



October 22, 2009

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Management of Mail Transport Equipment –
Pacific Area (Report Number NL-AR-10-001)

This report presents the results of our self-initiated audit of Management of Mail Transport Equipment (MTE) (Project Number 09XG008NL000). The objective was to assess the effectiveness of the Postal Service's management and control of MTE, including distribution, flow, security, and inventory management. This report focuses on the Pacific Area.¹ See [Appendix A](#) for additional details about this audit.

Conclusion

The Pacific Area's management and control of MTE was not effective. We determined the Pacific Area developed standard operating procedures (SOP) for MTE, but did not always ensure compliance with inventory and accountability processes nor ensure assets were always safeguarded.² Specifically:

- MTE inventories were inaccurate since management only based them on estimated "on hand counts" and did not include equipment from some plants or any major mailers and other external customers.
- Although plants generally kept records of MTE distributed to mailers and customers, they did not have visibility over the MTE flow once it left the plants and did not use the records for managing, tracking or reconciling MTE and establishing accountability.
- Security controls were not sufficient to ensure the safeguarding of MTE.

We determined these conditions occurred because:

¹ The Postal Service views MTE as a national asset and it is procured and allocated to areas by Headquarters. Further, areas and plants are responsible to properly inventory, account for, and safeguard MTE.

² The Postal Service's moves more mail east to west, resulting in plants in the west having more MTE than needed to meet operational requirements. The Pacific Area normally has a surplus of MTE, requiring excess MTE to be managed, identified, and redistributed (transported back east where there is generally a deficit of MTE).

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

- Plant managers did not always provide sufficient priority, resources, training, and oversight to effectively manage MTE.
- Area management did not assign sufficient resources to monitor MTE activities and compliance with all SOP requirements.
- The Area’s MTE SOP does not fully address all necessary controls over MTE.
- The Postal Service does not have a nationwide comprehensive inventory system for identifying and tracking all MTE to support Area and local oversight responsibilities.³

As a result, delays may impact mail processing and transportation because some plants may not have enough MTE to move the mail. Additionally, some plants may have too much MTE, which the Postal Service could redistribute to the locations needing the equipment. In addition, the Postal Service may be unnecessarily purchasing MTE because of unaccounted for or improperly stored equipment. Further, some MTE assets in the Pacific Area are at risk of loss, theft, and misuse and could present a danger to public safety and security and reflect poorly on the Postal Service’s brand and public image.⁴ See [Appendix B](#) for our detailed analysis of this topic.

We recommend that the Vice President, Pacific Area Operations:

1. Reinforce national Mail Transport Equipment (MTE) policies and procedures and the Area’s MTE standard operating procedures (SOP) that require plant managers to provide sufficient priority, resources, training, and oversight to effectively manage MTE, including:
 - Designating and training MTE coordinators, ensuring that sufficient time and resources are allocated to perform all of the duties the SOP requires, and ensuring that management establishes controls for monitoring MTE coordinators’ activities and results.
 - Conducting weekly “on hand” inventory counts of MTE at all plants as required by the SOP to provide for the estimated MTE inventory at plants within the Pacific Area.

³ We will conduct a subsequent audit to review and assess overall MTE management from a nationwide perspective and will provide recommendations regarding a comprehensive inventory and tracking system at that time.

⁴ The essence of the Postal Service brand is customer perception and the control and management weaknesses above could pose a high risk for the public to negatively perceive the Postal Service’s ability to properly manage, account for, and protect their assets.

2. Revise the Pacific Area Mail Transport Equipment (MTE) standard operating procedures to address all necessary MTE controls, including:
 - Requiring major mailers to provide weekly inventory counts that will help form the basis for an estimated MTE inventory within the Pacific Area.
 - Addressing accountability controls, including authenticating Postal Service customers, validating customer MTE needs, and tracking and reconciling MTE loaned to mailers and other external customers.
 - Addressing security controls to safeguard MTE, including securing MTE in restricted areas, ensuring MTE is not unnecessarily exposed to the elements, preventing mailers and other external customers from having free access inside the facility and outside areas, and securing the facility's perimeter.
3. Reinforce that the Distribution Networks Office should assign sufficient Area resources to monitor management of Mail Transport Equipment (MTE) and compliance with all standard operating procedures, including ensuring complete and reliable weekly inventory counts, following up on incomplete or questionable inventory counting and reporting, and providing necessary guidance and training to designated plant MTE personnel.

Management's Comments

Management generally agreed with our findings and recommendations. Management responded that the Pacific Area understands the importance and financial impact of an effective MTE process. Further, management stated that many of the MTE issues addressed require updating policies and procedures at the national level to ensure uniform requirements, especially those policies impacting mailers. Additionally, management cited the need to weigh the cost against the benefits when developing controls in view of the recent Postal Service reorganization and reduction in staff at the Distribution Networks Office.

Management stated they will follow up with and train district MTE coordinators to ensure an effective MTE process. Management also noted that a complete and reliable MTE inventory is physically impossible, because the MTE inventory is fluid and is in a constant state of turnover. However, management stated the Pacific Area currently requires all plants to conduct a weekly "on-hand" inventory count and provide their counts to the Area for consolidation. In addition, management stated they have taken steps to enhance monitoring of and compliance with this requirement. Management stated that the benefit of securing the perimeters of Pacific Area facilities may not be cost effective.

Management also stated that they replaced all SOPs with updated Operating Instructions (OI). Specifically, they noted that their MTE SOP, which was cited in the

report, was replaced by MTE OI on June 16, 2008. Management acknowledged some employees in the field still may have been following the outdated SOP. Management's comments, in their entirety, are included in [Appendix D](#).

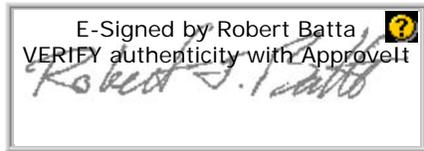
Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report, and their corrective actions should resolve the issues identified. We agree with Postal Service management that the MTE management issues are far-reaching and require national coordination and oversight, and we will address national MTE issues in a capping report to Postal Service Headquarters. Additionally, we acknowledge that the Postal Service's current financial condition and reduced staffing make it difficult to perform all necessary monitoring and control activities and require the balancing of cost and benefits. Regarding the "on hand" inventory counts, we agree with the Pacific Area that this is a necessary and appropriate tool to manage and redistribute MTE inventory until a national inventory process is implemented. Moreover, we agree the Pacific Area's response to review MTE staging areas and additional security measures established meet the intent of the recommendation. Full or partial perimeter security should be considered if cost effective.

In reference to management's replacement of the SOP with OI in June 2008, the Pacific Area did not raise any concerns, or bring to our attention, that the SOP was replaced and was no longer in force. Regardless of when the Pacific Area's SOP was replaced, the national MTE requirements contained in the Postal Operations Manual (POM) are similar to the SOP requirements and could assist in the effective management of MTE until Postal Service Headquarters can implement new MTE processes. It should also be noted that the Pacific Area's June 2008 OI does not address many of the MTE requirements previously addressed in the SOP, including the requirement to conduct weekly on hand inventory counts. However, we found that although the inventory counts are not addressed in the the June 2008 OI, the Area still requires them. In addition, the counts are still included as a requirement in the POM.

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 Jody Troxclair, Director, Transportation, or me at (703) 248-2100.



Robert J. Batta
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Mail transport equipment consists of various types of containers used to hold mail during processing and transportation within or between Postal Service facilities, its contractors, its mailers, and other external customers.⁵ The Postal Service purchased over 345 million pieces of MTE totaling over \$908 million over the last 9 years.

The various types of MTE include:

- Pallets made of plastic, wood, or chipboard;
- Containers with wheels of varied sizes, shapes, and material (known as “rolling stock”);
- Trays of varying sizes for letters and flats (known as “tubs”);
- Mailbags (known as “sacks”); and
- Cardboard boxes and fiberboard boxes (known as “Postal Paks”).



**Excess plastic pallets stored at mailer FedEx Smart Post.
There were approximately 8,000 pallets, or a 4-week supply.
Chino, CA, January 15, 2009**

Generally, the useful life of MTE will vary considerably based on type, and some types of MTE, such as rolling stock (containers on wheels), can be in service for as long as 20 years. Individual MTE items cost the Postal Service from less than \$1 to about \$1,400 and are expensed in accordance with Postal Service accounting policies and practices rather than being capitalized. As such, the Postal Service does not carry MTE inventory as an asset for financial reporting purposes and does not know the size or value of its MTE inventory. Further, MTE is viewed within the organization as being consumable or expendable items.

MTE Management and Oversight. Postal Service headquarters, under the direction of the Vice President, Network Operations, is responsible for establishing policy for managing all aspects of MTE, covering the operation, transportation, distribution, delivery, inventory, storage, and reporting of MTE.⁶ The Postal Service developed

⁵ MTE is used at about 400 processing facilities; 33,000 post offices; and numerous mailers, printers, consolidators, and other external customers nationwide. While the Postal Service loans MTE to mailers and other external customers as a courtesy, it may not give those entities MTE for their internal operating use or personal convenience.

⁶ *Postal Operations Manual (POM)*, Section 587.1.

national guidelines nearly 20 years ago, delineating headquarters, area, plant, and mailer responsibilities for MTE. The same guidelines are still in effect even though some provisions may be outdated due to changes in the operating environment.

The Postal Service's nine geographical areas, through their Distribution Networks Offices (DNO), are responsible for ensuring compliance with Postal Service MTE policy at the field level. The area DNOs are required to provide guidance to plants and each plant is responsible for the daily management of MTE at its facility, ensuring compliance with all national MTE policies. Some Postal Service areas, including the Pacific Area, have developed local SOP to help ensure compliance with nationwide requirements.

MTE Accounting and Inventory. The Postal Service initially established the Equipment Inventory Reporting System (EIRS) to enable the control and management of MTE by redistributing MTE from areas with a surplus to areas with a deficit. However, management determined the EIRS system and its related reporting functions were no longer necessary with the implementation of the Mail Transport Equipment Service Center (MTEESC) network around 1997, and decided to rely on data provided by the MTEESC network for visibility into the MTE program.⁷ However, there is limited visibility of MTE outside of the MTEESC network.

To address its continued lack of MTE inventory management, controls, and visibility, Postal Service headquarters recently explored development of the MTE On-line Ordering (MTEOR) system. However, due to the Postal Service's current financial situation, management put the MTEOR system initiative on hold in April 2009.

MTEESC Network. The MTEESC network is a centrally managed system of 23 contractor-operated service centers designed to supply pallets, tubs, mailbags, and other MTE to mail processing facilities and certain large customers nationwide. The MTEESC network delivers equipment to users with dedicated transportation; recovers equipment that is no longer needed or serviceable; and then processes it for inventory or redistribution. The activities of the centers are tracked through the Mail Transport Equipment Support System (MTESS),⁸ which forms the Postal Service's only formal visibility of MTE inventory. However, the system is limited in that it only tracks inventory physically at MTEESCs and does not provide visibility of MTE at facilities, with mailers and other external customers, or in-transit.

⁷ Although no longer a functioning computerized system, the EIRS framework some Postal Service areas, including the Pacific Area, still use it to manually track and report inventory counts because of the limitations of the MTEESC network inventory system.

⁸ MTESS information, while severely limited in scope of coverage, is still used by Headquarters to determine MTE requirements nationally and forecast for ordering new MTE annually. We will review and address national MTE controls in a subsequent audit.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the effectiveness of the Postal Service's management and control of MTE, including distribution, flow, security, and inventory management. This report focuses on management and control of MTE in the Pacific Area.

To accomplish our objective, we conducted interviews at Headquarters with Postal Service management and representatives from Network Operations (Logistics – MTE and Mail Processing), Delivery and Post Office Operations, International Mail Operations, and the Business Service Network (BSN). We also conducted interviews with the Pacific Area DNO, Santa Ana District BSN, and Postal Inspection Service to obtain an understanding of the MTE program and its history. We reviewed MTE operations at 20 Postal Service facilities in the Pacific Area⁹ to assess the control environment in the Postal Service network and made physical observations at 16 of these facilities. We also visited and observed MTE operations at eleven mailers, two MTESCs, and one Terminal Handling Service Center in the Pacific Area. See [Appendix C](#) for a list of facilities visited.

In addition, we reviewed national and area policies, procedures and documents, including the POM, Pacific Area MTE SOP,¹⁰ the *Pacific Area Operating Instructions*, *Material Management Handbook*, and various Area MTE reports and information. Further, we reviewed over 9 years worth of MTE purchase data provided by headquarters and dating back to FY 2000 to help estimate the scope, size, age, and make-up of MTE inventory at the national level.

During our audit, we noted control weaknesses that constrained our work. For example, there is no complete, accurate, or reliable inventory of MTE at either the national or Area level and we were unable to determine the scope of MTE within the Pacific Area. However, we compensated for internal control weaknesses and data limitations by applying alternate audit procedures including observations, examination of source documents, discussions with responsible officials, a review of MTE purchases nationally covering the past 9 years, and communication with the Postal Inspection Service and Headquarters' MTE group on their respective MTE efforts.

We conducted this performance audit from December 2008 through October 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our

⁹ Facilities reviewed include Processing and Distribution Centers, Processing and Distribution Facilities, and Bulk Mail Centers.

¹⁰ In addition to MTE inventory, ordering, and accountability requirements, the SOP addresses MTESC operations and safety. We did not review these two requirements since they were outside the scope of our audit objectives.

observations and conclusions with management officials on September 10, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We issued the OIG report *Radio Frequency Identification Technology: Asset Management* (Report Number DA-AR-09-002, dated December 24, 2008). The objective of this audit was to determine the opportunities available for the Postal Service to adopt Radio Frequency Identification (RFID) technology to manage assets and lower operational costs. The report determined the Postal Service has opportunities to adopt RFID technology to improve the management of MTE inventories and minimize long-standing pallet losses. Additionally, the report concluded the Postal Service does not have an effective inventory tracking system to curtail pallet loss. The OIG reported about \$127 million in funds put to better use, and management agreed with our findings and recommendations.¹¹

¹¹ The Postal Service is still exploring RFID technology for pallets, but placed plans for implementation on hold due to the Postal Service's current financial situation.

APPENDIX B: DETAILED ANALYSIS

More Effective MTE Inventory Management and Control Needed

The Pacific Area's management and control of MTE was not effective. We determined Area management has taken some positive steps to help manage MTE by developing a SOP for MTE. However, the Pacific Area did not always ensure compliance with inventory and accounting processes and did not fully execute their responsibilities to control and safeguard MTE assets.¹²

MTE Inventory On-Hand Counting and Reporting. We determined that MTE inventories were inaccurate since management based them only on estimated weekly on-hand inventory counts, which did not include equipment from some plants or any major mailers and other external customers. Specifically, we found six of 20 plants did not report the required on-hand weekly inventory counts¹³ and those that were conducted did not include MTE loaned to major mailers and other external customers.

The Pacific Area used "on-hand inventory counts" because a nationwide comprehensive inventory system for identifying and tracking all MTE did not exist. The inventory counts were designed to provide a summary of inventory on-hand to identify where empty MTE may be available for redistribution and enable the assessment of reporting and compliance over a period of time. However, the on-hand inventory counts were not accurate because plant managers did not always provide sufficient priority, resources, training, and oversight to effectively manage MTE and Area management did not assign sufficient resources to monitor MTE activities and compliance with all SOP requirements.¹⁴ Weekly on-hand inventory counts that were conducted did not include the MTE loaned to major mailers and other external customers because the Area MTE SOP did not require it. Further, the Area was not consistently consolidating counts from plants for use in inventory management or validating the on-hand inventory counts at plants nor ensuring compliance.

Accountability for MTE. We found that, although all plants reviewed generally kept records of distributed MTE to mailers and customers, they did not have visibility over the MTE flow once it left the plants and did not use the records to manage, track or reconcile to establish accountability. Specifically, we determined that most plants were not:

- Advising mailers of their responsibilities and liabilities (16 of 20 plants).

¹² The Pacific Area published its MTE SOP to set policies and establish responsibilities and procedures for effective management of MTE and to ensure compliance with national MTE policies. The Pacific Area last updated its SOP in March 2006 and delineates area and plant MTE responsibilities and oversight.

¹³ Due to data limitations and lack of records, we could not determine plant reporting and compliance over time. Further, the consolidated weekly inventory count reports we did review were limited to May 2009.

¹⁴ The Pacific Area was not consistently consolidating plant results for use in inventory management and was not testing and validating the on-hand inventory counts at plants. In addition, they did not follow up with the plants that did not submit the weekly counts.

- Conducting reviews/audits of MTE loaned to mailers and other external customers (15 of 20 plants).
- Ensuring that loaned MTE was not abused and was returned timely (16 of 20 plants).
- Reconciling MTE loaned to mailers or other external customers against what is returned to the Postal Service (20 of the 20 plants).
- Authenticating mailers and other external customers who requested and received MTE (18 of the 20 plants).



Postal Service pallets used to store equipment used in a mailer's internal operations at Transamerican Mailing and Fulfillment. Escondido, CA, April 23, 2009.



Postal Service hampers used to construct a makeshift desk at mailer Starcrest of California. Perris, CA, January 15, 2009.

This occurred because plant managers did not always provide sufficient priority, resources, training, and oversight to effectively manage MTE. Further, Pacific Area management did not assign sufficient resources to monitor MTE management and compliance with all SOP requirements. In addition, the SOP does not address accountability controls over authenticating mailers and other external customers and reconciling MTE loaned to mailers and other external customers.

MTE Security Controls. We determined that security controls were not sufficient to ensure the safeguarding of MTE. Specifically, we observed:

- Facilities generally stored MTE outside in the yard or around the docking area, sometimes exposed to the elements, leaving equipment at risk of damage.
- Facilities did not use gates to secure the perimeter and restrict access to the facility yard¹⁵ (six of 20 facilities).

¹⁵ Of the six facilities, gates were left open or not used at five and visitors were buzzed in without checking for proper identification at one unmanned gate.

- Mailers had unsupervised access to facility yards, where there were no controls to monitor mailer activity once inside the yard¹⁶ (18 of 20 facilities).
- MTE storage areas were not locked or secured (20 of 20 facilities).



Excess equipment is stored outdoors, exposed to the elements.

**City of Industry, CA,
December 17, 2008.**

This occurred because the Area SOP does not specifically address controls over the safeguarding of MTE assets although the Postal Service's accountability controls for all assets apply to the security of MTE.¹⁷



**Unprocessed, excess MTE stored outdoors in a tent
at the Stockton P&DC.
Stockton, CA, May 15, 2009.**



**Rolling stock stored outdoors
in a public parking lot adjacent
to the North Bay Delivery and Distribution Center
Petaluma, CA, May 13, 2009.**

Impact of Ineffective Controls

As a result of the ineffective controls, delays may impact mail processing and transportation because some plants may not have enough MTE to move the mail. On the other hand, some plants may have too much MTE, causing overcrowding, which may negatively impact processing operations. In addition, the Postal Service may be unnecessarily purchasing MTE because of unaccounted for or improperly stored equipment. Further, some MTE assets in the Pacific Area are at risk of loss, theft, and misuse and could present a danger to public safety and security and reflect poorly on the Postal Service's brand and public image.

¹⁶ At six of the 20 facilities reviewed, employees advised us that they have found MTE missing and taken without their knowledge or oversight and concluded mailers were helping themselves to MTE. Employees also concluded that mailers were coming in on weekends to help themselves to MTE and removed cardboard boxes staged for recycling or reuse.

¹⁷ While the Pacific Area SOP does not address security controls to safeguard MTE, Postal Service Handbook AS-701, *Material Management*, establishes policies and responsibilities to safeguard all Postal Service assets. Specifically, Section 128 provides that managers have material accountability for all assets within their facility and are responsible for ensuring the security and proper use of all Postal Service property under their jurisdiction.

We could not determine the specific impact of weak controls over the inventory of, accountability for, and safeguarding of MTE in the Pacific Area. However, it should be noted that the Postal Service estimated 1.8 million plastic pallets (with an estimated value of over \$36 million) leaked from its network nationwide during FYs 2006 and 2007. These pallets were unaccounted for over the last few years and are missing from the nationwide network. Additionally, recent coordinated efforts between the Postal Service and Postal Inspection Service resulted in the identification and recovery of over 260,000 pieces of MTE nationally valued at about \$2 million – most of which involved unauthorized use at external customers or unauthorized possession by other parties, such as recyclers.

APPENDIX C: FACILITIES, CONTRACTORS AND MAILERS REVIEWED¹⁸

Pacific Area District	Postal Service or External	Location	Name
<i>Bay Valley</i>	Postal Service Facilities	Oakland, CA Richmond, CA San Jose, CA Fresno, CA Salinas, CA	Oakland P&DC San Francisco BMC San Jose P&DC Fresno P&DC Salinas P&DF
	Mailers	Napa, CA Newark, CA San Leandro, CA	Regulus Valassis Mercury Mail Service
	MTESC	Richmond, CA	San Francisco MTESC
<i>Los Angeles</i>	Postal Service Facilities	Bell, CA Los Angeles, CA	Los Angeles BMC Los Angeles P&DC
<i>Sacramento</i>	Postal Service Facilities	West Sacramento, CA Stockton, CA Redding, CA Marysville, CA	Sacramento P&DC Stockton P&DC Redding P&DC Marysville P&DF
	Mailers	El Dorado Hills, CA	DST Output
<i>Sierra Coastal</i>	Postal Service Facilities	Santa Clarita, CA	Santa Clarita P&DC
<i>San Diego</i>	Postal Service Facilities	San Diego, CA San Bernardino, CA	Margaret Sellers P&DC San Bernardino P&DC
	Mailers	Perris, CA Escondido, CA Carlsbad, CA	Starcrest of California Transamerican Mailing & Fulfillment Modern Postcard
<i>San Francisco</i>	Postal Service Facilities	San Francisco, CA Petaluma, CA	San Francisco P&DC North Bay P&DC
<i>Santa Ana</i>	Postal Service Facilities	Santa Ana, CA Anaheim, CA City of Industry, CA Long Beach, CA	Santa Ana P&DC Anaheim P&DF City of Industry P&DC Long Beach P&DC
	Mailers	Rancho Cucamonga, CA Chino, CA Chino, CA Irwindale, CA	UPS Innovations FedEx SmartPost Motivational Fulfillments Tribune Direct
	MTESC	Ontario, CA	Los Angeles MTESC
	Other	Ontario, CA	Ontario THS

¹⁸ We reviewed 20 Postal Service facilities throughout the Pacific Area, as well as contractors and mailers. Selected facilities covered all seven Postal Service Districts in CA. We did not review operations in the Pacific Area's Hawaii District.

APPENDIX D: MANAGEMENT'S COMMENTS

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS



October 7, 2009

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – Management of Mail Transport
Equipment – Pacific Area (Report Number NL-AR-09-DRAFT)

The Pacific Area understands the importance and financial impact of an effective Mail Transport Equipment Process. We would like to note the Mail Transport Equipment Standard Operating Procedure OS-04-01, dated Revised September 14, 2006 used as a reference in this audit, was replaced on June 16, 2008 with Mail Transport Equipment Operating Instruction OI-08-05. We do acknowledge that some in the field may still have been following the SOP. The Pacific Area replaced all Standard Operating Procedures with updated Operating Instructions.

The following addresses the 3 recommendations requiring our response:

Recommendation #1

1. Reinforce national Mail Transport (MTE) policies and procedures and the Areas MTE standard operating procedures (SOP) that require plant managers to provide sufficient priority, resources, training, and oversight to effectively manage MTE, including:
 - a. Designating and training MTE coordinators, ensuring that sufficient time and resources are allocated to perform all of the duties the SOP requires, and ensuring that management establishes controls for monitoring MTE coordinators' activities and results.
 - b. Conducting weekly "on-hand" inventory counts of MTE at all plants as required by the SOP to provide for the estimated MTE inventory at plants within the Pacific Area.

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Managements Response

- a. Management agrees with this recommendation; The Pacific Area will follow up with the District MTE coordinators and assist in any training needs that are identified. This will ensure the District Coordinators duties and assignments are in alignment with an effective MTE process.
- b. Management agrees with this recommendation and currently is in compliance. The Pacific Area requires all plants to submit an Equipment Inventory Reporting System Report (EIRS) to the Distribution Networks Office, weekly. The reports are reviewed for any discrepancies, then consolidated and posted onto the Pacific Area Distribution Networks Office web page. This is to allow each site to look within the Pacific Area for needed MTE.

Recommendation #2

- 2. Revise the Pacific Area Mail Transport Equipment (MTE) standard operating procedures to address all necessary MTE controls, including:
 - a. Requiring major mailers to provide weekly inventory counts that will help form the basis for an estimated MTE inventory within the Pacific Area
 - b. Addressing accountability controls, including authenticating Postal Service customers, validating customer MTE needs, and tracking and reconciling MTE loaded to mailers and other external customers
 - c. Addressing security controls to safeguard MTE, including securing MTE in restricted areas, ensuring MTE is not unnecessarily exposed to the elements, preventing mailers and other external customers from having free access inside the facility and outside areas, and securing the facility's perimeter.

Managements Response

- a. Management agrees with this recommendation. Due to the National implications, we believe that updating policies and procedures of this scope should be done at the National level. The coordination of Major Mailer requirements should be uniform throughout the Postal Service.
- b. Management agrees with this recommendation; validating customer MTE needs is an important part of MTE Management. We will work together with the Pacific Area customer relations group to address how best to validate a customers needs. Due to National implications, authenticating Postal Service customers, tracking and reconciling MTE loaned to mailers and other external customers should be done at the National level with National oversight. With the recent staffing reductions and reorganization of the Distribution Networks Operations brought on by the state of the business, staffing requirements would also need to be addressed.

- c. Management partially agrees with this recommendation; we understand that MTE is not best served exposed to the elements and strive to minimize any occurrences. We will send out Instructions asking each Plant Manager to review the MTE staging areas ensuring MTE staged outside in the elements are addressed. Each facility has a Security Control Officer and an Individual security plan that would address external customers and the level of access to each facility. At this time we believe the added cost to secure each facility perimeter in the Pacific Area would far outweigh the benefits.

Recommendation #3

3. Reinforce that the Distribution Networks Office should assign sufficient Area resources to monitor management of Mail Transport Equipment (MTE) and compliance with all standard operating procedures, including ensuring complete and reliable weekly inventory counts, following up on incomplete or questionable inventory counting and reporting, and providing necessary guidance and training to designated plant MTE personnel.

Managements Response

Management agrees with this recommendation; currently the Pacific Area Manager, Distribution Networks Office has an assigned Networks Operations Analyst with the function of MTE oversight. The duties include but are not limited to gathering EIRS reports, reviewing for discrepancies, consolidating and posting on the Pacific Area DNO website. There also is a procedure for following up with those facilities that are not in compliance with sending the report to the Area in a timely manner. We would like to state that a complete and reliable MTE inventory is physically impossible as MTE is fluid as it is generally in a constant state of turnover.

We appreciate the opportunity to provide comments to the draft audit report



If you have any questions, please contact Karen Padden at (858) 674-2638.

A handwritten signature in black ink, appearing to read "Michael J. Daley".

Michael J. Daley

cc: William Harris