



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

### Mail Transport Equipment Service Centers – Nationwide Assessment

### Audit Report

Report Number  
NO-AR-16-004

November 19, 2015





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

### Highlights

***We found Postal Service Headquarters management needs to enforce nationwide compliance and provide oversight of MTESC operations and transportation.***

### Background

The U.S. Postal Service's Mail Transport Equipment Service Center (MTESC) network is composed of 15 contractor-operated centers that handle, supply, and transport mail transport equipment (MTE), such as tubs and trays, to mail processing facilities and customers. Fiscal year (FY) 2014 processing costs for all 15 MTESCs were about \$43 million.

We previously conducted audits at four of the 15 MTESCs and reviewed internal controls and dedicated transportation. Our objective for this capping report was to assess MTESC network controls and transportation from a nationwide standpoint, which included the remaining 11 MTESCs.

### What the OIG Found

We found that Postal Service Headquarters management needs to enforce nationwide compliance and oversight of MTESC operations and transportation. Specifically, Postal Service facilities did not always properly prepare excess MTE before dispatching it to the MTESCs. We found that for 13 of 15 MTESCs, less than 50 percent of trays and tubs received from facilities contained the correct number and type of MTE and were properly stacked and shrink-wrapped. The percentage of excess MTE that was properly prepared ranged from 0.20 percent to 45.41 percent for the 13 facilities. Properly prepared MTE would reduce processing and transportation costs and improves employee safety concerns.

Conversely, we found some facilities used best practices, such as management oversight to enforce procedures, to prepare MTE for distribution to the MTESCs. For example, about 84 percent of the MTE at Seattle, WA, MTESC received from facilities was properly prepared.

Further, we found Postal Service management did not adequately control contractor performance for processing, invoicing, and repairs, or ensure contractor premises were secured. Also, facilities did not always inspect empty MTE for mail before dispatching it to the MTESCs or mailers to help prevent delayed mail to customers.

These conditions occurred because Postal Service Headquarters did not provide sufficient oversight and assign adequate resources to ensure compliance with its excess MTE policies and procedures. The policy states that any excess MTE dispatched to MTESCs should be properly prepared. However, headquarters officials stated the intent of the policy was to have 50 percent of excess MTE prepared and dispatched to the MTESCs.

As a result, the Postal Service incurred about \$2.5 million and \$2.4 million in unnecessary processing costs at the remaining 11 MTESCs for FYs 2013 and 2014, respectively. It could also avoid about \$2.4 million annually in costs over the next 5 years by improving controls and implementing best practices for preparing MTE.



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### What the OIG Recommended

We recommended management reinforce and monitor its facilities' performance for properly preparing MTE and thoroughly inspecting it for any residual mail before dispatching it to the MTECs or mailers. Additionally, we recommended management evaluate and implement best practices for preparing MTE and ensure adequate resources are assigned.

We also recommended management establish adequate controls over contractor performance, including the processing, invoicing, repair, and handling of MTE; and ensure adequate security is in place at all MTECs.

# Transmittal Letter

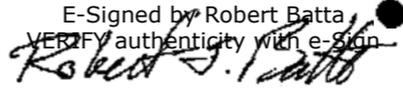


OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

November 19, 2015

**MEMORANDUM FOR:** LINDA M. MALONE  
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Robert Batta  
VERIFY authenticity with e-Sign  


**FROM:** Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

**SUBJECT:** Audit Report – Mail Transport Equipment  
Service Centers – Nationwide Assessment  
(Report Number NO-AR-16-004)

This report summarizes our four prior audits of internal controls and transportation associated with the Mail Transport Equipment Service Centers and selected reviews of sites producing the highest and lowest plant processed finished goods (Project Number 15XG029NO000). This report focuses on improving Mail Transport Equipment Service Center network processes from a nationwide standpoint.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Margaret B. McDavid, director, Network Processing and Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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# Findings

***Postal Service facilities did not always properly prepare excess MTE before dispatching it to the MTESCs. Additionally, we found Postal Service management did not adequately control contractor performance for processing, invoicing and repairs, or ensure contractor premises were secured.***

## Introduction

This capping report presents the results of our self-initiated audit of Mail Transport Equipment Service Centers – Nationwide Assessment (Project Number 15XG029NO000). We previously conducted audits at four of the 15 Mail Transport Equipment Service Centers (MTESCs) and reviewed internal controls and dedicated transportation.<sup>1</sup> Additionally, we visited the two highest and lowest performing MTESCs<sup>2</sup> (see [Figure 1](#)). Our objective was to assess MTESC network controls and transportation from a nationwide standpoint to include the remaining 11 MTESCs. See [Appendix A](#) for additional information about this audit and [Appendix B](#) for a summary of prior report findings.

The MTESC network is a centrally managed system of 15 contractor-operated service centers designed to supply pallets, tubs, trays, mailbags, and other mail transport equipment (MTE) to U.S. Postal Service mail processing facilities<sup>3</sup> and large customers (mailers) nationwide. The MTESC network uses dedicated transportation to deliver MTE, recovers MTE that is no longer needed or serviceable, and processes that equipment for inventory and redistribution. Postal Service facilities are responsible for properly preparing and sending MTE to MTESCs for redistribution to other facilities.

In fiscal year (FY) 2014, costs for all 15 MTESCs were about \$43 million for processing operations and \$80 million for dedicated transportation.

## Summary

We found that Postal Service Headquarters management needs to enforce nationwide compliance and oversight of MTESC network operations and transportation. Specifically, Postal Service facilities did not always properly palletize<sup>4</sup> excess MTE before dispatching it to the MTESCs. For example, we found that for 13 of 15 MTESCs, fewer than 50 percent of the trays and tubs received from facilities were properly palletized as PPFG. The percentage of MTE that was properly prepared ranged from 0.20 percent to 45.41 percent for the 13 facilities. Properly prepared MTE reduces processing and transportation costs and improves employee safety concerns.

Conversely, we found some facilities used best practices, such as management oversight to enforce procedures, to prepare MTE for further distribution to the MTESCs. For example, about 84 percent of the MTE at Seattle, WA, MTESC received from facilities was properly prepared. See [Appendix C](#) for best practices.

Additionally, we found the Postal Service did not enforce controls over MTE operations at MTESCs and processing facilities. Further, facilities did not always inspect empty MTE for mail before dispatching it to MTESCs or mailers, causing delays and undelivered mail.

These conditions occurred because Postal Service Headquarters did not provide sufficient oversight to ensure compliance with its excess MTE policies and procedures. The policy states that any excess MTE dispatched to MTESCs<sup>5</sup> should be properly prepared. However, headquarters officials stated the intent of the policy was to have 50 percent of excess MTE prepared and dispatched to MTESCs.

<sup>1</sup> The prior audits were performed at the Springfield, MA, Des Moines, IA, Atlanta, GA, and Dallas, TX, MTESCs. See [Appendix A](#) for more information.

<sup>2</sup> In addition we visited the plants that prepare and dispatch excess MTE to these MTESCs.

<sup>3</sup> Processing facilities receive outgoing mail from designated associate offices, stations, and branches or customer service facilities for processing and dispatch.

<sup>4</sup> A properly prepared pallet contains the correct number and type of MTE stacked and shrink-wrapped to specifications provided in the standard operating procedures (SOP). It is referred to as plant processed finished goods (PPFG).

<sup>5</sup> The revised SOP, *Mail Transport Equipment Return Handling Procedure for Processing Facilities*, effective August 13, 2012, states that letter trays, flat tubs, and sleeves must not be returned to an MTESC if they might be needed within 7 days. The SOP also requires any excess MTE be properly containerized or palletized before it is sent to the MTESC for processing and redistribution.

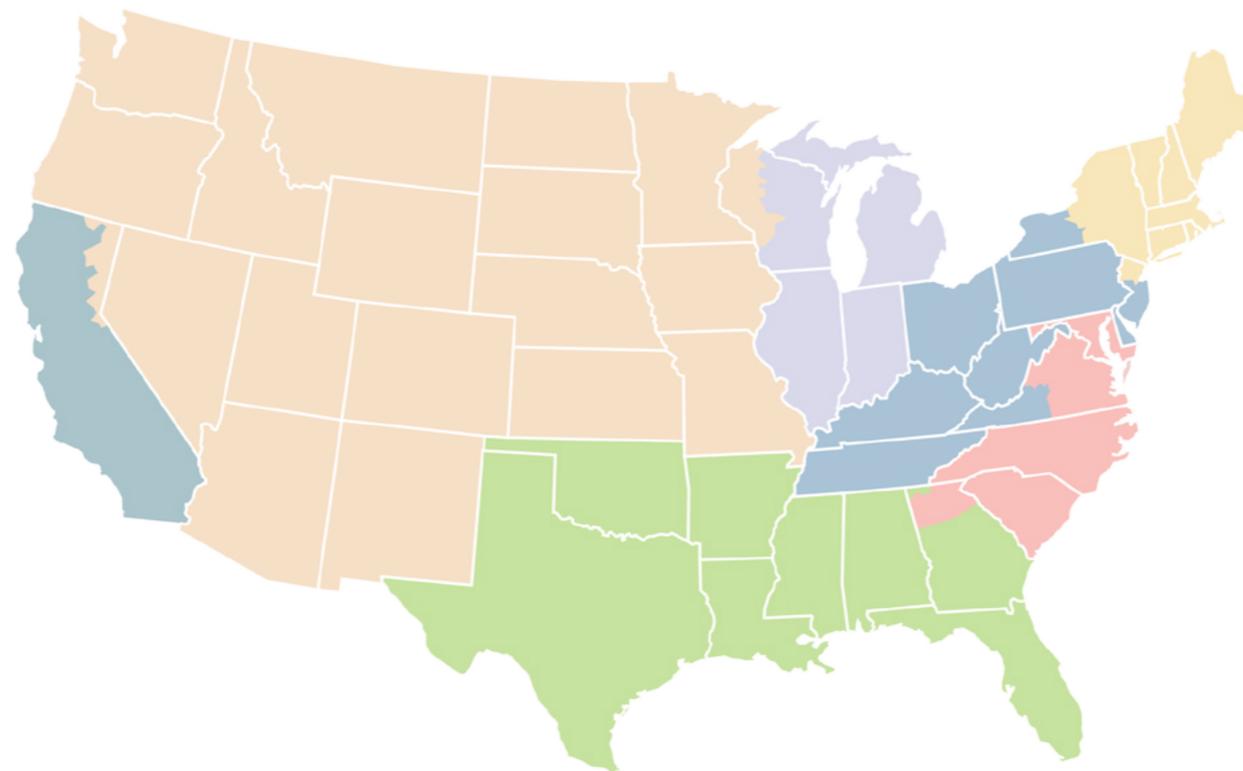
As a result, the Postal Service incurred about \$2.5 million and 2.4 million in unnecessary processing costs at the remaining 11 MTESCs<sup>6</sup> for FYs 2013 and 2014, respectively. It could also avoid about \$2.4 million annually in costs over the next 5 years by improving controls and implementing best practices for preparing MTE.

### Inadequate Compliance with Excess Mail Transport Equipment Return Handling Policies and Procedures

Postal Service facilities were not complying with handling procedures for dispatching excess MTE to MTESCs. Specifically, facilities did not always properly palletize excess MTE before dispatching it to MTESCs, resulting in increased costs and potential injuries to processing personnel.

Our analysis of processing data for MTE received at MTESCs for FY 2014 found that for 13 of the 15 MTESCs (or 87 percent) less than 50 percent of trays and tubs received from facilities were properly palletized as PPFG (see Figure 1). The percentages in the figure constitute the amount of excess MTE properly prepared by Postal Service facilities and sent to MTESCs for further distribution.

**Figure 1. MTESCs PPFG Percentages for FY 2014**



Source: U.S. Postal Service Office of Inspector General (OIG) analysis based on Postal Service data.

Moreover, our observations confirmed that some facilities were sending PPFG trays and tubs that were improperly prepared<sup>7</sup> or stacked higher than the 45-inch height limit. When MTE stacking requirements are not followed, the MTE has to be processed twice at additional cost (see Figure 2). Also, excessively tall stacks and improper shrink-wrapping increase the risk of accidents or injuries.

<sup>6</sup> In the four prior reports, we addressed monetary impact for four of the 15 MTESCs. This report addresses monetary impact on the remaining 11.

<sup>7</sup> The Postal Service's policy states that any excess MTE should be properly prepared and dispatched to MTESCs. However, Postal Service Headquarters officials stated their intent was to only have 50 percent of excess MTE prepared and dispatched to the MTESCs.

## Figure 2. Improperly Prepared MTE



Incorrectly prepared trays and tubs received from processing facilities.

Source: OIG photographs taken at the Minnesota and Milwaukee MTECs  
June 23-25, 2015.

We also found some processing facilities incorrectly placed MTE in cardboard containers or rolling stock, requiring the MTECs to further sort, process, stack, shrink-wrap, and label MTE at an additional cost (see Figure 3). In addition, instead of preparing MTE as PPF, some facilities were sending it in serviceable, all-purpose containers (APC) to the MTECs. This also unnecessarily increased costs to the Postal Service.

## Figure 3. Improperly Containerized MTE



Excess MTE improperly containerized in APCs received at the MTEC.

Trays and tubs improperly prepared using cardboard containers staged for processing at the MTEC.

Source: OIG photographs taken at the Milwaukee MTEC  
June 23, 2015.

Further, we found that some processing facilities used over-the-road (OTR) containers to transport MTE to the MTECs, instead of preparing and sending MTE on pallets or in the approved containers. Processing facilities were not adhering to the OTR container policy,<sup>8</sup> which states that processing facilities should only dispatch OTR containers needing repair to an MTEC. Postal Service facilities sent OTR containers that did not need repair to all 15 MTECs.

This occurred because Postal Service facilities are not always effectively managing their resources to handle excess MTE. In addition, at the MTECs:

<sup>8</sup> OTR Container Usage Standard Operating Procedures, dated August 28, 2009.

- There was limited monitoring, tracking, and documenting of the quantity and type of MTE reviewed by quality examiner (QE), including PPFG.
- The QE did not inspect the rolling stock entered into work in process for MTE repairs.
- The audit function<sup>9</sup> feature was not always performed or was turned off when the Postal Service's QE was not available.

Facilities serviced by the Seattle MTEESC properly prepared MTE almost 84 percent of the time. Correct MTE preparation saves processing costs and can lead to effective trailer utilization, which also saves on transportation costs. The Seattle MTEESC's higher percentage of properly prepared MTE was attributed to QEs holding facilities accountable when they did not comply with excess MTE SOPs. In addition, processing facilities made associate offices accountable, which increased overall compliance.

Because the Postal Service did not always properly prepare MTE, we estimate it incurred unnecessary processing costs at the remaining 11 MTEESCs totaling about \$2.5 million and 2.4 million in FYs 2013 and 2014, respectively. The Postal Service could save about \$2.4 million annually over the next 5 years by improving controls and implementing best practices for preparing MTE.

## Controls Over Mail Transport Equipment Service Centers and Processing Facility Operations

We also found that contractor premises were not always secured per contractors' statements of work (SOW)<sup>10</sup> and that facilities did not always inspect empty MTE<sup>11</sup> for mail before dispatching it to the MTEESCs or mailers.

- *Insufficient Security Over Contractor Operations.* During our observations at four MTEESC facilities, we found that main entrance access points were often left open and had no access control. The facilities' yards contained unlocked trailers loaded with MTE and some trailers were picked up and dropped off during non-operating hours without proper oversight and control. The contractor's SOW requires security and access controls for the grounds and trailer parking areas, including regular control access of inbound and outbound trailers.
- *Mistakenly Leaving Mail in MTE.* During our site visits to mailer facilities, employees stated they found mail sent from the Postal Service left in the MTE. In addition, we found mail left in MTE at the four MTEESCs that we audited.<sup>12</sup> We observed Priority Mail Express, Priority Mail, First-Class Mail, international mail, Package Services, and Standard Post being improperly sent from associated processing facilities in MTE. Examples of found mail also included damaged personal greeting cards, a passport, and loose prescription medication.

These conditions occurred because Postal Service Facility Management personnel did not adequately oversee their processing facilities to ensure MTE was empty before it was dispatched to MTEESCs and mailers. Further, the Postal Service did not have procedures for personnel to secure and reintroduce mail into the mailstream at mailers' operations. The inability to account for and secure missent mail could result in delayed and undelivered mail, which would reflect poorly on the Postal Service's brand and public image and could result in customer complaints and potential refunds.

<sup>9</sup> Part of the Mail Transport Equipment Support System (MTESS), which generates a sample of processed pallets for the QE to audit and clear.

<sup>10</sup> SOW, Section 3.1.12, for each MTEESC contract.

<sup>11</sup> The revised SOP: *Mail Transport Equipment Return Handling Procedure for Processing Facilities*, effective August 13, 2012.

<sup>12</sup> Due to the volume and sensitivity of improperly sent mail received at the Dallas MTEESC, we issued a management alert, *Mail Left in Mail Transport Equipment Dispatched to the Dallas Mail Transport Equipment Service Center* (Report Number NO-MA-15-002, dated February 2, 2015). See [Prior Audit Coverage](#).

# Recommendations

***We recommend management reinforce and monitor the standard operating procedure requirement for facilities to properly prepare the MTE and ensure it is thoroughly inspected for any mail before dispatching it to the MTEESC or mailers; provide adequate resources and evaluate and implement best practices for preparing MTE; establish adequate controls over contractor performance; and ensure MTESCs are secured and MTE is protected.***

We recommend the vice president, Network Operations:

1. Reinforce and monitor the standard operating procedure requirements for facilities to properly prepare and thoroughly inspect mail transport equipment for any mail before dispatching it to the Mail Transport Equipment Service Centers or mailers.
2. Provide adequate resources and evaluate and implement best practices for proper preparation of mail transportation equipment sent from plants to the Mail Transport Equipment Service Centers.

We recommend the vice president, Network Operations, in coordination with the vice president, Supply Management:

3. Establish and implement adequate controls over contractor performance for effective oversight and monitoring of contractor operations at all Mail Transport Equipment Service Centers, including the processing, invoicing, repair, and handling of mail transport equipment.
4. Ensure all Mail Transport Equipment Service Center contractors provide adequate security and access control to ground and trailer parking areas, including controlling access of inbound and outbound trailers.

## Management's Comments

Management generally agreed with the findings and recommendations, but disagreed with the monetary impact calculations.

Regarding recommendation 1, management stated they are already monitoring the condition of MTE returned to service centers. Management will update and reissue SOP for proper preparation and dispatch of MTE to service centers. The target completion date is December 2015.

Regarding recommendation 2, management stated they have already developed best practices for the consolidation and preparation of MTE. Management will reissue these practices to the field and, where necessary, provide additional resources to assist with the education process. The target completion date is January 2016.

Regarding recommendation 3, management stated that operational controls over a contractor's performance and efficiency are critical components of any business relationship. Management has already staffed each MTEESC with an adequate number of Postal Service managers to perform local oversight. Management has also developed and continues to update software for the monitoring of contractual commitments and invoicing of costs. They will continue to monitor these operational controls, realigning staff when required and enhancing software. The target completion date is November 2015.

Regarding recommendation 4, management stated they have taken short- and long-term approaches to ensuring adequate security and controls over the MTEESC facilities and trailer yards. In addition, they will conduct a formal review and determine if security changes are adequate in the coming months, specific to each site. The team will work with the two remaining operating contractors to review and finalize plans and appropriate timelines to improve security at the remaining nine MTESCs. The target completion date is May 2016.

Management did not agree with the monetary impact and stated that the OIG based its calculation on an unrealistic expectation of 100 percent of finished pallets. Management stated the current directive for its facilities to send in PPFG does not specify a particular tolerance for achievement. They stated the purpose of the directive was to encourage production of PPFG and they did not intend to attain 100 percent PPFG. Further, they stated the expectation has always been that its plants would be able to achieve about 50 percent PPFG of the tray and flat tub inventory.

See [Appendix D](#) 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.

Regarding management's comments on the monetary impact, we revised our calculations to use a more conservative rate of 50 percent. As part of management's planned action to update and reissue SOP for the proper preparation and dispatch of MTE to the MTEsCs, management needs to clarify the expected percentage for PPFG and hold facilities accountable to a higher compliance rate.

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.

# Appendices

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## Appendix A: Additional Information

### Background

The MTEESC network is a centrally managed system of 15 contractor-operated service centers designed to supply pallets, trays, tubs, mailbags, and other MTE to mail processing facilities and mailers that need trailer loads of MTE nationwide. The Postal Service transformed the MTEESC network in FY 2010, decreasing the number of centers from 23 to 15. It re-engineered the network to optimize its design, minimize MTE surplus and deficit MTEESC locations, and reduce fixed and transportation costs. The MTEESC network delivers MTE to users with dedicated transportation, recovers equipment no longer needed or serviceable, and processes MTE for inventory or redistribution.

The vice president, Network Operations, through the headquarters manager of MTE, manages MTEESCs and establishes guidelines, enforces policy, and provides management support and instructions on distribution, inventory warehousing, auditing, and reporting of MTE. MTEESC contracts are managed using contracting officer representatives at the headquarters MTE branch. This branch is responsible for the acquisition, distribution, supply, and transport of MTE among MTEESCs. Each MTEESC is assigned a QE to serve as a technical representative and perform audits to ensure that contractors comply with contract specifications and enforce requirements regarding equipment processing, repair, and condemnation.

Over the past 3 years, the Postal Service spent between \$81 and \$110 million annually on MTE used at about 320 processing facilities and 26,700 post offices and by thousands of external customers. Because the Postal Service processes, transports, and delivers millions of mailpieces daily, it requires a significant amount of MTE for its facilities, customers, and contractors.

In FY 2014, costs for the MTEESC network were about \$42.8 million for processing operations and \$80.1 million for dedicated transportation.

### Objective, Scope, and Methodology

Our objective was to assess the MTEESC network's controls and transportation from a nationwide standpoint. This is the capping report for a series of audits conducted at four MTEESCs.<sup>13</sup> To address our objective, we obtained, assessed, and analyzed Postal Service Headquarters computerized data on MTE processing. We also visited four additional MTEESCs (Seattle, WA; San Francisco, CA; Milwaukee, WI; and Minneapolis, MN), which were selected based on highest and lowest PPFG percentages. During our additional visits to MTEESCs, we observed and discussed best practices where applicable. We also examined relevant Postal Service policies and procedures and the terms and conditions of the contract related to various MTEESCs, conducted on-site observations, and photographed operations at eight MTEESCs, 60 processing plants and 49 mailers' facilities. We also reviewed prior OIG reports and Postal Service documents and spoke with Postal Service management, staff, and contractor personnel.

We examined Postal Service computer-generated data and other records. We did not audit or comprehensively validate the data; however, we applied alternative audit procedures, such as examining source documents, making observations, conducting physical inspections, and talking with the appropriate officials. We also discussed our observations and conclusions with management officials throughout our audit work, considered their perspective, and included their comments where appropriate.

We conducted this performance audit from April through November 2015, 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

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<sup>13</sup> The Springfield, Des Moines, Atlanta, and Dallas MTEESCs.

our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on October 16, 2015, and included their comments where appropriate.

We assessed the reliability of MTESS, the Transportation Information Management Evaluation System (TIMES), the Transportation Contracting Support System (TCSS),<sup>14</sup> and Contracting Award Management System<sup>15</sup> data by reviewing existing information about the data and the systems that produced them. We experienced data limitations with the MTESS and TIMES data systems; however, we applied compensating steps to overcome these limitations. We believe the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Internal Controls and Transportation Associated With the Dallas, TX, Mail Transport Equipment Service Center</i>	NO-AR-15-005	5/22/2015	\$3.4

**Report Results:** Our report found that the Postal Service could improve controls over MTE operations and transportation at the Dallas MTESC and its associated processing facilities. Specifically, management did not adequately control contractor processing, invoicing, repair, and handling of MTE; monitor contractor performance; or always secure its operations. Processing facilities did not always comply with MTE policies and were sending unprocessed, improperly prepared MTE and incorrect container types to the Dallas MTESC. In addition, they did not always inspect MTE before sending it to the Dallas MTESC or mailers, causing delays or undelivered mail. We recommended the Postal Service establish adequate controls over contractor performance and ensure MTE is protected. We also recommended management ensure compliance with policies for proper ordering, handling, and transporting of MTE; and reassess MTE transportation requirements to ensure efficiency. Management agreed with our findings and recommendations.

<i>Mail Left in Mail Transport Equipment Dispatched to the Dallas, TX, Mail Transport Equipment Service Center</i>	NO-MA-15-002	2/2/2015	None
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**Report Results:** Our report found that during a 5-day observation period at the Dallas MTESC, we observed almost 3,000 instances of Priority Express Mail, Priority Mail, First-Class Mail, international mail, Package Services, and Standard Post being incorrectly sent from associated processing facilities in MTE. We recommended the vice president, Southern Area, reinforce the SOP requirement that processing facilities thoroughly inspect MTE before sending it to the Dallas MTESC to ensure MTE is empty and ensure proper safeguarding of internal documents containing personally identifiable or other sensitive information throughout the internal mail process. Management agreed with our finding and recommendations.

<sup>14</sup> An Oracle web-based application used to manage transportation contracts and related activities. TCSS allows contracting offices to solicit, award, and administer transportation contracts.

<sup>15</sup> Used by Supply Management to issue contracts and purchase orders to procure supplies, services, and equipment (including transportation services, excluding highway contract routes).

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Internal Controls and Transportation Associated With the Atlanta, GA, Mail Transport Equipment Service Center</i>	<a href="#">NO-AR-15-002</a>	12/12/2014	\$3.4
<p><b>Report Results:</b> Our report found that the Postal Service could improve controls over MTE operations and transportation at the Atlanta, GA, MTEESC and its associated processing facilities. We also found that management would need to reassess the efficiency of MTE-related transportation. We recommended the vice presidents, Network Operations and Supply Management, establish adequate controls over contractor performance and ensure there is adequate security. We also recommended the vice president, Network Operations, in coordination with the vice presidents of the Eastern, Capital Metro, and Southern areas, ensure compliance with MTE policies for handling and transporting MTE. Finally, we recommended management reassess MTE and transportation requirements to ensure efficiency. Management agreed with our findings and recommendations.</p>			
<i>Internal Controls and Transportation Associated With the Des Moines, IA, Mail Transport Equipment Service Center</i>	<a href="#">NO-AR-14-003</a>	4/29/2014	\$2.5
<p><b>Report Results:</b> Our report found that the Postal Service could improve controls over MTE operations and transportation at the Des Moines, IA, MTEESC and its associated processing facilities. We also found that management would need to reassess the efficiency of MTE-related transportation. We recommended the vice presidents, Network Operations and Supply Management, establish adequate controls over contractor performance, and ensure there is adequate security. We also recommended the vice president, Western Area, ensure compliance with MTE policies for handling and transporting MTE. Finally, we recommended management reassess MTE and transportation requirements to ensure efficiency. Management agreed with our findings and recommendations.</p>			
<i>Internal Controls and Transportation Associated With the Springfield, MA, Mail Transport Equipment Service Center</i>	<a href="#">NO-AR-14-001</a>	12/20/2013	\$3.8
<p><b>Report Results:</b> Our report found that the Postal Service could improve controls over MTE operations and transportation at the Springfield, MA, MTEESC and its associated processing facilities. We also found that management would need to reassess the efficiency of MTE-related transportation. We recommended the vice presidents, Network Operations and Supply Management, establish adequate controls over contractor performance, and ensure there is adequate security. We also recommended the vice president, Northeast Area, ensure compliance with MTE policies for handling and transporting MTE. Finally, we recommended management reassess MTE and transportation requirements to ensure efficiency. Management agreed with our findings and recommendations.</p>			
<i>Mail Transport Equipment – Shortages of Pallets, Tubs, and Trays – Fall 2011 Mailing Season</i>	<a href="#">NL-AR-12-011</a>	9/28/2012	\$26.7
<p><b>Report Results:</b> Our report confirmed that unprecedented MTE shortages existed at Postal Service facilities and for mailers during the fall 2011 mailing season. In addition, management had not fully developed and instituted adequate controls for effective MTE management. We recommended the Postal Service develop processes and procedures for effective planning of and budgeting for MTE needs for the fall mailing season, implement prior OIG recommendations over MTE internal controls, and develop processes and procedures to limit distribution and improve accountability of MTE provided to mailers. We also recommended management assess and implement industry best practices for inventory control, considering the cost benefit. Management agreed with our findings and recommendations.</p>			

**Appendix B:  
Summary of Findings From Prior  
Mail Transport Equipment Service  
Center Reports**

Findings	MTESC Location			
	Springfield, MA	Des Moines, IA	Atlanta, GA	Dallas, TX
<b>Inadequate Compliance With Excess Mail Transport Equipment Return Handling Policies and Procedures</b>				
Processing facilities did not properly palletize, stack to height requirements, sufficiently shrink-wrap, and properly label for tracking excess tubs and trays dispatched to the MTESC.	X	X	X	X
Processing facilities used OTRs instead of pallets to transport empty MTE to the MTESC.	X	X	X	X
<b>Controls Over Mail Transport Equipment Service Center Contractor and Processing Facility Operations</b>				
Insufficient contractor performance controls in place over MTE processing, invoicing, repair, and handling.	X	X	X	X
No monitoring, tracking, and documenting of the quantity and type of MTE received.	X	X	X	X
Inconsistent inspection and approval of MTE that might require repair or condemnation.	X	X	X	X
Random audit function not consistently used by the QE.	X	X	X	X
Contractor operations not monitored during one of the two shifts at the MTESC.	X	X		
Processed and unprocessed MTE not timely processed or placed in inventory.			X	
<b>Insufficient Security at Contractor Operations</b>				
Facility yard access points left open; no security monitoring or access control.	X	X	X	X
Unlocked trailers loaded with MTE in facility yard. Trailers picked up and dropped off during non-operating hours.	X	X	X	X
<b>Improperly Leaving Mail in MTE Sent to the MTESC</b>				
Postal Service did not ensure processing facilities thoroughly inspect empty MTE for lost or misplaced mail before dispatching it to the MTESC (or mailers).	X	X	X	X
<b>Improper Handling of Shoring Straps</b>				
Processing facilities did not properly handle, store, and maintain shoring straps.	X	X		

X – Condition existed during our visit to the MTESC.

Findings	MTESC Location			
	Springfield, MA	Des Moines, IA	Atlanta, GA	Dallas, TX
<b>Reassessment of Mail Transport Equipment Service Center Transportation Requirements</b>				
Management did not periodically review transportation needs to ensure and maximize existing transportation efficiencies.	X	X	X	X
Postal Service did not periodically review MTE needs (standing orders) regularly and, in some cases, had not done so since 2011.	X	X	X	
Extra trips were added to move excess MTE.	X	X	X	X

X – Condition existed during our visit to the MTESC.

**Appendix C:  
Best Practices at Mail Transport  
Equipment Service Centers**

During our visits to MTESCs with the highest percentage of PPFG, we discussed practices with the QEs and identified those that resulted in greater compliance with SOP requirements and produced higher rates of MTE prepared as PPFG.

**Seattle and San Francisco MTESCs**

1. Use of a placard on all containers of MTE arriving at the MTESC to denote the facility origin and enable tracking in cases of non-compliance and facilitate feedback.
2. Communication and direct involvement by key Postal Service personnel to promote accountability and enforce application of the SOP. In particular, communication between MTESC QE and facilities management to identify noncompliance, which in turn, allows the facilities' management to communicate with their associate offices.
3. QEs are highly involved in training the contractor staff to recognize properly prepared pallets of trays and tubs and to put aside those pallets that are questionable for proper categorization.
4. Cooperation between and training of associate offices and delivery drivers on proper preparation of PPFG or unprocessed MTE and instructions to drivers to only accept MTE that is properly prepared.
5. To the extent possible, servicing the needs of all local mailers with excess MTE from processing plants before sending any remainder to the MTESC.
6. The use of multiple staging areas within a facility to prepare PPFG.
7. Stacking and palletizing MTE as part of regular mail processing to limit the need for overtime.



November 6, 2015

LORI LAU DILLARD  
Director, Audit Operations

SUBJECT: Draft Audit Report – Mail Transport Equipment Service Centers –  
Nationwide Assessment  
(Report Number NO-AR-16-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the capping report on Mail Transport Equipment Service Centers (MTEC) draft alert.

Management does not agree with the financial impact calculated by the OIG. The calculation is based upon an unrealistic expectation of 100% preparation of finished pallets by the Postal plants.

The current directive for Postal facilities to send in Postal Prepared Finished Goods (PPFG) does not specify a particular tolerance for achievement. This was done from a practical standpoint in order to encourage the maximum production of PPFG. This does not mean that an expectation of 100% PPFG is deemed reasonable. On the contrary, using career postal employees throughout the system to build PPFG would add costs. The intention was to create PPFG in an economical manner by building the pallets as soon as the tray or flat tub is emptied. Not every operation or facility will have the volume of Mail Transport Equipment (MTE) or the space required to perform this task. The expectation has always been that we would be able to achieve approximately 50% of the tray and flat tub inventory in this manner.

The Mail Transport Equipment Service Centers (MTEC) form a network of control for the storage and distribution of MTE. In addition, MTECs serve as repair facilities for key rolling stock used to move mail within and between Postal facilities. These centers are operated by various contractors to provide efficient and economical handling of this business aspect. To support and monitor these operations, the Postal Service has varying numbers of management personnel (Quality Examiners) located at each site. The number of personnel is dependent upon the hours of operation and the volume of equipment handled. The Quality Examiners are responsible for examining and authorizing equipment needing repair, auditing the preparation of MTE by the contractor, and reviewing and authorizing the disposal of MTE that is no longer usable.

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While the repair authorizations are done on each piece of rolling stock needing repair, audits of finished products are scheduled randomly to provide statistical data on the contractor's performance. In the event of a failure by the contractor on an audit, the system generates an increased frequency of audits to ensure the contractor is achieving their quality requirements. Similar sampling models are used throughout the Postal Service to monitor quality and service. As with any sampling program, the absence of the auditor requires that the test be rescheduled. In the case of the MTESSCs, this process involves turning off the audits during known absences, and then reactivating them when the auditor(s) are available.

The system responsible for scheduling audits, tracking inventory, monitoring repair costs, and invoicing by the contractor is the Mail Transport Equipment Support System (MTESS). Data is entered into the system by scanning of barcoded labels assigned to the finished pallets (other than PPF). The system is also responsible for managing the various price points based upon the different contracts and tracks the contractor's costs for proper invoicing. As noted in appendix A, the OIG used the data from MTESS in the audit and did not cite any deficiencies specifically regarding invoicing and cost processing.

**Recommendation 1**

Reinforce and monitor the standard operating procedure requirements for facilities to properly prepare and thoroughly inspect mail transport equipment for any mail before dispatching it to the Mail Transport Equipment Service Centers or mailers.

**Management Response/Action Plan:**

Management agrees with this recommendation. Management is already monitoring the condition of MTE returned to the service centers. Management will update and reissue the Standard Operating Procedures (SOP) for the proper preparation and dispatch of MTE to the service centers.

**Target Completion Date:**

December 2015

**Responsible Official:**

Manager, Mail Transport Equipment

**Recommendation 2**

Provide adequate resources and evaluate and implement best practices for proper preparation of mail transportation equipment sent from plants to the Mail Transport Equipment Service Centers.

**Management Response/Action Plan:**

Management agrees with this recommendation. Management has already developed best practices for the consolidation and preparation of MTE. These practices will be reissued to the field. Where necessary, management will provide additional resources to assist with the education process.

**Target Completion Date:**

January, 2016

**Responsible Official:**

Manager, Processing Operations

**Recommendation 3**

Establish and implement adequate controls over contractor performance for effective oversight and monitoring of contractor operations at all Mail Transport Equipment Service Centers, including the processing, invoicing, repair, and handling of mail transport equipment.

**Management Response/Action Plan:**

Management agrees with this recommendation in part. Management agrees that operational controls over a contractor's performance and efficiency are critical components of any business relationship. To that end, management has already staffed each MTEESC with an adequate number of postal management to perform local oversight. Management has also developed and continues to update software used for the monitoring of contractual commitments and the invoicing of costs. Management will continue to monitor these operational controls, realigning staff when required and enhancing software.

**Target Completion Date:**

November 2015

**Responsible Official:**

Manager, Mail Transport Equipment

**Recommendation 4**

Ensure all Mail Transport Equipment Service Center contractors provide adequate security and access control to ground and trailer parking areas, including controlling access of inbound and outbound trailers.

**Management Response/Action Plan:**

Management agrees with this recommendation and has taken both short and long term approaches to ensure there is adequate security and controls over the MTEESC facilities and trailer yards. From a short term perspective, the Purchase Team has been collaboratively working with Network Operations and each contractor to address any security issues at the remaining 11 MTEESC sites. Security improvements have already been completely addressed at a couple of these sites to date. Specifically, one supplier has proactively updated its security and control processes at its Denver site to reflect similar changes it made at its Atlanta and Dallas sites. Over the past year, the other operating contractors have been adding camera coverage and incorporating some minor security changes to improve their remaining sites.

In the long term, the team has worked collaboratively with Network Operations and Legal Counsel to add language to the MTEESC Statements of Work, which now requires all future sites to provide security guards for the trailer yards. In the two most recently awarded MTEESC sites (Chicago and Atlanta awarded in March 2015), the operating contractor has already begun operations with security guards in place at the entry points for the respective yards.

However, a formal review and determination of adequacy of security changes will be conducted in the coming months specific to each site. The team will work with the two remaining operating contractors to review and finalize plans and appropriate timelines to improve security at the remaining nine MTEESCs.

**Target Completion Date:**

May 2016

**Responsible Official:**

Manager, Operational Supplies and MTE Category Management Center, Supply Management



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