September 28, 2006

ELLIS BURGOYNE
ACTING VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Mail Transport Equipment Service Center Network – Highway Transportation Routes – Dallas (Report Number NL-AR-06-012)

This is one in a series of reports that presents results from our self-initiated nationwide audit of the mail transport equipment service center (MTESC) network (Project Number 06XG023NL002).

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

This follow-up report focuses on whether the Postal Service had opportunities to save money by reducing the number of highway round trips originating at the Dallas MTESC. The Dallas MTESC provides service to mail processing facilities in the Postal Service's Southwest Area.

We concluded the Postal Service could save approximately $1,476,981 over the term of the existing contract by canceling, not renewing, or modifying 66 round trips originating at the Dallas MTESC. The Postal Service could eliminate the trips without affecting customer service by consolidating loads to more fully use trailer capacity. This amount represents funds put to better use and will be reported as such in our *Semiannual Report to Congress*. We recommended the Acting Vice President, Southwest Area Operations, verify the actual cancellation, modification, or substitution of the trips identified for reduction during our audit.

Management agreed with our findings and recommendations. They stated all trip reductions would be completed no later than January 13, 2007. Management stipulated that their anticipated savings might be slightly decreased based on the actual effective date of the reductions. They said they would provide us with a final accounting of the reductions when they completed the contract actions.

Management's comments are responsive to our findings and recommendations. We consider management's actions, taken or planned, sufficient to address the recommendations we made in our report. We will address any decrease in anticipated savings during our routine audit procedure for closing significant recommendations. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General (OIG) considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

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

E-Signed by Colleen McAnte
ERIFY authenticity with Approve
C McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: Patrick R. Donahoe
William P. Galligan
Anthony M. Pajunas
Don M. Spatola
Beverly A. Van Soest
Stephen F. Johnsen
Steven R. Phelps

INTRODUCTION

Background

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

The MTESC Network has dedicated transportation.

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

This MTE tractor-trailer was photographed in June 2006 at the Dallas MTESC.

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

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

Objective, Scope, and Methodology

This audit is a follow-up to our May 4, 2001, report. Our objectives were to determine whether management implemented our recommendations and whether the Postal Service had additional opportunities to save money. This report focuses on transportation requirements of the Dallas MTESC. The Dallas MTESC provides service to mail processing facilities in the Postal Service's Southwest Area.

Using computer-generated data from the Postal Service, we determined trip dispatch, arrival, and load efficiency, and we identified potential trips for consolidation or elimination. We did not audit or comprehensively validate the data; however, several weaknesses in data quality constrained our work. For example, some computer files had missing records and inaccurate trailer load volumes. Despite these constraints, we were able to support our audit conclusions by applying alternate audit procedures, including examination of source documents, observation, physical inspection, and discussions with officials.

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

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

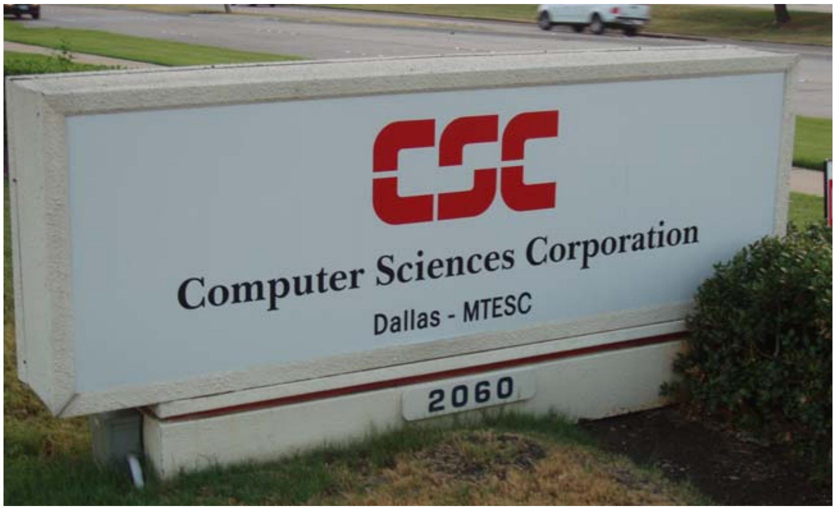
Prior Audit Coverage

Since March 2005, the OIG has worked with the Postal Service to reduce MTESC costs. As a result, we have issued seven audit reports that identified potential savings exceeding $14.4 million. For more detailed information about these audits, see Appendix A.

AUDIT RESULTS

Highway Contract Management

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



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

Photograph taken at the Dallas MTESC, June 2006.

Although Network Operations Management officials continually strive to optimize transportation with aggressive cost-cutting efforts such as their MTESC network cost and efficiency assessments, transportation requirements constantly change. Based on our examination of scheduled shipments and our physical examination of trailer use, we believe additional potential for trip cancellations and savings exists, without jeopardizing service or operational flexibility. Specifically, we believe the Postal Service could save approximately $1,476,981 over the term of existing Dallas MTESC highway contract 751AK by canceling, not renewing, or modifying 66 unnecessary round trips.

Postal Service policy requires transportation managers to balance service and cost. The Postal Service could eliminate the 66 trips without affecting service because they could optimize some trailer loads by consolidating equipment on other trips.

Cooperative Effort

As a result of our continuing efforts to partner with and bring value to the Postal Service, we communicated frequently with area officials during our audit and gave the officials a list of our trip proposals. We then discussed our proposals

The interior of an underutilized trailer arriving at the Dallas MTESC, June 2006.

and area operational needs with officials and made appropriate adjustments. As a result of this cooperation, area officials agreed to eliminate the 66 trips outlined in Appendices E and F. The table below summarizes our trip cancellation proposals:

**PROPOSED TRIP ELIMINATIONS
BY ELIMINATION CATEGORY**

Elimination Category	Number of Trips	Appendix	Savings
Trip cancellations or modifications identified by Postal Service during the audit.	3	E	$139,118
Proposed trip eliminations/substitutions with which area officials agreed.	63	F	1,337,863
Total	66		$1,476,981

Figure 1

Recommendations

We recommend the Acting Vice President, Southwest Area Operations:

1. Verify the actual cancellation, modification, or substitution of the three trips management identified during our audit.

2. Verify the actual cancellation, modification, or substitution of the 63 trips with which Postal Service managers agreed and provide the date action was taken.

Management's Comments

Management agreed with our findings and recommendations. They stated all trip reductions would be completed no later than January 13, 2007. Management stipulated that their anticipated savings might be slightly decreased based on the actual effective date of the reductions. They said they would provide us with a final accounting of the reductions when they completed the contract actions. Management's comments, in their entirety, are included in Appendix G.

Evaluation of Management's Comments

Management's comments are responsive to our findings and recommendations. We consider management's actions, taken or planned, sufficient to address the recommendations we made in our report. We will address any decrease in anticipated savings during our routine audit procedure for closing significant recommendations.

APPENDIX A. PRIOR AUDIT COVERAGE

Report Name	Report Number	Date Final Report Issued	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Trips Agreed to by Management	Additional Trips Management Identified for Elimination During Audit	Trips Management Agreed to Assess	Trips With Which Management Disagreed
MTESC Network – Equipment Processing	NL-AR-05-006	3/31/05		$9,213,576				
MTESC Network – Highway Transportation Routes New York Metro Area	NL-AR-05-014	9/28/05	49	1,025,812	17		32	
MTESC Network – Highway Transportation Routes San Francisco	NL-AR-06-003	3/23/06	77	1,092,640	31	21		25
MTESC Network – Highway Transportation Routes Memphis	NL-AR-06-005	3/28/06	25	699,397			25	
MTESC – Proposed Change to Quality Inspection and Payment Authorization Controls	NL-AR-06-007	7/20/06						
MTESC Network – Highway Transportation Routes Atlanta	NL-AR-06-009	8/18/06	90	801,097	90			
MTESC Network – Highway Transportation Routes Greensboro	NL-AR-06-010	9/18/06	73	1,607,510	62		11	
Totals			**314**	**$14,440,032**	**200**	**21**	**68**	**25**

APPENDIX B. OVER-THE-ROAD CONTAINER POLICY LETTER

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER
AND EXECUTIVE VICE PRESIDENT

UNITED STATES
POSTAL SERVICE

March 1, 2002

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

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

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

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

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

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

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

Patrick R. Donahoe

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

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-0080
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APPENDIX C. REEMPHASIS OF OVER-THE-ROAD CONTAINER POLICY LETTER

Attachment #1

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER
AND EXECUTIVE VICE PRESIDENT

UNITED STATES POSTAL SERVICE

March 23, 2005

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

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

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

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

Patrick R. Donahoe

Attachment

cc: Paul Vogel
Tony Pajunas
Walter OTormey
Jaime Fuentes

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

June 11, 2002

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Mail Transport Equipment

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

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

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

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

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

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

Paul Vogel
Vice President, Network Operations Management

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

Highway Contract Route	Destination Point	Contract Term	Proposed Weekly Round Trip Eliminations	Total Projected Savings on Contract
751AK	Lufkin, TX, Processing and Distribution Center		1	$40,758.22
751AK	Wichita Falls, TX, Processing and Distribution Facility		1	27,865.31
751AK	Midland, TX, Processing and Distribution Facility		1	70,495.08
	TOTAL ADDITIONAL TRIPS IDENTIFIED BY MANAGEMENT	**09/23/2005 – 09/22/2007**	**3**	**$139,118.61**

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

Highway Contract Route	Destination Point	Contract Term	Proposed Weekly Round-Trip Eliminations	Total Projected Savings on Contract
751AK	North Texas, TX, Processing and Distribution Center		7	$39,544.62
751AK	Dallas, TX, Bulk Mail Center		14	146,010.92
751AK	Fort Worth, TX, Processing and Distribution Center		11	204,862.26
751AK	Shreveport, LA, Processing and Distribution Center		3	123,522.35
751AK	Oklahoma City, OK, Processing and Distribution Center		3	119,779.25
751AK	Tulsa, OK, Processing and Distribution Center		2	106,886.34
751AK	East Texas, TX, Processing and Distribution Center		2	46,996.72
751AK	Lufkin, TX, Processing and Distribution Center		1	40,758.22
751AK	Waco, TX, Processing and Distribution Facility		3	72,366.63
751AK	Houston, TX, Processing and Distribution Center		1	53,235.22
751AK	North Houston, TX, Processing and Distribution Center		1	51,571.62
751AK	Amarillo, TX, Processing and Distribution Center		1	75,277.93
751AK	Lubbock, TX, Processing and Distribution Center		1	71,742.78
751AK	Abilene, TX, Processing and Distribution Facility		2	71,950.73
751AK	Dallas, TX, Processing and Distribution Center		11	113,357.12
	TOTAL AGREED TO BY MANAGEMENT	**09/23/2005 – 09/22/2007**	**63**	**$1,337,862.71**

APPENDIX G. MANAGEMENT'S COMMENTS

ELLIS A. BURGOYNE
A/VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

UNITED STATES
POSTAL SERVICE

September 25, 2006

KIM H. STROUD
DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Southwest Area Surface Reductions – Dallas MTESC Transportation

This correspondence is in response to your memorandum dated August 31, 2006, referencing the Dallas Mail Transport Equipment Service Center (MTESC) review and audit performed by your office in June 2006.

The Southwest Area concurs with the OIG's findings and recommendations to eliminate specific under-utilized segments of transportation originating from the Dallas MTESC. The overall reductions will cover approximately 66-roundtrips as summarized in your Appendices E and F.

Although we are in agreement with the recommended trip reductions, our anticipated savings may be slightly decreased based upon the actual effective date of the reduction. At this time, we will ensure all local contract negotiations will be finalized no later than January 13, 2007, to affect the reductions outlined in your audit. At that time, a final accounting of the documented reductions and overall savings will be forwarded to your office.

Your recommendations and analysis has resulted in a significant cost savings and opportunity to improve local operational efficiencies. The Southwest Area continues to support the OIG Review Process and other Breakthrough Productivity Initiatives. We appreciate the review team's cooperation, insight, and recommendations that precipitated the overall reductions and cost savings opportunities for the Southwest Area.

Ellis A. Burgoyne

cc: Senior Vice President, Operations
Vice President, Network Operations Management
Manager, Logistics
Area Manager, Operations Support
Area Manager, Distribution Networks

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