



August 18, 2006

WILLIAM J. BROWN
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

JERRY D. LANE
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Transmittal of Audit Report – Mail Transport Equipment Service Center
Network – Highway Transportation Routes – Atlanta
(Report Number NL-AR-06-009)

This is one in a series of reports that presents results from our self-initiated nationwide audit of the mail transport equipment service center (MTEESC) network (Project Number 06XG023NL000).

The objectives of our audit were to determine whether management implemented audit recommendations from our report, *Mail Transport Equipment Service Center Decision Analysis Report, Performance and Financial Benefits* (Report Number TR-AR-01-003, dated May 4, 2001), and whether there were additional opportunities to save money. The report, initiated in response to a Board of Governors request, concluded the network would not achieve the financial benefits anticipated by the 1997 Decision Analysis Report. We recommended, in part, that management reduce cost by analyzing transportation requirements and other costs associated with the network.

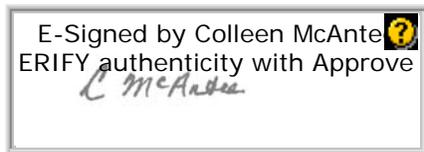
This follow-up report focuses on whether there were opportunities for the U.S. Postal Service to save money by reducing the number of highway round trips originating at the Atlanta MTEESC. The Atlanta MTEESC provides service to mail processing facilities in the Postal Service's Southeast Area and Capital Metro Operations.

We concluded the Postal Service could save approximately \$801,097 over the term of existing contracts by canceling, not renewing, or modifying 90 round trips originating at the Atlanta MTEESC. The trips could be eliminated without affecting customer service by consolidating loads to more fully utilize trailer capacity. This amount represents funds put to better use and will be reported as such in our *Semiannual Report to Congress*.

Management agreed with our findings and recommendations and stated they would implement the 90 trip changes by September 18, 2006. Management's comments and our evaluation of these comments are included in the report.

The U.S. Office of Inspector General (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 follow-up tracking system until the OIG provides written confirmation that they can be.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Joe Oliva, director, Transportation, or me at (703) 248-2300.



Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: William P. Galligan
Anthony M. Pajunas
Beverly A. Van Soest
Paul J. McDermott
Calvin G. Williams
Steven R. Phelps

INTRODUCTION

Background

The mail transport equipment service center (MTESC) network is a system of 22 contractor-operated service centers designed to supply mailbags, carts, hampers, and other mail transport equipment (MTE) to mail processing facilities nationwide. The service centers deliver equipment to users with dedicated transportation.

The MTESC network has dedicated transportation.

Our 2001 audit report identified \$1 billion in potential MTE transportation cost overruns.

This MTE tractor-trailer was photographed in March 2006 near the Atlanta MTESC.



The U.S. Postal Service presented the original plan to create the network to its Board of Governors (BOG) in the Decision Analysis Report (DAR), *Mail Transport Equipment Service Center Network*, dated May 13, 1997. The DAR forecasted costs exceeding \$3.6 billion over 10 years and the BOG approved it in June 1997. The new network became fully operational in January 2000. From the outset, allegations of poor performance and excessive costs troubled the new network. As a result, the BOG asked the U.S. Postal Service Office of Inspector General (OIG) to evaluate the program.

Our audit report titled *Mail Transport Equipment Service Center Decision Analysis Report, Performance and Financial Benefits* (Report Number TR-AR-01-003, dated May 4, 2001) concluded the network would not achieve the financial benefits anticipated by the DAR. We recommended, in part, that management reduce cost by analyzing transportation requirements and related costs associated with the network.

**Objectives, Scope,
and Methodology**

This audit is a follow-up to our May 4, 2001, report. Our objectives were to determine if management implemented our recommendations and whether there were additional opportunities to save money. This report focuses on Atlanta MTESC transportation requirements. The Atlanta MTESC provides service to mail processing facilities in the Postal Service's Southeast and Capital Metro Areas. On April 1, 2006, Postal Service officials realigned operations. As a result, contract responsibility for Atlanta MTESC routes in South Carolina transferred from the Eastern Area to the Capital Metro Area.

Using Postal Service computer-generated data, we determined trip dispatch, arrival, and load efficiency and identified potential trips for consolidation or elimination. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, some computer files had missing records and inaccurate trailer load volumes. Even though data limitations constrained our work, we were able to partially compensate by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussion with responsible officials.

During our work, we interviewed Postal Service Headquarters officials in Network Operations Management and managers and employees in the Southeast Area, Capital Metro Operations, and at the Atlanta MTESC. We reviewed relevant Postal Service policies, procedures, and directives; observed and photographed operations; and consulted with subject-matter experts. We performed our work in close coordination with the Network Operations Management transportation assessment team and area personnel, discussed our observations and conclusions with various management officials, and included their comments where appropriate.

We conducted work associated with this report from March through August 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances.

Prior Audit Coverage

Since March 2005, the OIG has worked with the Postal Service to reduce MTESC costs. As a result, we have issued four audit reports that identified potential savings exceeding \$12 million. For more detailed information about these audits, see Appendix A.

AUDIT RESULTS

Highway Contract Management

Postal Service Headquarters implemented our recommendations and is aggressively pursuing opportunities to reduce MTESC network costs. (See Appendices B, C, and D.) Network Operations Management transportation assessment teams, supplemented by area personnel, are continuing to analyze network transportation costs in order to reduce operating expense and improve efficiency.

The MTESC network is a system of 22 contractor-operated service centers designed to supply equipment to mail processing facilities nationwide.

Photograph of the sign at the Atlanta MTESC, March 8, 2006.



Although Network Operations Management officials continually strive to optimize transportation with aggressive cost-cutting efforts such as their MTESC network cost and efficiency assessments, transportation requirements are dynamic and constantly change. Based on our examination of scheduled shipments and our physical examination of trailer utilization, we believe additional potential for trip cancellation and savings exists, without jeopardizing service or operational flexibility. Specifically, we believe that the Postal Service could save approximately \$801,097 over the term of existing Atlanta MTESC highway contract 302AK by canceling, not renewing, or modifying 90 unnecessary round trips.

Postal Service policy requires transportation managers to balance service and cost. The Postal Service could eliminate the 90 trips without affecting service because they did not optimize some trailer loads and could consolidate equipment on other trips.

Cooperative Effort

As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with area officials throughout our audit and provided the officials with a list of our specific trip proposals. We then

The interior of an underutilized trailer arriving at the Atlanta MTESC, March 8, 2006.



discussed our proposals and area operational needs with officials and made appropriate adjustments. As a result of this cooperation, area officials agreed to eliminate the 90 trips outlined in Appendices E and F. Our trip cancellation proposals are summarized below:

**PROPOSED TRIP ELIMINATIONS
 BY ELIMINATION CATEGORY**

Elimination Category	Number of Trips	Appendix	Savings (\$)
Postal Service identified trip cancellations or modifications during the audit.	47	E	\$426,210
Proposed trip eliminations/substitutions with which area officials agreed.	<u>43</u>	F	<u>374,887</u>
Total	90		\$801,097

Figure 1

Recommendations	We recommend the vice president, Southeast Area Operations, coordinate with the manager, Capital Metro Operations, to: <ol style="list-style-type: none"><li data-bbox="615 386 1357 491">1. Verify the actual cancellation, modification, or substitution of the 47 trips management identified during our audit.<li data-bbox="615 533 1395 669">2. Verify the actual cancellation, modification, or substitution of the 43 trips with which Postal Service managers agreed and provide the date they took action.
Management's Comments	Management agreed with all our findings and recommendations. They stated they would implement the 47 trip changes identified in recommendation 1 and the 43 trip changes identified in recommendation 2 by September 18, 2006. Management's comments, in their entirety, are included in Appendix G.
Evaluation of Management's Comments	Management's comments are responsive to our findings and recommendations. Management's actions, taken or planned, should correct the issues identified in the findings.

APPENDIX A. PRIOR AUDIT COVERAGE

Report Name	Report Number	Date Final Report Issued	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Trips Agreed to by Management	Additional Trips Management Identified for Elimination During Audit	Trips Management Agreed to Assess	Trips With Which Management Disagreed
MTESC Network – Equipment Processing	NL-AR-05-006	3/31/05		\$9,213,576				
MTESC Network – Highway Transportation Routes New York, NY, Metro Area	NL-AR-05-014	9/28/05	49	1,025,812	17		32	
MTESC Network – Highway Transportation Routes San Francisco, CA	NL-AR-06-003	3/23/06	77	1,091,640	31	21		25
MTESC Network – Highway Transportation Routes Memphis, TN	NL-AR-06-005	3/28/06	25	699,397			25	
Totals			151	\$12,030,425	48	21	57	25

APPENDIX B. OVER-THE-ROAD CONTAINER POLICY LETTER

PATRICK R. DONAHOF
Chief Operating Officer
and Executive Vice President



March 1, 2002

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Bulk Mail Center (BMC) Over-The-Road Container (OTR) Management

Control of bulk mail center (BMC) over-the-road containers (OTR) is being transferred from the mail transport equipment service center (MTE) network to the BMC network. These containers will either be in continuous use during the normal part of the year or they will be stored when necessary. This will eliminate the redistribution of BMC OTRs by the MTE network. The MTE network will retain the responsibility for repair of OTRs. All processing operations must be vigilant about red-tagging damaged and unsafe containers (in accordance with Postal Operations Manual paragraph 583.11).

With more than 216,000 OTRs in service, there is a sufficient supply of containers for each BMC to manage its local operations. Over-the-road containers are for the exclusive use between the BMCs and the processing and distribution centers/facilities (P&DC/F) within the BMC service area. An exception to this rule is the newer P&DC/F sites, which have BMC/OTR processing equipment. Inter-BMC or inter-area dispatches are not authorized, unless adequate and workable "closed loops" have been established. Where imbalances exist, the BMC network will be responsible for relocating OTRs from surplus areas to deficit ones using existing transportation. Transporting mail in OTRs instead of Postal Paks to deficit BMCs will also help to relocate surplus units. Reciprocal agreements also exist between BMCs to exchange non-machineable outsides either in OTRs or cardboard boxes. The MTE network can provide order information and data to BMC managers concerning "leakage" of OTRs to other operations. Over-the-road containers should not be used for merchandise return operations.

The MTE network sorts used cardboard boxes in two sizes, small and large. All processing operations should attempt to take advantage of this resource. The MTE organization encourages the return of raw MTE to the MTE network using these boxes. Using a combination of unprocessed MTE types can maximize truck density.

The MTE network has previously supplied OTRs nationwide, but the costs (over \$9 million for standing transportation and more than \$4 million for processing BMC containers) have become prohibitive. Every effort must be made to keep OTRs circulating for the benefit of the entire mail processing and distribution network. The distribution network office must make the appropriate MTE standing order and highway contract changes. This transfer will be effective March 18.

If you should have further questions, please contact Regina Wesson at (202) 268-4376.

A handwritten signature in black ink, appearing to read "Patrick R. Donahoe".

Patrick R. Donahoe

cc: Managers, Operations Support (Area)
Managers, Bulk Mail Centers

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260 0080
www.usps.com

APPENDIX C. REEMPHASIS OF OVER-THE-ROAD CONTAINER POLICY LETTER

Attachment #1

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER
AND EXECUTIVE VICE PRESIDENT



March 23, 2005

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Compliance of Bulk Mail Center, Over-The-Road Container Management

The Office of Inspector General recently completed an audit of OTR container usage throughout the Mail Transport Equipment Service Center (MTEC) network. The audit was undertaken to measure compliance to the policy letter issued on March 1, 2002. The policy states that the OTR was designed to be used exclusively within the bulk mail center network and only OTRs requiring repair (those red tagged) should be shipped to the MTEC. The audit completed in February 2005, shows the MTEC network and the percent reduction in OTRs process as of September 2004 (see attached data).

Overall, the data depicts a positive trend in compliance; however, there is still room for improvement and a savings within your areas. Please review the data and ensure postal plants within your area are in compliance with the national policy for OTR usage.

A handwritten signature in black ink, appearing to read "Patrick R. Donahoe".

Patrick R. Donahoe

Attachment

cc: Paul Vogel
Tony Pajunas
Walter O'Tormey
Jaime Fuentes

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www.usps.com

APPENDIX D. MEMORANDUM TO AREAS ABOUT PROPER USE, STORAGE, AND DISTRIBUTION OF MAIL TRANSPORT EQUIPMENT

June 11, 2002

**VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS**

SUBJECT: Mail Transport Equipment

The Postal Service created the Mail Transport Equipment Service Center (MTEESC) Network to process, repair, store, and distribute mail transport equipment (MTE) in a timely and efficient manner. Before this innovative, equipment-management program was established, customers and employees would regularly complain about the adequacy of the supply and the poor condition of this equipment.

Now that we have realized benefits from the establishment of this network, we must work diligently to ensure we maximize the efficiencies and ultimately improve the bottom-line of the Postal Service.

There is a need to focus on what gets sent to the MTEESCs and, in particular, when and how equipment should be returned. There are instances when equipment is being returned by a plant followed shortly after by an order for the same types of equipment. Shipping equipment to the MTEESC should not be done solely to free up space at the plant. Part of the planning process should include setting aside some equipment for fulfilling in-house needs as well as customer needs.

To that end, it is imperative that postal managers at processing and distribution centers returning empty equipment for consolidation, repair, and storage follow appropriate operating procedures. These procedures include:

- ensuring that adequate stock of equipment is retained on site before dispatching any excess MTE;
- ensuring that trailers returning equipment to the MTEESCs are fully loaded, including the cube space of rolling stock;
- ensuring that all equipment is free of trash including labels on trays, tubs, and sacks;
- and most importantly, ensuring that there is no mail in any piece of equipment.

By taking steps to maximize cube space in trailers, removing labels, and capturing misdirected mail, we can contribute more to the Postal Service's Transformation strategy. If you have any questions, please contact Regina Wesson at (202) 268-4376.

Paul Vogel
Vice President, Network Operations Management

**APPENDIX E. TRIP ANALYSIS DETAIL
 ADDITIONAL TRIPS IDENTIFIED BY U.S. POSTAL SERVICE MANAGEMENT DURING AUDIT**

Highway Contract Route	Destination Point	Contract Term	Proposed Weekly Round Trip Eliminations	Total Projected Savings on Contract
302AK	Carolina Mailing Service		1	\$37,247.58
302AK	G&H Mailing Service		1	36,164.32
302AK	Direct Mailing Service		2	72,661.95
302AK	North Metro Processing and Distribution Center		6	60,166.16
302AK	State Farm Insurance		1	14,194.13
302AK	Compak Services		5	50,138.47
302AK	Traveler's Insurance		5	57,553.31
302AK	Dove Mailing Service		2	10,451.40
302AK	Hallowtree Warehouse		15	6,567.43
302AK	Birmingham, AL, Processing and Distribution Center		1	25,498.35
302AK	Birmingham, AL, Annex		2	51,330.00
302AK	Atlanta, GA, Air Mail Center		6	4,237.05
	TOTAL ADDITIONAL TRIPS IDENTIFIED BY MANAGEMENT	07/01/2005 – 06/30/2007	47	\$426,210.15

**APPENDIX F. TRIP ANALYSIS DETAIL
 PROPOSED TRIPS U.S. POSTAL SERVICE MANAGEMENT AGREED TO ELIMINATE**

Highway Contract Route	Destination Point	Contract Term	Proposed Weekly Round Trip Eliminations	Total Projected Savings on Contract
302AK	Columbia, SC, Processing and Distribution Center		1	\$35,331.04
302AK	Atlanta, GA, Bulk Mail Center Annex		5	35,308.78
302AK	North Metro Processing and Distribution Center		17	170,470.80
302AK	Atlanta, GA, Processing and Distribution Center		15	2,118.53
302AK	Augusta, GA, Processing and Distribution Facility		1	26,664.93
302AK	Albany, GA, Customer Service		1	28,164.84
302AK	Birmingham, AL, Processing and Distribution Center		1	25,498.34
302AK	Birmingham, AL, Annex		2	51,330.00
	TOTAL AGREED TO BY MANAGEMENT	07/01/2005 – 06/30/2007	43	\$374,887.26

APPENDIX G. MANAGEMENT'S COMMENTS

WILLIAM J. BROWN
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



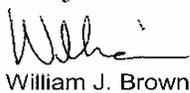
July 14, 2006

MEMORANDUM FOR: Ms. Kim H. Stroud
Director, Audit Operations
Office of the Inspector General

SUBJECT: Mail Transport Equipment Service Center Network-Highway
Transportation Routes-Atlanta (Report Number NL-AR-06
-DRAFT)

The Southeast Area agrees with both findings. The initial 43 trips identified by the Review Team, in conjunction with the 47 trips identified by our team, will be eliminated. We anticipate the appropriate changes to the Highway Contract Route (302AK) to be entered by August 18th for implementation by September 18, 2006.

The trips, summarized on Appendices E and F, represent approximately \$801,000 dollars of savings. These savings should be realized over the remaining period of the contract, and are projected into the next two (2) years. Please find attached spreadsheet listing the recommended trips for elimination.


William J. Brown

Attachments

cc: Terry Wilson, Area Manager, Operations Support, Southeast Area Office
Paul McDermott, Manager, Distribution Networks, Southeast Area Office

225 N HUMPHREYS BLVD
MEMPHIS TN 38166-0100
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FAX: 901-747-7491

USPS Appendix E Code	MASS CODE	ORG TRIPS REQUESTED	AGREE	REPLACE SUBSTITUTE ADD	RATE PER MILE	WEEKLY POTENTIAL SAVINGS	TOTAL SAVINGS 104 WKS	USPS Comments
CAPITAL METRO AREA								
COLUMBIA SC P&DC	290	3	1		\$0.80123	\$339.72	\$35,331.04	RUNNING ALMOST DAILY EXTRA TO CLEAR MILE OK - Other trips on HCR substituted for savings
GREENVILLE SC P&DC	298	3	0	1	\$0.80123	\$198.15	\$37,247.98	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER OK - Other trips on HCR substituted for savings
CAROLINA MAILING SERVICE	292CM	0	0	1	\$0.80123	\$347.73	\$36,164.32	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER
GAH MAILING SERVICE	292GM	0	0	1	\$0.80123	\$698.67	\$72,661.95	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER
DIRECT MAILING SERVICE	292DM	0	0	2	\$0.80123	\$1,744.18	\$181,460.88	Estimated completion/implementation date 7/01/2007 OK - Other trips on HCR substituted for savings
Total for Capital Metro Area								

SOUTHEAST AREA								
ATLANTA BMC	302	4						RUNNING EXTRAS, BMC IS RECEIVING RATE FROM ALL SERVICE AREA
ATLANTA BMC ANNEX	300AX	6	5		\$1,35803	\$336.51	\$35,306.78	OK - Other trips on HCR substituted for savings
NORTH METRO P&DC	301	17	17	6	\$1,35803	\$2,217.98	\$230,636.95	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER
STATE FARM INSURANCE	300SF	0		1	\$1,35803	\$136.48	\$14,194.13	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER
COMPACT SERVICES	300CP	0		5	\$1,35803	\$492.10	\$50,136.47	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER
TRAVELERS INSURANCE	300TI	0		5	\$1,35803	\$563.40	\$57,663.31	WORKED WITH NORTH METRO TO REDUCE TOTAL NUMBER
ATLANTA P&DC	303	24	15		\$1,35803	\$20.37	\$2,118.53	Estimated completion/implementation date 7/01/2007 OK - Other trips on HCR substituted for savings
AUGUSTA	308	1	1		\$0.80123	\$256.39	\$26,864.93	Estimated completion/implementation date 7/01/2007
DOVE MAILING SERVICE	303DM	0		2	\$1,35803	\$100.49	\$10,451.40	RUNNING ALMOST DAILY EXTRA TO CLEAR MILE
HOLLOWTREE WAREHOUSE	30MBD	0		15	\$1,35803	\$83.15	\$6,607.43	OK - insufficient truck space to eliminate other HCR trip substituted
MACON P&DC	310	1	1		\$0.80123	\$270.92	\$28,164.84	Estimated completion/implementation date 7/01/2007
ALBANY GA	317	1	1		\$0.80123	\$490.15	\$50,966.69	OK - insufficient truck space to eliminate other HCR trip substituted
BIRMINGHAM P&DC	350	1	1	1	\$0.80123	\$987.12	\$102,860.00	OK - insufficient truck space to eliminate other HCR trip substituted
BIRMINGHAM ANNEX	350AX	2	2	2	\$0.80123	\$987.12	\$102,860.00	OK - insufficient truck space to eliminate other HCR trip substituted
ANNISTON AL MPD	362	2						ONLY 1 TRIP PER DAY - REQUIRED FOR MTE
CHATTANOOGA TN	373	2						ONLY 1 TRIP PER DAY - REQUIRED FOR MTE
KNOXVILLE TN	377	1						ONLY 1 TRIP PER DAY - REQUIRED FOR MTE
KNOXVILLE TN	377	1						ONLY 1 TRIP PER DAY - REQUIRED FOR MTE
ATLANTA AMC	ATL	0		6	\$1,35803	\$40.74	\$4,237.08	OK - insufficient truck space to eliminate other HCR trip substituted
Total for Southeast Area								
		68	43	17		\$7,702.98	\$801,097.39	NOTE TO REFER VCR: \$31 DIFFERENCE BETWEEN TABLE 1 AND THIS TOTAL IS DUE TO ROUNDING DIFFERENCE

Total for Appendix E, Additional USPS Identified trips	\$234,724.69
Note: \$161 difference between the amount and Appendix E amount is due to rounding difference	
Total for Appendix E, Proposed OIG trips, USPS agreed to	\$566,382.74

MANAGER, OPERATIONS SUPPORT
CAPITAL METRO OPERATIONS



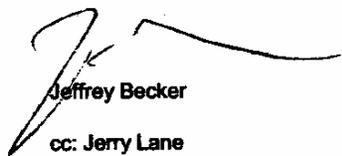
August 2, 2006

Kim H. Stroud
Office of Inspector General
Director, Audit Reporting
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**SUBJECT: Transmittal of Draft Audit Report – Mail Transport Equipment Service
Center Network – Highway Transportation Routes - Atlanta
(Report Number NL-AR-06-DRAFT)**

The Capital Metro Area has reviewed the subject Draft Audit Report and conferred with the Southeast Area regarding the current administrative authority for the subject routes. At this time we concur with the general findings of the OIG audit team, as well as the decision proposed by the Southeast Area to eliminate the identified portions of Highway contract Route 302AK that service the Columbia SC Processing & Distribution Center and local mailers. It is our understanding that these trips will be deleted by September 18, 2006.

If you have any questions or require further information contact Robert Borris, Manager Distribution Networks Operations at 301-618-4401.



Jeffrey Becker
cc: Jerry Lane
Robert Borris

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