



March 31, 2009

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

MICHAEL J. FANNING
MANAGER, ENVIRONMENTAL POLICIES AND PROGRAMS

SUBJECT: Final Audit Report – Recycling Opportunities – Pacific Area
(Report Number DA-AR-09-005)

This report presents the results of our self-initiated audit of U.S. Postal Service recycling programs in the Pacific Area (Project Number 08YG034DA000). Our objective was to evaluate recycling programs at high-revenue facilities to identify opportunities to expand on those successes. See [Appendix A](#) for additional information about this audit.

Conclusion

The Pacific Area has a profitable recycling program. Specifically, two of the eight Pacific Area performance clusters, San Diego and Santa Ana, are among the top 10 recycling revenue-generating districts in the nation.¹ However, there are opportunities to expand recycling programs in the Pacific Area, particularly in the Los Angeles and Honolulu Districts, due to insufficient management support and the absence of formal recycling contracts in some districts.

There are also opportunities to strengthen controls over contractor pickups. This occurred because management at Postal Service facilities in the Pacific Area did not use consistent methods to verify the volume of recyclable material collected by vendors. Consequently, the volume of recyclable materials generated and related revenues could be less than optimal. Strengthening these controls would give the Pacific Area added assurance that recycling revenue is properly collected and accounted for.

¹ The San Diego and Santa Ana performance clusters ranked number one and four, respectively.

Additionally, recycling revenue in the Pacific Area accrued in Account Identifier Code² (AIC) 149, Sale of Paper, Plastic and Other Recyclables, is inaccurate. For example, the Los Angeles and San Diego Districts were offsetting trash hauling and recycling-related expenses with recycling revenue, and portions of recycling revenue generated in the Santa Ana and San Diego Districts were credited to the wrong account. These conditions occurred because districts were not aware of current guidelines for recording recycling transactions. As a result, the Pacific Area cannot adequately assess if recycling goals were achieved. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Pacific Area Operations:

1. Provide additional recycling training to maintenance and operations personnel responsible for conducting recycling activities and expand recycling programs throughout the area.

We recommend the Manager, Environmental Policies and Programs, improve awareness of policies and procedures that:

2. Require appropriately designated site personnel to certify the tonnage of recyclable material and trash collected by contractors.
3. Require accurate recording of recycling revenues.

Management's Comments

The Postal Service agreed with the recommendations and will take appropriate actions to resolve the issues by July 31, 2009. Specifically, the Pacific Area agreed to take steps to ensure additional training is provided to appropriate personnel. The Environmental Policies and Programs office will work in coordination with the Memphis Commodity Management Center (CMC) to provide the resources for site personnel to evaluate and certify tonnages of recycled material. Further, they will provide training resources for site personnel to ensure they are aware of the proper AICs to be used for each type of recycled material and will post procedures for cross checking the accuracy of contractor monthly reports.

While the Postal Service agreed with the recommendations and recognized there are opportunities to expand the existing recycling program, they disagreed with the conclusion that these opportunities exist due to insufficient management support. They stated the Los Angeles District's successful recycling program was developed with support of the Memphis CMC under its Total Waste Management initiative. In addition, the Pacific Area stated the Environmental function recently reorganized and established 17 positions nationwide to focus on recycling. See [Appendix C](#) for management's comments in their entirety.

² AICs are three-digit codes that assign financial transactions to the proper account on the general ledger.

Evaluation of Management's Comments

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

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations 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.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel A. Castillo, Engineering, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin, Jr. 
VERIFY authenticity with ApproveIt

Darrell E Benjamin, Jr.
Deputy Assistant Inspector General
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Recycling is the process of returning used material to a manufacturer for reprocessing and reuse. The Postal Service's environmental policy requires recycling programs to be established at every level of the organization, including headquarters, area offices, and the performance clusters. At a national level, the Postal Service has targeted three materials for 100 percent recycling:

- Undeliverable standard mail (USM)
- Discarded lobby mail (DLM)
- Old corrugated cardboard (OCC)

In addition to the general advantages of environmental sustainability, recycling USM, DLM, and OCC results in reduced disposal costs and generates revenue where markets are favorable. In March 2008, the Postal Service established annual goals for increasing its recycling revenue from \$7.5 million in fiscal year (FY) 2007 to \$40 million by FY 2010. As of FY 2009, the Postal Service has tracked revenues generated from recycling activities in two AICs – AIC 149 and AIC 156, Sale of Miscellaneous Items and Non-Capital Equipment.³

A recent Postal Service study entitled "Business Case Evaluation for Postal Service Recycling"⁴ concluded that recycling paper, cardboard, and other materials:

- Will substantially decrease Postal Service solid waste disposal costs.
- Can generate new revenue.
- Does not interfere with normal postal operations.
- Requires only modest incremental effort.

Postal Service recycling programs can be administered through local agreements or national contracts. National recycling contracts are negotiated and managed by the Eastern Services CMC in Memphis, TN.

³ AIC 149 tracks revenues generated from the sale of paper, plastic, and other recyclables. AIC 156 tracks revenues generated from the sale of miscellaneous items and non-capital equipment, including scrap metals and unserviceable postal and building supplies. In FY 2008, the Postal Service also tracked recycling revenues in AIC 151, Vehicle Supplies and Service Reimbursements.

⁴ Study prepared August 31, 2007, by URS Group, Inc.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the Pacific Area's recycling programs at high recycling revenue facilities to identify opportunities to expand on those successes. We focused on the Pacific Area in response to concerns expressed by Environmental Policy and Program (EPP) management at Postal Service Headquarters that there were disparities in recycling programs within some areas, particularly the Pacific Area. To obtain an understanding of Postal Service recycling programs, we reviewed relevant documentation, including pertinent Postal Service handbooks and manuals, and conducted interviews with EPP management. To assess the recycling revenues generated in the Pacific Area during FYs 2007 and 2008 and identify high recycling revenue facilities, we reviewed recycling revenue performance reports prepared by EPP staff. We also reviewed a sample of invoices for recycling and trash hauling services in the Pacific Area. To identify recycling program successes and opportunities for improvement, we conducted site visits to judgmentally selected Pacific Area facilities and interviewed the Pacific Area Manager, Environmental Programs, as well as various Pacific Area Environmental Specialists.

We conducted this performance audit from September 2008 through March 2009 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 reviewed policies and procedures for internal controls, discussed our observations and conclusions with management officials on February 26, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<p><i>Estimated Supply Chain Management Impact Associated with Waste, Trash, and Recycling Services</i></p>	<p>CA-MA-08-001</p>	<p>January 10, 2008</p>	<p>The OIG determined that management practices could be strengthened for waste, trash, and recycling services contracts. We recommended standardized procedures for file management, and payment tracking for waste, trash, and recycling services contracts. In addition, we recommended developing reports and procedures that adequately account for revenue from recycling contracts. Postal Service management agreed with the findings and recommendations.</p>
<p><i>U.S. Postal Service, Mail-Related Recycling Initiatives and Possible Opportunities for Improvement</i></p>	<p>GAO-08-599</p>	<p>June 2008</p>	<p>The U.S. Government Accountability Office (GAO) identified opportunities for the Postal Service to increase the recycling of mail-related material and to encourage mailers to increase the amount of mail with environmentally preferable attributes. They recommended EPPs revise the agency’s recycling goals to include savings from lower waste disposal costs or adopt additional goals that would reflect the full financial benefit attributable to mail-related recycling.</p> <p>In addition, GAO recommended that these programs ensure that the mail-related recycling plan specifies how the Postal Service will (1) measure progress toward its goals and (2) ensure that the data it uses for these measurements are accurate, reliable, and collected using a consistent method.</p> <p>Postal Service management agreed with the findings and recommendations.</p>

APPENDIX B: DETAILED ANALYSIS

Opportunities to Expand Recycling Programs

Although Postal Service policies⁵ call for strong recycling programs in each area, there are opportunities to enhance and expand recycling programs in the Pacific Area, principally due to inadequate management support and the absence of formal recycling contracts in some districts. Specifically:

- No environmental specialist is assigned to the Honolulu District to coordinate environmental and recycling programs.
- The Los Angeles District has not been provided dedicated resources to implement its recycling program, such as personnel, workhours, and funding, since 2001.
- Most field managers in the Pacific Area have responsibilities other than recycling and focus mainly on compliance issues.

Expanding the Pacific Area's recycling program would increase the overall success of the Postal Service's recycling program and enhance the associated revenue.

Internal Control Improvements Needed Over Pickups

The Pacific Area had opportunities to strengthen controls over contractor pickups because facility managers did not use consistent methods to verify the volume of recyclable material collected by vendors. Specifically, the Pacific Area:

- Did not have a formal process to confirm how much trash or recycling waste was actually being picked up by the contractors.
- Relied primarily on vendors to provide data on recycling tonnage.

Consequently, the volume of recyclable materials generated and related revenues could be less than optimal. Also, there is an increased risk that recovered recyclable material is not properly collected and accounted for.

In response to our audit findings, the EPP office has tasked the Acting Manager, Recycling, to work directly with the Los Angeles District Manager to assess and improve recycling and waste disposal activities.

⁵ Postal Service Handbooks, AS-550-A and AS-550-B, *Paper and Paperboard Recycling Guide and Plan*, dated September 1997, outline the Postal Service's policy for recycling, recycling goals and strategies, and information about the purchase and sale of recyclable material and program development and implementation. Handbook HBK-EL-890, *Paper and Paperboard Recycling and Plastics from Postal Operations*, and Management Instruction MI-EL-890-2007-5, *Integrated Waste Management*, are currently being updated.

Reported Recycling Revenue Is Not Accurate

Recycling revenue in the Pacific Area accrued in AIC 149 was inaccurate. For example, some Pacific Area Districts, including the Los Angeles and San Diego Districts, offset trash hauling and recycling-related expenses with recycling revenue. In addition, recycling revenue in some districts was credited to an incorrect AIC. Specifically, portions of recycling revenue generated in the Santa Ana and San Diego Districts were credited to incorrect accounts, including a general account for miscellaneous revenues, instead of being credited to AIC 149. These conditions occurred because districts were not aware of current guidelines for recording recycling transactions.

Postal Service accounting policy⁶ requires revenue to be classified by source. By misclassifying recycling revenue, Pacific Area Districts may be understating amounts in reports that convey their progress in meeting recycling revenue goals.

In response to our audit findings, the EPP office alerted facilities in the Santa Ana and San Diego Districts to the proper procedure for accounting for recycling revenue. The EPP office also instructed all field offices to discontinue commingling waste disposal costs with recycling revenue. To facilitate this transition, field budgets allocated additional funds to cover trash hauling and recycling-related expenses that had previously been offset by recycling revenues.

⁶ Handbook F-23, *Accounting Policy Reference*, establishes general accounting policies for the Postal Service. It requires the Postal Service to prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP). According to proper accounting procedures in GAAP, recycling revenue and costs should not be combined and reported as net revenue.

APPENDIX C: MANAGEMENT'S COMMENTS



March 24, 2009

Lucine Willis
Director, Audit Operations
1735 North Lynn St.
Arlington, VA 22209-20202

Subject: Draft Audit report – Recycling Opportunities – Pacific Area
(Report Number DA-AR-09-DRAFT)

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

We have determined that the draft report contains no confidential or sensitive proprietary business, personal or law enforcement information that would be exempt from disclosure under the Freedom of Information Act.

While the Pacific Area agrees that there are opportunities to expand the existing profitable Area recycling program, the conclusion that these opportunities exist due to "insufficient management support" is inaccurate. The Los Angeles District operates a successful recycling program, developed with the support of the Memphis Commodity Management Center under its "Total Waste Management" initiative. This initiative used revenue from recycling to offset trash removal costs. As a result, trash costs were eliminated from the Los Angeles District operating budget, and a revenue stream from recycling was generated. Pursuant to new Finance policies, the Los Angeles recycling contract has been re-issued as a revenue-only contract. Therefore the Los Angeles District will re-establish a budget for its trash removal costs, and will generate increased revenue for recyclables. Los Angeles District management supports recycling and has earned several prestigious awards for its efforts.

In addition, the Environmental function recently reorganized and established 17 positions nationwide to focus on recycling. This audit validated the business case we identified to capture recycling opportunities.

Recommendation 1

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We recommend the Vice President, Pacific Area Operations provide additional recycling training to maintenance and operations personnel responsible for conducting recycling activities and expand recycling throughout the Area.

Response

The Pacific Area agrees with this recommendation. We will take the following steps to ensure additional training is provided to appropriate personnel:

- Review available cost-effective training resources with Environmental Policy and Programs, Maintenance Policy and Programs and Memphis CMC.
- Determine which Pacific Area sites have contracts and identify and schedule training.

Target Implementation Date: September 30, 2009

Recommendation 2

We recommend the Manager, Environmental Policy and Programs, improve awareness of policies and procedures that require appropriately designated sites personnel to certify the tonnage of recyclable material and trash collected by contractors.

Response

We agree with this recommendation. Environmental Policy and Programs working in coordination with the CMC will provide the resources for site personnel to evaluate and certify tonnages recycled. The certification of tonnage will provide estimating procedures in those instances where recyclables are collected on cubic yard basis without certified weight slips. Specifically, our actions are:

- Environmental Policy and Programs, working with the CMC, will provide net meeting briefings using the monthly "trash talks" forum to communicate proper estimating procedures for recycling tonnage and validation checks on recycling weight slips.
- Estimating procedures and weight verification procedures to be posted on CMC and EPP websites.

Target Implementation Date: July 31, 2009

Recommendation 3

We recommend the Manager, Environmental Policy and Programs, improve awareness of policies and procedures that require accurate recording of recycling revenues.

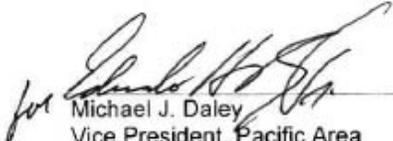
Response

We agree with this recommendation. Environmental Policy and Programs working in coordination with the CMC will provide the training resources for site personnel to ensure they are aware of the proper AIC codes to be used for each type of

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recycled material. In addition, Environmental Policy and Programs will post procedures for cross checking the accuracy of contractor monthly reports.

Target Implementation Date: July 31, 2009



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