



AUDIT REPORT

Internal Controls and Transportation Associated with the Des Moines, IA, Mail Transport Equipment Service Center

April 29, 2014





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**Internal Controls and Transportation
Associated with the Des Moines, IA,
Mail Transport Equipment Service Center**

Report Number NO-AR-14-003

BACKGROUND:

The mail transport equipment service center (MTE SC) network is composed of 15 contractor-operated centers that handle, supply, and transport mail transport equipment (MTE) to mail processing facilities and U.S. Postal Service customers. The Des Moines, IA, MTE SC spends about [REDACTED] annually to service 46 Western Area facilities and mailers. Our objective was to assess internal controls and dedicated transportation activities associated with the Des Moines MTE SC.

WHAT THE OIG FOUND:

The Postal Service needs to improve controls over MTE operations and transportation at the Des Moines MTE SC and its processing facilities. Management did not adequately control contractor processing, invoicing, repairing, and handling of MTE; adequately monitor contractor performance; and always secure its operations. In addition, facilities were not complying with MTE policies by sending non-MTE, such as shoring straps, to the MTE SC. Some facilities were not inspecting MTE for mail before sending it to the Des Moines MTE SC, which could cause delayed or undelivered mail.

We also found some facilities were purchasing cardboard containers

instead of ordering them from the Des Moines MTE SC. These conditions occurred because the Postal Service did not provide sufficient oversight to ensure compliance with its policies. Also, facilities were short-staffed and were forced to give processing mail priority over managing MTE. Finally, we identified cancellations and additions of MTE transportation that occurred because of ongoing operational changes and realignment of the processing network.

We estimate the Postal Service incurred about \$359,000, \$708,000, and \$204,000 in unnecessary costs in fiscal years 2012, 2013, and 2014, respectively, and could avoid about \$636,000 annually over the next 2 years by providing adequate oversight and ensuring compliance with policies.

WHAT THE OIG RECOMMENDED:

We recommended the vice presidents, Network Operations and Supply Management, establish adequate controls over contractor performance and ensure MTE is protected. We also recommended the vice president, Western Area, ensure compliance with MTE policies for proper ordering, handling, and transporting of MTE; and reassess MTE and transportation requirements to ensure efficiency.

[Link to review the entire report](#)

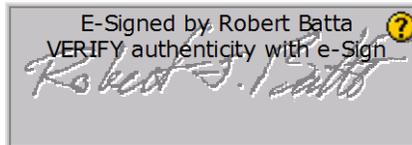


April 29, 2014

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

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

DREW T. ALIPERTO
VICE PRESIDENT, WESTERN AREA OPERATIONS



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

SUBJECT: Audit Report – Internal Controls and Transportation
Associated with the Des Moines, IA, Mail Transport
Equipment Service Center
(Report Number NO-AR-14-003)

This report presents the results of our audit of Internal Controls and Transportation Associated with the Des Moines, IA, Mail Transport Equipment Service Center (Project Number 13XG007NL001).

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

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Introduction

This report presents the results of our self-initiated audit of Internal Controls and Transportation Associated with the Des Moines, IA, Mail Transport Equipment Service Center (MTESC) (Project Number 13XG007NL001). Our objective was to assess internal controls and dedicated transportation associated with the Des Moines, IA, MTESC. This is the second 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 facilities¹ and mailers with dedicated transportation, recovers MTE that is no longer needed or serviceable, and processes MTE for inventory and redistribution.

The Des Moines MTESC is in Urbandale, IA, in the Postal Service's Western Area. The Des Moines MTESC contractor, Pacific Architects and Engineers (PAE) Applied Technologies, has operated the facility since July 2012 under a 34-month contract, with two additional 2-year renewal options. The Des Moines MTESC services 12 Postal Service processing facilities and 34 mailers in the Western Area, which covers the Midwestern states (see [Appendix D](#) for the MTESC distribution flowchart and additional information). In fiscal year (FY) 2013, costs for the Des Moines MTESC were about [REDACTED] for operations and [REDACTED] for dedicated transportation.

While Postal Service Headquarters controls MTESC operations, the Western Area monitors the dedicated transportation network and manages MTE at processing facilities. The Postal Service establishes controls and oversees the Des Moines MTESC contractor and MTE operations and transportation at its associated processing facilities.

Conclusion

The Postal Service could improve controls over MTE operations and transportation at the Des Moines MTESC and associated processing facilities. We found that management did not have comprehensive controls over contractor processing, invoicing, repairing, and handling of MTE; and did not adequately monitor the contractor's performance. Further, the Des Moines MTESC did not always have adequate security. In addition, some processing facilities were not complying with MTE policies and were sending non-MTE – specifically shoring straps, or improperly

¹ Processing facilities receive outgoing mail from designated associate offices, stations, and branches or customer service facilities for processing and dispatch.

prepared plant-processed finished goods (PPFG) – to the Des Moines MTE SC. Some processing facilities were not inspecting MTE for mail before sending it to the Des Moines MTE SC. We also found that some facilities were purchasing new cardboard instead of ordering it from Des Moines MTE SC inventory, where it was available. These conditions occurred because the Postal Service did not provide sufficient oversight at the Des Moines MTE SC and associated processing facilities to ensure compliance with its policies and procedures.

Finally, we identified many cancellations and additions of MTE transportation and determined that management should reassess the efficiency of this transportation in view of ongoing operational changes and realignment of the processing network.

Because of the inadequate control environment, we estimate the Postal Service incurred about \$359,000, \$708,000, and \$204,000 in unnecessary costs in FYs 2012, 2013, and 2014, respectively. Further, the Postal Service could avoid about \$636,000 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 contractor performance or processing facility MTE operations associated with the Des Moines MTE SC.

Insufficient Controls Over Contractor Performance

We found the Des Moines MTE SC had insufficient contractor performance controls in place over the processing, invoicing, repairing, and handling of MTE. We identified the following concerns and risks that resulted in unnecessary handling and processing costs.

- There is limited monitoring, tracking, and documenting of the quantity and type of MTE received, so a contractor may unnecessarily handle and process MTE at additional costs.
- There is inconsistent inspection and approval of MTE repair or condemnation.² Consequently, a contractor may improperly classify MTE, resulting in unjustified repair and costs.

² A product that is so damaged, soiled, or worn that it is classified as “beyond repair” according to Postal Service criteria for reparability; or 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 Postal Service's [REDACTED]
[REDACTED]
[REDACTED]
- The Postal Service does not monitor contractor operations during one of the two shifts at the Des Moines MTEESC, so a contractor may perform unnecessary functions.

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

Insufficient Security Over Contractor Operations

During our observations of the Des Moines MTEESC yard, we found that multiple access points were left open, with no access control. The yard contained some unlocked trailers loaded with MTE and trailers were picked up and dropped off during non-operating hours. The contractor's statement of work (SOW)⁴ requires that it provide security and access control to the grounds and trailer parking areas, including access control of inbound and outbound trailers at all times.

Non-Compliance with MTE Policy and Processes

Postal Service facilities were not fully complying with the MTE return handling policy on effective management and distribution of MTE. Facilities were not properly preparing letter trays and tubs before sending them to the Des Moines MTEESC. Some facilities were purchasing cardboard even though there was a significant cardboard inventory at the Des Moines MTEESC. This occurred because management did not have dedicated resources at the processing facilities for effective MTE management and oversight. Because they were short-staffed, processing facilities had to prioritize processing mail over managing MTE.

Unprocessed and Improperly Prepared MTE. There are two main components of the MTE return handling policy — reuse and redistribution of MTE at processing facilities and return of excess MTE to the Des Moines MTEESC for preparation and dispatch as PPF. We found the processing facilities were generally reusing and redistributing MTE locally to facilities and mailers before sending it to the Des Moines MTEESC. However, processing facilities did not always prepare MTE in accordance with the MTE return handling policy.

Our analysis of MTE received at the Des Moines MTEESC for FY 2013 found that over 50 percent of the trays and tubs received from facilities were improperly palletized.

³ Part of the Mail Transport Equipment Support System (MTESS), which generates a sample of processed pallets for the QA specialist to audit and clear.

⁴ SOW, Section 3.1.12, Revision 3, Change 13, dated April 30, 2011.

MTE received from other facilities were often placed in cardboard containers or rolling stock, requiring the Des Moines MTE SC to further sort, process, stack, shrink-wrap, and label MTE at an additional cost to the Postal Service.

We also found facilities that processed and prepared MTE often had PPFG that did not comply with height requirements, was not sufficiently shrink-wrapped, or was not properly labeled for tracking tubs and trays dispatched to the Des Moines MTE SC. During our fieldwork, we observed stacks of trays that facilities were sending as PPFG stacked 70 inches or higher, far exceeding the 45-inch height requirement.

Figure 1. Improperly Prepared MTE at the Des Moines MTE SC



MTE loaded in cardboard containers overflowing instead of being palletized, properly stacked and shrink-wrapped.



Improperly shrink-wrapped trays, stacked in excess of 70 inches, exceeding the 45-inch height requirements.

Source: U.S. Postal Service Office of Inspector General (OIG) photographs taken January 8, 2014.

We judgmentally sampled 25 PPFG pallets of trays sent to the Des Moines MTE SC from Postal Service facilities and noted a 100 percent error rate⁵ for the height requirement. Further, PPFG were not properly shrink-wrapped at the top due to the height of the stacks and the stacks were not properly labeled.

Finally, we found that contractors did not rework the trays to make them compliant but, instead, scanned them into inventory and placed them on trailers for dispatch. Violating the height requirement makes it difficult to determine the actual MTE balance on-hand. This could result in unnecessary MTE purchases and additional transportation costs. In addition, excessively tall stacks and improper shrink-wrapping increase the risk of accidents or injuries.

We estimate the Postal Service incurred unnecessary processing costs at the Des Moines MTE SC totaling about \$359,000 and \$539,000 for FYs 2012 and 2013, respectively. This was the result of dispatching unprocessed MTE and improperly preparing PPFG (see [Figure 1](#)). The Postal Service could save about \$449,000 annually

⁵ Any pallet that contains an inaccurate count of MTE due to non-compliance with height requirements for stacking MTE on pallets.

in unnecessary processing costs over the next 2 years. See [Appendix B](#) for the monetary impact calculation.

Unnecessary Ordering of Cardboard Containers. We found significant inventory of cardboard containers (mainly larger cardboard containers of 47 inches and above) at the Des Moines MTEESC. In FY 2013 and during the first 4 months of FY 2014 (October through January), the average balance on-hand for large cardboard containers was █████ pallets, or about █████ cardboard containers (see Figure 2). Although the larger cardboard was available for order from the Des Moines MTEESC, some facilities it serviced purchased \$2 million in new cardboard through the Postal Service's purchasing system. The Postal Service could have avoided some of the new cardboard purchases by using the existing cardboard inventory at the Des Moines MTEESC.

Figure 2. Excess Cardboard at the Des Moines MTEESC



Excess large cardboard containers stacked in the aisles and near the warehouse dock doors due to lack of storage space.

Source: OIG photographs taken January 7, 2014.

The Postal Service incurred unnecessary cardboard purchases totaling about \$169,000 and \$204,000 for FYs 2013 and 2014,⁶ respectively. The Postal Service could save about \$187,000 annually in unnecessary new cardboard purchases 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 adhere to policy for proper handling, storage, and maintenance of shoring straps.⁷ We observed three hampers (or

⁶ We used cardboard purchases for FY 2013 and the first the first 4 months of FY 2014 because this is when it became evident that new cardboard purchases were occurring while inventory levels at the MTEESC were excessively high.

⁷ 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.

gaylord containers⁸) at the Des Moines MTE SC filled with shoring straps processing facilities sent for inspection and processing. According to Postal Service policy,⁹ shoring straps can be repaired by working with the area MTE coordinator to identify appropriate parts and manufacturer information. Shoring straps are classified as non-MTE and should not be sent to an MTE SC for inspection and processing.¹⁰

Improperly Dispatching Over-the-Road (OTR) Containers to the Des Moines MTE SC

We found that processing facilities sometimes used OTR containers to transport empty MTE to the Des Moines MTE SC instead of complying with policy and preparing and sending MTE on pallets. Processing facilities were not adhering to the OTR container policy,¹¹ which states that only OTR containers needing repair be dispatched to a MTE SC. The Des Moines MTE SC is unnecessarily handling OTR containers.¹²

Improperly Leaving Mail in MTE Sent to the Des Moines MTE SC

The Postal Service is not ensuring that processing facilities thoroughly inspect empty MTE for lost or misplaced mail before dispatching it to the Des Moines MTE SC, as required. We observed that some MTE arriving at the Des Moines MTE SC from processing facilities contained time-sensitive Priority Mail[®] and First-Class Mail[®] (see Figure 4).

Figure 4. Examples of Found Mail at the Des Moines MTE SC



First-Class Mail inside cage.



Priority Mail found.

Source: OIG photographs taken January 8 and 9, 2014.

⁸ Pallet-sized boxes used to ship mail in bulk quantities that are usually constructed of triple wall corrugated fiberboard that fits on standard pallets.

⁹ *Container Methods Handbook* PO 502, Section 287.4 – Maintenance and Repair of Shoring Straps, dated September 1992.

¹⁰ The Postal Service incurred costs that could be avoided; however, we did not quantify a monetary impact due to these costs being immaterial.

¹¹ *OTR Container Usage Standard Operating Procedures*, dated August 28, 2009.

¹² The Postal Service incurred costs it could have avoided; however, we did not quantify a monetary impact since the number of OTR containers involved is minimal.

This occurred because management did not adequately enforce policies that require inspection of MTE for mailpieces before dispatching it to the Des Moines MTEESC.

When the Des Moines MTEESC found lost or misplaced mail in MTE received from processing facilities, it complied with the SOW by ensuring this mail was picked up or dispatched daily for further processing. However, by clearing MTE of all mail before it is sent to the Des Moines MTEESC, the Postal Service can avoid late mail delivery. Late or failed delivery reflects poorly on the Postal Service 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 in the Transportation Information Management Evaluation System (TIMES)¹³ and MTESS¹⁴ revealed that Des Moines MTEESC transportation was not being maximized. This occurred because extra trips were added to move excess MTE and some Des Moines MTEESC trips were cancelled. We also determined the Western Area had not regularly reviewed its MTE needs (standing orders)¹⁵ and, in some cases, had not done so since 2011.

Over the past several years the Postal Service has made many changes to both the MTEESC network and its own infrastructure. These changes have impacted operations, resources, standing orders, distribution of MTE, and MTEESC transportation requirements in the Western Area.

Postal Service policy states that¹⁶ managers must periodically review and update transportation schedules, as necessary. However, we found that the Western Area did not reassess MTE and transportation requirements to factor in network changes. As a result, it could be spending excessively on MTE management and transport.

Recommendations

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

1. Establish and implement adequate controls over contractor performance and ensure there are adequate resources for effective oversight and monitoring of contractor operations at the Des Moines Mail Transport Equipment Service Center,

¹³ 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.

¹⁴ MTESS supports 15 MTEESCs. It tracks MTE history and supports processing orders to network distribution centers (NDC), processing & distribution centers (P&DC), major mailers, and commercial warehouses.

¹⁵ 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.

¹⁶ *Postal Operations Manual*, Sections 473.5 and 512.122.

including the processing, invoicing, repairing, and handling of mail transport equipment.

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

We recommend the vice president, Western Area Operations:

3. Ensure management monitors compliance with established mail transport equipment policies and procedures to minimize risk of accidents and injuries to personnel handling this equipment; ensure proper dispatching and use of over-the-road containers; ensure proper storage, handling, and maintenance of shoring straps; and minimize new cardboard purchases by using existing inventory at the Mail Transport Equipment Service Center.
4. Reinforce the requirement that processing facilities thoroughly inspect mail transport equipment being sent to the Des Moines Mail Transport Equipment Service Center to ensure it contains no mail.
5. Reassess mail transport equipment standing orders and transportation schedules for all processing facilities 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, including the monetary impacts.

In response to recommendation 1, management stated it would create a modified flexible schedule for the QA specialist to achieve effective oversight and monitoring of contractor operations at the Des Moines MTESS. The flexible schedule change for the QA specialist will be completed by May 2, 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. Management stated they will post highly visible signs warning anyone entering the lot that they are under video surveillance. Management also stated the Des Moines MTESS supplier would replace its manned security service with a high-definition, motion-activated video surveillance system that will be operated 24 hours, 7 days a week. Additionally, management stated they will physically check the yard twice each operational day to verify MTESS. The target completion date is July 1, 2014.

In response to recommendation 3, management stated they will reissue standard operating procedures to reinforce guidelines for stacking and transporting MTE and

ensure that employees follow them. Management will also require the Des Moines MTEC QA specialist to notify the Western Area Distribution Office immediately of any non-compliance. Additionally, districts in the Western Area will be notified not to send OTR containers to the Des Moines MTEC unless they require repair. Further, the Postal Service will reissue *Container Methods Handbook* PO-502, Section 287.4, Maintenance and Repairs of Shoring Straps, to ensure compliance and all districts will be required to order excess cardboard from the Des Moines MTEC prior to purchasing new cardboard. The headquarters manager for MTE will approve all eBay requests for cardboard purchases submitted by postal plants. The target completion date is May 2, 2014.

In response to recommendation 4, the Western Area Network Distribution Office will issue a directive instructing all facilities to inspect MTE for mail prior to sending it to the Des Moines MTEC. In addition, they will request the QA specialist to follow up until the issue is corrected. The target completion date is May 2, 2014.

In response to recommendation 5, the Western Area Network Distribution Office will have the Network Operations analyst from the Hawkeye District work with the Des Moines Transportation Office to review standing orders for redundancy or low usage of transportation for optimization. The target completion date is June 27, 2014. See [Appendix C](#) 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.

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 large customers (mailers) requiring trailer loads of MTE nationwide. The Postal Service transformed the MTESC network in FY 2010, decreasing the number of centers 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 no longer needed or serviceable, and processes MTE for inventory or redistribution.

The vice president, Network Operations, through the headquarters manager of MTE, manages MTESCs and establishes guidelines, enforces policy, and provides 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 the acquisition, distribution, supply, and transport of MTE between MTESCs lies with headquarters MTE. Each MTESC is assigned a QA specialist to serve as a technical representative who will perform audits to ensure contractors comply with contract specifications and enforce requirements regarding equipment processing, repairs, and condemnation.

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

Objective, Scope, and Methodology

Our objective was to assess internal controls and transportation at the Des Moines MTESC. This is the second 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 PAE Applied Technologies contract related to the Des Moines MTESC, and observed and photographed operations at the Des Moines MTESC and some of the processing facilities it serviced. See [Appendix C](#) for a list of Postal Service facilities and mailers serviced by the Des Moines MTESC. We also reviewed prior OIG reports and Postal Service documents and spoke with Postal Service management, staff, and PAE 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.

Regarding our assessment of transportation, we did not attempt to fully assess MTEESC transportation for the Des Moines MTEESC because of the ongoing, changing operating environment at the Postal Service due to network realignments.

We conducted this compliance audit from October 2013 through April 2014, 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 March 24, 2014, and included their comments where appropriate.

We assessed the reliability of MTESS, TIMES, Transportation Contracting Support System (TCSS),¹⁷ Enterprise Data Warehouse, eBuy2 purchasing system, and Contracting Award Management System¹⁸ 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, we applied compensating steps to overcome these limitations. We believe the data were sufficiently reliable for the purposes of this report.

¹⁷ An Oracle web-based application used to manage transportation contracts and related activities. TCSS allows contracting offices to solicit, award, and administer transportation contracts.

¹⁸ Used by Supply Management to issue contracts and purchase orders to procure supplies, services, and equipment (including transportation services, excluding highway contract routes).

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Internal Controls and Transportation Associated With the Springfield, MA, Mail Transport Equipment Service Center</i>	NO-AR-14-001	12/20/2013	\$3.8
<p>Report Results: Our report found that the Postal Service could improve controls over MTE operations and transportation at the Springfield MTE SC and its 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. We also found that management needs 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>	NL-AR-12-011	9/28/2012	\$26.7
<p>Report Results: 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. 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: Monetary and Other Impacts

Monetary Impacts

Recommendation	Impact Category	Amount (in millions)
3	Questioned Costs ¹⁹	\$1,271,612
3	Funds Put to Better Use ²⁰	1,271,612
Total		\$2,543,224

We concluded the Postal Service incurred unnecessary costs of about \$359,000 for FY 2012, about \$708,000 for FY 2013, and about \$204,000 for FY 2014 (see Table 1). It could avoid about \$636,000 in unnecessary costs annually over the next 2 years by providing adequate oversight, ensuring compliance with policies and procedures, and using the existing cardboard inventory at the Des Moines MTESS before purchasing cardboard containers.

Table 1. Impact Summary of Questioned Costs and Funds Put to Better Use

Fiscal Year	MTE Return Handling Policy	Cardboard Purchases	Total
2012	\$359,466	-	\$359,466
2013	\$538,944	\$169,257	708,201
2014	-	\$203,945	203,945
Total Questioned Costs			\$1,271,612
Year 1	\$449,205	\$186,601	\$635,806
Year 2	\$449,205	\$186,601	635,806
Total Funds Put to Better Use			\$1,271,612

Source: OIG analysis.

Using MTESS data, we obtained the total number of pallets for trays and tubs the Des Moines MTESS received for processing (36,516 for FY 2012 and 52,580 for FY 2013). We also obtained the number of pallets for trays and tubs the Des Moines MTESS received and classified as PPF (56,881 for FY 2012 and 46,310 for FY 2013).

¹⁹ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc. May be recoverable or unrecoverable. Usually a result of historical events.

²⁰ Funds that could be used more efficiently by implementing recommended actions.

The following MTE piece counts represent what make up a pallet:

- Managed Mail (MM) trays – 210.
- Extended MM Trays – 96.
- Half-size MM trays – 400.
- Tubs – 84.

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 (\$359,466 for FY 2012 and \$538,944 for FY 2013). See Table 2.

Table 2. MTE Return Handling Policy – Questioned Costs

Fiscal Year	Total Pallets of Trays and Tubs	Percentage of PPFG	Percentage of Processed ²¹	Dollar Amount for Processed MTE
2012	93,397	61%	39%	\$359,466
2013	98,890	47%	53%	538,944
Questioned Costs				\$898,410

Source: OIG analysis.

We used an average of the invoiced amount for trays and tubs for FYs 2012 and 2013 to estimate the amount of potential savings over future years ($\$898,205 \div 2 = \$449,205$). See Table 3.

Table 3. MTE Return Handling Policy – Funds Put to Better Use

Future Year	Estimated Dollar Amount for Processed MTE
Year 1	\$449,205
Year 2	449,205
Funds Put to Better Use	\$898,410

Source: OIG analysis.

We offset some new cardboard purchases by the existing large cardboard inventory at the Des Moines MTE SC to calculate total questioned costs (see Table 4). We determined questioned costs by multiplying the purchase price of new cardboard

²¹ “Processed” as used in Tables 2 and 3 refers to tubs and trays that required processing at the MTE SC because they were not properly prepared by the facilities as required.

incurred by facilities by the cardboard inventory at the Des Moines MTESSC that could have been used to avoid new purchased cardboard, only for those months with new purchases.

For FY 2013, questioned costs were for a total of [REDACTED] cardboard boxes at \$169,257 ([REDACTED] = \$51,968, [REDACTED] = \$18,969, and [REDACTED] = \$98,320).

For the first 4 months of FY 2014 (October through January), questioned costs were \$203,945 ([REDACTED]).

Table 4. Cardboard Purchases – Questioned Costs

Fiscal Year	Estimated Dollar Amount for Cardboard Purchases
2013	\$169,257
2014	203,945
Total Questioned Costs	\$373,202

Source: OIG analysis.

We used an average of the questioned cardboard purchases for FYs 2013 and 2014 to estimate the amount of potential savings over future years ($\$373,202 \div 2 = \$186,601$). See Table 5.

Table 5. Cardboard Purchases – Funds Put to Better Use

Future Year	Estimated Dollar Amount for Cardboard Purchased
Year 1	\$186,601
Year 2	186,601
Funds Put to Better Use	\$373,202

Source: OIG analysis.

Other Impacts

Recommendation	Impact Category	Amount
2, 3	Physical Safety and Security ²²	\$0
4	Goodwill/Branding ²³	\$0

Lack of compliance with proper stacking configurations leaves the agency open to the risk of accidents or injuries to personnel handling MTE.

Undelivered or late mail reflects poorly on the Postal Service's brand and public image and leaves the agency open to customer complaints.

²² Physical operations assets (for example, plant, computer equipment, or vehicles) that are unsafe or at risk of loss because of inadequate physical protection or safety practices. This category also includes the safety and security of employees.

²³ An actual or potential event or problem that could harm the reputation of the Postal Service.

**Appendix C: Des Moines Mail Transport Equipment Service Center Processing
 Facilities and Mailers**

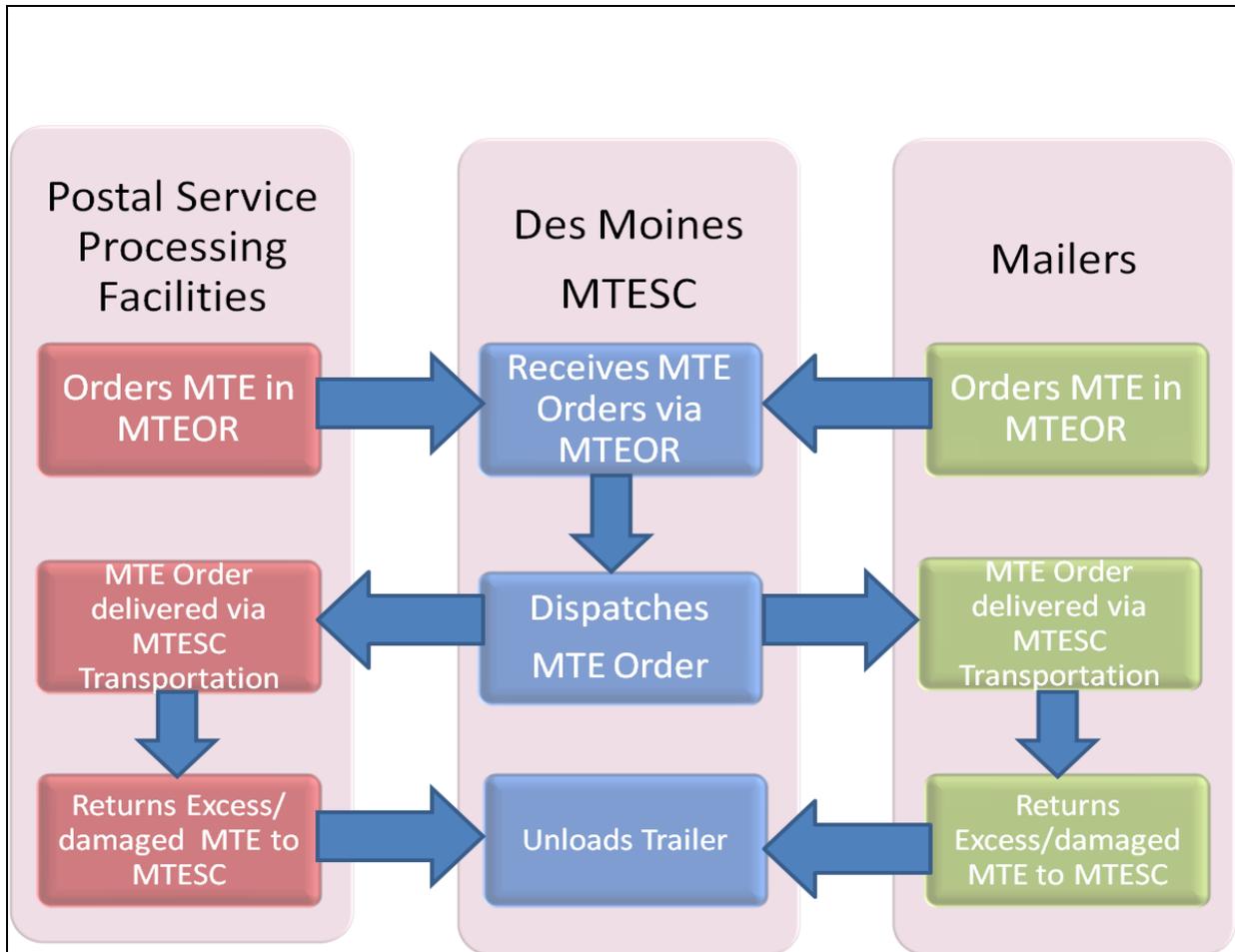
Processing Facility or Mailer	City & State
Action Mailing	Liberty, MO
Alaniz Metro Group	Mount Pleasant, IA
American Spirit Graphics	Des Moines, IA
Communications Data Services (CDS) Wilton	Wilton, IA
CDS Tipton	Tipton, IA
Cedar Rapids P&DC	Cedar Rapids, IA
CITI	Urbandale, IA
Colorfx Marketing	Des Moines, IA
Des Moines NDC	Des Moines, IA
Des Moines P&DC	Des Moines, IA
Dalsey, Hillblom and Lynn (DHL) Global Mail	St. Louis, MO
Diamond Marketing Solutions	Council Bluffs, IA
Data-Sys-Tance Mailing Services	Kansas City, MO
Emdeon	Bridgeton, MO
Epsilon	Earth City, MO
FEDEX Smart Post	Earth City, MO
FEDEX Smart Post	Olathe, KS
First Data Resources	Omaha, NE
First Data Resources	Omaha, NE
Fiserv	Hazelwood, MO
Fisher Group	Hiawatha, IA
Fort Dodge P&DC	Fort Dodge, IA
Henry Wurst, Inc.	Kansas City, MO
Hewlett-Packard	Des Moines, IA
Kansas City Bindery & Mailing	Bonner Springs, KS
Kansas City P&DC	Kansas City, MO

Processing Facility or Mailer	City & State
Mail Services	Urbandale, IA
Mid-Missouri Processing & Distribution Facility	Columbia, MO
Omaha P&DC	Omaha, NE
Parcelite	Kansas City, MO
Pitney-Bowes Presort Services	Urbandale, IA
Pitney-Bowes Presort Services	Kansas City, MO
Pitney-Bowes Presort Services	Omaha, NE
Principal Financial	Urbandale, IA
Quad Graphics	Waukee, IA
Rees Associates	Des Moines, IA
RR Donnelley	Liberty, MO
Sioux Falls P&DC	Sioux Fall, SD
Southwest Publishing	Topeka, KS
Springfield P&DC	Springfield, MO
St. Louis P&DC	St. Louis, MO
St. Louis Priority Annex	Hazelwood, MO
St. Louis NDC	Hazelwood, MO
Straham Printing and Mailing	Kansas City, MO
Transcentra	Des Moines, IA
United Financial Information Services	Urbandale, IA

Source: OIG analysis.

Appendix D: Mail Transport Equipment Service Center Distribution Flowchart

The MTE network consists of the MTEESC, Postal Service processing facilities, and business mailers. Large mailers and processing facilities order their MTE through MTE Ordering System (MTEOR), the MTE order fulfillment system. MTE is shipped via dedicated transportation. Smaller mailers may order MTE from their local Postal Service facilities.



Source: OIG analysis.

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

Appendix E: Management's Comments



April 18, 2014

JUDITH LEONHARDT

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

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. Management agrees with the findings, recommendations, and associated monetary impact within the report and has addressed each recommendation separately below.

OIG Audit Recommendations:

We recommend the Vice President, Network Operations, in coordination with the Vice President, Supply Management:

Recommendation 1: Establish and implement adequate controls over contractor performance and ensure there are adequate resources for effective oversight and monitoring of contractor operations at the Des Moines Mail Transport Equipment Service Center, including the processing, invoicing, repairing, and handling of mail transport equipment.

Management Response: Management agrees. The Des Moines Mail Transport Equipment Service Center (MTEESC) is authorized one quality specialist position. Currently the Quality Specialist has a fixed reporting schedule assigned to shift one (0600 – 1430 M-F). In order to achieve effective oversight and monitoring of contractor operations at the Des Moines MTEESC, management will establish a modified flexible schedule for the Quality Specialist.

Target Implementation Date: Quality Specialist schedule change will take place May 2, 2014.

Responsible Manager: Manager, Mail Transport Equipment, Network Operations.

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Washington, DC 20260

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

Management Response: 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. It is important to note that the Des Moines MTEC site has been in operation at the same facility since 1999 without any security issues. Management considered chain link fencing of the yard, but found it will be cost prohibitive for the Postal Service, as local city codes are very strict for buildings in that neighborhood (county zoning restrictions require installing concrete block or brick wall construction in lieu of chain link). Therefore, the proposed alternative management agreed to will be for the supplier to construct highly visible signs that warn anyone driving into the lot that they are under video surveillance. To control and enhance yard security the Supplier chose to replace their manned security service with a 24 hour 7 day a week high definition video surveillance system that captures all truck traffic in and out of the facility. This system is motion activated and begins recording when a truck enters their driveway and immediately alerted to what is coming and going. Additionally, the yard is physically checked twice each operational day to verify everything in Mail Transport Equipment Support System replicates the yard. Based on this physical review, if a trailer comes up missing the Supplier will then go to the video logs to determine which truck brought the trailer in and which truck removed it and take action accordingly. The Supplier records and keeps activity for up to 120 days and the Plant Manager or his designee maintains daily yard observation and reconciliation.

Target Implementation Date: Installation is estimated to be completed by July 1, 2014.

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

We recommend the Vice President, Western Area Operations:

Recommendation 3: Ensure management monitors compliance with established mail transport equipment policies and procedures to minimize risk of accidents and injuries to personnel handling this equipment; ensure proper dispatching and use of over-the-road containers; ensure there is proper storage, handling, and maintenance of shoring straps; and minimize new cardboard purchases by using existing inventory at the Mail Transport Equipment Service Center.

Management Response: Management agrees. The Western Area Distribution Networks Office will re-issue the Standard Operating Procedures

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(SOP) for preparing excess MTE to ensure the activity around stacking and transporting MTE meet the guidelines set forth in the SOP. This will correct the improper heights of palletized MTE to reduce the safety concerns. The Western Area Distribution Networks Office will request that if the issue is not corrected that the MTESC Quality Specialist contacts them for further follow up until the issue is corrected.

Additionally, Districts will be notified that over-the-road containers are not allowed in the MTESC unless they are being sent for repair; Post Office Manual 502 Section 287.4, Maintenance and Repair of Shoring Straps will be issued to ensure proper procedures are followed; and, that all Districts are to order excess cardboard from the MTESC prior to purchasing any additional cardboard. As a control point for purchasing cardboard, the Headquarters Manager, Mail Transportation Equipment will be added as an eBuy approver for all cardboard eBuys submitted by the Postal Plants.

Target Implementation Date: May 2, 2014.

Responsible Manager: Manager, Network Operations Western Area

Recommendation 4: Reinforce the requirement that processing facilities thoroughly inspect mail transport equipment being sent to the Des Moines Mail Transport Equipment Service Center to ensure it contains no mail.

Management Response: Management agrees. Western Area Distribution Networks will issue a directive to all facilities that send MTE to the Des Moines MTESC outlining requirements to inspect all MTE for mail prior to sending to the MTESC. This will reduce the amount of mail in the MTE received at the MTESC. The Western Area Distribution Networks Office will request that if the issue is not corrected that the MTESC Quality Specialist contacts them for further follow up until the issue is corrected.

Target Implementation Date: May 2, 2014.

Responsible Manager: Manager, Network Operations Western Area

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

Management Response: Management agrees. Western Area Distribution Networks Office will have the Network Operations Analyst assigned to the Hawkeye District work with the Des Moines Transportation office to review the standing orders for redundancy or low utilization of transportation. This will improve the flow of MTE and optimize the transportation.

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Target Implementation Date: June 27, 2014.

Responsible Manager: Manager Network Operations, Western Area

If you have any questions about this response, please contact Nancy Paradise at (202) 268-5056 or Susan Witt at (202) 268-4833.

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



FOR Susan M. Brownell
Vice President, Supply Management



Drew T. Aliperto
Vice President, Western Area Operations

cc: Corporate Audit Response Management

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bcc: VP Reading Files
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