



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Internal Controls and Transportation Associated with the Dallas, TX Mail Transport Equipment Service Center

Audit Report

Report Number
NO-AR-15-005

May 22, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service needs to improve controls over MTE operations and transportation at the Dallas, TX MTESC and its processing facilities.

Background

The U.S. Postal Service's Mail Transport Equipment Service Center (MTESC) network is comprised of 15 contractor-operated centers that handle, supply, and transport mail transport equipment (MTE) to mail processing facilities and customers. The Dallas, TX MTESC spends about \$14.4 million annually to service 58 facilities and mailers in the Southern Area.

Our objective was to assess internal controls and dedicated transportation activities associated with the Dallas MTESC.

What the OIG Found

The Postal Service needs to improve controls over MTE operations and transportation at the Dallas MTESC and its processing facilities. Specifically, management did not adequately control contractor processing, invoicing, repair, and handling of MTE; monitor contractor performance; or always secure its operations. Processing facilities did not always comply with MTE policies and were sending unprocessed, improperly prepared MTE and incorrect container types to the Dallas MTESC. In addition, they did not always inspect MTE before sending it to the Dallas MTESC or mailers, causing delays or undelivered mail.

Management also did not reassess transportation needs and requirements in order to reduce transportation costs. Finally, we identified cancellations and additions of MTE transportation that occurred because of ongoing operational changes and realignment of the processing network.

These conditions occurred because the Postal Service did not provide sufficient oversight to ensure compliance with its policies. Further, facilities lacked adequate resources and management prioritized processing mail over managing MTE.

As a result, the Postal Service incurred about \$916,000 and \$760,000 in unnecessary processing costs in fiscal years 2013 and 2014, respectively. It could also avoid costs of about \$838,000 annually over 2 years by providing adequate oversight and ensuring policy compliance.

What the OIG Recommended

We recommended management establish adequate controls over contractor performance and ensure MTE is protected. We also recommended management ensure compliance with policies for proper ordering, handling, and transporting of MTE; and reassess MTE transportation requirements to ensure efficiency.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 22, 2015

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

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

JO ANN FEINDT
VICE PRESIDENT, SOUTHERN AREA OPERATIONS

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

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

SUBJECT: Audit Report – Internal Controls and Transportation
Associated with the Dallas, TX Mail Transport Equipment
Service Center (Report Number NO-AR-15-005)

This report presents the results of our audit of Internal Controls and Transportation Associated with the Dallas, TX Mail Transport Equipment Service Center (Project Number 13XG007NL003).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

Management did not adequately control contractor processing, invoicing, repairing, and handling of MTE; adequately monitor contractor performance; and always secure its operations.

Additionally, we determined management needs to reassess MTE orders and transportation schedules.

Introduction

This report presents the results of our self-initiated audit of Internal Controls and Transportation Associated with the Dallas, TX Mail Transport Equipment Service Center (Project Number 13XG007NL003). Our objective was to assess internal controls and dedicated transportation associated with the facility. This is the fourth in a series of reports on the Mail Transport Equipment Service Center (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 it for inventory and redistribution.

The Dallas MTESC is in the Postal Service's Southern Area and the current contractor has operated the facility since May 2012. The facility services 27 processing plants and 31 mailers located mostly in the Southern Area (see [Appendix C](#) for the MTESC distribution flowchart and additional information). In fiscal year (FY) 2014, costs for the Dallas MTESC were about \$6.3 million for operations and \$8.1 million for dedicated transportation.

While Postal Service Headquarters (HQ) controls MTESC operations, the Southern Area monitors its dedicated transportation network and manages MTE operations at its processing facilities.

Conclusion

The Postal Service needs to improve controls over MTE operations and transportation at the Dallas MTESC and its processing facilities. Specifically, management did not adequately control contractor processing, invoicing, repair, and handling of MTE; monitor contractor performance; or always secure its operations. Processing facilities did not always comply with MTE policies and were sending unprocessed, improperly prepared MTE and incorrect container types to the Dallas MTESC. They also did not always inspect MTE to ensure it was empty before sending it to the Dallas MTESC or mailers. This caused delays and undelivered mail.

These conditions occurred because the Postal Service did not provide sufficient oversight to ensure compliance with its policies. Further, facilities lacked adequate resources and management prioritized processing mail over managing MTE. As a result, the Postal Service incurred an estimated \$916,000 and \$760,000 in unnecessary processing costs in FYs 2013 and 2014, respectively. It could also avoid costs of about \$838,000 annually over the next 2 years by providing adequate oversight and ensuring compliance with its policies.

Management also did not reassess transportation needs and requirements in order to reduce transportation costs. Finally, we identified cancellations and additions of MTE transportation caused by ongoing operational changes in the processing network.

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

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

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

Insufficient Controls Over Contractor Performance

We found the Dallas MTESC had insufficient contractor performance controls in place over the processing, invoicing, repair, and handling of MTE. We identified the following concerns and risks that resulted in unnecessary handling and processing costs:

- There was limited monitoring, tracking, and documenting of the quantity and type of MTE received, including plant processed finished goods (PPFG).
- The Postal Service did not inspect the rolling stock entered into work in process for MTE repairs. This inspection function has been completely turned over to the Dallas MTESC contractor.
- The audit function² feature was not always performed or was turned off when the Postal Service's quality assurance (QA) specialist was not at the Dallas MTESC.

These conditions occurred because management eliminated previously assigned QA positions at the Dallas MTESC.

As a result, the Dallas MTESC contractor handled and processed MTE unnecessarily at additional cost to the Postal Service. Further, the Postal Service was not able to monitor contractor accountability and compliance with MTE preparation standards.

Non-Compliance With MTE Policies and Processes

Postal Service facilities were not fully complying with the MTE return handling policy or properly preparing letter trays and tubs before sending them to the Dallas MTESC.

- *Return Handling Policy.* The MTE return handling policy has two main components — reusing and redistributing MTE at processing facilities and returning excess MTE to the MTESC for preparation and dispatch as PPFG.³ We found that processing facilities were generally reusing and redistributing MTE locally to facilities and mailers before sending it to the Dallas MTESC; however, processing facilities did not always prepare MTE in accordance with the MTE return handling policy. For example, PPFG did not always comply with height requirements or was not sufficiently shrink-wrapped and PPFG tubs and trays dispatched to the Dallas MTESC were not always labeled.
- *Preparation of Letter Trays, and Tubs.* Our analysis of MTE received at the Dallas MTESC for FY 2014 found that over 61 percent of the trays and tubs sent to the MTESC were incorrectly palletized (see Figure 1). MTE from facilities was often incorrectly placed in cardboard containers or rolling stock, requiring the Dallas MTESC to further sort, process, stack, shrink-wrap, and label MTE at an additional cost to the Postal Service. Our observations confirmed that facilities were sending PPFG trays stacked 70 inches or higher, far exceeding the 45-inch height requirement. This made it difficult to determine the actual MTE balance-on-hand.

² Part of the Mail Transport Equipment Support System (MTESS), which generates a sample of processed pallets for the QA specialist to audit and clear.

³ The revised *Standard Operating Procedures (SOP): Mail Transport Equipment Return Handling Procedure for Processing Facilities*, effective August 13, 2012, states that letter trays, flat tubs, and sleeves must not be returned to an MTESC if there could be a need for that equipment within 7 days. The SOP also requires that excess MTE be containerized by stacking it on pallets at the proper height, securing it with plastic wrap, and sending it to the MTESC for redistribution. The Postal Service refers to containerized trays, tubs, and sleeves as PPFG.

Mixed MTE loaded in serviceable rolling stock including trash.

Improperly prepared trays and tubs exceeding the 45-inch height requirements.

[illegible]

These conditions occurred because local Postal Service facility management stated that they did not have dedicated resources at the processing facilities for effective MTE management and oversight.⁴ Because of staffing levels, management had to process mail rather than manage MTE.

Because facilities did not adhere to the height requirement, inventory counts were inaccurate and 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 found that the contractor reworked some of the trays and tubs to comply with the height requirement, scanned them into inventory, and placed them on trailers for dispatch; however, this added costs. We estimate the Postal Service incurred unnecessary processing costs at the Dallas MTEC totaling about \$889,000 and \$739,000 for FYs 2013 and 2014, respectively. Further, the Postal Service could save about \$814,000 annually over the next 2 years by eliminating unnecessary processing costs.

We found that processing facilities use over-the-road (OTR) containers to transport empty MTE to the Dallas MTE SC instead of preparing and sending MTE on pallets. Processing facilities were not adhering to the OTR container policy,⁵ which states that only OTR containers needing repair should be dispatched to an MTE SC. The Postal Service sent OTR containers that did not need repair to the Dallas MTE SC. Failure to follow the policy cost the Postal Service \$27,242 in FY 2013 and \$21,104 in FY 2014. Further, the Postal Service could save about \$24,000 annually by not sending OTR containers to the MTE SC. Although these OTR container numbers and dollar amounts are minimal, they could have been avoided.⁶

6 The number of OTR containers equates to about 652 trailer loads ($23,474/2=11,736/18=652/365=1.79$) of OTR containers per year received by the Dallas MTESSC, or just under two trailer loads per day.

Mistakenly Leaving Mail in MTE Sent to Mailers⁷

During our site visits to mailer facilities, 14 of 18 said they sometimes found mail sent from Postal Service facilities or the Dallas MTE SC left in the MTE. Several mailers said they received mail daily in MTE. At two facilities, mailers said onsite Postal Service employees would not take custody of the found mail, leaving mailers to decide whether to put it back into the mailstream. Mailers did not retain specific information on the type, date, timing, and count of mail received or how long it took before the missent mail was placed back into the mailstream.

This occurred because Postal Service processing facilities did not ensure MTE was empty before dispatching it to mailers. Further, the Postal Service did not have procedures or processes in place for mailers to secure and re-introduce mail back into the mailstream. As a result, mail found at mailers' facilities was neither secured nor given the priority and urgency necessary to ensure it was returned to the mailstream. The inability to account for and secure mail missent to mailers' facilities could result in delayed and undelivered mail, which would reflect poorly on the Postal Service's brand and public image and could result in customer complaints and potential refunds.

Insufficient Security Over Contractor Operations

During our observations of the Dallas MTE SC yard, we found that the main entrance access point was left open and had no access control. The yard contained unlocked trailers loaded with MTE and some trailers were picked up and dropped off during non-operating hours without proper oversight and control. The contractor's statement of work (SOW)⁸ requires the provision of security and access controls for the grounds and trailer parking areas, including regular control access of inbound and outbound trailers.

Reassessment of Mail Transport Equipment Service Center Transportation Requirements

Management did not reassess transportation needs and requirements to reduce transportation costs. Specifically:

- Management was not periodically reviewing transportation needs and added extra trips to move excess MTE and cancelled other trips.
- The Postal Service made many changes to both the MTE SC network and its own infrastructure. These changes have impacted operations, resources, standing orders,⁹ distribution of MTE, and MTE SC transportation requirements in the Southern Area.

Postal Service policy states that¹⁰ managers must periodically review and update transportation schedules, as necessary. Management did not enforce the reuse policy at facilities. As a result, the facilities did not effectively monitor and reduce transportation costs. Additionally, there was no coordination of customers' MTE orders and Postal Service facilities' MTE returns. Consequently, the Postal Service may be incurring unnecessary MTE transportation¹¹ costs.

⁷ During this audit, we also found that the Postal Service was not ensuring that processing facilities thoroughly inspect MTE to ensure it is empty before dispatching it to the Dallas MTE SC, as required. Due to the volume and sensitivity of improperly sent mail received at the Dallas MTE SC, we issued a management alert, *Mail Left in Mail Transport Equipment Dispatched to the Dallas Mail Transport Equipment Service Center* (Report Number NO-MA-15-002, dated February 2, 2015). [See Prior Audit Coverage](#). After the alert was issued, mailers verified they were also receiving mail in MTE on a recurring basis and we address this issue above.

⁸ SOW, Section 3.1.12, Revision 3, Change 13, dated April 30, 2011.

⁹ Standing orders are for both internal and external customers with steady, recurring requirements. All Postal Service processing facilities developed MTE standing orders to fill long-term, recurring deficiencies.

¹⁰ *Postal Operations Manual*, Sections 473.5 and 512.122.

¹¹ We did not fully assess transportation operations due to ongoing network changes; therefore we could not estimate the potential transportation monetary impacts.

Recommendations

We recommend management establish adequate controls over contractor performance by ensuring proper oversight and ensuring compliance with MTE policies for proper ordering, handling, and transporting of MTE.

We recommend management ensure MTE is secured and protected, ensure compliance with policies and procedures for handling MTE to minimize accidents and injuries, and reassess transportation schedules.

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 Dallas, TX Mail Transport Equipment Service Center, including the processing, invoicing, repair, and handling of mail transport equipment.
2. Ensure the contractor at the Dallas, TX Mail Transport Equipment Service Center provides adequate security and access control to ground and trailer parking areas, including controlling access of inbound and outbound trailers.

We recommend the vice president, Network Operations, in coordination with the vice president, Southern Area operations:

3. Ensure management monitors compliance with established mail transport equipment policies and procedures to reduce costs and minimize the risk of accidents and injuries to personnel handling this equipment.
4. Ensure over-the-road containers are not incorrectly sent to the Dallas, TX Mail Transport Equipment Service Center in order to reduce unnecessary handling costs.
5. Establish a policy and procedures for securing and handling mail mistakenly sent to mailers' facilities.
6. Reassess mail transport equipment standing orders and transportation schedules for all processing facilities. Ensure orders are up-to-date and transportation is efficiently scheduled by coordinating customers' orders with mail transport equipment facilities' dispatches to the Dallas, TX Mail Transport Equipment Service Center.

Management's Comments

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

Regarding recommendation 1, management stated the MTE Program Office has instituted weekly teleconferences with the operating contractors to re-enforce existing processing policies and address local concerns; and with the quality examiners to ascertain whether the operating contractors are following MTE processing policies. Further, the Dallas MTEESC now has two quality examiner positions and management will establish modified schedules for the examiners to improve internal controls over the MTEESC contractor performance. The target completion date is June 13, 2015.

Regarding recommendation 2, management stated it will meet with the operating contractor at the Dallas MTEESC to discuss the details of the existing security and access control process in place; review the security plan proposed during the initial solicitation of the contract; and devise a plan to ensure the operating contractor provides security and access control in compliance with contract terms and conditions. The target completion date is by July 31, 2015.

Regarding recommendation 3, management stated HQ MTE would conduct a webinar with all Dallas MTEESC feeder plants to review the SOP for MTE Return Handling at Processing Facilities. The quality examiners at the Dallas MTEESC will continue to audit inbound loads and report non-compliance issues. The HQ MTE office will notify offending facilities for corrective action. The target completion date is June 30, 2015.

Regarding recommendation 4, management stated HQ MTE in conjunction with the Manager, Network Distribution Center Operations will re-issue the OTR Container Usage policy letter. The quality examiners at the MTEsCs will continue to monitor non-compliance issues and report any plants that continue to dispatch serviceable OTR containers to the MTEsC. The HQ MTE office will notify the offending facility for corrective action. The target completion date is June 5, 2015.

Regarding recommendation 5, management stated HQ MTE will work with the Area Manager, Network Operations to establish a standard operating procedure for securing and handling mail mistakenly sent to mailers' facilities. The target completion date is June 15, 2015.

Regarding recommendation 6, management stated the HQ MTE will work with the Area Manager, Network Operations to establish a process to review and adjust MTE standing orders and transportation schedules quarterly. The target completion date is June 30, 2015.

Regarding our monetary impact, management disagreed with the calculation of the questioned costs and funds put to better use relating to compliance with its MTE handling procedures for processing and delivery facilities. Management stated the OIG incorrectly based its calculation on 100 percent preparation of PPFG, which was not the intent of management at the time of issuance of its MTE handling and reuse SOP. Management stated its intent was to reduce MTEsC processing of tubs, trays and sleeves through facility PPFG by at least 50 percent with the remaining MTE being processed by the MTEsC.

Lastly, management expressed concerns with the use of "Internal Controls" in the report title since it does not reference Sarbanes-Oxley Act (SOX) activities or financial reporting.

See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

Regarding management's comments on our monetary impact, our approach and methodology was based on the Postal Service's published MTE return handling SOP for facilities, which requires processing facilities to return excess trays and tubs to the MTEsC as PPFG. Given the specific language of the SOP, we continue to have concerns that Postal Service facilities are not complying with the stated requirements relating to PPFG. Further, the OIG calculated the monetary impact based on the published MTE return handling procedures and consider the impact accurate.

Regarding management's comments on our reference to Internal Controls in the report title, the title accurately encompasses our audit objective and scope. We do not see a conflict with the Postal Service's SOX requirements. SOX requires an assessment of internal controls on financial reporting. Further, SOX focuses on the assessment of the effectiveness of selected internal controls related to significant accounts and relevant assertions, in the context of "material misstatement risks." We reviewed internal controls in the context of our objective, which included controls over contract administration, program operations, and safeguarding assets and resources. We applied the broad definition of internal controls as specified in the generally accepted government auditing standards.

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.

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Appendix A:

Additional Information

Background

The MTESC network is a centrally managed system of 15 contractor-operated service centers designed to supply pallets, trays, tubs, mailbags, and other MTE to mail processing facilities and mailers requiring trailer loads of MTE nationwide. The Postal Service transformed the MTESC network in FY 2010, decreasing the number of centers from 23 to 15. It re-engineered the network to optimize its design, minimize MTE 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. This branch is responsible for the acquisition, distribution, supply, and transport of MTE among MTESCs. Each MTESC is assigned a QA specialist to serve as a technical representative and perform audits to ensure that contractors comply with contract specifications and enforce requirements regarding equipment processing, repair, and condemnation.

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

The Dallas MTESC is in the Postal Service's Southern Area and its contractor has operated the facility since May 2012. The facility services 27 processing plants and 31 mailers located mostly in the Southern Area. In FY 2014, the Dallas MTESC's costs were about \$6.3 million for operations and \$8.1 million for dedicated transportation.

Objective, Scope, and Methodology

Our objective was to assess internal controls and transportation at the Dallas MTESC. This is the fourth 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 contract related to the Dallas MTESC, conducted on-site observations, and photographed operations at the Dallas MTESC and many of the processing plants and mailers it services (see [Appendix B](#)).

We also reviewed prior OIG reports and Postal Service documents and spoke with Postal Service management, staff, and contractor personnel.

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

We did not attempt to fully assess Dallas MTESC transportation because of the continued changing operating environment at the Postal Service due to network realignments.

We conducted this performance audit from October 2014 through May 2015, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 21, 2015, and included their comments where appropriate.

We assessed the reliability of MTESS, the Transportation Information Management Evaluation System (TIMES), the Transportation Contracting Support System (TCSS),¹² and Contracting Award Management System¹³ 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.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Mail Left in Mail Transport Equipment Dispatched to the Dallas, TX, Mail Transport Equipment Service Center</i>	NO-MA-15-002	2/2/2015	None

Report Results: Our report found that during a 5-day observation period at the Dallas MTESS, we observed almost 3,000 instances of Express, Priority, First-Class, International, Package Service, and Standard Post Mail being incorrectly sent from associated processing facilities in MTE. We recommended the vice president, Southern Area, reinforce the SOP requirement that processing facilities thoroughly inspect MTE before sending it to the Dallas, TX, MTESS to ensure MTE is empty and ensure proper safeguarding of internal documents containing personally identifiable or other sensitive information throughout the internal mail process. Management agreed with our finding and recommendations.

<i>Internal Controls and Transportation Associated With the Atlanta, GA, Mail Transport Equipment Service Center</i>	NO-AR-15-002	12/12/2014	\$2.7
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Report Results: Our report found that the Postal Service could improve controls over MTE operations and transportation at the Atlanta, GA, MTESS and its associated processing facilities. We also found that management would need to reassess the efficiency of MTE-related transportation. We recommended the vice presidents, Network Operations and Supply Management, establish adequate controls over contractor performance and ensure there is adequate security. We also recommended the vice president, Network Operations, in coordination with vice presidents of the Eastern, Capital Metro and Southern areas, ensure compliance with MTE policies for handling and transporting MTE. Finally, we recommended management reassess MTE and transportation requirements to ensure efficiency. Management agreed with our findings and recommendations.

¹² An Oracle web-based application used to manage transportation contracts and related activities. TCSS allows contracting offices to solicit, award, and administer transportation contracts.

¹³ Used by Supply Management to issue contracts and purchase orders to procure supplies, services, and equipment (including transportation services, excluding highway contract routes).

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

Appendix B:

Dallas, TX, Mail Transport Equipment Service Center Processing Facilities and Mailers

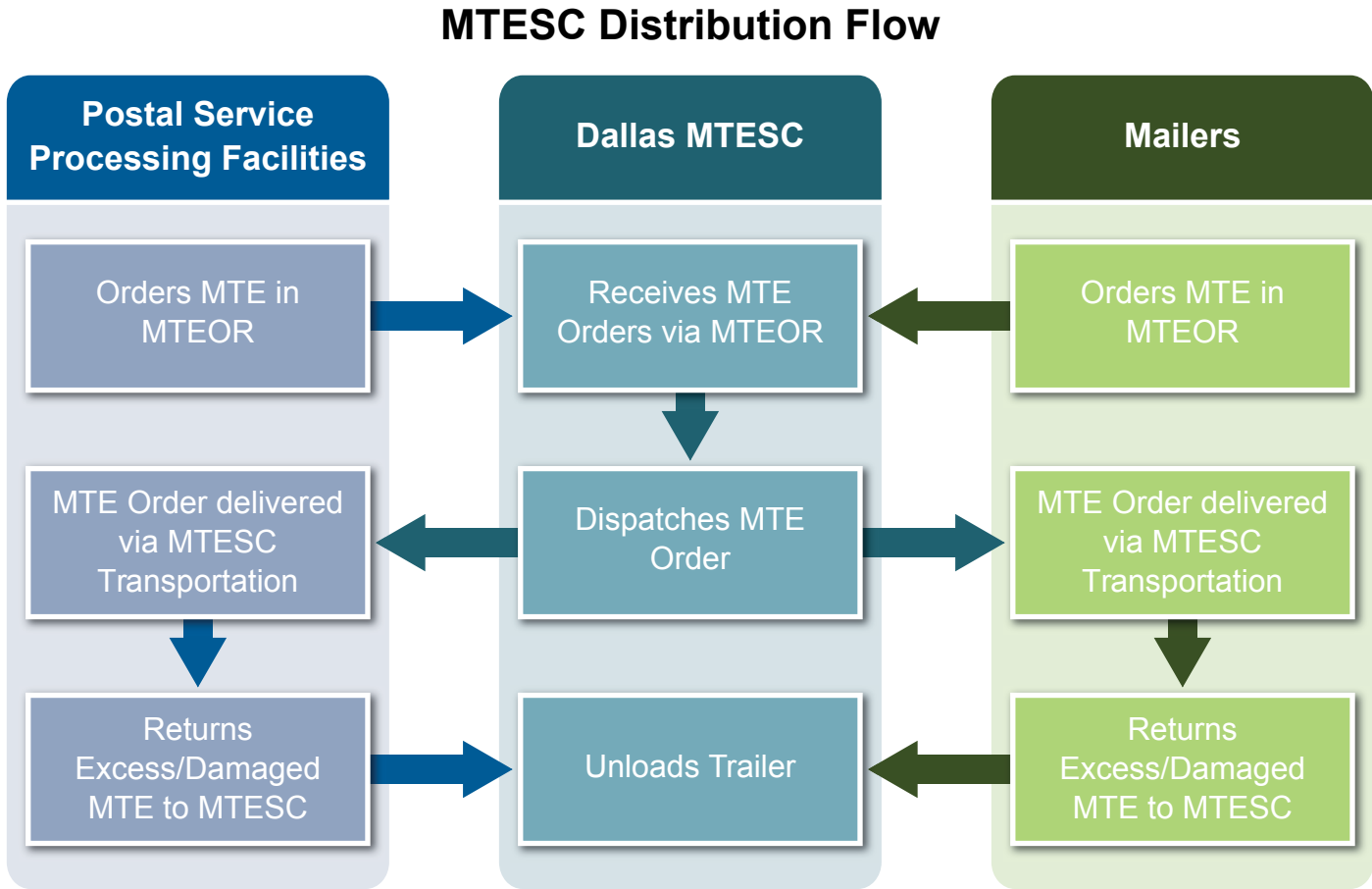
Processing Facility or Mailer	City & State	On-site Observations Postal Facilities	On-Site Observations Mailers
Abilene Annex	Abilene, TX		
AIMS Letter Shop	Waco, TX		X
Allstate	Irving, TX		X
Amarillo Processing & Distribution Facility (P&DF)	Amarillo, TX		
Amazon	Dallas, TX		X
Austin Processing & Distribution Center (P&DC)	Austin, TX	X	
Bank of America	Addison, TX		
Baton Rouge P&DC	Baton Rouge, LA	X	
Broadridge	Coppell, TX		X
Corpus Christi P&DC	Corpus Christi, TX		
Dallas Network Distribution Center (NDC)	Dallas, TX	X	
Dallas, P&DC	Dallas, TX	X	
Dalsey, Hillblom and Lynn (DHL) Global Mail	Grand Prairie, TX		X
Dow Jones	Plano, TX		
East Texas P&DC	Tyler, TX		
El Paso P&DC	El Paso, TX		
FedEx Smart Post	Dallas, TX		
FedEx Smart Post	Houston, TX		X
Fidelity Investments	Grapevine, TX		
Fiserv	Stafford, TX		
Fort Worth P&DC	Fort Worth, TX	X	
Freedom Graphics Systems	Grand Prairie, TX		X
Globe Live	Oklahoma City, OK		X
Harte Hanks Inc.	Grand Prairie, TX		X
Houston P&DC	Houston, TX		
Jackson P&DC	Jackson, MS		
JP Morgan Chase	Coppell, TX		X
Kubra	Coppell, TX		
Lafayette P&DF	Lafayette, LA	X	
Little Rock P&DC	Little Rock, AR		

Processing Facility or Mailer	City & State	On-site Observations Postal Facilities	On-Site Observations Mailers
Lubbock P&DF	Lubbock, TX		
Mail Presort	Fort Worth, TX		X
McAllen P&DC	McAllen, TX		
Memphis P&DC	Memphis, TN		
Memphis NDC	Memphis, TN		
Midland P&DF	Midland, TX		
North American Mailing Service	El Paso, TX		
North Houston P&DC	Houston, TX	X	
North Texas P&DC	Coppell, TX	X	
Oklahoma City P&DC	Oklahoma City, OK	X	
Pitney Bowes Presort	Grand Prairie, TX		X
Pitney Bowes Presort	Arlington, TX		X
Pitney Bowes Presort	Stafford, TX		X
Pitney Bowes Presort	Austin, TX		X
Premier Designs	Irving, TX		
Quad Graphics	Oklahoma City, OK		X
Resource One	Tulsa, OK		X
San Antonio P&DC	San Antonio, TX	X	
Shreveport P&DC	Shreveport, LA		
Southern Area Surface Transfer Center	Dallas, TX	X	
State Farm	Dallas, TX		X
Tri-Win	Dallas, TX		
Tulsa P&DC	Tulsa, OK	X	
UPS Mail Innovations	Carrollton, TX		
Valassis	Dallas, TX		
Valassis	Deer Park, TX		
Waco P&DF	Waco, TX	X	
World Marketing	Dallas, TX		

Source: OIG analysis.

Appendix C:
Mail Transport Equipment
Service Center Distribution
Flowchart

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



Appendix D: Management's Comments



May 14, 2015

LORI LAU DILLARD

SUBJECT: Response to Draft Audit Report – Internal Controls and
Transportation Associated With the Dallas, TX Mail Transport
Equipment Service Center (Report Number NO-AR-15-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. Initially, management would like to suggest a change to the Internal Controls reference in the draft title.

As required by the Postal Accountability and Enhancement Act of 2006 (the Act), the United States Postal Service (Postal Service) was required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX) by September 30, 2010. SOX Section 404 requires management to report on its Internal Controls over Financial Reporting (ICFR).

As this audit report does not reference SOX activities or financial reporting, management respectfully suggests the title be changed to **Contractor Oversight and Transportation, etc...**

Management generally agrees with the findings and recommendations, however management does not agree with the associated monetary impact. The Monetary Impact analysis was based on 100% preparation of Plant Processed Finished Goods (PPFG) at the processing and delivery units. As conveyed previously, the Mail Transport Equipment Service Center (MTEC) Reuse Policy transmittal letter states that the processing of letter trays and flat tubs is expected to be reduced by at least 50%. By definition, there is the expectation that the other 50% of the Mail Transport Equipment (MTE) would come to the MTECs unworked as originally planned when the MTEC network was established. The 50% PPFG target is expected to be achieved without additional staffing. Distribution operation employees are expected to

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prepare PPFG as an integral part of their duties, e.g., stacking same type empty letter trays on pallets after removing the mail. We also expect delivery units that receive sufficient MTE volumes to prepare PPFG and keep consistent PPFG loads flowing through larger plants to the MTEsCs. There are smaller delivery units that do not have sufficient MTE volumes to make this a viable concept. Rather than having quantities of MTE sit for long periods of time without cycling back to the MTEsCs, smaller delivery units return unworked MTE to processing plants for cross docking to MTEsC transportation. There is no expectation that the larger plants rework MTE from these smaller delivery units.

This response addresses each recommendation separately.

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 Dallas, TX, Mail Transport Equipment Service Center, including the processing, invoicing, repair, and handling of mail transport equipment.

Management Response: Management agrees with this recommendation.

The MTE Program Office has already instituted weekly teleconferences with the operating contractors to re-enforce existing processing policies and address local concerns. The MTE Program Office also conducts weekly teleconferences with the Quality Examiners (QEs) to ascertain whether the Operating Contractors (OCs) are following MTE processing policies and providing dedicated areas and an organized working space for the QEs to monitor the contractors' production more effectively.

The Dallas MTEsC is currently authorized two quality examiner positions. One position was vacated in September 2014. Management has posted and filled the vacant position and will establish modified schedules at the Dallas MTEsC for the quality examiners to improve internal control over the MTEsC contractor's performance.

Target Implementation Date: June 13, 2015.

Responsible Manager: HQ Manager, Mail Transportation Equipment, Network Operations.

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

Management Response: Management agrees with this recommendation.

Management will meet with the OC at the Dallas, TX MTE SC to discuss the details of the existing process that is in place for security and access control at the MTE SC site, and will also review the security plan proposed during the initial solicitation and subsequent award of the contract. Upon review and discussion a plan will be devised to ensure the operating contractor is providing security and access control that is in compliance with the terms and conditions in the contract. The plan will be established by June 2015 with implementation in July 2015.

Target Implementation Date: July 2015.

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

We recommend the Vice President, Network Operations, in coordination with the Vice President, Southern Area operations:

Recommendation 3: Ensure management monitors compliance with established mail transport equipment policies and procedures to reduce costs and minimize the risk of accidents and injuries to personnel handling this equipment.

Management Response: Management agrees with this recommendation.

HQ MTE will conduct a webinar with all Dallas MTE SC feeder plants to review the Standard Operating Procedures (SOP) for MTE Return Handling at Processing Facilities. The QEs at the Dallas MTE SC will continue to audit inbound loads and report non-compliance issues. The HQ MTE office will notify offending facilities for corrective action.

Target Implementation Date: June 30, 2015

Responsible Manager: HQ Manager, Mail Transportation Equipment, Network Operations.

Recommendation 4: Ensure over-the-road containers are not incorrectly sent to the Dallas, TX, Mail Transport Equipment Service Center in order to reduce unnecessary handling costs.

Management Response: Management agrees with this recommendation.

HQ MTE in conjunction with the Manager, Network Distribution Center Operations will re-issue the Over-The-Road (OTR) Container Usage policy letter. The QEs at the MTEsCs will continue to monitor non-compliance issues and report any plants that continue to dispatch serviceable OTRs to the MTEsC. The HQ MTE office will notify the offending facility for corrective action.

Target Implementation Date: June 5, 2015

Responsible Manager: HQ Managers, Mail Transportation Equipment and Network Distribution Center Operations.

Recommendation 5: Establish a policy and procedures for securing and handling mail mistakenly sent to mailers' facilities.

Management Response: Management agrees with this recommendation. HQ Manager MTE will work with the Area Manager Network Operations to establish a standard operating procedure for securing and handling mail mistakenly sent to mailers' facilities.

Target Implementation Date: June 15, 2015

Responsible Manager: Area Managers Network Operations and HQ Manager, Mail Transportation Equipment, Network Operations.


Recommendation 6: Reassess mail transport equipment standing orders and transportation schedules for all processing facilities. Ensure orders are up-to-date and transportation is efficiently scheduled by coordinating customers' orders with mail transport equipment facilities' dispatches to the Dallas, TX, Mail Transport Equipment Service Center.


Management Response: Management agrees with this recommendation.

HQ Manager MTE will work with the Area Manager Network Operations to establish a process to review and adjust MTE standing orders and schedule transportation schedules quarterly.

Target Implementation Date: June 30, 2015

Responsible Manager: Southern Area Manager Network Operations and HQ
Manager, Mail Transportation Equipment, Network Operations.

 5/14/2015
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