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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

MANPOWER AND WELFARE DIVISION

SEP 29 1972

Dear Mr Zarb

As part of our review of the procedures and methods used by the Department of Labor in making determinations of the minimum wages required to be paid to service employees under the Service Contract Act of 1965, we reviewed the procedures used to prescribe minimum wage rates and fringe benefits for drivers on star route mail hauling contracts awarded by the Post Office Department (now United States Postal Service) Our review of mail haul wage determinations showed that the minimum wage rates prescribed by the Department were not based on prevailing wage rates for similar work We reported our preliminary findings to the Assistant Secretary for Workplace Standards on August 31, 1970, and to the Assistant Postmaster General, Bureau of Operations on November 5, 1970.

The Service Contract Act of 1965 (41 U S C 351) requires that every contract, not exempt by section 7 of the act, entered into by the United States or the District of Columbia in excess of \$2,500, the principal purpose of which is to furnish services through the use of service employees, contain a provision specifying the minimum monetary wages to be paid the various classes of service employees These wages, including fringe benefits, are to be determined by the Secretary of Labor in accordance with prevailing rates and fringe benefits for such employees in the locality

A portion of the star route mail haul contracts are awarded each year for a 4-year period on a cycle basis The first wage determinations applicable to these contracts were made in 1966, but in 1967, the Department declared a moratorium on wage determinations for mail haul contracts which lasted approximately one year. As a result, contracts were awarded during this period without wage determinations At the time of our initial review in 1970, most mail haul contracts in 40 percent of the States were not covered by wage determinations under the Service Contract Act

We asked the Department, in our August 1970 letter, to furnish its views and comments on the entire matter of prescribing minimum wage rates for star route mail haul contracts, especially on (1) the appropriateness of the use of Bureau of Labor Statistics wage surveys and of the use of union wage rates for the star route wage determinations, and (2) the feasibility of establishing the star route service as a separate service for wage determination purposes

By letter dated December 11, 1970, the Administrator, Workplace Standards Administration, furnished us comments on several aspects of the Department's review of the matter and stated that the final reply to our suggestion would be made in due course

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The Postmaster General by letter dated December 28, 1970, informed us that the Post Office Department, upon review of our letter to them of November 5, 1970, concurred with our conclusions that minimum wage rates for star route contracts have not been based on prevailing wage rates of drivers hauling mail under star route contracts and agreed with our opinion that corrective measures were needed

As a result of our inquiry and after a number of meetings between officials of the Department of Labor and the Post Office Department to resolve the problems, it was agreed by the two Departments, in January 1971, that the contract mail hauling service (star route) would be considered as a separate category for wage determination purposes and a survey would be made of mail haul contracts to determine the wages and fringe benefits paid their drivers for two categories of equipment--trucks up to 4 tons and trucks over 4 tons

The Department of Labor decided that the survey should also include wages and fringe benefits paid drivers performing similar duties for private organizations, such as the United Parcel Service (UPS) and REA Express. Later, however, the Department decided that UPS and REA operations were not similar to the contract mail hauling service and instead, the survey included the wage rates and benefits paid to United States Postal Service employees performing similar work

As a result of the survey, the Department issued 39 new minimum wage determinations on September 1, 1971. The localities covered by the determinations were the five postal regions and 34 metropolitan areas within these regions

In arriving at the new minimum wage rates and benefits for star route mail haul contracts, the Department combined the wage data for star route and Postal Service drivers and generally established the weighted mean (average) hourly rates as the minimum rates for each area

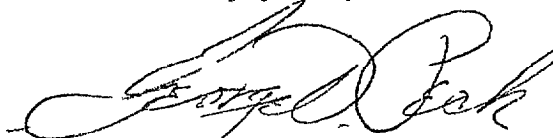
Because of the large number of Postal Service motor vehicles drivers in most of the areas, all of whom were being paid at one rate, use of the Postal Service wages and benefits had a substantial bearing on the minimum rates and benefits prescribed.

During hearings before the Special Subcommittee on Labor of the House Committee on Education and Labor, on October 14, 1971, on proposed amendments to the Service Contract Act, the Under Secretary of Labor testified that, as a result of the new classification, all contract mail haul drivers were being covered by wage determinations and that an overall increase in wage rates and benefits were being prescribed for contract mail haul drivers. In addition, he said that increases granted to Postal Service drivers would be reflected in each annual survey and in turn tend to push up the prevailing rate for contract mail haul drivers

We understand that the Department is planning to further review this area and that additional changes in the procedures for arriving at prevailing wage determinations for mail haul contracts may be made. In view of this possibility we have decided that no further reporting on this subject will be made at this time. We plan to monitor the Department's actions on this matter, however, to keep abreast of any new changes which may be implemented

We appreciate the cooperation extended to our representatives during this review.

Sincerely yours,



George D Peck
Assistant Director

The Honorable Frank G. Zarb
Assistant Secretary for Administration
and Management
Department of Labor

cc The Secretary of Labor
Assistant Secretary for Employment
Standards
Wage-Hour Administrator
Director, Office of Wage and
Compensation Programs
Associate Assistant Secretary for
Program Review and Audit
Chief, Office of Internal Audit
Chief, Office of Contract and Grant
Audit