup>9</sup>	\$1,669,669

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<sup>9</sup> Recoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations.

## APPENDIX D: MANAGEMENT'S COMMENTS

BALTIMORE PERFORMANCE CLUSTER



February 24, 2010

MEMORANDUM FOR: Lucine Willis  
Director, Audit Operations  
1735 North Lynn St.  
Arlington, VA 22209-2020

Subject: Interim Audit Response – Transmittal of Draft Audit Report – Grievance Overpayments in the Baltimore District (Report Number HR-AR-10-DRAFT Fiscal Year 2010 Financial Installation Audit

The Baltimore Performance Cluster has reviewed and concurs with the audit findings and recommendation of the OIG audit team. The Baltimore Performance Cluster has taken the following action in regard to the findings and recommendation of the Office of the Inspector General.

**Recommendation #1:** We recommend the Baltimore District manager direct the manager, Labor relations to:

1. Establish and implement internal controls, such as peer/management reviews or reasonableness tests, to ensure the accuracy of grievance payment calculations.

**Response #1:** The manager of Labor Relations will implement the following internal controls as outlined below in order to ensure the accuracy of grievance payment calculations. These procedures are effective immediately. (February 24, 2010.)

Labor Relations Specialist will prepare back pays with applicable forms.

Manager, Labor Relations will review grievance payment calculations and verify accuracy based on interpretation of the decision (arbitration, pre-arb, settlement).

After Manager, Labor Relations review, Manager, Human Resources will review and verify grievance payment calculations for accuracy based on interpretation of the decision

Manager, Finance will review and verify accuracy grievance payment calculations

The above applies to any Class action back pay or individual back pay up to \$100K.

Anything over \$100K will be sent to Cap Metro Area Labor Relations for review, prior to being sent to Eagan for processing.

Applicable spreadsheets and/or PS Forms 8038/8039 will accompany the back pay requests.

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*CHB*  
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Corporate Audit and Response Management  
US Postal Service

Cc/atts: Katherine S. Banks  
Manager, Corporate Audit and Response Management  
US Postal Service  
[CARMManager@USPS.gov](mailto:CARMManager@USPS.gov)

Baltimore District Manager



February 24, 2010

TO: Tom Keefe, Jerry Clark, Tira Lewis

SUBJECT: Grievance Payments

Effective February 24, 2010, the following internal controls will be Standard Operating Procedures for ensuring accuracy of grievance payment calculations.

Labor Relations Specialist will prepare back pays with applicable forms.

Manager, Labor Relations will review grievance payment calculations and verify accuracy based on interpretation of the decision (arbitration, pre-arb, settlement).

After Manager, Labor Relations review, Manager, Human Resources will review and verify grievance payment calculations for accuracy based on interpretation of the decision

Manager, Finance will review and verify accuracy grievance payment calculations

The above applies to any Class action back pay or individual back pay up to \$100K.

Anything over \$100K will be sent to Cap Metro Area Labor Relations for review, prior to being sent to Eagan for processing.

Applicable spreadsheets and/or PS Forms 8038, *Employee Statement to Recover Back Pay* and or PS Form 8039, *Back Pay Decision/ Settlement Worksheet* will accompany the back pay requests.

A handwritten signature in blue ink, appearing to read "C. Michael Harlow".

C. Michael Harlow

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