



September 29, 2006

ANTHONY M. PAJUNAS  
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

SUBJECT: Audit Report – Mail Transport Equipment – Transportation of Over the Road Containers (Report Number NL-AR-06-014)

This is one in a series of follow-up reports to our audit, *Mail Transport Equipment Service Center Decision Analysis Report, Performance and Financial Benefit* (Report Number TR-AR-01-003, dated May 4, 2001). It presents results from our mail transport equipment service center (MTESC) audit (Project Number 06XG008NL000).

Our objectives were to determine if management implemented our recommendations and whether there were additional opportunities to save money. Our May 4, 2001, report recommended, in part, the U.S. Postal Service reduce cost by:

- Requiring facilities to reuse serviceable equipment rather than returning it to service centers.
- Reducing transportation associated with the network.

We concluded that Postal Service Headquarters vigorously implemented our equipment reuse recommendation and is aggressively pursuing opportunities to reduce MTESC transportation. As a result, from March 2002 to September 2005, the Postal Service saved about \$9.7 million in transportation costs to move serviceable Over the Road (OTR) containers between mail processing facilities and MTECs. We also concluded that because all facilities did not quickly comply with headquarters' guidance, the Postal Service may have missed an opportunity to save an additional \$1.7 million. Finally, we concluded the Postal Service could still save about \$700,000 over the next 2 years if all facilities immediately implement headquarters' guidance. This represents \$10,465,495 of funds put to better use and \$1,738,252 of unrecoverable costs and will be reported as such in our *Semiannual Report to Congress*. We recommended that management reemphasize OTR container policy to all mail processing facilities.



Previous MTESC reports for New York, New Jersey, San Francisco, and Memphis identified findings associated with returning serviceable OTR containers to MTECs. Those findings, and the monetary impact of those findings, were reported separately in

our *Semiannual Reports to Congress* and are not duplicated here. This report focuses on the remaining 18 MTECs in the 22 facility network.

Management agreed with our recommendation and stated they would reemphasize instructions on OTRs to all applicable mail processing facilities. While management did not specifically comment on the monetary impact of our findings, we will address that issue 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 the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendation 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) 248-2100.

E-Signed by Colleen McAntee   
VERIFY authenticity with Approve!  


Colleen A. McAntee  
Deputy Assistant Inspector General  
for Core Operations

#### Attachments

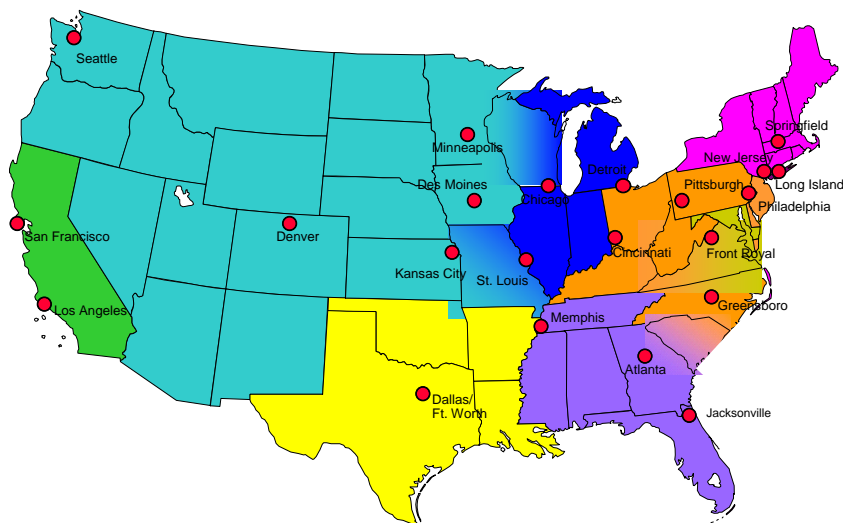
cc: Patrick R. Donahoe  
William P. Galligan  
Don M. Spatola  
Beverly A. Van Soest  
Steven R. Phelps

## INTRODUCTION

### Background

The mail transport equipment service center (MTESC) network is a system of 22 contractor-operated service centers designed to supply 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 is a nationwide system of 22 contractor-operated service centers.



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 titled *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, management reduce costs by:

- Requiring facilities to reuse serviceable equipment rather than returning it to service centers.
- Reducing transportation associated with the network.

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**Objective, Scope, and  
Methodology**

This report is one in a series of follow-up reports to our May 4, 2001 audit. Our objectives were to determine if management implemented our recommendations and whether there were additional opportunities to save money. This report focuses on the transportation cost of returning serviceable Over the Road (OTR) containers to MTESCs.

This picture depicts  
serviceable OTR containers  
at the Memphis, Tennessee,  
MTESC, April 6, 2005.



During our work, we interviewed Postal Service Headquarters officials in Network Operations Management and Supply Management. We also interviewed Postal Service officials, managers, and employees in the Eastern, Southeast, Southwest, and Western Areas, as well as contractor managers and employees. We examined relevant Postal Service policies, procedures, and directives; observed and photographed operations; used computer assisted analysis techniques; and consulted with subject-matter experts.

To determine the cost of returning serviceable OTR containers to MTESCs, we examined computer data and other records for the period October 2000 through October 2005. Although we did not audit or comprehensively

validate the data or records, we noted several weaknesses in data quality that constrained our work. For example:

- We could not fully use computer-assisted analysis techniques because most billing records were not automated until fiscal year 2005.
- Some manual billing records were not available.

Despite these constraints, we were able to support our audit conclusions by applying alternate audit procedures, including source document examination, data imputation, observation, physical inspection, and discussion with responsible officials.

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 associated with this report from December 2005 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.

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**Prior Audit Coverage**

Since March 2005, the OIG has worked with the Postal Service to reduce MTEC costs. As a result, we have issued eight audit reports that identified potential savings exceeding \$15.8 million. For more detailed information about these audits, see Appendix A. Previous MTEC reports for New York, New Jersey, San Francisco, and Memphis identified findings associated with returning serviceable OTR containers to MTECs. Those findings, and the monetary impact of those findings, are not duplicated in this report. This report focuses on the remaining 18 MTECs in the 22 facility network.

## AUDIT RESULTS

### Transporting Serviceable Over the Road Containers

The Postal Service implemented our equipment reuse recommendation and is aggressively pursuing opportunities to reduce MTESSC transportation. In response to our equipment reuse recommendation, the Postal Service Chief Operating Officer issued the first of several policy letters on March 1, 2002. The letters prohibited facilities from shipping serviceable OTR containers to MTESSCs and stipulated they could only transport containers requiring repair. (See Appendices B, C, and D.)

This poster reflects  
Postal Service policy  
guidance issued  
March 1, 2002.

Serviceable  
OTR containers are to be  
managed by bulk mail  
centers (BMC) and only  
sent to MTESSCs when  
they require repair.

Postal Service policy  
specifically prohibits  
employees from sending  
serviceable OTR  
containers to MTESSCs  
whether they are  
“full or empty.”

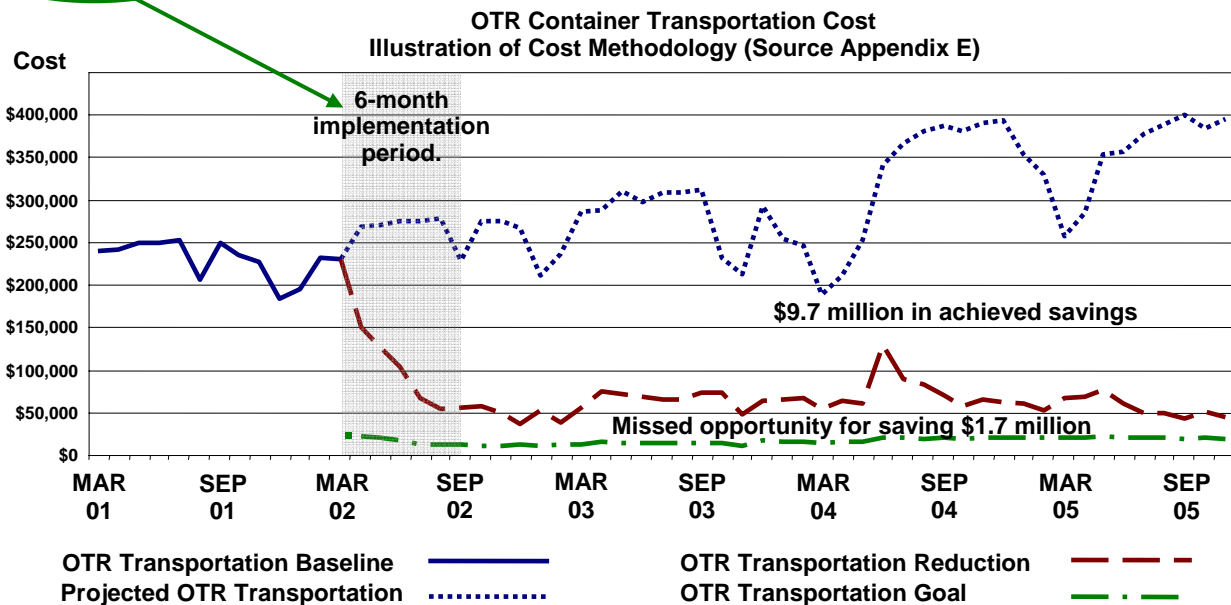


From March 2002 to September 2005, as a result of vigorous implementation of our equipment reuse recommendation, the Postal Service saved about \$9.7 million in transportation costs to move serviceable OTR containers between mail processing facilities and MTESSCs. However, the Postal Service may have missed an opportunity to save an additional \$1.7 million in



Policy letter issued  
March 1, 2002

transportation costs because some mail processing facilities did not quickly comply with headquarters' policy.



Notwithstanding the potential missed opportunity, the Postal Service can still save approximately \$700,000 over the next 2 years if all facilities implement and follow the headquarters' OTR container policy guidance. For a detailed cost analysis, see Appendix E.

The MTE network  
uses dedicated  
transportation.

Returning serviceable  
OTR containers to  
MTECs adds  
unnecessary  
transportation costs to  
the network.

This dedicated MTE  
tractor-trailer was  
photographed near the  
Atlanta MTEC in  
March 2006.

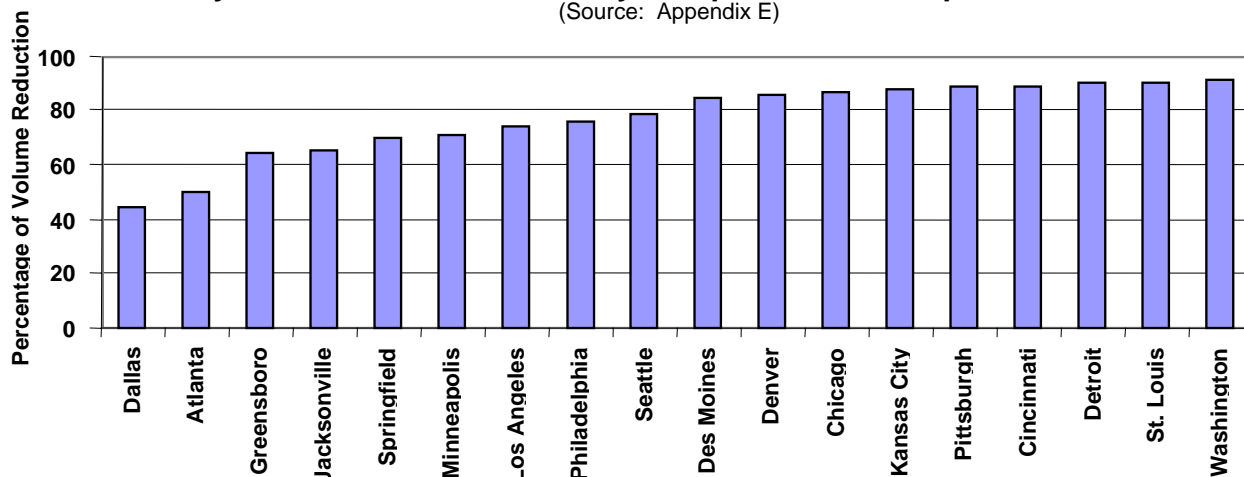


Compliance with  
Headquarters' Over  
the Road Container  
Policy

As indicated in the Prior Audit Coverage section of this report, the MTESC network has 22 service centers. In previous MTESC reports for New York, New Jersey, San Francisco, and Memphis, we reported compliance at those facilities. Those findings, and the monetary impact of those findings, are not duplicated here. The chart below reflects compliance with policy at the remaining 18 facilities as of September 30, 2005. For example, since Postal Service Headquarters issued the OTR container policy letter on March 1, 2002, mail processing facilities serviced by the Washington MTESC have reduced the number of OTR containers shipped to it by 92 percent. However, facilities serviced by the Dallas MTESC have only reduced OTR containers shipped to it by 45 percent.

**Analysis of OTR Container Policy Compliance as of September 30, 2005**

(Source: Appendix E)



To determine why all facilities were not fully complying with headquarters' policy we spoke with Postal Service area officials and BMC managers and observed operations at MTESCs in Dallas, Atlanta, Greensboro, and Minneapolis. Postal Service policy requires facilities to return mailbags and other equipment they do not need directly to MTESCs. Various officials explained some facilities or customers were not returning unneeded equipment directly to MTESCs as they required but, instead, were loading used equipment into OTR containers and sending the full OTR containers to BMCs. BMC personnel explained that because they were not staffed to unload mail bags and sacks from the OTR containers, they merely transshipped the full OTR containers back to the MTESCs. BMC officials agreed the



improper receipt of MTE from mail processing facilities was a significant factor in preventing them from fully complying with the OTR container policy. The chart below reflects our observation of the high percentage of serviceable OTR containers received by MTESCs during our site visits.

### Serviceable OTR Site Visit Observations

The chart to the right reflects the percentage of serviceable OTR containers received by MTESCs during our site visits between January and June 2006.

MTESC	Serviceable OTR Containers	Repaired OTR Containers	Total OTR Containers	Serviceable OTRs Percentage
Atlanta	318	20	338	94%
Dallas	227	30	257	88%
Greensboro	241	12	253	95%
Minneapolis	67	27	94	71%
Total	853	89	942	91%

Although headquarters took aggressive and positive action to implement our recommendation, we believe there is an opportunity to further reduce the transportation costs associated with shipment of serviceable OTR containers through reemphasis of headquarters' policy.

#### Recommendation

We recommend the Vice President, Network Operations Management:

1. Reemphasize the Postal Service's Over the Road container policy to all mail processing facilities including processing and distribution centers and all other feeder facilities.

#### Management's Comments

Management agreed with our recommendation and stated they would reissue instructions on OTRs to all applicable mail processing facilities. Management's comments, in their entirety, are included in Appendix F.

#### Evaluation of Management's Comments

Management's comments are responsive to our finding and recommendation. While management did not specifically comment on the monetary impact of our findings, we will address that issue during our routine audit procedure for closing significant recommendations. We consider management's actions, taken or planned, sufficient to address the recommendation we made in our report.

## 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-Draft		73	1,607,510	62		11	
MTESC Network – Highway Transportation Routes – Dallas	NL-AR-06-Draft		66	1,476,981	63	3		
<b>Totals</b>			<b>380</b>	<b>\$15,917,013</b>	<b>263</b>	<b>24</b>	<b>68</b>	<b>25</b>

## APPENDIX B OVER THE ROAD CONTAINER POLICY LETTER

PATRICK R. DONAHOF  
Chief Operations Officer  
and Executive Vice President



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 215,000 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 outides 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.

A handwritten signature in black ink, appearing to read "P. Donahof".

Patrick R. Donahof  
cc: Managers, Operations Support (Area)  
Managers, Bulk Mail Centers

475 L'Enfant Plaza SW  
Washington DC 20020-0080  
www.usps.com

## APPENDIX C

### REEMPHASIS OF OVER THE ROAD CONTAINER POLICY LETTER

Attachment #1

PATRICK R. DONAHOE  
CHIEF OPERATING OFFICER  
AND EXECUTIVE VICE PRESIDENT



March 23, 2005

VICE PRESIDENTS, AREA OPERATIONS  
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: 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 (MTEC) 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 MTEC. The audit completed in February 2005, shows the MTEC 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.

A handwritten signature in black ink, appearing to read "Patrick R. Donahoe".

Patrick R. Donahoe

Attachment

cc: Paul Vogel  
Tony Pajunas  
Walter OTormey  
Jaime Fuentes

475 L'ENFANT PLAZA SW  
WASHINGTON DC 20260-0080  
www.usps.com

## **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 SAVINGS SUMMARY ANALYSIS

Facility Site	Cumulative OTR Transportation Savings March 23, 2002 – Sept. 30, 2005	Percentage Reduction in OTR Equipment Transported as of Sept. 30, 2005	Future (2 year) OTR Transportation Cost Avoidance Using Sept. 30, 2005	Questioned Costs: Costs for Transporting More Than Target March 2002 – Sept. 30, 2005 "Grace Period"	Total Monetary Impact
Atlanta	\$ 137,472.92	52%	\$45,533.76	\$ 441,299.39	\$ 624,306.06
Chicago	2,097,611.37	86	679.46	74,010.62	2,172,301.46
Cincinnati	761,583.78	88	49,575.78	48,316.48	859,476.04
Dallas	246,894.52	45	82,848.40	104,235.15	433,978.07
Denver	580,842.53	85	3,052.22	17,439.38	601,334.13
Des Moines	322,938.49	84	0.00	3,578.17	326,516.66
Detroit	330,862.31	91	0.00	11,224.40	342,086.71
Greensboro	1,530,497.72	64	5,937.18	473,143.99	2,009,578.89
Jacksonville	498,406.46	66	411,312.33	154,895.62	1,064,614.40
Kansas City	95,874.81	87	8,291.83	24,604.16	128,770.80
Los Angeles	182,817.65	74	0.00	1,773.47	184,591.12
Minneapolis	926,680.19	72	4,305.26	84,509.02	1,015,494.47
Philadelphia	332,534.79	76	45,540.94	96,332.89	474,408.62
Pittsburgh	677,358.54	88	39,255.42	151,459.63	868,073.58
Seattle	160,559.48	79	221.78	14,463.61	175,244.88
Springfield	241,807.37	71	0.00	6,716.91	248,524.28
St. Louis	235,859.96	91	10,984.88	28,684.49	275,529.33
Washington	397,352.78	92	0.00	1,564.85	398,917.63
<b>TOTAL:</b>	<b>\$9,757,955.67</b>	<b>77%</b>	<b>\$707,539.23</b>	<b>\$1,738,252.23</b>	<b>\$12,203,747.13</b>



## APPENDIX F. MANAGEMENT'S COMMENTS

TONY PAJUNAS  
VICE PRESIDENT, NETWORK OPERATIONS



September 29, 2006

COLLEEN A. MCANTEE

SUBJECT: Transmittal of Draft Audit Report – Mail Transport Equipment  
Transportation of Over-the-Road Containers (Report Number NL-AR-06-DRAFT)

This is in reference to your report on the Mail Transport Equipment Transportation of Over-the-Road Containers dated August 31, 2006.

### OIG Recommendation

We recommended the Vice President, Network Operations Management reemphasize the Postal Service's Over-the-Road container policy to all mail processing facilities including processing and distribution centers and all other feeder facilities.

### Response

We are in agreement with this recommendation and will reissue instructions to all area offices on the correct usage of Over-the-Road containers.

Thank you for the opportunity to review your draft report and provide feedback concerning your team's effort in assisting us to reduce unnecessary costs.

A handwritten signature in black ink, appearing to read "Tony Pajunas", written over a circular stamp or seal.

cc: Mr. Spatola  
Mr. Lennon

475 L'ENFANT PLAZA SW  
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202-268-4948  
Fax: 202-268-5302  
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