



Office of Inspector General | United States Postal Service

Audit Report

National Recycling Program

Report Number HR-AR-18-002 | February 22, 2018

Trash Disposal



PROFIT



SPENDING



Recycling



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Highlights

Objective

The objective of our audit was to assess the effectiveness of the U.S. Postal Service's National Recycling Program (NRP).

In fiscal year (FY) 2014, the Postal Service approved \$33 million for the NRP as part of an overarching initiative to drive waste and cost out of operations, generate revenue, and provide better stewardship for the environment. The goal of the NRP is to reduce trash disposal costs; and increase recycling revenue from office mixed paper, undeliverable standard mail, and discarded lobby mail by maximizing the value of the existing network.

As of September 2017, the Postal Service has implemented the NRP at 149 of 178 planned sites, with full implementation targeted for March 2019. As part of this audit, we assessed recycling operations at 12 sites in the Greensboro and Suncoast districts and Postal Service Headquarters (HQ) oversight.

What the OIG Found

The Postal Service did not effectively manage the NRP to ensure prescribed goals and objectives were achieved. Specifically, as of September 2017:

- Trash reduction savings were \$5.1 million of the projected \$32.8 million, or 16 percent of the goal.
- Recycling revenue generated was \$3.4 million of the projected \$14.3 million, or 24 percent of the goal.

In addition, facility employees did not accurately record recycling revenue and expenses within the designated general ledger accounts.

These issues occurred because there was ineffective monitoring at the HQ level, the program execution plan was not fully rolled out, and there were no controls to ensure accurate recording of revenue/cost activity.

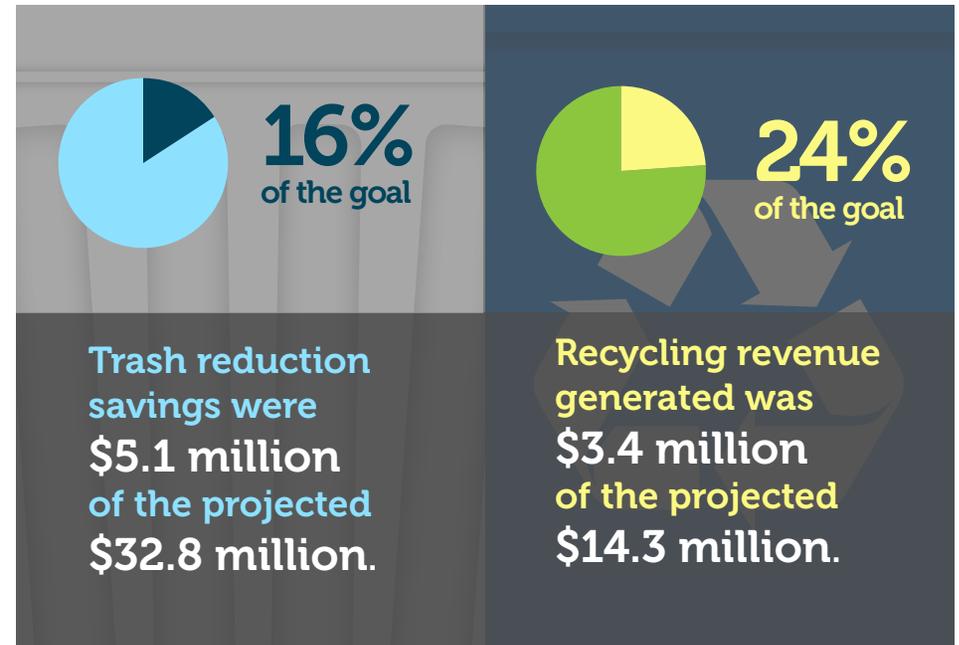
As a result: (1) the program is not meeting projected financial goals through its first four years; therefore, increasing the risk the program will not meet its

long-term financial goals, (2) the program has missed its trash disposal savings goal by \$28 million and recycling revenue goal by \$11 million; (3) recycling revenue and expenses were understated by \$205,179 at the six sites we assessed, and (4) the Raleigh Processing & Distribution Center was underpaid \$16,477 in recycling revenue.

What the OIG Recommended

We recommended management strengthen controls over program operations, implement financial monitoring and operational oversight responsibilities over the facilities to the district, and reassess and adjust program goals as necessary.

We also recommended management implement a control to validate accuracy of general ledger account entries, reiterate standard operating procedures to appropriate personnel, and provide additional general ledger account entry training, as necessary.



Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

February 22, 2018

MEMORANDUM FOR: THOMAS G. DAY
CHIEF SUSTAINABILITY OFFICER

RUSSELL D. GARDNER
MANAGER, GREENSBORO DISTRICT

ERIC D. CHAVEZ
MANAGER, SUNCOAST DISTRICT



FROM: Charles L. Turley
Deputy Assistant Inspector General
For Supply Management & Human Resources

SUBJECT: Audit Report – National Recycling Program
(Report Number HR-AR-18-002)

This report presents the results of our audit of the U.S. Postal Service's National Recycling Program (Project Number 17SMG026HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lucine M. Willis, Director, Human Resources & Support, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management
Vice President, Southern Area
Vice President, Capital Metro Area

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's National Recycling Program (NRP) (Project Number 17SMG026HR000). Our objective was to assess the effectiveness of the Postal Service's NRP.

As of September 2017, the Postal Service has implemented the NRP at 149 of 178 planned sites, with full site implementation targeted for March 2019. As part of this audit, we assessed recycling operations at 12 sites in the Greensboro and Suncoast districts and Postal Service Headquarters (HQ) oversight.

Background

Much of corporate America recognizes recycling and eliminating waste as a financial business opportunity as well as a societal and cultural norm. Additionally, increasing revenue and decreasing costs is a fundamental business practice. The Postal Service identified that it could realize a positive financial benefit by reducing trash disposal costs, generating revenue from what was previously considered trash, maximizing recyclable commodity value through consolidation and economies of scale, and investing in capital equipment and best practices to achieve productivity gains that reduce material handling costs.

As such, in fiscal year (FY) 2014, the Postal Service approved \$33 million for the NRP to standardize its recycling activities, minimize costs, and maximize value through the current network. The \$33 million investment was to purchase necessary equipment and meet the related expenses of implementing the program nationally, with a five-year rollout period.

To help ensure that program goals and objectives are met, management streamlined the implementation process and identified key factors for success, which are highlighted below:

Implementation Process:

1. Provide recycling equipment, including compactors and dumpers¹ for hubs.
2. Standardize processes and support.
3. Negotiate better recycling and trash removal contracts.
4. Provide training and communications support.



Key Factors to Success:

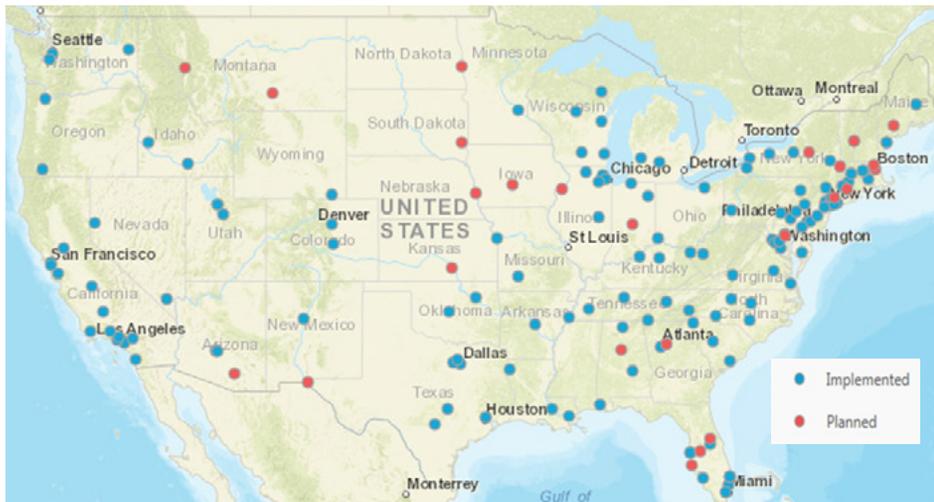
1. Management's commitment to engaging employees.
2. Proper equipment to allow efficient work and employee safety.
3. Leveraging existing transportation network to move recyclables from delivery units to serviceable plants.
4. Competitive contract bids to obtain best price for recyclables and lowest cost for trash removal.
5. Right-sizing trash bins, dumpsters, and compactors.



¹ Equipment used to discard recyclable materials into compactors.

From FY 2014 through 2017, the Postal Service invested a total of \$27.8 million of the approved \$33 million (or 84 percent) for implementation of the NRP. Full site implementation was originally scheduled to be complete by 2018; however, delays were incurred due to facility consolidations and natural disasters, such as Hurricanes Harvey and Irma. The program plan initially was to install 264 compactors at 132 sites; however, the plan was later revised to install 270 compactors at 178 sites when fully implemented. After conducting site assessments, HQ determined that new compactors were necessary to comply with the NRP standards and manage additional recycling; therefore, the initial plan was adjusted and compactors were installed at additional sites while staying within the initial approved spending. Figure 1 highlights current NRP sites and future planned sites nationwide.

Figure 1: Current and Planned National Recycling Program Sites

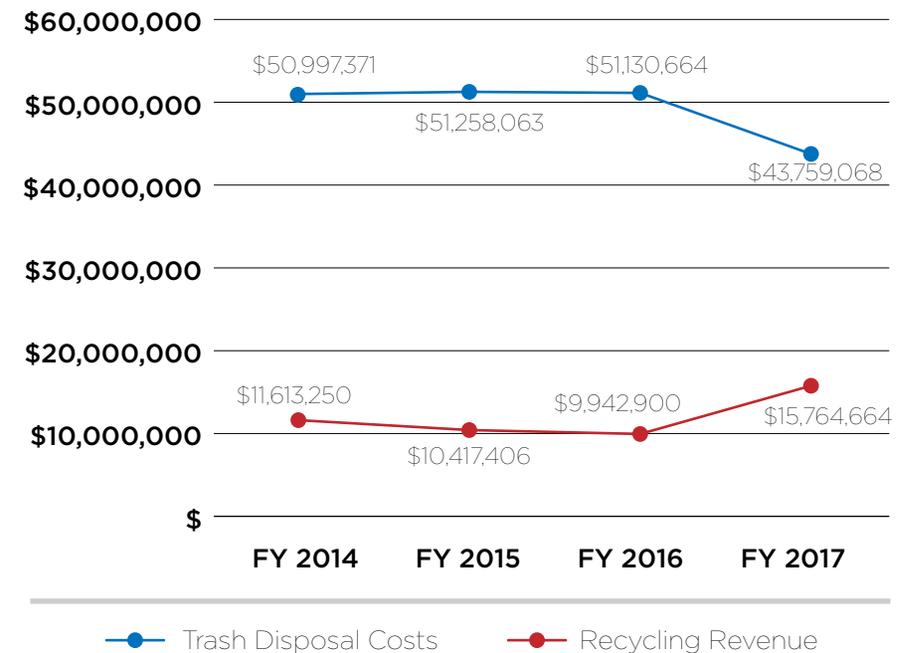


Source: Office of Inspector General (OIG) analysis.

Recycling Revenue and Trash Disposal Costs

Recycling revenue steadily decreased from FY 2014 through 2016, while increasing by \$5.8 million from FY 2016 to FY 2017.² Trash disposal costs remained relatively constant, while decreasing by \$7.4 million from FY 2016 to 2017.³ Figure 2 highlights actual recycling revenue and trash disposal cost.

Figure 2: Actual Recycling Revenue⁴ and Trash Disposal Cost for FYs 2014 Through 2017



Source: EDW⁵ and NRP Decision Analysis Report (DAR).

² Based on Enterprise Data Warehouse (EDW) data in general ledger account (GLA) 44036.149.

³ Based on EDW data in GLA 54153.

⁴ Actual recycling revenue totals were pulled from GLA 44036.149, which also includes revenue from materials not included in the NRP such as cardboard, plastics, cans, and bottles.

⁵ The repository intended for all data and the central source for information on retail, financial, and operational performance.

Finding #1: National Recycling Program Goals Not Achieved

For the period of FY 2014 (program implementation) through FY 2017 (most recent fiscal year), the NRP did not meet the projected trash reduction savings or recycling revenue goals. Specifically, as of September 2017:

- Trash reduction savings were \$5.1 million of the projected \$32.8 million, or 16 percent of the goal.
- Recycling revenue generated was \$3.4 million of the projected \$14.3 million, or 24 percent of the goal (see Figure 3).

Figure 3: NRP Goals Versus Actuals



Source: NRP DAR and Postal Service.

The Postal Service HQ approach to successfully meeting NRP goals and objectives are outlined in Table 1.

Table 1: NRP: Execution Task and Program Dependencies

Execution Tasks			
1.	Leveraging existing transportation and facility network	✓	Completed
2.	Streamlining recycling process	✓	Completed
3.	Reducing dumpster sizes	--	
4.	Reducing trash pick-up frequencies	--	HQ approach is to execute these tasks when the program has been rolled out at all sites nationwide.
5.	Negotiating better recycling contracts	--	
Program Dependencies			
1.	Adequate capital investment	✓	Completed
2.	Executive management directive	✓	Completed

Source: DAR, Postal Service HQ NRP video, and OIG conclusion if they were accomplished.

Additionally, program implementation included coordination with the districts when assessing equipment needs and logistics; however, program implementation did not include operational oversight responsibilities at the district level. The management of day-to-day program execution is conducted at the facilities, with financial and operational oversight being provided by HQ.

NRP goals were not achieved due to several factors:

- Ineffective continuous monitoring by Postal Service HQ to help ensure achievement of desired outcomes. For example:
 - At the Tampa Processing & Distribution Center (P&DC) and Tampa Computer Forwarding System (CFS),⁶ facility managers did not track the frequency with which compactors were transported and unloaded.
 - At the Raleigh P&DC, a facility manager did not adjust the revenue rate per ton once the vendor changed their freight cost expensing method.
 - None of the six post offices visited had proper placarding on mixed paper recycling hampers.⁷
 - Two of six post offices visited were not properly recycling discarded lobby mail for backhauling.⁸
- The execution plan has not been fully rolled out to capture cost savings and increased recycling revenue. For example:
 - Dumpster sizes have not been reduced at all facilities currently in the NRP.
 - Trash pick-up frequencies have not been adjusted at all facilities currently in the NRP.
 - Recycling contracts have not been (re)negotiated for all facilities currently in the NRP.

The lack of adequate program monitoring and execution has contributed to the NRP not meeting projected financial goals through the first four years of the program; therefore, increasing the risk the program will not meet its long-term financial goals. As of September 2017, the NRP has missed its trash disposal savings goal by \$28 million and recycling revenue goal by \$11 million.

In addition, for the period of February through September 2017, the Raleigh P&DC was underpaid in recycling revenue by \$16,477. During our audit, Raleigh P&DC management took corrective action by working with the vendor to correct the tonnage rate going forward. They also took corrective action by implementing recycling bins at the two post offices; therefore, we are not making any recommendations regarding these matters.

Recommendation #1:

We recommend the **Chief Sustainability Officer** strengthen controls of the National Recycling Program operations and coordinate with Managers, Greensboro and Suncoast Districts, to implement financial monitoring and operational oversight responsibilities over the facilities to the district.

Recommendation #2:

We recommend the **Chief Sustainability Officer** reassess and adjust National Recycling Program goals as necessary, based on delays in the execution plan to appropriately set program expectations at district levels.

Finding #2: Incorrect Recording of Recycling Revenue and Costs

Facility employees did not accurately record recycling revenue and expenses within the designated general ledger accounts (GLA).⁹ On a monthly basis, vendors provide facilities with invoices related to their recycling activity for that month. Designated facility personnel then record recycling invoice activity into the appropriate GLA. At six sites in the Greensboro and Suncoast Districts,¹⁰ we assessed recycling invoices for FYs 2016 and 2017. The practice was to net recycling activity (revenue and expense costs) together and record the new amount in the revenue account (GLA 44036.149), rather than recording the expenses in their designated expense account (GLA 56607).

⁶ A facility that handles mailpieces that cannot be delivered as addressed include forwarding, returning to sender, or disposing of waste mail.

⁷ *Standard Operating Procedures (SOP): Delivery/Retail Unit – Servicing Hub Facility Backhaul Recycling & Placarding*, page 4, dated August 28, 2017.

⁸ *SOP: Delivery/Retail Unit – Servicing Hub Facility Recycling Discarded Lobby Mail*, dated August 28, 2017.

⁹ An account or record used to sort and store financial statement information.

¹⁰ Raleigh and Greensboro P&DCs in the Greensboro District; and the Tampa CFS and Orlando, Fort Myers, and Tampa P&DCs in the Suncoast District.

Additionally, at the Tampa P&DC, we identified the following GLA recording errors:

- For the period of October 2015 through February 2017, sewer expenses were recorded in GLA 54153, Garbage and Trash Disposal. The utility bills were paid by a third-party bill-pay service provider using the Utility Management System (UMS),¹¹ where trash disposal costs were combined with utility

expenses. This error was corrected in the UMS as of the April 2017 billing statement.

- On December 30, 2015, a recycling revenue check of \$41,108 was improperly recorded in GLA 42101.093, Packaging Products.

As part of the NRP, management created unique GLAs to record recycling revenue and expenses (see Table 2).

Table 2: National Recycling Program GLAs

Account Number	Account Title	Account Description
GLA 44036.149	Investment Recovery Revenue - Recyclables	Used to record mixed paper, cardboard, and plastic recycling revenue.
GLA 54153	Garbage and Trash Disposal	Used to record the costs of municipal solid waste (garbage and trash) removal.
GLA 56607	Recycling Service Expense Costs	Used to record expenses from recycling, such as equipment rental and lease costs.

Source: Postal Service account number control master.

These errors occurred because there are no controls to ensure the employees are recording recycling revenue and expenses properly. Additionally, these responsibilities are performed at the facility level (sometimes as additional duties) by employees who may not have a finance background and are not using standard operating procedures as guidance when making GLA entries.

By not accurately recording recycling revenue and expenses, GLA 44036.149, Investment Recovery Revenue – Recyclables and GLA 56607, Recycling Service Expense Costs were each understated by \$205,179. Table 3 displays, by facility reviewed, the Postal Service’s actual recording of recycling revenue and expenses and the totals, if recorded correctly.

¹¹ A system that collects and analyzes utility consumption data used to support a variety of processes: including overall utility management, bill payment and audit, facility energy management, rate analysis and optimization, and procurement in competitive markets.

Table 3: FYs 2016 through 2017 NRP Revenue and Expenses in the Greensboro and Suncoast Districts

Postal Facility	Actual Account Recording ¹² (GLA 44036.149)	Correct Account Recording	
		Recycling Revenue	Recycling Expenses
		(GLA 44036.149)	(GLA 56607)
Greensboro District			
Greensboro P&DC	\$66,021	\$102,637	\$36,616
Raleigh P&DC	\$35,167	\$49,624	\$14,457
Subtotal	\$101,188	\$152,261	\$51,073
Suncoast District			
Tampa P&DC	\$294,964	\$332,000	\$37,036
Tampa CFS	\$154,467	\$193,659	\$39,192
Orlando P&DC	\$363,587	\$385,831	\$22,244
Fort Myers P&DC	\$250,001	\$305,635	\$55,634
Subtotal	\$1,063,019	\$1,217,125	\$154,106
Total	\$1,164,207	\$1,369,386	\$205,179

Source: Recycling Management Resources and WestRock Vendor Reports.

Additionally, from October 2015 through February 2017, Tampa P&DC trash disposal costs were overstated by \$80,221, and in December 2015, its recycling revenue was understated by \$41,108. Not recording revenue and expense amounts into the correct GLAs will result in accounts that are over or understated, which would impact management's assessment of program effectiveness. Further, inaccurate GLA information compromises the accuracy of related EDW data.

Recommendation #3:

We recommend the **Managers, Greensboro and Suncoast Districts, in coordination with the Chief Sustainability Officer**, implement a control or oversight mechanism to validate accuracy of general ledger account entries, reiterate standard operating procedure guidance to appropriate personnel, and provide additional general ledger account entry training, as necessary.

¹² Net amount of revenue recorded by the sites (recycling revenue – recycling expenses).

Management's Comments

Management agreed with the findings and recommendations and will further review the monetary impact of \$16,477 to determine if a reimbursement from the vendor is necessary.

Regarding recommendation 1, management stated that the Office of Sustainability will coordinate with Greensboro and Suncoast district management to provide training and support personnel to affirm recycling financial monitoring and operational oversight responsibilities. The target implementation date is September 30, 2018.

Regarding recommendation 2, management stated they will assess NRP goals, which will be included for consideration as part of the HQ Executive Leadership Team (ELT) project review to be scheduled for FY 2019. Management noted that this audit was initiated prior to completion of the NRP project performance period of FY 2014 – FY 2018. The target implementation date is September 30, 2019.

Regarding recommendation 3, management stated that the Office of Sustainability will coordinate with Greensboro and Suncoast district management

to provide appropriate personnel with training on how to validate the accuracy of general ledger accounts and standard operating procedures. The target implementation date is September 30, 2018.

Regarding the monetary impact, management stated that the Revenue Assurance group, in conjunction with Supply Management, will investigate prior payments to the contractor to determine if any freight charges were incorrectly calculated. If they determine this is the case, the contracting officer will initiate a reimbursement request. 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 and corrective actions should resolve the issues identified in the report.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. 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.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of our audit was implementation of the NRP at 12 sites nationwide during FYs 2016 and 2017. We judgmentally selected four sites in the Greensboro District and eight sites in the Suncoast District that participated in the NRP to review recycling revenue (undeliverable standard mail, office mixed paper, and discarded lobby mail) and its effect on trash disposal costs generated by implementation of the NRP.

To accomplish our objective, we:

- Reviewed the 2013 NRP DAR to identify the process for implementation and program goals.
- Analyzed recycling revenue and trash disposal costs recorded in EDW since implementation of the NRP to determine if revenue is increasing and costs are decreasing.
- Reviewed Postal Service policies and procedures related to recycling, backhauling, and vendors as well as Postal Service's strategy for recycling and sustainability.
- Identified districts and conducted site visits at the Fort Myers, Greensboro, Orlando, Raleigh, and Tampa P&DCs; the Brandon, Greensboro, High Point, Palm Harbor, and Riverview Post Offices; the Tampa CFS; and the Forest Hills Station to examine districts with low and high recycling revenue.
- Interviewed Postal Service personnel at HQ and in the Greensboro and Suncoast districts regarding the processes, the level of district involvement, effectiveness, and promotion of the NRP.

- Obtained training records for employees overseeing the NRP and operating recycling equipment.

We conducted this performance audit from September 2017 through February 2018, 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 January 26, 2018, and included their comments where appropriate.

We assessed the reliability of computer-generated data from the EDW by comparing key information against separately prepared documents provided by vendors. We found the EDW data related to the NRP was inaccurate because the established accounts for recording recycling revenue and expenses were not properly used by Postal Service personnel. Although we identified discrepancies, we determined that 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 in the last five years.

Appendix B: Management's Comments



February 7, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – National Recycling Program (Report Number HR-AR-18-DRAFT)

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft audit report, "National Recycling Program." Management does agree with the findings noted in the audit report. Management agrees with the recommendations as outlined in the audit response per the action plans shown below.

Regarding the monetary impact of \$16,477 identified in the audit as Revenue Loss we will review the OIG findings. The Revenue Assurance group, in conjunction with Supply Management, will investigate prior payments to the contractor to determine if any freight charges were incorrectly calculated. If this is determined to be the case the Contracting Officer will initiate a request for reimbursement.

Recommendation #1

We recommend the Acting Chief Sustainability Officer strengthen controls of the National Recycling Program operations and coordinate with Managers, Greensboro and Suncoast Districts, to implement financial monitoring and operational oversight responsibilities over the facilities to the district.

Management Response/Action Plan

The Office of Sustainability agrees with this recommendation and will coordinate with the Managers of Greensboro and Suncoast Districts and provide training and support personnel to affirm recycling financial monitoring and operational oversight responsibilities. This will be completed by FY18 close.

Target Implementation Date

9/30/2018

Responsible Official

Chief Sustainability Officer
District Maintenance Manager

Recommendation #2

We recommend the Acting Chief Sustainability Officer reassess and adjust National Recycling Program goals as necessary, based on delays in the execution plan to appropriately set program expectations at district levels.

Management Response/Action Plan

The Office of Sustainability will perform an assessment of National Recycling Program goals which will be included for consideration as part of the upcoming HQ Executive Leadership Team (ELT) project review to be scheduled in FY19. We note the OIG audit (17SSMG026HR000) was initiated prior to the completion of National Recycling project performance period (FY2014 to FY2018).

Target Implementation Date

9/30/2019

Responsible Official

Chief Sustainability Officer

Recommendation #3

We recommend the Managers, Greensboro and Suncoast Districts, in coordination with the Acting Chief Sustainability Officer, implement a control or oversight mechanism to validate accuracy of general ledger account entries, reiterate standard operating procedure guidance to appropriate personnel, and provide additional general ledger account entry training, as necessary.

Management Response/Action Plan

The Office of Sustainability agrees with this recommendation and will coordinate with the Managers of Greensboro and Suncoast Districts to provide appropriate personnel with training on validating the accuracy of general ledger accounts and standard operating procedures. This will be completed by FY18 close.

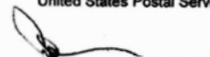
Target Implementation Date

9/30/2018

Responsible Official

Chief Sustainability Officer
District Maintenance Manager


Thomas G. Day
Chief Sustainability Officer
United States Postal Service


Russel Gardner
District Manager
USPS Greensboro District


Eric Chavez
District Manager
USPS Suncoast District



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