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General Government Division

B-279075

January 28, 1998

The Honorable Ted Strickland
House of Representatives

Subject: U.S. Postal Service: Information on Centralized Procurement of Uniforms

Dear Mr. Strickland:

This letter responds to your December 18, 1997, request for information on the Postal Service's planned change from a decentralized system for procuring postal uniforms to a centralized system. You expressed concern that the Service's change to a centralized system would adversely affect American companies currently participating in the uniform program. Specifically, you asked that we provide information on (1) the requirements the Service plans to impose on contractors to ensure that uniforms are made with American materials and labor; (2) the requirements the Service plans to impose on contractors with regard to standards for working conditions and wages; (3) the mechanisms that the Service plans to use to ensure that the requirements for materials and labor, and the standards for working conditions and wages, are met; (4) the anticipated number of contractors the Service plans to use under the centralized purchasing program; (5) the anticipated savings from centralized purchasing; (6) the potential impact on current retail vendors; and (7) the extent of the Service's coordination with the Small Business Administration and/or the Department of Commerce to minimize the impact on current vendors.

To gather the information you requested, we (1) interviewed the manager of the Service's Uniform Programs; (2) interviewed the Secretary for the Board of Governors and the Assistant Secretary; (3) obtained and reviewed documentation on the Centralized Uniform Purchasing program, including, among other things, the prequalification package provided to prospective contractors, a draft solicitation for proposals, a benchmarking report prepared by the Service's Office of Finance, and uniform retail sales data by vendor; and (4) reviewed Postal Inspection Service audit reports on postal uniform purchases. Where possible, we obtained documentation to corroborate oral statements by Service officials, but we did not independently verify information contained in those documents or data provided by the Service. We obtained

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comments on a draft of this letter from the Service and have discussed them at the end of this letter.

We did our work in Washington, D.C., during December 1997 and January 1998 in accordance with generally accepted government auditing standards.

BACKGROUND

In the 1970s, the Service experimented with the concept of centrally providing uniforms to mail handlers. Under that test, mail handlers were sent a prescribed supply of clothing articles each year. According to the Manager, Uniform Programs, the test was discontinued because of unsatisfactory contractor performance and because employees were dissatisfied that they could not select the specific articles of clothing to be sent by the contractor.

Since that experiment, the Service has continued to use a decentralized method for providing employees postal uniforms. Under this method, employees, using an allowance system,¹ obtain clothing articles from more than 800 vendors nationwide. Vendors submit multiple sales invoices to the appropriate postal district finance office for approval. The district finance office then forwards the invoice information to the St. Louis Accounting Service Center (ASC) for payment. The St. Louis ASC makes payments to vendors every 2 weeks and charges the purchases against the employees' allowances.

In 1995, the Service signed memorandums of understanding with the American Postal Workers Union (APWU), the National Postal Mail Handlers Union (NPMHU), and the National Association of Letter Carriers (NALC) to implement a centralized system for procuring and distributing postal uniforms. The memorandums of understanding, outlining the terms of the agreements, anticipated that, through centralized purchasing, employees would be supplied with a greater number of uniform items of a higher quality—with an overall reduction in costs to the Service.

The Service anticipates that, under the planned centralized system for procuring uniforms, employees will obtain clothing articles from no more than six vendors. These vendors, under contract with the Service, are to be responsible for the nationwide distribution of postal uniforms and for establishing and maintaining uniform allowance data reporting systems. In addition, vendors are to submit consolidated sales invoices to the Service each month for payment, rather than every 2 weeks.

¹Following a one-time initial allowance, covered employees receive annual uniform allowances ranging between \$53 and \$277. For example, letter carriers, after receiving an initial allowance of \$341, receive an annual allowance of \$277.

RESULTS IN BRIEF

According to the Service, the new Centralized Uniform Purchasing program will require that contractors produce postal uniforms exclusively using American materials and labor. In addition, contractors will be required to adhere to the Apparel Industry Partnership's "Work Place Code of Conduct," which is designed to ensure that goods are not produced under sweatshop conditions. To ensure that contractors follow these requirements, the Service is planning several monitoring efforts, including contracting with an independent third party to oversee contractors' operations.

The Service anticipates that, under the new Centralized Uniform Purchasing program, the number of retail vendors selling postal uniforms will be reduced from more than 800 to 6 or fewer. The Service estimates that centralized uniform purchasing could result in savings of about \$13 million to \$17 million annually. However, according to the Secretary for the Board of Governors, the Board's decision to move forward with centralized uniform purchasing was not based on anticipated savings, but rather on the need to comply with existing memorandums of understanding with postal unions.

The Service has not studied the potential impact of its new Centralized Uniform Purchasing program on current retail vendors, nor has it contacted the Small Business Administration or the Department of Commerce about its plans to move to centralized purchasing. However, the Service has met with the National Association of Uniform Manufacturers and Distributors, which represents some of the current retail vendors, in an effort to address their concerns about the Service's planned move to centralized purchasing.

REQUIREMENTS THAT CONTRACTORS USE AMERICAN MATERIALS AND LABOR

The manager of the Service's Uniform Programs stated that very stringent requirements will be imposed on contractor(s) to ensure that postal uniforms will be produced in the United States by American workers. The draft solicitation for the centralized uniform purchase states that uniforms must be domestic source end products consisting exclusively of components mined, produced, or manufactured in the United States. However, exceptions to this requirement can be made when the Service's Vice President for Purchasing and Materials determines that (1) a component is not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities of satisfactory quality or (2) the unit price of any end item consisting entirely of U.S. components is clearly unreasonable when compared to commercially available products of similar quality. The Manager, Uniform Programs, stated that the Service anticipates only one exception to its domestic source end product requirement for uniforms. That exception is for shoe linings, which he said are not available in the United States.

The manager stated that the Service's requirement for domestic source end products will be incorporated into the resulting contract(s) for the centralized uniform purchase. He said this requirement is significantly more restrictive than the Service's Buy American policy, which requires that only half of any goods used in the manufacturing process be American. To show its commitment to ensuring that postal uniforms are made in the United States by American workers, the Service provided us with a copy of a special authorization, signed by the Postmaster General, stating that only domestic source end products will be considered for the Centralized Uniform Purchasing program.

STANDARDS FOR WORKING CONDITIONS AND WAGES

The Fair Labor Standards Act (FLSA) establishes federal minimum wage, overtime, child labor, and industrial homework requirements for workers and is to govern all contractors supplying uniforms to the Service. The FLSA is enforced by the Department of Labor. In addition, the Manager, Uniform Programs, stated that because of concerns that postal uniforms could be manufactured in sweatshops, the Service has included, in its draft solicitation for proposals, a requirement for adherence to the Apparel Industry Partnership's "Work Place Code of Conduct." The manager said this requirement will also be incorporated into the final solicitation for proposals and resulting contract(s).

The "Work Place Code of Conduct," sanctioned by the President and the Department of Labor, was developed in 1997 by members of the footwear and apparel industry (the Apparel Industry Partnership) to address the problem of sweatshops. Among other things, the code includes prohibitions against child labor, worker abuse or harassment, and discrimination, as well as the recognition of workers' rights of freedom of association and collective bargaining. In addition, the code includes requirements for a minimum or prevailing industry wage, a cap on mandatory overtime of 12 hours per week, and a safe and healthy working environment.

ENSURING THAT REQUIREMENTS AND STANDARDS ARE FOLLOWED

The Service plans to use a number of monitoring efforts to ensure that contractors producing postal uniforms (1) adhere to the requirement that American materials and labor be exclusively used and (2) follow prescribed standards for working conditions and wages. First, according to the Service, contractors will be subject to independent external monitoring by the Apparel Industry Partnership. Second, the Service plans to contract with an independent third party to monitor its uniform contractor(s) participating in the Centralized Uniform Purchasing program. Since 1965, the Service has retained the services of the U.S. Army Research and Development Center to monitor and control the quality of postal uniforms. However, under the new Centralized Uniform Purchasing program, the Service plans to award a contract to an

unidentified independent third party, which it believes will be able to more closely monitor contractor operations. Third, the Service plans to explore with the Postal Inspection Service and the Office of the Inspector General, the feasibility of having the organizations monitor and inspect contractor(s) operations and facilities.

ANTICIPATED NUMBER OF VENDORS TO BE USED

Under current plans, the Service anticipates that the number of retail vendors selling postal uniforms will be reduced from more than 800 to 6 or fewer. The move to a centralized purchasing program is scheduled to be accomplished in two phases.

Phase I covers uniforms for retail clerks, mechanics, mailhandlers, and drivers. This group represents about 40 percent of the Service's 460,000 uniformed employees, and accounts for about 20 percent of the Service's total uniform expenditures, which ranged between \$61 million and \$78 million annually during the years 1990 through 1997. Current plans are to have only one, or possibly two, contractors for phase I. The contract(s) for phase I is expected to be between \$10 million and \$12 million. The target dates for issuing the solicitation for proposals and awarding the contract(s) are the end of January 1998 and May 1998, respectively.

Phase II of the move to a centralized purchasing program for uniforms is to cover letter carriers. This group represents about 60 percent of the Service's uniformed employees, and accounts for about 80 percent of the Service's total uniform expenditures. Current plans are to have at least two, and possibly as many as four, contractors for phase II. The contractor(s) for phase I will not be precluded from participating in phase II. The Service does not expect to start phase II of the procurement process before late 1998 or early 1999.

The Service is also exploring the possibility of redesigning some postal uniforms. In July 1997, the Service awarded a contract for redesigning window clerk uniforms. According to the Manager, Uniform Programs, if the redesign is successfully completed in time, the Service's upcoming phase I solicitation for proposals will include the redesigned uniforms for window clerks. Otherwise, the solicitation will cover only existing postal uniform designs. According to the manager, the contractor currently redesigning window clerk uniforms will not be precluded from submitting a proposal under the Service's upcoming solicitation.

ANTICIPATED COST SAVINGS

The Service estimates that centralized uniform purchasing could result in savings of about \$13 million to \$17 million annually. However, according to the Secretary for the Board of Governors, the Board's decision to move forward

with phase I was not based on anticipated savings, but rather on the need to comply with existing memorandums of understanding with postal unions.

The Service's estimate of \$13 million to \$17 million in savings is composed of two parts. The first part, savings attributable to bulk buying, was estimated to be between \$12 million and \$16 million. The second part, savings attributable to reduced administrative costs, was estimated to be about \$1 million.

A 1994 benchmarking report² prepared by the Postal Service's Office of Finance estimated that annual savings from bulk buying under a fully implemented centralized uniform purchase program would be between \$5 million and \$10 million. The estimated savings were based on the Service's review of the bulk buying experiences of 21 other government and private sector entities. In December 1997, the Manager, Uniform Programs, told us that by applying the same assumptions used in the benchmarking report to current program expenditures, the estimated savings increased to between \$12 million and \$16 million annually.

The Service also estimates it will save an additional \$1 million annually from reduced administrative costs. According to the Manager, Uniform Programs, the Service's administrative costs currently total about \$4 million annually. The Service is reimbursed for about \$3 million of that cost by the vendors in the form of a 4-percent administrative fee charged by the Service for processing vendors' invoices. The remaining \$1 million in administrative costs is borne by the Service. The manager said vendors will not be charged an administrative invoice processing fee under the centralized system.

The Office of Finance's 1994 benchmarking report documents the high administrative costs associated with the current system for providing postal uniforms. At the time of the report, the Postal Service was annually processing more than 665,000 vendor invoices for postal uniforms, which consumed more than 61,000 staff hours. According to the Manager, Uniform Programs, under the new system, the Service will be relieved of this administrative process and the associated costs. The manager said the Service plans to specify in its contract(s) that the contractor(s) will (1) establish and maintain a uniform allowance data reporting system capable of providing the Service with detailed information on employee purchases and (2) electronically submit, monthly, one invoice for payment that covers all sales during the period.

The Manager, Uniform Programs, also said that in considering the move to centralized uniform purchasing, the Service relied on our report on commercial

²United States Postal Service, Office of Finance, Finance Benchmarking: Uniform Allowance Report, October 21, 1994.

inventory practices.³ In that report, we noted a number of advantages to having a prime vendor(s). These advantages included cost savings, increased efficiency, and improved service. One vendor we visited in doing that work was also managing an agency's employee uniform allowances and profiles through a central data base.

While the Service believes that centralized uniform purchasing will result in savings, the Secretary for the Board of Governors emphasized that the Board's decision to move forward with phase I of the program—which covers retail clerks, mechanics, mailhandlers, and drivers—was not based on economics, but rather on the fact that the Service has existing memorandums of understanding with APWU and NPMHU. He said the Board felt obligated to comply with the memorandums of understanding in order to improve labor/management relations in the Service. The Secretary also noted that the Board has not yet approved moving to phase II of the program—which covers letter carriers. He said approval of phase II of the program is not a given, as the Board intends to revisit centralized uniform purchasing, along with the memorandum of understanding with NALC, at a future date.

POTENTIAL IMPACT OF CENTRALIZED PURCHASING ON CURRENT VENDORS

The Office of Finance's 1994 benchmarking report recognized that, as a result of the planned move to a centralized purchasing program, some current vendors would suffer financially if they were no longer able to sell postal uniforms. The report, however, made no attempt to quantify the severity of the impact on individual vendors. According to the Manager, Uniform Programs, there have been no studies done to quantify the impact on current vendors resulting from the Service's planned move to a centralized uniform purchasing program.

As one potential gauge of the impact on current vendors, we obtained, from the Service, postal uniform retail sales data by vendor for 1996. The 1997 sales data were not available at the time of our request. The 1996 data show that 814 vendors had postal uniform sales ranging from \$25 to over \$17,000,000. Sales from six vendors accounted for 49.3 percent of the total postal uniform sales in 1996. Table 1 summarizes sales results by selected categories.

³Commercial Practices: Leading-Edge Practices Can Help DOD Better Manage Clothing and Textile Stocks (GAO/NSIAD-94-64, Apr. 13, 1994).

Table 1: Summary of Postal Uniform Retail Sales in 1996 by Selected Sales Volume Categories

Sales volume category	Number of vendors	Percent of total vendors	Percent of total sales
Less than \$1,000	178	21.9%	0.1%
\$1,000 to \$4,999	181	22.2	0.6
\$5,000 to \$49,999	268	32.9	6.7
\$50,000 to \$99,999	72	8.8	6.7
\$100,000 to \$499,999	96	11.8	24.4
\$500,000 to \$999,999	13	1.6	12.2
\$1,000,000 to \$4,999,999	3	0.4	10.5
\$5,000,000 to \$9,999,999	2	0.3	16.5
\$10,000,000 to \$14,999,999	0	0.0	0.0
More than \$15,000,000	1	0.1	22.3
Total	814	100.0%	100.0%

Source: U.S. Postal Service.

WORK DONE WITH THE SMALL BUSINESS ADMINISTRATION AND/OR DEPARTMENT OF COMMERCE TO MINIMIZE IMPACT ON CURRENT VENDORS

The Service has not contacted the Small Business Administration or the Department of Commerce concerning its plans to move to a centralized procurement program for postal uniforms. According to the Manager, Uniform Programs, there are no requirements that the Service do so. The manager noted, however, that the Service has met several times with the National Association of Uniform Manufacturers and Distributors, which represents some of the Service's current uniform vendors, in an effort to address their concerns about the Service's plans to centralize uniform purchasing.

AGENCY COMMENTS

On January 23, 1998, we requested comments on a draft of this letter from the Postal Service. On January 26, 1998, the Manager, Uniform Programs, provided

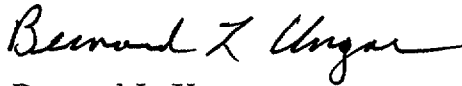
oral comments. He generally agreed with the facts as presented in the letter and suggested some technical changes, which we incorporated where appropriate.

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We are sending copies of this letter to the Chairman and Ranking Minority Member of the Subcommittee on the Postal Service, House Committee on Government Reform and Oversight; the Chairman and Ranking Minority Member of the Subcommittee on International Security, Proliferation and Federal Services, Senate Committee on Governmental Affairs; the Postmaster General; and the Postal Service Board of Governors. Copies will also be made available to others upon request.

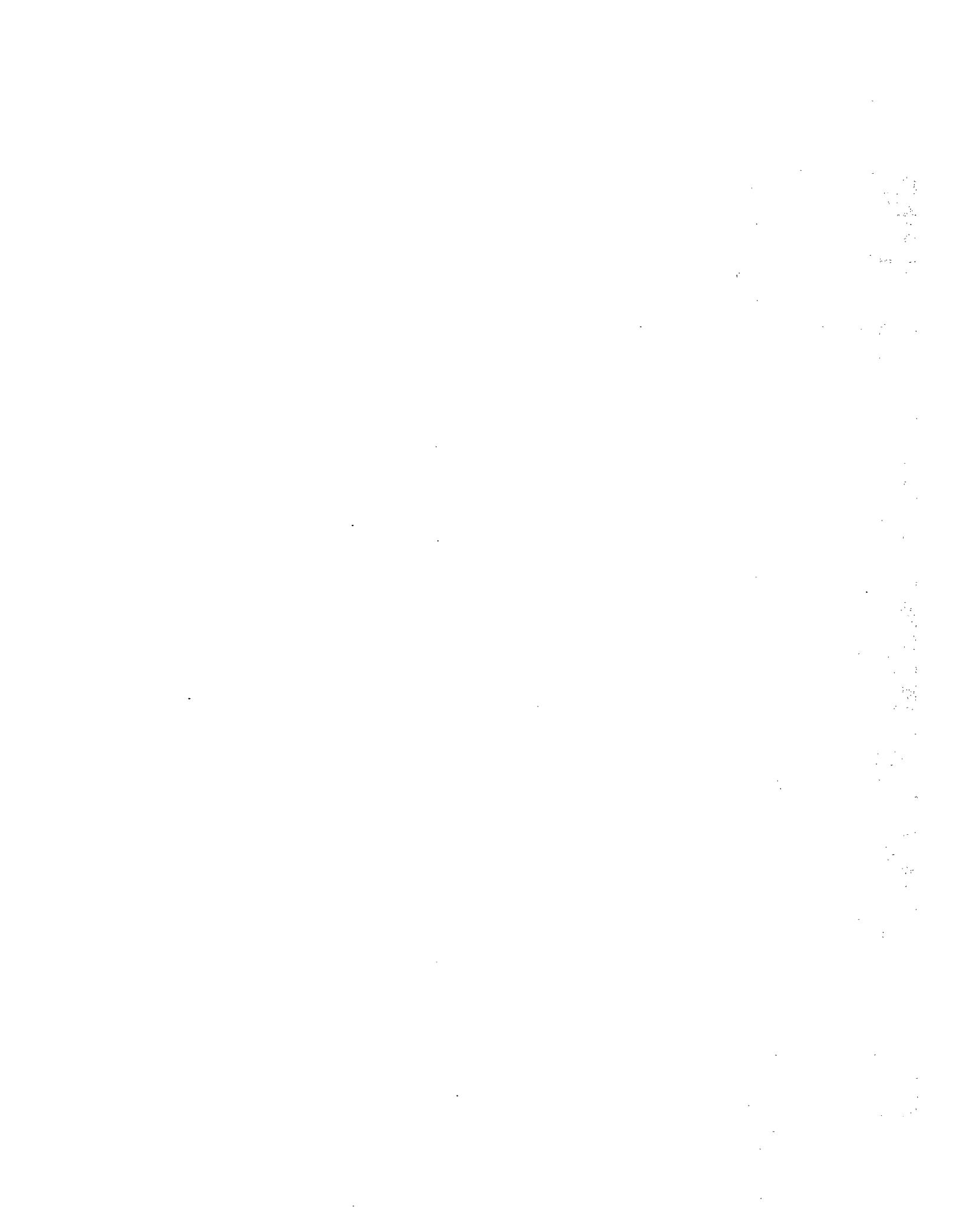
Major contributors to this letter were Gerald P. Barnes, Assistant Director; Charles F. Wicker, Senior Evaluator; and Roger L. Lively, Senior Evaluator. If you have any questions about this letter, please call me on (202) 512-8387.

Sincerely yours,



Bernard L. Ungar
Director, Government Business
Operations Issues

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