Office of Inspector General | United States Postal Service

Audit Report

U.S. Postal Service Transportation Cost of Mail Transport Equipment

Report Number 19XG007NL000-R20 | December 13, 2019

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Highlights

Objective

Our objective was to assess the U.S. Postal Service's efforts to reduce transportation costs of Mail Transport Equipment (MTE) in the Mail Transport Equipment Service Center (MTESC) network.

The MTESC network is a nationwide network of 14 contractor-operated facilities. MTESC facilities process, repair, store, and distribute MTE (containers, sacks, trays, flat tubs, sleeves, and pallets) to processing and distribution centers (P&DC) and business mailers. The cost to move MTE nationwide decreased from $41.5 million in fiscal year (FY) 2017 to $31.7 million in FY 2018. However, the cost to move MTE within the MTESC network increased from $21.3 million to $30.2 million during this period.

"We estimate the Postal Service could have saved $1.4 million in FY 2018 and an additional $1.4 million in FY 2019."

The Postal Service Headquarters MTE group coordinates the replenishment of MTE across the MTESC network by contracting with six intermodal (truck and rail) transportation suppliers. Intermodal transportation suppliers are contracted to provide trailers for one-way trips by truck or rail within 48 hours of notification. In FY 2017, the Postal Service began using an existing highway contract route (HCR) supplier to move MTE within the MTESC network, which allowed the Postal Service to supplement intermodal transportation. In FY 2018, the Postal Service modified the contract to allow the HCR supplier to continue fulfilling urgent MTE requests.

Findings

We found that opportunities exist for the Postal Service to reduce MTE transportation costs within the MTESC network. Specifically, the Postal Service is not maximizing the use of more cost efficient intermodal suppliers and is increasingly relying on an HCR supplier to fulfill urgent MTE requests. We estimated the FY 2018 average cost to transport MTE using the intermodal suppliers was $1,569 while the average cost for using an HCR supplier was $2,110 per one-way trip. Further, we noted that HCR supplier costs were not allocated to the proper general ledger (GL) accounts.

We found that overall costs to move MTE intermodally decreased from $21.3 million in FY 2017 to $14.1 million in FY 2018 (33 percent), while HCR transportation costs increased by $16.1 million in FY 2018. In addition, for the same time period, intermodal trips decreased from 14,612 to 9,361 (36 percent) while HCR trips to transport MTE increased from 43 to 4,982 (11,500 percent).

This occurred because intermodal suppliers did not have sufficient lead time to meet contract requirements; and the Postal Service did not track, monitor, and report supplier nonperformance. The Postal Service has the ability to charge intermodal suppliers with replacement costs to transport MTE but has not consistently done so. These costs would equal the Postal Service's costs for the replacement service (HCR supplier) less the existing intermodal contract rate.

We estimate the Postal Service could have saved $1.4 million in FY 2018 and an additional $1.4 million in FY 2019 by transporting MTE using intermodal suppliers rather than HCR suppliers.

During our audit, Postal Service management provided additional documentation on the steps it initiated in FY 2019 to improve intermodal and HCR supplier issues and concerns. For example, in August 2019, the Postal Service began requiring headquarters approval before using an HCR supplier to transport MTE. In addition, it began assessing the intermodal suppliers' replacement costs for nonperformance.

Furthermore, our analysis of FY 2018 HCR service payment data revealed these costs were not allocated to the proper GL accounts; therefore, these accounts are understated. This occurred because transportation field personnel were using incorrect GL accounts to record HCR service expenses to move MTE within the MTESC network. Further, management did not monitor transportation field personnel to ensure they used proper GL accounts to record these expenses.

As a result, costs to move MTE within the MTESC network were understated and management does not have accurate financial data to effectively manage and control these costs. Headquarters MTE management understood the importance of properly accounting for costs paid to the HCR supplier and took corrective action to update the HCR supplier contract to reflect the correct GL account beginning September 1, 2019; therefore, we are not making a recommendation regarding this issue.

Recommendations

We recommended management re-evaluate statement of work requirements, including standard response times for intermodal suppliers; develop a formalized process to require justification for using an HCR supplier rather than the intermodal supplier; track, monitor, and report suppliers' nonperformance for transporting MTE between MTESCs; and hold suppliers accountable when they fail to meet contract terms.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 13, 2019

MEMORANDUM FOR: DR. JOSHUA D. COLIN
ACTING VICE PRESIDENT,
PROCESSING AND MAINTENANCE OPERATIONS

MARK A. GUILFOIL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop

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

SUBJECT: Audit Report – U.S. Postal Service Transportation
Cost of Mail Transport Equipment
(Report Number 19XG007NL000-R20)

This report presents the results of our audit of U.S. Postal Service Transportation Cost of Mail Transport Equipment.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

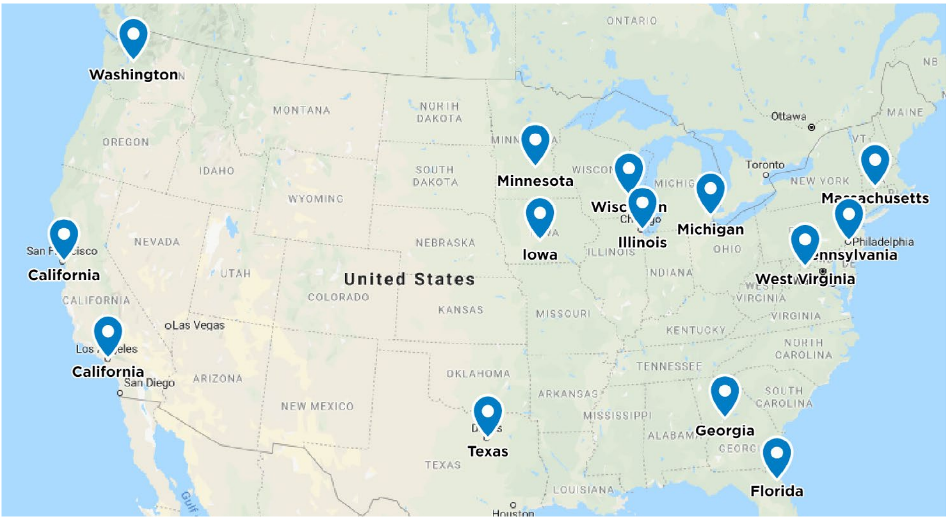
This report presents the results of our self-initiated audit of the U.S. Postal Service's Transportation Cost of Mail Transport Equipment (Project Number 19XG007NL000). The objective of our audit was to assess the Postal Service's efforts to reduce transportation costs of Mail Transport Equipment (MTE) within the Mail Transport Equipment Service Centers (MTESC) network. See Appendix A for additional information about this audit.

Background

The MTESC network is a nationwide network of 14 contractor-operated facilities. MTESC facilities process, repair, store, and distribute MTE (containers, sacks, trays, flat tubs, sleeves. and pallets) to processing and distribution centers (P&DC) and business mailers (see Figure 1). The cost to move MTE nationwide decreased from $41.5 million in fiscal year (FY) 2017 to $31.7 million in FY 2018. However, the costs to move MTE within the MTESC network increased from $21.3 million to $30.2 million during this period.

"The cost to move MTE nationwide decreased from $41.5 million in FY 2017 to $31.7 million in FY 2018. However, the costs to move MTE within the MTESC network increased from $21.3 million to $30.2 million during this period."

Figure 1. MTESCs Nationwide[1]



Source: U.S. Postal Service Office of Inspector General (OIG).

Postal Service P&DC personnel and mailers order MTE online through the Mail Transport Equipment Ordering (MTEOR) system. MTEOR allows Postal Service personnel to check the status of orders, review order history, and manage local mailer MTE requests. The headquarters (HQ) MTE group is led by the MTE manager, who reports to the Manager of Processing Operations. This group is responsible for day-to-day MTE policy; MTESC contractor management; national inventory levels; and MTE purchasing, recycling, repairing, redistribution, and supply to major mailers.

The HQ MTE group coordinates replenishment of MTE across the MTESC network by contracting with six intermodal (truck and rail) transportation suppliers. Intermodal transportation suppliers are contracted to provide trailers for one-way trips by truck or rail within 48 hours of notification.

1 The 14 MTESC locations include Los Angeles and San Francisco, CA; Jacksonville, FL; Atlanta, GA; Chicago, IL; Minneapolis, MN; Des Moines, IA; Springfield, MA; Temperance (Greater MI), MI; Philadelphia, PA; Dallas (Greater TX), TX; Seattle, WA; Martinsburg, WV; and Milwaukee, WI.

"We estimated the FY 2018 average cost to transport MTE using the intermodal suppliers was $1,569 while the average cost for using an HCR supplier was $2,110 per one-way trip."

The Postal Service uses dedicated intermodal[2] and highway transportation providers to move MTE within the MTESC network. The type of service, frequency, and points served by intermodal suppliers are specified in the contract. Supply Management's Category Management Center (CMC) Transportation Services awards intermodal contracts based on best value after collaboration with the HQ MTE group to identify the needs of the contracts for solicitation.[3]

In FY 2017, the Postal Service began using an existing highway contract route (HCR) supplier[4] to move MTE within the MTESC network, allowing it to supplement intermodal transportation. In FY 2018, the Postal Service modified the contract to allow the HCR supplier to continue fulfilling urgent MTE requests. This modification allows the HCR supplier to go anywhere in the U.S. without restriction, unlike the intermodal suppliers which operate in assigned areas.

Finding #1: Reducing Costs in the Mail Transport Equipment Service Center Network

We found that opportunities exist for the Postal Service to reduce MTE transportation costs within the MTESC network. Specifically, the Postal Service is not maximizing the use of cost-efficient intermodal suppliers and is increasingly relying on HCR suppliers to fulfill urgent MTE requests.

We statistically sampled 196 of the 2,662 (7 percent) HCR supplier paid invoices[5] in FY 2018 to compare HCR and intermodal transportation costs. We estimated the FY 2018 average cost to transport MTE using the intermodal suppliers was $1,569 while the average cost for using an HCR supplier was $2,110 per one-way trip.

We also analyzed data from the MTEOR system and found the cost to move MTE intermodally within the MTESC network decreased from $21.3 million in FY 2017 to $14.1 million (33 percent) in FY 2018 (see Table 1). However, dedicated HCR transportation costs in the MTESC network increased by $16.1 million in FY 2018.

Table 1. List of Intermodal Suppliers

Supplier	Contract Begin Date	Contract End Date	Amount Paid for FY 2017[6]	Amount Paid for FY 2018
[redacted].	1/1/2017	12/31/2020	[redacted]	[redacted]
[redacted]	1/1/2017	12/31/2020	[redacted]	[redacted]
[redacted]	12/5/2016	12/4/2020	[redacted]	[redacted]
[redacted]	1/1/2017	3/21/2018	[redacted]	[redacted]
[redacted]	12/5/2016	12/4/2020	[redacted]	[redacted]
[redacted]	12/5/2016	12/4/2020	[redacted]	[redacted]
[redacted]	10/1/2018	4/30/2019	[redacted]	[redacted]
Total			[redacted]	[redacted]

Source: Postal Service Supply Management, MTEOR.

2 Involves the use of multiple modes of transportation such as a truck and rail freight to transport goods from the shipper to the receiver or consignee. Usually the intermodal process starts with a container that is moved by truck to rail and then back to a truck to complete the process.
3 These intermodal supplier contracts were awarded with a two-year base period and a two-year renewal option.
4 [redacted], Contract Number [redacted] was awarded on November 1, 2015.
5 Postal Service (PS) Form 5397, Contract Route Extra Trip Authorization, approves an extra trip conducted by an HCR supplier and provides details of the origin and destination of the trip, whether it was a one-way or round trip, and the mileage.
6 This amount does not include manually processed invoices and fuel adjustments, therefore, is less than the amount reported in the financial statements in FY 2017 and FY 2018.
7 The [redacted] contract was terminated March 21, 2018.

Further, we analyzed data from the MTEOR system and Mail Transportation Equipment Support System (MTESS) and found intermodal trips decreased from 14,341 to 9,361 (35 percent) while HCR trips increased from 43 to 4,982 (11,500 percent) from FY 2017 to FY 2018.

This occurred because intermodal suppliers did not have sufficient lead time to meet contract requirements. Specifically, most intermodal suppliers do not own their own fleet and find it difficult to coordinate transportation within the 48-hour lead time. When the intermodal supplier is unable to provide transportation timely, the Postal Service relies on an HCR supplier to fulfill urgent MTE requests.[8] In addition, the Postal Service did not track, monitor, and report supplier nonperformance; and did not consistently charge the intermodal supplier replacement costs for noncompliance. As a result, the Postal Service could potentially have charged intermodal suppliers with replacement costs but did not. These costs would equal Postal Service costs for the replacement service (HCR supplier) less the existing intermodal contract rate.

We estimate the Postal Service could have saved $1.4 million in FY 2018 and an additional $1.4 million in FY 2019 by transporting MTE using intermodal suppliers rather than HCR suppliers.

Recommendation #1

We recommend the **Acting Vice President, Processing and Maintenance Operations,** re-evaluate statement of work requirements, including response times for intermodal suppliers.

Recommendation #2

We recommend the **Acting Vice President, Processing and Maintenance Operations,** develop a formalized process to require justification for using a highway contract route supplier rather than the intermodal supplier.

Recommendation #3

We recommend the **Acting Vice President, Processing and Maintenance Operations,** in coordination with the **Vice President, Supply Management,** track, monitor, and report suppliers' nonperformance for transporting equipment between mail transport equipment service centers and hold suppliers accountable when they do not meet contract terms.

During our audit, Postal Service management provided additional documentation on steps that it initiated in FY 2019 to improve intermodal and HCR supplier issues and concerns. For example, in August 2019, the Postal Service began requiring HQ approval before using an HCR supplier to transport MTE. In addition, the Postal Service began assessing the intermodal suppliers' replacement costs for contract nonperformance. Further, MTE and Supply Management started collaborating to address intermodal suppliers' performance issues and sent notices to the intermodal suppliers assessing replacement costs for lack of performance. Although the Postal Service has taken steps to correct these issues, it still needs to develop a process to track and monitor supplier performance.

Finding #2: Improper Accounting of Highway Contract Route Costs

The Postal Service did not properly account for costs paid to HCR suppliers for moving MTE within the MTESC network. Our analysis of FY 2018 HCR transportation payment data from the electronic Service Change Request (eSCR) system[9] revealed these costs were not allocated to the proper general ledger (GL) accounts[10] and are, therefore, understated.

Specifically, we statistically sampled trip data in eSCR for 196 of 2,662 HCR supplier trips (7 percent) and determined that all sampled transactions totaling $413,588 of $16.1 million (3 percent) were charged to the incorrect budget code and not allocated to the proper GL account. For example, invoices for the HCR

8 The Postal Service requests urgent MTE transportation when the intermodal suppliers cannot meet the required 5- to 20-day time frame for delivering MTE.
9 The Postal Service enterprise tool for managing and controlling the submittal of requests to change the service, schedule, and vehicle requirements as specified in highway contracts currently administered through the Transportation Contract Support System (TCSS).
10 The GL contains summarized activity and account balances for all accounts in the chart of accounts.

suppliers were posted to GL code 53618 — a mail transport account — instead of GL code 53191 — which is generally used to account for the transport of MTE.

This occurred because transportation field personnel were using incorrect GL accounts to record HCR service expenses to move MTE within the MTESC network. Further, management did not effectively monitor transportation field personnel to ensure proper GL accounts were used to record these expenses. As a result, the costs to move MTE throughout the MTESC network were understated and management does not have accurate financial data to effectively manage and control these costs.

During our audit, HQ MTE management understood the importance of properly accounting for costs paid to the HCR supplier, and took corrective action to update the HCR supplier contract to reflect the correct GL account beginning September 1, 2019; therefore, we are not making a recommendation regarding this issue.

"During our audit, HQ MTE management understood the importance of properly accounting for costs paid to the HCR supplier, and took corrective action to update the HCR supplier contract to reflect the correct GL account beginning September 1, 2019; therefore, we are not making a recommendation regarding this issue."

Management's Comments

Management agreed with our findings, recommendations, and monetary impact.

Regarding recommendation 1, management stated they have begun re-evaluating the Statement of Work requirements for the intermodal solicitation and plan for its release soon. The target implementation date is May 29, 2020.

Regarding recommendation 2, management stated they developed a standardized process which encompasses providing a business justification and management approval prior to the utilization of a HCR supplier in lieu of the contracted intermodal supplier. Management provided supporting documentation regarding the process they have established.

Regarding recommendation 3, management has started drafting a process/flow for the contracting officers and the contracting officer representatives that outlines the process steps when a supplier fails to perform. The target implementation date is March 31, 2020.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

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

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 3 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. Based on the information provided by Postal Service management, we consider recommendation 2 closed with the issuance of this report.

Appendices

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

Appendix A: Additional Information

Scope and Methodology

The scope of our audit was the review of FY 2017 and FY 2018 transportation cost data to determine the costs associated with moving MTE through the MTESC network from MTESC to MTESC using intermodal transportation versus the cost of HCR transportation to identify potential cost savings.

To accomplish our objective, we:

- Reviewed Postal Service policies, procedures, and guidelines.
- Interviewed Postal Service HQ officials in Network Operations responsible for MTE movement through the network to discuss transportation goals for reducing transportation costs by using intermodal transportation.
- Interviewed Postal Service HQ officials in Supply Management to determine which intermodal transportation companies are being used to move MTE.
- Reviewed HCR supplier and seven intermodal supplier contracts to determine potential cost savings.
- Retrieved and analyzed payment data from MTEOR for intermodal suppliers and transportation costs specifically designated for moving MTE.
- Worked with the TCSS contractor to retrieve data from TCSS for analysis of HCR supplier routes and costs associated with MTE transported from MTESC to MTESC.
- Retrieved HCR paid invoice data from the eSCR system and reconciled it with HCR invoice data from TCSS.
- Identified the number of HCR trips for FYs 2017 and 2018 in MTESS.
- Compared HCR and intermodal supplier costs to calculate and identify the differences and average costs.
- Statistically selected and reviewed 196 routes using a standard confidence level of 95 percent, a precision range of +/-7 percent, and an anticipated rate of occurrence of 50 percent. We developed a simple random sample to ensure each record in the universe had an equal chance of being randomly selected.

We conducted this performance audit from February through December 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 November 21, 2019 and included their comments where appropriate.

We assessed the reliability of HCR payment data of the Form 5429 report in the eSCR system by judgmentally selecting and reconciling FY 2017 and FY 2018 transactions with TCSS data and the source document, PS Form 5397. We also traced intermodal rates from the MTEOR system to the source contract document. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

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

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

December 6, 2019

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: U.S. Postal Service Transportation Cost of Mail Transport Equipment (Report Number 19XG007NL000-DRAFT)

Thank you for providing the United States Postal Service with an opportunity to review and comment on the recommendations contained in the draft audit report entitled, "U.S. Postal Service Transportation Cost of Mail Transport Equipment" dated November 22, 2019. Management agrees with the findings, recommendations and monetary impact.

OIG Recommendations:

We recommend the Acting Vice President, Processing and Maintenance Operations:

Recommendation #1: Re-evaluate statement of work requirements, including response times for intermodal suppliers.

Management Response to Recommendation #1: Management agrees with this recommendation. We have begun re-evaluating the Statement of Work (SOW) requirements for the intermodal solicitation and plan for its release soon.

Target Implementation Date: May 2020

Responsible Official: Director, Processing Operations

Recommendation #2: Develop a formalized process to require justification for using a highway contract route supplier rather than the intermodal supplier.

Management Response to Recommendation #2: Management agrees with this recommendation. We have developed a standardized process which encompasses providing a business justification and management approval prior to the utilization of a highway contract route supplier in lieu of the contracted intermodal supplier.

Target Implementation Date: Implemented

Responsible Official: Director, Processing Operations

We recommend the Acting Vice President, Processing and Maintenance Operations in coordination with the Vice President, Supply Management:

Recommendation #3: Track, monitor, and report suppliers' nonperformance for transporting equipment between mail transport equipment service centers and hold suppliers accountable when they do not meet contract terms.

Management Response to Recommendation #3: Management agrees with this recommendation and currently hold supplier's accountable when contract terms are not met. We have begun drafting a process/flow for the Contracting Officer's (COs) and the Contracting Officer Representatives (CORs) that easily outlines the process steps when a supplier fails to perform.

Target Implementation Date: March 2020

Responsible Official: Supply Management Manager, Transportation Portfolio and Director, Processing Operations.

Joshua Colin, Ph.D.
Acting Vice President
Processing and Maintenance Operations

Mark A. Guilfoil
Vice President
Supply Management

cc: CARM

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UNITED STATES POSTAL SERVICE

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