OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Internal Controls and Transportation Associated With the Springfield, MA Mail Transport Equipment Service Center

Audit Report

December 20, 2013

Report Number NO-AR-14-001

December 20, 2013

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

Internal Controls and Transportation Associated With the Springfield, MA Mail Transport Equipment Service Center

Report Number NO-AR-14-001

BACKGROUND:

The mail transport equipment service center (MTESC) network consists of 15 contractor-operated centers that handle, supply, and transport mail transport equipment (MTE) — such as pallets, trays, and tubs — to mail processing facilities and U.S. Postal Service customers. The Springfield, MA MTESC serves 37 facilities and mailers in the Northeast Area, costing about [redacted] annually. Our objective was to assess the internal controls and dedicated transportation activities associated with the Springfield MTESC.

WHAT THE OIG FOUND:

The Postal Service could improve controls over MTE operations and transportation at the Springfield MTESC and associated processing facilities. Management did not have comprehensive controls over contractor processing, invoicing, repairing, and handling of MTE and lacked sufficient resources to monitor contractor performance. Further, the Springfield MTESC did not provide adequate security over its operations. In addition, some processing facilities were violating MTE policies by sending non-MTE and improper MTE to the Springfield MTESC. Also, some facilities were not inspecting MTE for mail before sending it to the Springfield MTESC. This occurred because the Postal Service did not provide sufficient resources to ensure compliance with its policies and procedures. Due to a reduced workforce, facilities were forced to prioritize the processing of mail over managing MTE. Finally, we found that management needs to reassess the efficiency of MTE-related transportation. We identified many cancellations and additions of MTE transportation that occurred because of ongoing operational changes in the processing network.

We estimate the Postal Service incurred about $932,000 and $972,000 in unnecessary costs in fiscal years 2011 and 2012, respectively, and could avoid about $952,000 annually by providing adequate oversight and ensuring compliance with its policies and procedures.

WHAT THE OIG RECOMMENDED:

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.

Link to review the entire report

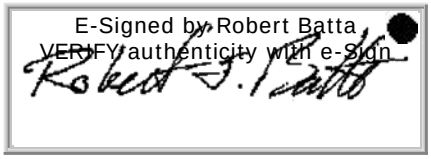
OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 20, 2013

MEMORANDUM FOR: DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

RICHARD P. ULUSKI
VICE PRESIDENT, NORTHEAST AREA OPERATIONS



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

SUBJECT: Audit Report – Internal Controls and Transportation Associated With the Springfield, MA Mail Transport Equipment Service Center
(Report Number NO-AR-14-001)

This report presents the results of our audit of Internal Controls and Transportation Associated with the Springfield, MA Mail Transport Equipment Service Center (Project Number 13XG007NL000).

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

Attachment

cc: Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction

This report presents the results of our self-initiated audit of Internal Controls and Transportation Associated with the Springfield, MA Mail Transport Equipment Service Center (MTESC) (Project Number 13XG007NL000). Our objective was to assess internal controls and dedicated transportation associated with the Springfield, MA MTESC.[1] This is the first in a series of reports on the MTESC network. See Appendix A for additional information about this audit.

The MTESC network is a centrally managed system of contractor-operated service centers designed to supply pallets, tubs, trays, mailbags, and other mail transport equipment (MTE) to mail processing facilities and large customers (mailers) nationwide. The MTESC network delivers MTE to U.S. Postal Service processing facilities[2] and mailers with dedicated transportation, recovers MTE that is no longer needed or serviceable, and processes MTE for inventory and redistribution.

The Springfield MTESC is in Westfield, MA, in the Postal Service's Northeast Area. The MTESC contractor, Hollingsworth Logistics Group (HLG), has operated the facility since October 2011 under a 3-year contract, with two additional 2-year renewal options. The Springfield MTESC services 23 Postal Service processing facilities and 14 mailers in the Northeast Area, which covers New England and upstate New York. See Appendix D for the MTESC distribution flowchart and additional information. In fiscal year (FY) 2012, costs for the Springfield MTESC were about [redacted] for operations and [redacted] for dedicated transportation.

While Postal Service Headquarters controls MTESC operations, the Northeast Area monitors the dedicated transportation network and manages MTE at processing facilities. The Postal Service is responsible for establishing controls and overseeing the MTESC contractor and MTE operations and transportation at associated Postal Service processing facilities.

Conclusion

The Postal Service could improve controls over MTE operations and transportation at the Springfield MTESC and associated processing facilities. We found that management did not have comprehensive controls over contractor processing, invoicing, repairing, and handling of MTE and lacked sufficient resources to monitor the contractor. Further, the MTESC did not adequately secure its operations and some processing facilities were not complying with MTE policies and were sending non-MTE

[1] We announced our audit of the MTESC network on February 26, 2013, with an original objective of assessing the MTESC network. We revised our objective as noted above to focus on internal controls and transportation at the Springfield MTESC.

[2] Processing facilities receive outgoing mail from designated associate offices, stations, and branches, or customer service facilities for processing and dispatch.

or improper MTE to the MTESC. We also found some processing facilities were not inspecting MTE for mail before sending it to the MTESC. These conditions occurred because the Postal Service did not provide sufficient resources at the MTESC and associated processing facilities to ensure compliance with its policies and procedures.

Finally, we determined that management should reassess the efficiency of transportation associated with the MTESC. We identified many cancellations and additions of dedicated MTE transportation that occurred because of ongoing operational changes in the processing network.

Because of the inadequate control environment, we estimate the Postal Service incurred about $932,000 and $972,000 in unnecessary costs in FYs 2011 and 2012, respectively, and could avoid about $952,000 annually over the next 2 years. See Appendix B for further details regarding our monetary impact calculations.

Controls Over Mail Transport Equipment Service Center Contractor and Processing Facility Operations

The Postal Service does not have comprehensive and effective internal controls in place over MTESC contractor performance or Postal Service processing facility MTE operations associated with the Springfield MTESC.

Insufficient Controls Over Contractor Performance

We found the Springfield MTESC had insufficient contractor performance controls in place over MTE processing, invoicing, repair, and handling. Specifically, we identified the following concerns and risks for unnecessary handling and processing costs:

- There is no monitoring, tracking, and documenting of the quantity and type of MTE received. Consequently, the contractor may unnecessarily handle and process MTE at additional costs.

- There is inconsistent inspection and approval of MTE that might require repair or condemnation.[3] As a result, the contractor may improperly classify MTE, resulting in unjustified repair and costs.

[3] A product that is so damaged, soiled, or worn that it is classified as beyond repair according to Postal Service criteria for reparability. Also, an obsolete or unapproved item that is not to be reintroduced into the Postal Service MTE product stream. Condemned products are sent for disposal or recycling.

- The MTE random audit function[4] is often turned off when the Postal Service's Quality Assurance (QA) specialist is not available, resulting in a lack of consistent MTE quality checks by the contractor.

- The Postal Service does not monitor contractor operations during one of the two shifts at the MTESC. As a result, the contractor may be performing unnecessary functions.

These conditions occurred because management eliminated many of the previously assigned positions dedicated to performing the required QA duties at the MTESC, including validating items needing repairs.

Insufficient Security Over Contractor Operations

During our observations of the Springfield MTESC yard, we found that multiple access points were left open, with no security monitoring or access control. In addition, the yard contained some unlocked trailers loaded with MTE and trailers were picked up and dropped off during non-operating hours. The contractor statement of work (SOW)[5] requires the contractor to provide security and access control to the ground and trailer parking areas, including access control of inbound and outbound trailers at all times.

Although the contractor provided some level of security required by the contract, the Postal Service did not ensure the coverage provided was sufficient to protect its assets. For example, the contractor stated it would provide security guard services at the facility for $76,700 and $77,076 in FYs 2011 and 2012, respectively; however, the contractor did not provide the services. As a result, the Postal Service paid $153,776 for services it did not receive and could avoid $154,152 over the next 2 years. See Appendix B for additional information.

Non-Compliance With MTE Policy and Processes

Postal Service facilities were not fully complying with the Postal Service's MTE Return Handling policy on effective management and distribution of MTE. There are two main components of the MTE Return Handling policy — reuse and redistribution of MTE at processing facilities and return of 'excess' tubs and trays to the MTESC.

We found that the processing facilities were generally adhering to the reuse and redistribution of MTE locally to facilities and mailers before sending it to the MTESC; however, processing facilities did not always properly palletize, stack to height requirements, sufficiently shrink wrap, and properly label for tracking excess tubs and trays dispatched to the MTESC. This occurred because Postal Service management did

[4] Part of the Mail Transport Equipment Support System (MTESS), which generates a sample of about 5 percent of processed pallets (roughly 100 pallets a day) to be audited and cleared by the QA specialist. The number of items to audit can vary depending on the item type, as well as whether an item selected has to go back for rework.
[5] SOW, Section 3.1.12, Revision 3, Change 12, dated September 1, 2010.

not have dedicated resources at the processing facilities for effective MTE management and oversight. Because they were short-staffed processing facilities had to choose between processing mail and managing MTE.

Figure 1. Improper and Poorly Prepared Plant Processed Finished Goods (PPFG)

Poorly prepared PPFG trays at the MTESC

MTE loaded in containers at the Manchester March 19, 2013. Processing and Distribution Center (P&DC), May 15, 2013.

Source: U.S. Postal Service Office of Inspector General (OIG).

Consequently, the Postal Service incurred unnecessary processing costs at the Springfield MTESC totaling about $539,060 and $449,330 for FYs 2011 and 2012, respectively. In addition, the Postal Service has an opportunity to save about $494,000 annually in unnecessary processing costs over the next 2 years. See Appendix B for additional information.

Improper Handling of Shoring Straps

The Postal Service's processing facilities did not always properly handle, store, and maintain shoring straps.[6] We observed over a dozen gaylord containers[7] at the MTESC filled with shoring straps sent by processing facilities for inspection and processing. According to Postal Service policy,[8] shoring straps are classified as non-MTE and should not be sent to an MTESC for inspection and processing. We also found that processing facilities were not using 'J'[9] hooks in the trailers to hang unused shoring straps to keep them off the floor and protect them. Employees were leaving straps on trailer or dock floors where they were damaged by forklifts and other heavy equipment.

[6] Shoring straps are made of nylon belting with a ratchet mechanism with 'E' track fittings on each end of the strap. Two restraining devices are required every 10 feet in a loaded trailer to secure containers and pallets from moving/shifting while in transit. Shoring straps are to remain with a trailer and be placed out of the way when not in use and during unloading.

[7] Gaylord containers are pallet-size boxes used for shipping mail in bulk quantities and are usually constructed of triple wall corrugated fiberboard that fits on standard pallets.

[8] Handbook PO-701, *Fleet Management*, Exhibit 274.b and 276.m, states that shoring straps are to be kept off the floor when not in use.

[9] 'J' hooks are placed inside trailers to use with shoring straps when not in use. Hanging shoring straps on 'J' hooks prevents the straps from being damaged by containers and prevents forklifts from running over them on the floor.

Figure 2. Damaged Shoring Straps

Damaged straps at the Springfield MTESC, March 18–21, 2013.

Mishandling of straps at the Hartford P&DC, May 14, 2013.

Source: OIG.

This occurred because Northeast Area management did not enforce its policies and hold drivers accountable for effective use and safeguarding of shoring straps. We determined that the Northeast Area purchased over [redacted] shoring straps at a cost of [redacted] in FY 2011 and [redacted] in FY 2012. If the Northeast Area enforces its policies to maintain and safeguard shoring straps, it could save about $346,864 annually over the next 2 years. See Appendix B for additional information.

Improperly Dispatching Over-the-Road Containers (OTRs) to the MTESC

We found that processing facilities sometimes used OTRs to transport empty MTE to the MTESC instead of following policy and preparing and sending MTE on pallets. We determined that processing facilities were not adhering to the requirements of the OTR policy,[10] which states that only OTRs needing repair are to be dispatched to an MTESC. As a result, the Springfield MTESC is unnecessarily handling OTRs and the Northeast Area incurred unnecessary handling expenses of $31,971 in FY 2011 and $36,816 in FY 2012. Further, the Northeast Area could avoid $34,394 annually over the next 2 years if the MTESC follows the OTR policy. See Appendix B for additional information.

Improperly Leaving Mail in MTE Sent to the MTESC

The Postal Service is not ensuring that processing facilities thoroughly inspect empty MTE for lost or misplaced mail before dispatching it to the MTESC as required. We observed that some MTE arriving at the Springfield MTESC from processing facilities contained time-sensitive Priority and First-Class Mail (see Figure 3). For example, some of the personal and sensitive items were from an eyewear manufacturer, a dental laboratory, and a pharmacy. This occurred because management did not adequately enforce policies that require inspection of MTE for mailpieces before dispatching it to an MTESC.

[10] *OTR Container Usage Standard Operating Procedures*, dated August 28, 2009.

Figure 3. Examples of Found Mail at the Springfield MTESC

Source: OIG photographs taken March 18-21, 2013.

We also observed an accumulation of mail in equipment sent to the MTESC that was not picked up timely by the assigned processing facility. This occurred because the MTESC and the Postal Service did not ensure mail found in MTE was picked up daily. According to the MTESC SOW, mail found at an MTESC must be dispatched daily for processing. Mail that is not delivered, or is delivered late, reflects poorly on the Postal Service's brand and public image and leaves the agency open to customer complaints.

Reassessment of Mail Transport Equipment Service Center Transportation Requirements

Our review of data contained in the Transportation Information Management Evaluation System (TIMES)[11] and MTESS[12] revealed that existing MTESC transportation was not being maximized because extra trips were being added to move excess MTE, and some MTESC trips were being cancelled. We also determined that the Northeast Area had not reviewed its MTE needs (standing orders)[13] regularly and, in some cases, had not done so since 2011.

Generally, over the past several years the Postal Service has made many changes to both the MTESC network and the Postal Service infrastructure and continues to consolidate processing facilities. These changes have impacted operations, resources, standing orders, distribution of MTE, and MTESC transportation requirements in the Northeast Area. For example, transferring or changing outgoing operations caused an imbalance in MTE flow among facilities. Further, processing facilities' standing orders have changed, reducing what the facilities need from the MTESC and causing transportation from the MTESC to the processing facilities to often run empty.

[11] A web-based application that enables dock clerks to collect data on the arrival and departure of mail trucks and communicate that information to other processing facilities. The application tracks trailer 'utilization' data and acts as the interface and foundation for surface visibility data.
[12] MTESS supports 15 MTESCs. It tracks MTE history and supports processing orders to Network Distribution Centers (NDC), P&DCs, major mailers, and commercial warehouses.
[13] Standing orders are for both internal and external customers with steady, reoccurring requirements. All Postal Service processing facilities developed MTE standing orders to fill long-term, reoccurring deficiencies.

We found that the Northeast Area did not reassess MTE and transportation requirements to factor in the network changes. In accordance with Postal Service policy,[13] transportation schedules should be periodically reviewed and updated as necessary. As a result, the Northeast Area sent unnecessary MTE to processing facilities and paid for transportation that might not have been needed.

Recommendations

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

1. Establish adequate controls over contractor performance and ensure adequate resources for the quality assurance function for effective oversight and monitoring of contractor operations at the Springfield Mail Transport Equipment Service Center, including processing, invoicing, repairing, and handling of mail transport equipment.

2. Ensure the contractor at the Springfield Mail Transport Equipment Service Center provides adequate security and access control to the ground and trailer parking areas, including access control of inbound and outbound trailers at all times.

We recommend the vice president, Northeast Area Operations:

3. Ensure area and plant management monitor compliance with the established policies and procedures for mail transport equipment return handling procedures at processing facilities, dispatch and proper use of over-the-road containers, and proper storage, handling, and maintenance of shoring straps.

4. Reinforce the requirement that processing facilities conduct thorough inspections of mail transport equipment being sent to the Springfield Mail Transport Equipment Service Center to ensure it does not contain any mail and ensure any found mail at the center is picked up daily for further processing.

5. Reassess mail transport equipment standing orders and transportation schedules for all processing facilities as necessary to ensure they are up-to-date and efficient given the operational changes and imbalance of mail transport equipment flow.

Management's Comments

Management agreed with all of our findings and recommendations, but did not agree with all of the reported monetary impact related to security over contractor operations.

In response to recommendation 1, management stated it will conduct a staffing analysis of the quality positions at the Springfield MTESC to ensure adequate resources are in

[13] *Postal Operations Manual*, Sections 473.5, and 512.122.

place. It will also establish a modified flexible schedule for the quality specialist to improve internal controls over and monitoring of the contractor's performance. The target completion date for this recommendation is April 25, 2014.

In response to recommendation 2, management stated the supplier has provided security services in accordance with the contract; however, management agreed that access controls for the facility could be enhanced to further reduce risks. Therefore, the contractor is negotiating to have fencing and a security gate with keypad entry installed on the property by March 31, 2014. Management did not agree with the $153,776 in questioned costs and the $154,152 in funds put to better use associated with security services because this is a fixed price contract. Management stated that, while security is a contract requirement, the specific use of security guard services is not a component line item of the fixed price and is not a pass-through cost. According to the contract terms, the supplier is required to manage the security of equipment at the site and has adequately managed the risk to date.

In response to recommendation 3, area and local management agreed to take action to communicate and monitor MTE policies and procedures for handling and dispatching MTE. Management will ensure that plants understand MTE handling procedures for processing facilities covering palletizing, stacking, and shrink wrapping excess trays; OTR container usage; and proper handling, repair, and disposal of shoring straps. Further, highway contract route (HCR) vehicles will be reviewed to ensure compliance with the use of 'J' hooks and HCRs not in compliance will be cited. Further, distribution network personnel will incorporate MTE as part of their facility visit reviews and follow up on non-compliance issues and corrective action. The target implementation date for this recommendation is January 24, 2014.

In response to recommendation 4, management stated it revised the transportation schedule for picking up found mail at the Springfield MTESC. The pick-up trip will now be at 1400 Monday through Friday to collect all mail found during daily MTESC operating hours. The requirement to search and remove mail from empty MTEs will be reinforced at all facilities. Further, the MTESC Postal Service liaison will report the origin of any mail found in MTE to the district for corrective action with the facility. The target completion date for this recommendation is January 3, 2014.

Finally, in response to recommendation 5, area management will review all MTESC HCR service and conduct a site visit to identify underused trips for proposed consolidation or termination. Additionally, all facilities will review their standing orders after peak season to verify their MTE needs. The target completion date for this recommendation is April 14, 2014. See Appendix E 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 the monetary impact for security services, we found that multiple access points were left open with no security monitoring or access control. We determined that the lack of access control and adequate monitoring increased risks of improper access to or theft of Postal Service assets regardless of the nature of the contract. Therefore, we still consider our monetary impact valid; however, we commend the Postal Service for working with the Springfield MTESC contractor to ensure that there is adequate fencing and access control in the yard to reduce risks to Postal Service assets. This addresses the intent of our recommendation.

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.

Appendix A: Additional Information

Background

The MTESC 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 requiring trailer loads of MTE nationwide. The Postal Service transformed the MTESC network in FY 2010 and the number of centers went from 23 to 15. The MTESC network was re-engineered to optimize its design, minimize surplus and deficit MTESC locations, and reduce fixed and transportation costs. The MTESC network delivers MTE to users with dedicated transportation, recovers equipment that is no longer needed or serviceable, and processes MTE for inventory or redistribution.

The vice president, Network Operations, through the headquarters manager of MTE, is responsible for managing MTESCs and establishing guidelines, enforcing policy, and providing management support and instructions on distribution, inventory warehousing, auditing, and reporting of MTE. MTESC contracts are managed using contracting officer representatives at the headquarters MTE branch. Responsibility for acquisition, distribution, supply, and transportation of MTE between MTESCs lies at headquarters MTE. Each MTESC is assigned a QA specialist to serve as a technical representative who will perform audits to ensure contractor compliance with contract specifications and enforce requirements regarding equipment processing, repairs, and condemnation.

The Postal Service spends about $65 to $90 million annually on MTE that is used at about 400 processing facilities and 26,775 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 within and among its facilities, customers, and contractors.

Objective, Scope, and Methodology

Our objective was to assess internal controls and transportation at the Springfield MTESC.[14] This is the first in a series of reports on the MTESC network. To address our objective, we obtained, assessed, and analyzed Postal Service computerized data on MTE processing and transportation. We also examined relevant Postal Service policies and procedures and the terms and conditions of the HLG contract related to operation of the Springfield MTESC, and observed and photographed operations at the MTESC and the processing facilities and mailers it serviced. See Appendix C for additional information. We also reviewed prior OIG reports and Postal Service documents; and spoke with Postal Service management and staff, mailers, and HLG.

We examined Postal Service computer-generated data and other records. We did not audit or comprehensively validate the data; however, we applied alternative audit

[14] The original audit objective was to assess the MTESC network.

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 perspectives, and included their comments where appropriate.

Regarding our assessment of transportation, we did not attempt to fully assess MTESC transportation for the Springfield MTESC because of the changing operating environment at the Postal Service. We believe that ongoing assessments should be performed as necessary to factor in network changes and ensure efficiency.

We conducted this audit from October 2012 through December 2013, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 4, 2013, and included its comments where appropriate.

We assessed the reliability of MTESS, TIMES, the Transportation Contracting Support System (TCSS),[15] and Contracting Award Management System[16] data by reviewing existing information about the data and the system that produced them. We experienced data limitations with the MTESS and TIMES data systems; however, as noted above, we applied compensating steps to overcome data concerns. We believe the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

There have been no audits of the MTESC network in the past 3 years. However, the OIG conducted an audit of MTE controls titled *Mail Transport Equipment -Shortages of Pallets, Tubs, and Trays — Fall 2011 Mailing Season (*Report Number NL-AR-12-011, dated September 28, 2012). We confirmed that unprecedented MTE shortages existed at Postal Service facilities and for mailers during the fall 2011 mailing season. This occurred because management did not effectively plan to have sufficient quantities on hand or develop a risk mitigation plan to avoid shortages. 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.

[15] An Oracle web-based application used to manage transportation contracts and related activities. TCSS allows contracting offices to solicit, award, and administer transportation contracts.
[16] Used by Supply Management to issue contracts and purchase orders to procure supplies, services, and equipment (including transportation services, excluding HCRs).

We also recommended that management assess and implement industry best practices for inventory control, considering the cost benefit. Management agreed with our findings and recommendations.

Appendix B: Monetary Impact

We concluded that the Postal Service incurred about $932,000 for FY 2011 and $972,000 for FY 2012 in unnecessary costs and could avoid about $952,000 in unnecessary costs annually over the next 2 years by providing adequate oversight and ensuring compliance with policies and procedures.

Recommendations	Impact Category	Amount (in millions)
2, 3	Questioned Costs [17]	$1,904,681
2, 3	Funds Put to Better Use [18]	1,905,058
Total		**$3,809,739**

Impact Summary					
Fiscal Year	MTE Return Handling Policy	Security Services	OTR Processing Costs	Shoring Straps	Total
2011	$539,060	$76,700	$31,971	$284,729	$ 932,460
2012	$449,330	$77,076	$36,816	$408,999	972,221
Total Questioned Costs					**$1,904,681**
Year 1	$494,195	$77,076	$34,394	$346,864	$ 952,529
Year 2	$494,195	$77,076	$34,394	$346,864	952,529
Total Funds Put to Better Use					**$1,905,058**

Table 1. MTE Return Handling Policy – Questioned Costs

Fiscal Year	Total Trays and Tubs	Percentage of PPFG	Percentage of Processed[19]	Dollar Amount for Processed
2011	12,662,364	29%	71%	$539,060
2012	12,345,142	16%	84%	449,330
Questioned Costs				**$988,390**

Source: OIG analysis.

Using MTESS data, we obtained the total number of trays and tubs the Springfield MTESC received for processing (9,020,770 for FY 2011 and 10,322,422 for FY 2012) and the associated amounts invoiced ($539,060 for FY 2011 and $449,330 for FY 2012). We also obtained the number of trays and tubs the MTESC received and classified as PPFG (3,641,594 for FY 2011 and 2,022,720 for FY 2012).

[17] Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc. May be recoverable or unrecoverable. Usually a result of historical events.
[18] Funds that could be used more efficiently by implementing recommended actions.
[19] 'Processed' as used in Tables 1 and 2 refers to tubs and trays that required processing at the MTESC because they were not properly prepared by the facilities as required.

We used a 100 percent compliance cap, based on MTE return handling procedures for facilities, which requires processing facilities to return all excess trays and tubs as PPFG. Therefore, the monetary impact is equal to the invoiced amount for processed trays and tubs received ($539,060 for FY 2011 and $449,330 for FY 2012). See Table 1.

Table 2. MTE Return Handling Policy – Funds Put to Better Use

Future Year	Estimated Dollar Amount for Processed
1	$494,195
2	494,195
Funds Put to Better Use	**$988,390**

Source: OIG analysis.

We used an average of the invoiced amount for trays and tubs for FYs 2011 and 2012 to estimate the amount of potential savings over future years ($988,390 ÷ 2 = $494,195). See Table 2.

Table 3. Northeast Area Purchases of Shoring Straps – Questioned Costs

Fiscal Year	Shoring Straps Purchased	Total Cost	20 Percent Allowance for Replacement	Cost Less Allowance for Necessary Replacement
2011	[redacted]	[redacted]	[redacted]	$284,729
2012	[redacted]	[redacted]	[redacted]	408,999
Total	[redacted]	[redacted]	[redacted]	**$693,728*** **
Questioned Costs				**$693,728**

Source: OIG analysis.

*Rounded from [redacted]
**Rounded from [redacted]
***Rounded from $693,727.66.

We identified new purchases of shoring straps during our review of the Springfield MTESC for FYs 2011 and 2012. We calculated shoring straps the Northeast Area purchased using eBuy.

For FY 2011 data, we summed all eBuy quantities and the dollar total. For FY 2012 data, there were two unit costs and we did a sum calculation to obtain quantities for [redacted] per unit cost. We then subtracted this per unit cost from total quantities to determine total quantities for the latest [redacted] unit cost. We multiplied [redacted] by total quantities of [redacted] to determine total cost at that rate and multiplied [redacted] by total quantities of [redacted] to determine total cost of straps purchased at that rate.

To determine the allowance for replacing straps following their useful life, we did research to determine the useful life for straps and other freight equipment. Based on our research, we found criteria supporting as few as 3 years and as many as 8 years of useful life. To be conservative, we estimated a 5-year useful life and a 20 percent per year replacement figure. We then took a 20 percent allowance and multiplied that by each fiscal year's total purchases to determine allowance and the final dollar impact. See Table 3.

Table 4. Northeast Area Purchases of Shoring Straps – Funds Put to Better Use

Future Year	Estimated Future Cost of Shoring Straps
1	$346,864
2	346,864
Funds Put to Better Use	**$693,728**

Source: OIG analysis.

We estimated funds put to better use by taking the 2-year total for FYs 2011 and 2012 and averaging the amount over the next 2 years ($693,728 ÷ 2 = $346,864). See Table 4.

Table 5. OTR Processing – Questioned Costs

Fiscal Year	Number of OTRs	Invoiced Amount
2011	6,658	$31,971
2012	7,462	36,816
Questioned Costs		**$68,787**

Source: OIG analysis.

Serviceable OTRs were identified during our review of Springfield MTESC processing costs in MTESS reports for FYs 2011 and 2012. Serviceable is MTE equipment that meets Postal Service criteria for use as is, without needing repair or modification.

We obtained the amount of serviceable OTRs processed at the Springfield MTESC for FYs 2011 and 2012 using the MTESS. The amount of processed serviceable OTRs was $31,971 for FY 2011 and $36,816 for FY 2012. See Table 5.

Table 6. OTR Processing – Funds Put to Better Use

Future Year	Estimated Future Cost of Handling Serviceable OTRs
1	$34,394
2	34,394
Funds Put to Better Use	**$68,788**

Source: OIG analysis.

We estimated funds put to better use by taking the 2-year total for FYs 2011 and 2012 and averaging the amount over the next 2 years ($68,788 ÷ by 2 = $34,394). See Table 6.

Table 7. Security Service – Questioned Costs

Fiscal Year	Operating Expense Line Item for Security Service
2011	$ 76,700
2012	77,076
Questioned Costs	**$153,776**

Source: OIG analysis.

We reviewed the pricing sheet, a part of the contract between the Postal Service and HLG. As part of 'Other Basic Operations' — a fixed cost the Postal Service pays monthly — 'Security Guard Services' is a component line item totaling $6,423 each month ($6,235 during the first 2 start-up months). The Postal Service paid $76,700 to the contractor for service never provided in FY 2011 and $77,076 for service never provided in FY 2012. See Table 7.

Table 8. Security Service – Funds Put to Better Use

Future Year	Security Service Expense for Future Years
1	$ 77,076
2	77,076
Funds Put to Better Use	**$154,152**

Source: OIG analysis.

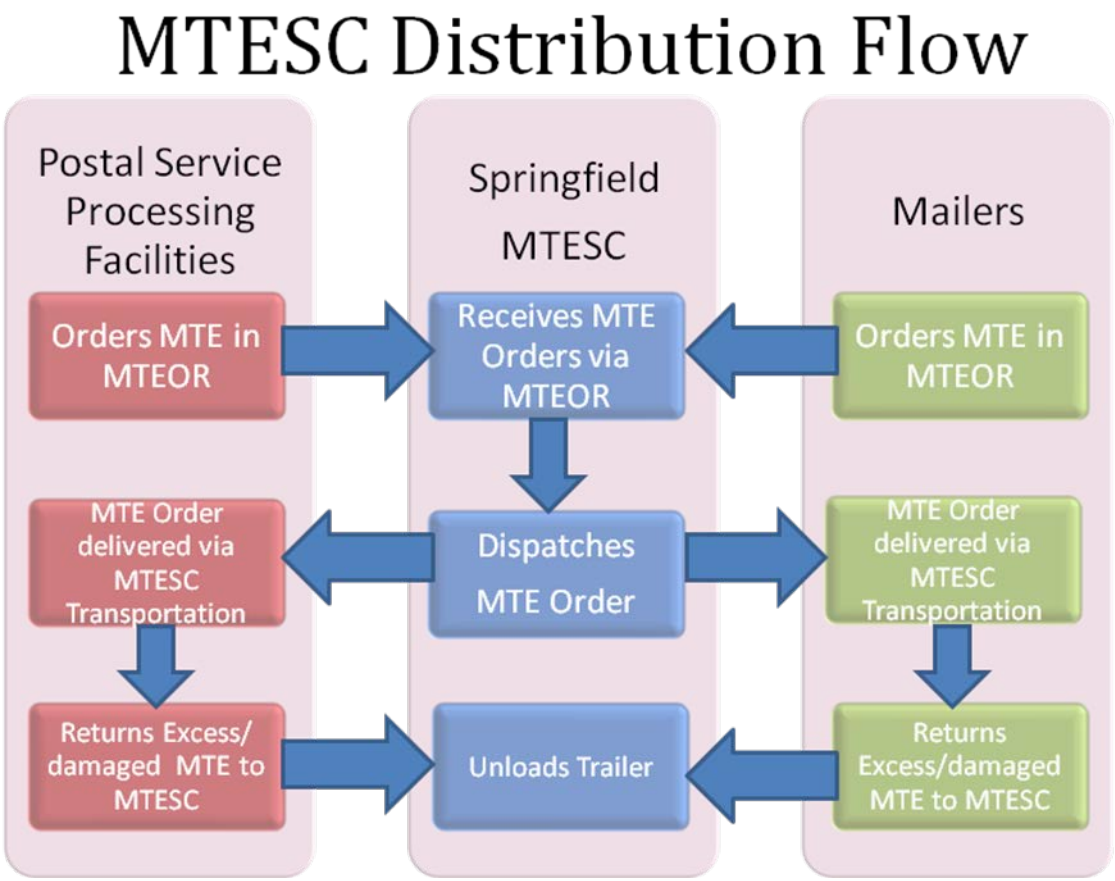
We used the same monthly amount of $6,423 to calculate funds put to better use. Over 2 years, this amount will be $154,152 ($77,076 x by 2 years). See Table 8.

Appendix C: Springfield Mail Transport Equipment Service Center Processing Facilities and Mailers

Mailer and/or Processing Facility	City and State	On-site Observations Conducted
Albany P&DC	Albany, NY	X
Boston P&DC	Boston, MA	X
Brockton P&DC	Brockton, MA	X
Burlington P&DC	Essex Junction, VT	
Central P&DC	Shrewsbury, MA	X
Data Mail	Newington, CT	
DHL Global Mail	Franklin, MA	X
Dingley Press	Lisbon, ME	
Direct Mail Services	Windsor, CT	
DST Mailing Services	South Windsor, CT	X
Eastern Maine P&DC	Hampden, ME	
FedEx Smart Post	Northborough, MA	X
Hartford P&DC	Hartford, CT	X
Manchester P&DC	Manchester, NH	X
Middlesex Essex P&DC	North Reading, MA	X
Moore Graphics	Windsor, CT	
Nashua PMPC	Nashua, NH	X
Northwest Boston P&DC	Waltham, MA	X
Norwich P&DC	Norwich, CT	X
Pitney-Bowes Presort Services	Windsor, CT	
Pitney-Bowes Presort Services	Hartford, CT	X
Plattsburgh P&DC	Plattsburgh, NY	
Polaris Direct	Hooksett, NH	X
Portland P&DC	Scarborough, ME	
Portsmouth P&DC	Portsmouth, NH	
Providence P&DC	Providence, RI	X
Quad Graphics	Saratoga Springs, NY	
Southern P&DC	Wallingford, CT	X
Springfield P&DC	Springfield, MA	
Springfield NDC	Springfield, MA	
Syracuse P&DC	Syracuse, NY	
UPS Mail Innovations	Windsor, CT	
Utica P&DC	Utica, NY	
Valassis Direct Mail Inc.	Windsor, CT	
Waterbury P&DC	Waterbury, CT	X
Wawilde Company	Holliston, MA	X
White River Junction P&DF	White River Junction, VT	

Appendix D: Mail Transport Equipment Service Center Distribution Flowchart

The MTE network consists of the MTESC, Postal Service processing facilities, and business mailers. Large mailers and processing facilities place orders for their MTE through Mail Transport Equipment Online Ordering (MTEOR), the MTE order fulfillment system. MTE is shipped via dedicated transportation. Smaller mailers may order MTE from their local facilities.



Source: OIG analysis.

Note: Processing facilities also provide excess MTE to local mailers and other facilities.

Appendix E: Management's Comments

UNITED STATES POSTAL SERVICE

December 6, 2013

JUDITH LEONHARDT

SUBJECT: Response to Draft Audit Report – Internal Controls and Transportation Associated With the Springfield, MA Mail Transport Equipment Service Center (Report Number NO-AR-14-DRAFT)

We reviewed the audit performed by the Office of Inspector General on the Internal Controls and Transportation Associated with the Springfield MA, Mail Transport Equipment Service Center (MTESC) and appreciate the opportunity to provide feedback on this subject draft report. Management agrees with the findings within the report and has addressed each recommendation separately below.

Management does not agree with the monetary impact as reported in this audit, specifically with the identified cost of $153,776 for services not received and the $154,152 funds put to better use associated with the security service. This is a fixed priced contract and was competitively awarded. While security is a contract requirement, the specific use of the security guard services is not a component line item of the fixed price and is not a pass-through cost. Use of a standard pricing sheet was a means and methods approach for ensuring the reasonableness of all proposals. According to the contract terms, the supplier is required to manage security of equipment at the site based upon operational knowledge; furthermore, the supplier is liable for any equipment loss. To-date the supplier has adequately managed this risk.

OIG Audit Recommendations:

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

Recommendation 1:
Establish adequate controls over contractor performance and ensure adequate resources for the quality assurance function for effective oversight and monitoring of contractor operations at the Springfield MTESC, including processing, invoicing, repairing and handling of mail transport equipment.

Management Response/Action Plan: Agree.
The Springfield MTESC is authorized one quality specialist position based on staffing requirements prior to the MTESC network realignment. Since 2011, the operating contractor has been operating an additional shift to handle network changes. Management will establish a modified flexible schedule at the Springfield MTESC for the quality specialist to improve internal control over the MTESC contractor's performance. Additionally, management will conduct a postal staffing analysis of the quality positions at the Springfield MTESC to ensure adequate resources are in place to monitor contractor performance.

Target Implementation Date:
Quality Specialist schedule change will take place January 4, 2014. The postal staffing analysis will be completed by April 25, 2014.

Responsible Official:
Manager, Mail Transport Equipment (MTE).

Recommendation 2:
Ensure the contractor at the Springfield MTESC provides adequate security and access control to the ground and trailer parking areas, which includes access control of inbound and outbound trailers at all times.

Management Response/Action Plan: Agree.
The supplier has provided security services in accordance with the contract; however, management agrees with this recommendation in that access controls could be enhanced to further reduce risk. Therefore, in November 2013, the MTESC Commodity Management Team's Contracting Officer has held discussions with the supplier regarding upgrading their security at the Springfield site. The supplier is currently in negotiation with the landlord of the facility to have fencing and a security gate with keypad entry installed on the property. These site upgrades will provide increased access control to the grounds and trailer parking areas, and enhance access control of inbound and outbound trailers.

Target Implementation Date:
Installation is estimated to be completed by March 31, 2014.

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

OIG Audit Recommendations:
We recommend the vice president, Northeast Area Operations:

Recommendation 3:
Ensure area and plant management monitor compliance with the established policies and procedures for mail transport equipment return handling procedures

at processing facilities, for dispatch and proper use of over-the-road (OTR) containers and proper storage, handling, and maintenance of shoring straps.

Management Response/Action Plan: Agree.
The Northeast Area will take the following actions to communicate and monitor MTE policies and procedures for handling and dispatch of empty MTE.

1. In conjunction with issuing the appropriate guidelines a meeting will be scheduled with participating facilities to review MTE handling procedures, OTR container usage and proper procedures for handling shoring straps.

2. The Standard Operating Procedures (SOP) for MTE Return Handling Procedure for Processing Facilities, dated July 20, 2012 will be issued to all facilities dispatching MTE to the Springfield MTESC. Specific focus for improvement will be on the identified irregularity cited for improper palletizing, stacking and shrink wrapping of excess trays (EIRS 74E, 74P & 74HP/74H) and tubs (EIRS 78P).

3. The OTR Container Usage SOP will be issued in conjunction with MTE handling procedures. The message will be communicated that only OTR containers needing repair will be sent to the Springfield MTESC.

4. Plants will be instructed to retain damaged shoring straps within the Plant for repair as necessary. All non-repairable straps will be discarded. Highway Contract Route (HRC) contracted vehicles will be reviewed for compliance to requirements for "J" hooks as stated on the HCR Schedule Information and Statement of Work. Plants will be instructed to issue a PS Form 5500 (Contract Route Irregularity Report) for all violations. Procedures for storing unused shoring straps (PO-701 274.b & 276.m) and the use of "J" hooks will be reviewed with all facilities for compliance.

5. Distribution Networks personnel will add MTE reviews to their facility visit reports and follow-up on non-compliance issues and corrective action. The reviews will include; a. compliance to MTE returns handling procedures. b. review of platform and dispatches for proper use of straps and "J" hooks. c. review of empty MTE dispatched to the MTESC vs. facility Standing Orders.

Target Implementation Date:
January 24, 2014

Responsible Official:
Manager, Distribution Networks Office

Recommendation 4:
Reinforce the requirement that processing facilities conduct thorough inspections of MTE being sent to the Springfield MTESC to ensure it does not contain any

mail and ensure any found mail at the center is picked up daily for further processing.

Management Response/Action Plan: Agree.

1. Springfield Postal Vehicle Service had a scheduled trip departing the Springfield MTESC at 0800, Monday-Friday to pick-up mail found in MTE. Springfield Transportation and Network Manager has revised this trip to depart the MTESC at 1400, Monday-Friday to collect all mails found during the daily MTESC operating hours.

2. The requirement to search and remove mails for MTE will be reinforced with all facilities. It has been requested that the MTESC Postal Liaison report to the District Network Manager the origin of any mails found in MTE. The District Network office will notify the offending facility for corrective action.

Target Implementation Date:
January 3, 2014

Responsible Official:
Manager, Distribution Networks Office

Recommendation 5:
Reassess MTE standing orders and transportation schedules for all processing facilities as necessary to ensure they are up-to-date and efficient given the operational changes and imbalance of mail transportation equipment flow.

Management Response/Action Plan: Agree.
During the audit some Northeast Area Plants were implementing Lean Mail Processing and completing AMP consolidations. These activities necessitated extra service from the Plants to the Springfield MTESC.

1. As part of the $1 Billion Transportation Savings Initiative the Northeast Area has included the review of all MTESC HCR service to include: a. desk top analysis of SV/TIMES data for the past three (3) months to identify underutilized trips for proposed consolidation or termination. b. one (1) week on site visit to review HCR service. c. exit meeting to identify proposed changes and a timeline for submission to Service Change Request and Transportation Contract Support System for implementation.

2. After Peak Season all Plants will be requested to review their Standing Orders for compliance to their Plant needs.

Target Implementation Date:
April 14, 2014

Responsible Official:
Manager, Distribution Networks Office

This report and management's response do not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act.

David E. Williams
Vice President, Network Operations

Susan M. Brownell
Vice President, Supply Management

Richard P. Uluski
Vice President, Northeast Area Operations

cc: Megan Brennan
Corporate Audit Response Management