



**OFFICE OF  
INSPECTOR GENERAL**  
UNITED STATES POSTAL SERVICE

**Internal Controls  
and Transportation  
Associated With the  
Atlanta, GA, Mail  
Transport Equipment  
Service Center**

**Audit Report**

Report Number  
NO-AR-15-002

December 12, 2014





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

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

### Background

The U.S. Postal Service's mail transport equipment service center (MTE SC) network is composed of 15 contractor-operated centers that handle, supply, and transport mail transport equipment (MTE) to mail processing facilities and customers. The Atlanta, GA, MTE SC spends about \$10.4 million annually to service 98 facilities and mailers in the Eastern, Capital Metro, and Southern areas.

Our objective was to assess internal controls and dedicated transportation activities associated with the Atlanta MTE SC.

### What The OIG Found

The Postal Service needs to improve controls over MTE operations and transportation at the Atlanta MTE SC and associated processing facilities. Management did not adequately control contractor processing, invoicing, and repair and handling of MTE or monitor contractor performance; and did not always secure its operations. In addition, none of the processing facilities complied with MTE policies and were sending unprocessed and improperly prepared MTE to the Atlanta MTE SC. Processing facilities were also not always inspecting MTE for mail before sending it to the Atlanta MTE SC, causing delayed or undelivered mail.

These conditions occurred because the Postal Service did not provide sufficient oversight to ensure compliance with its policies. Finally, facilities lacked adequate resources, management prioritized processing mail over managing MTE, and ongoing operational changes and realignment of the processing network caused inefficiencies in MTE transportation.

Because of issues associated with the Atlanta MTE SC, the Postal Service incurred an estimated \$936,000 and \$760,000 in unnecessary costs in fiscal years 2012 and 2013, respectively. It could also avoid about \$848,000 annually over the next 2 years by providing adequate oversight and ensuring compliance with policies.

### What The OIG Recommended

We recommended the vice presidents, Network Operations and Supply Management, establish adequate controls over contractor performance and ensure MTE is protected. We also recommended the vice president, Network Operations, in coordination with vice presidents, Eastern, Capital Metro, and Southern area operations, ensure compliance with policies for proper ordering, handling, and transporting MTE; and reassess MTE transportation requirements to ensure efficiency.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

December 12, 2014

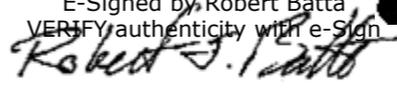
MEMORANDUM FOR: DAVID E. WILLIAMS, JR.  
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

JOSHUA D. COLIN  
VICE PRESIDENT, EASTERN AREA OPERATIONS

KRISTIN A. SEAVER  
VICE PRESIDENT, CAPITAL METRO AREA OPERATIONS

JO ANN FEINDT  
VICE PRESIDENT, SOUTHERN AREA OPERATIONS

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


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

**SUBJECT:** Audit Report – Internal Controls and Transportation  
Associated With the Atlanta, GA, Mail Transport Equipment  
Service Center (Report Number NO-AR-15-002)

This report presents the results of our audit of Internal Controls and Transportation  
Associated With the Atlanta, GA, Mail Transport Equipment Service Center  
(Project Number 13XG007NL002).

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

Attachment

cc: Corporate Audit and Response Management

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# Findings

***Management did not adequately control contractor processing, invoicing, repairing, and handling of MTE; adequately monitor contractor performance; and always secure its operations. Further, processing facilities were not always complying with MTE policies; were sending unprocessed and improperly prepared MTE to the MTESC, and were not always inspecting MTE for mail before sending it to the MTESC. Finally, we determined that management should reassess the efficiency of MTE transportation in view of operational changes and realignment of the processing network.***

## Introduction

This report presents the results of our self-initiated audit of Internal Controls and Transportation Associated with the Atlanta, GA, Mail Transport Equipment Service Center (MTESC) (Project Number 13XG007NL002). Our objective was to assess internal controls and dedicated transportation activities associated with the facility. This is the third in a series of reports on the MTESC network. See [Appendix A](#) for additional information about this audit.

The MTESC network is a centrally managed system of contractor-operated service centers designed to supply pallets, tubs, trays, mailbags, and other mail transport equipment (MTE) to mail processing facilities and large customers (mailers) nationwide. The MTESC network delivers MTE to U.S. Postal Service processing facilities<sup>1</sup> and mailers with dedicated transportation, recovers MTE that is no longer needed or serviceable, and processes MTE for inventory and redistribution.

The Atlanta MTESC is in the Postal Service's Capital Metro Area and the current contractor has operated the facility since May 2012. The facility services 38 processing plants and 60 mailers in the Eastern, Capital Metro, and Southern areas (see [Appendix C](#) for the MTESC distribution flowchart and additional information). In fiscal year (FY) 2013, costs for the Atlanta MTESC were about \$6.6 million for operations and \$3.8 million for dedicated transportation.

While Postal Service Headquarters controls MTESC operations, the Eastern, Capital Metro, and Southern areas monitor the dedicated transportation network and manage MTE at processing facilities. The Postal Service establishes controls and oversees MTESC contractors, MTE operations, and transportation at its associated processing facilities.

## Conclusion

The Postal Service could improve controls over MTE operations and transportation at the Atlanta MTESC and associated processing facilities. We found that management did not have comprehensive controls over contractor processing, invoicing, and repair and handling of MTE; and did not adequately monitor the contractor's performance. Further, the Atlanta MTESC did not always have adequate security and none of the processing facilities complied with MTE policies and were sending unprocessed and improperly prepared MTE<sup>2</sup> to the Atlanta MTESC. Processing facilities were not always inspecting MTE for mail before sending it to the Atlanta MTESC. These conditions occurred because the Postal Service did not sufficiently oversee the Atlanta MTESC and associated processing facilities to ensure compliance with policies and procedures.

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

Because of the inadequate control environment, we estimate the Postal Service incurred about \$936,000 and \$760,000 in unnecessary costs in FYs 2012 and 2013, respectively. Further, the Postal Service could avoid about \$848,000 annually over the next 2 years by improving Atlanta MTESC-related controls.

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

<sup>2</sup> Referred to as plant-processed finished goods (PPFG).

## 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 Atlanta MTEESC.

### Insufficient Controls Over Contractor Performance

We found the Atlanta MTEESC 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 is limited monitoring, tracking, and documenting of the quantity and type of MTE received. As a result, the Atlanta MTEESC contractor could unnecessarily handle and process MTE at additional costs.
- Processed and unprocessed MTE sent to the Atlanta MTEESC is not timely processed or placed in inventory, resulting in floor congestion and making it difficult to manage and fulfill MTE orders from facilities and mailers.
- There is inconsistent inspection and approval of MTE repair or condemnation.<sup>3</sup> Consequently, the Atlanta MTEESC contractor may improperly classify MTE, resulting in unjustified repairs and costs.
- The Postal Service's Quality Assurance (QA) specialist is not performing complete MTE quality checks. Although the specialist is using the MTE random audit function,<sup>4</sup> the specialist is not following up on open audit items on a timely basis, resulting in incomplete checks and no accountability for the contractor.

These conditions occurred because management eliminated previously assigned positions dedicated to performing required QA duties and, as a result, they are not addressing incorrect practices and random audit errors.

### Insufficient Security Over Contractor Operations

During our observations of the Atlanta MTEESC yard, we found that multiple access points were left open, with 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)<sup>5</sup> requires it to provide security and access control for the grounds and trailer parking areas, including regular control of access of inbound and outbound trailers.

### Non-Compliance with MTE Policy and Processes

Postal Service facilities were not fully complying with the MTE return handling policy on effective management and distribution of MTE. Facilities were not properly preparing letter trays and tubs before sending them to the Atlanta MTEESC. Local management stated that this occurred because management did not have dedicated resources at the processing facilities for effective MTE management and oversight. Because they were short-staffed, processing facilities had to process mail rather than manage MTE.

<sup>3</sup> A product that is so damaged, soiled, or worn that it is classified as "beyond repair" according to Postal Service criteria for repairing MTE; or an obsolete or unapproved item that is not to be reintroduced into the Postal Service MTE product stream. Condemned products are sent for disposal or recycling.

<sup>4</sup> Part of the Mail Transport Equipment Support System (MTESS), which generates a sample of processed pallets for the QA specialist to audit and clear.

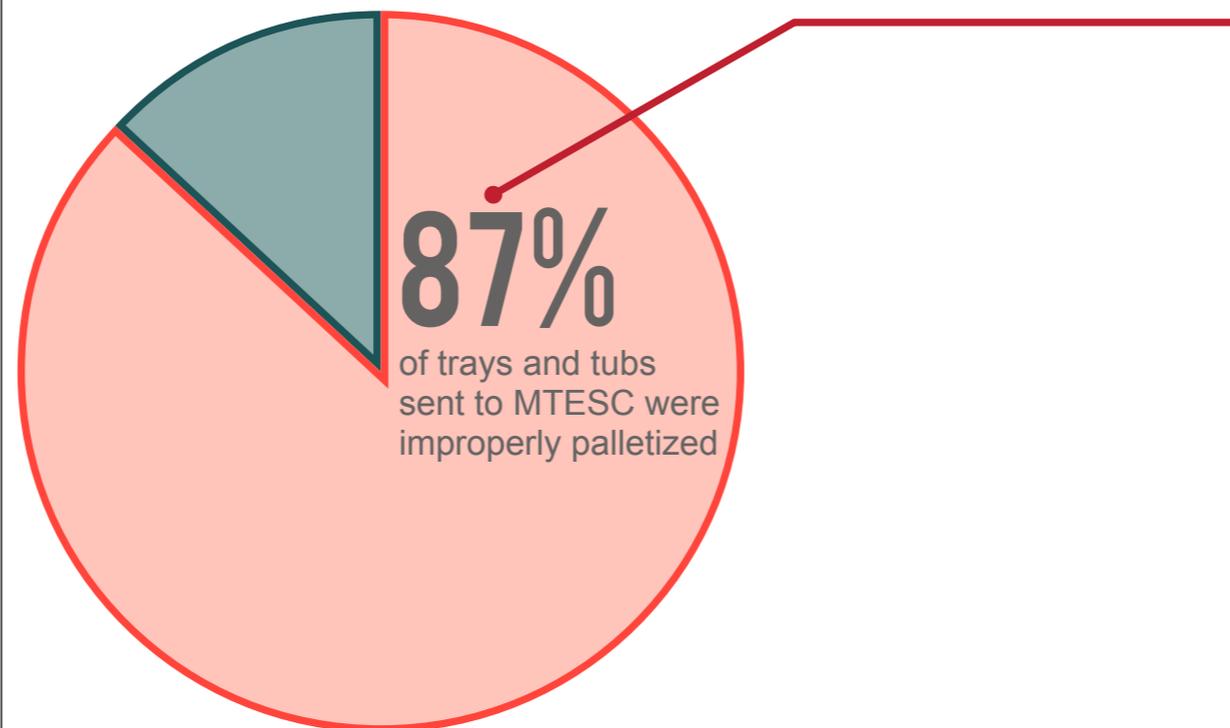
<sup>5</sup> SOW, Section 3.1.12, Revision 3, Change 13, dated April 30, 2011.

There are two main components of the MTE return handling policy — reuse and redistribution of MTE at processing facilities and return of excess MTE to the MTESC for preparation and dispatch as PPFG.<sup>6</sup> We found that processing facilities were generally reusing and redistributing MTE locally to facilities and mailers before sending it to the Atlanta MTESC. However, processing facilities did not always prepare MTE in accordance with the MTE return handling policy.

Our analysis of MTE received at the Atlanta MTESC for FY 2013 found that over 87 percent of the trays and tubs sent to the MTESC were improperly palletized. MTE from facilities was often placed in cardboard containers or rolling stock, requiring the Atlanta MTESC to further sort, process, stack, shrink-wrap, and label MTE at an additional cost to the Postal Service.

We also found that facilities that processed and prepared MTE often had PPFG that did not comply with height requirements, was not sufficiently shrink-wrapped, or was not properly labeled for tracking tubs and trays dispatched to the Atlanta MTESC. During our fieldwork, we observed stacks of trays that facilities were sending as PPFG stacked 70 inches or higher, far exceeding the 45-inch height requirement. This was the result of dispatching unprocessed MTE and improperly preparing PPFG (see Figure 1).

**Figure 1. Improperly Prepared MTE at the Atlanta MTESC**



***Hover over selections  
to see examples.***

Source: U.S. Postal Service Office of Inspector General (OIG) photographs taken at the Atlanta MTESC on June 18, 2014.

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

<sup>6</sup> The revised *Standard Operating Procedures: 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 the MTESC if it is anticipated a need will exist for that equipment within 7 days. The SOP also requires that excess MTE be containerized by stacking them on pallets to proper height requirements, securing them with plastic wrap, and sending them to the MTESC for redistribution. Containerized trays, tubs, and sleeves are referred to as PPFG by the Postal Service.

We estimate the Postal Service incurred unnecessary processing costs at the Atlanta MTEC totaling about \$936,000 and \$760,000 for FYs 2012 and 2013, respectively. Further, the Postal Service could save about \$848,000 annually by eliminating unnecessary processing costs over the next 2 years.

#### Improperly Dispatching Over-the-Road (OTR) Containers

We found that processing facilities sometimes used OTR containers to transport empty MTE to the Atlanta MTEC instead of complying with policy and preparing and sending MTE on pallets. Processing facilities were not adhering to the OTR container policy,<sup>7</sup> which states that only OTR containers needing repair should be dispatched to an MTEC. While the Postal Service incurred some costs it could have avoided, we did not quantify monetary impacts associated with this issue, since the number of OTR containers involved was minimal.

#### Improperly Leaving Mail in MTE

The Postal Service was not ensuring that processing facilities thoroughly inspect empty MTE for lost or misplaced mail before dispatching it to the Atlanta MTEC, as required. We observed that some MTE arriving at the Atlanta MTEC from processing facilities contained time-sensitive Priority Mail and First-Class Mail (see Figure 2).

**Figure 2. Examples of Found Mail at the Atlanta MTEC**



Gaylord and tubs of found mail inside the holding cage at the Atlanta, MTEC.  
Source: OIG photographs taken at the Atlanta MTEC on June 18, 2014.

This occurred because management did not adequately enforce policies that require inspection of MTE for mail before dispatching it to the Atlanta MTEC.

<sup>7</sup> OTR Container Usage Standard Operating Procedures, dated August 28, 2009.

When the Atlanta MTEESC found lost or misplaced mail in MTE received from processing facilities, it complied with the SOW by ensuring employees picked this mail up or dispatched it daily for further processing. However, the Postal Service could avoid late mail delivery by clearing MTE of all mail before sending it to the MTEESC. Late or failed delivery reflects poorly on the Postal Service brand and public image and leaves the agency open to customer complaints.

## Reassessment of Mail Transport Equipment Service Center Transportation Requirements

Our review of data in the Transportation Information Management Evaluation System (TIMES)<sup>8</sup> and MTESS<sup>9</sup> revealed that management was not maximizing use of Atlanta MTEESC transportation. These inefficiencies occurred because extra trips were added to move excess MTE and some trips were completely cancelled and not modified due to a change in orders. We also determined the Eastern, Capital Metro, and Southern areas did not regularly review their MTE needs (standing orders)<sup>10</sup> and, in some cases, had not done so since 2012.

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

Postal Service policy<sup>11</sup> states that managers must periodically review and update transportation schedules, as necessary. However, we found that the Eastern, Capital Metro, and Southern areas did not reassess MTE and transportation requirements to factor in network changes. As a result, they could be spending excessively on MTE management and transport.

## Other Matters – Mail Transport Equipment Ordering System Concerns

In our discussions with mailers during our onsite visits in July and August 2014, they raised concerns about cancelled orders in the Mail Transport Equipment Ordering System (MTEOR).<sup>12</sup> The Atlanta MTEESC, with no notification or justification, canceled some of the mailers' orders. While mailers have the ability to check the status of their orders with the MTEOR system at any time, they still prefer to be notified when orders are cancelled and have accelerated communication with local plants to obtain the MTE needed to prevent shortages in their mailing operations. While the OIG did not validate information related to the mailers' comments, we believe the mailers' stated concerns with MTEOR and MTE orders could negatively impact customer service and diminish the Postal Service's image, reputation, and brand.

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8 A web-based application that enables dock clerks to collect data on the arrival and departure of mail trucks and communicate that information to other processing facilities. The application tracks trailer "utilization" data and acts as the interface and foundation for surface visibility data.

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

10 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.

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

12 MTEOR allows external postal customers (mailers) to order MTE online. This system also permits checking the status of an order, reviewing order history, and modifying orders.

# 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; ensure MTE is secured and protected; ensure compliance with policies and procedures for handling MTE to minimize accidents and injuries; ensure proper dispatching and use of over-the-road containers; thoroughly inspect MTE for mail; and reassess MTE and transportation requirements to ensure efficiency.***

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 Atlanta, GA, Mail Transport Equipment Service Center, including the processing, invoicing, repair, and handling of mail transport equipment.
2. Ensure the contractor at the Atlanta, GA, 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 presidents, Eastern, Capital Metro, and Southern area operations:

3. Ensure management monitors compliance with established mail transport equipment policies and procedures to minimize risk of accidents and injuries to personnel handling this equipment, and ensure proper dispatching and use of over-the-road containers.
4. Reinforce the requirement that processing facilities thoroughly inspect mail transport equipment before it is sent to the Atlanta, GA, Mail Transport Equipment Service Center to ensure it contains no mail.
5. Reassess mail transport equipment standing orders and transportation schedules for all processing facilities to ensure they are up-to-date and efficient given the operational changes and imbalance of mail transport equipment flow.

## Management's Comments

Management agreed with the findings and recommendations, but disagreed with some of the monetary impact calculations. Below is a summary of management's response to our recommendations.

Regarding recommendation 1, management stated the Atlanta MTEESC contractor has reorganized the workspace and established new dedicated areas for its operations. This will provide an organized working space for the quality specialists to monitor the contractors' production more effectively. Further, the Postal Service implemented a report to monitor the QA specialists' weekly audits to ensure compliance and conduct unannounced internal audits at the Atlanta MTEESC in 2015. Management will also create a modified flexible schedule for the QA specialists to achieve effective oversight and monitor contractor operations at the Atlanta MTEESC. Management plans to implement the recommendation by March 8, 2015.

Regarding recommendation 2, management stated it will meet with the supplier at the Atlanta MTEESC to discuss the existing process in place for security and access control and will review the security plan proposed during the initial and subsequent award of the contract. Upon completion of this review, a plan will be devised to ensure the operating contractor is providing security and access control in compliance with contract terms and conditions. The target completion date is January 31, 2015.

Regarding recommendation 3, management stated it will reissue standard operating procedures to reinforce MTE handling at the processing facilities and OTR container usage. Management will conduct a follow-up webinar at postal plants to review both documents. Further, the Atlanta MTEESC QA specialists will be required to monitor and report non-compliance issues, and Headquarter (HQ) MTE will notify the offending facility for corrective action. The target completion date is January 31, 2015.

Regarding recommendation 4, management stated HQ MTE will issue a stand-up talk to all processing and delivery facilities on inspecting MTE before preparing and returning to the MTESCs. In addition, the QA specialists will continue to monitor non-compliance issues and report the origin of any mail found to HQ MTE management for follow-up with the offending facility. The target completion date is January 31, 2015.

Regarding recommendation 5, management stated the HQ Manager MTE management will work with the Manager, Network Operations to establish a process to review and adjust MTE standing orders and transportation schedules quarterly. The target completion date is April 30, 2015.

Finally, 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 standard operating procedures. Management stated that 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.

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 procedures for facilities, which requires processing facilities to return all excess trays and tubs to the MTESC as PPFG. Given the specific language of the standard operating procedures, 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 impacts based on the published MTE return handling procedures and consider the impacts accurate.

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.

# Appendices

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## Appendix A: Additional Information

### Background

The MTEESC network is a centrally managed system of 15 contractor-operated service centers designed to supply pallets, trays, tubs, mailbags, and other MTE to mail processing facilities and large customers (mailers) requiring trailer loads of MTE nationwide. The Postal Service transformed the MTEESC network in FY 2010, decreasing the number of centers from 23 to 15. The network was re-engineered to optimize its design, minimize MTE surplus and deficit MTEESC locations, and reduce fixed and transportation costs. The MTEESC 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 MTEESCs and establishes guidelines, enforces policy, and provides management support and instructions on distribution, inventory warehousing, auditing, and reporting of MTE. MTEESC contracts are managed using contracting officer representatives at the headquarters MTE branch. This branch has responsibility for the acquisition, distribution, supply, and transport of MTE between MTEESCs. Each MTEESC is assigned a QA specialist, who serves as a technical representative and performs audits to ensure contractors comply with contract specifications and enforce requirements regarding equipment processing, repairs, and condemnation.

The Postal Service spends \$81 to \$109 million annually on MTE that is 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 within and among its facilities, customers, and contractors.

The Atlanta MTEESC is in the Postal Service's Capital Metro Area. The Atlanta MTEESC contractor has operated the facility since May 2012. The facility services 38 processing plants and 60 mailers in the Eastern, Capital Metro and Southern areas. In FY 2013, costs for the Atlanta MTEESC were about \$6.6 million for operations and \$3.8 million for dedicated transportation.

### Objective, Scope, and Methodology

Our objective was to assess internal controls and dedicated transportation activities at the Atlanta MTEESC. This is the third in a series of reports on the MTEESC 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 Atlanta MTEESC, conducted on-site observations, and photographed operations at the Atlanta MTEESC 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 Atlanta MTEESC transportation because of the ongoing changing operating environment at the Postal Service due to network realignments.

We conducted this performance audit from May through December 2014, in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for

our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 10, 2014, and included their comments where appropriate.

We assessed the reliability of MTESS, TIMES, Transportation Contracting Support System (TCSS),<sup>13</sup> and Contracting Award Management System<sup>14</sup> 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.

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

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

## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Internal Controls and Transportation Associated With the Des Moines, IA, Mail Transport Equipment Service Center</i>	NO-AR-14-003	4/29/2014	\$2.5
<p><b>Report Results:</b> Our report found that the Postal Service could improve controls over MTE operations and transportation at the Des Moines, IA, MTEESC 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.</p>			
<i>Internal Controls and Transportation Associated With the Springfield, MA, Mail Transport Equipment Service Center</i>	NO-AR-14-001	12/20/2013	\$3.8
<p><b>Report Results:</b> Our report found that the Postal Service could improve controls over MTE operations and transportation at the Springfield MTEESC 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.</p>			
<i>Mail Transport Equipment – Shortages of Pallets, Tubs, and Trays – Fall 2011 Mailing Season</i>	NL-AR-12-011	9/28/2012	\$26.7
<p><b>Report Results:</b> We 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.</p>			

## Appendix B: Atlanta, GA, Mail Transport Equipment Service Center Processing Facilities and Mailers

Processing Facility or Mailer	City & State	On-Site Observations Conducted
1 <sup>st</sup> Class Mailing Services Inc.	Kennesaw, GA	
Alpha Mailing Service	Shelby, NC	
Anniston Main Post Office	Anniston, AL	
Arista Information Systems	Duluth, GA	
Asheville Processing & Distribution Facility (P&DF)	Asheville, NC	X
AT&T	Alpharetta, GA	X
Athens Processing & Distribution Center (P&DC)	Athens, GA	X
Atlanta Logistics & Distribution Center	Atlanta, GA	X
Atlanta Mail Recovery Center	Atlanta, GA	
Atlanta NDC	Atlanta, GA	X
Atlanta P&DC	Atlanta, GA	X
Atlanta STC	Atlanta, GA	X
Augusta P&DC	Augusta, GA	X
Birmingham Annex B	Birmingham, AL	X
Birmingham P&DC	Birmingham, AL	X
Blue Martin Printing	Monroe, NC	
Cape Girardeau P&DC	Cape Girardeau, MO	
Catawba Mailing	Hickory, NC	
Chattanooga P&DC	Chattanooga, TN	X
Columbia P&DC	Columbia, SC	X
Data Central, Inc.	Kennesaw, GA	
Data Media Associate, Inc.	Alpharetta, GA	
Datamatx	Atlanta, GA	X
Dalsey, Hillblom and Lynn (DHL) Global Mail	Forest Park, GA	X
DHL Global Mail	Memphis, TN	X
Direct Response	Lexington, KY	
Direct Technologies	Suwanee, GA	
Directory Distributing Association	Duluth, GA	
Dove Mailing Service	Atlanta, GA	X
Evansville P&DF	Evansville, IN	
FEDEX Smart Post	Charlotte, NC	X
FEDEX Smart Post	Ellenwood, GA	X

<b>Processing Facility or Mailer</b>	<b>City &amp; State</b>	<b>On-Site Observations Conducted</b>
FEDEX Smart Post	Southaven, MS	X
Frank Cawood & Associates	Peachtree City, GA	
Greensboro NDC	Greensboro, NC	X
Greenville P&DF	Greenville, SC	X
Grenada Post Office	Grenada, MS	X
Healthport	Alpharetta, GA	
Hickory Printing	Conover, NC	
High Cotton	Birmingham, AL	X
Humana	Louisville, KY	X
Huntsville P&DF	Huntsville, AL	X
Jackson P&DC	Jackson, MS	X
Jackson Sectional Center Facility (SCF)	Jackson, TN	
Johnson City SCF	Johnson City, TN	X
Knoxville P&DC	Knoxville, TN	X
Lexington P&DC	Lexington, KY	X
London Post Office	London, KY	X
Louisville P&DC	Louisville, KY	X
Macon P&DC	Macon, GA	X
Mail Louisville	Louisville, KY	
Mail South	Alabaster, AL	X
Mail South	Moody, AL	X
Memphis NDC	Memphis, TN	X
Memphis STC	Memphis, TN	
Meridian North Station	Meridian, MS	
Montgomery GMF	Montgomery, AL	X
Nashville P&DC	Nashville, TN	X
National Computer Print	Birmingham, AL	
Netflix Inc.	Norcross, GA	
New Orleans P&DC	New Orleans, LA	
North Metro P&DC	Duluth, GA	X
Optical Experts Manufacturing	Charlotte, NC	
Parcelite Solutions	La Vergne, TN	

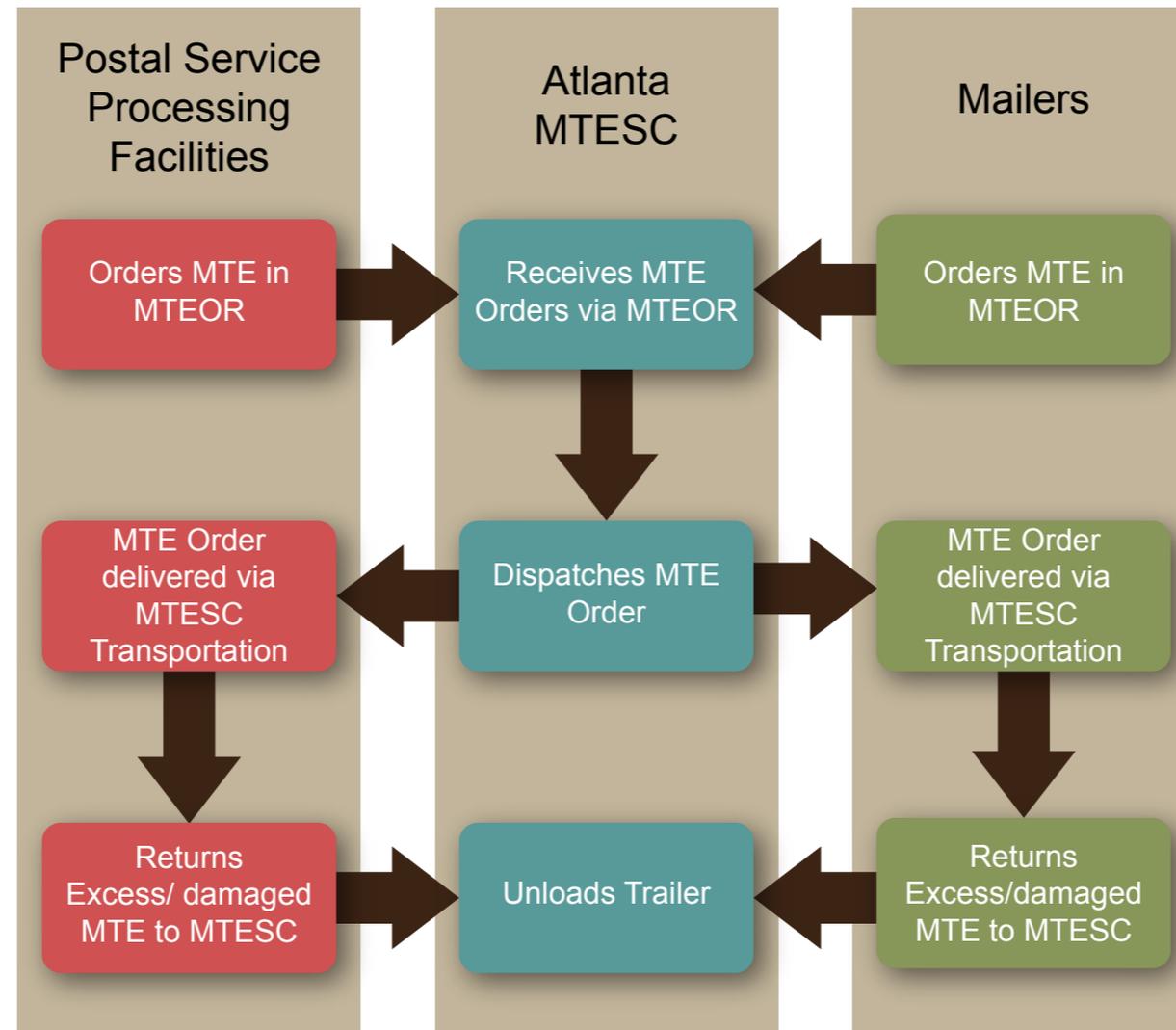
<b>Processing Facility or Mailer</b>	<b>City &amp; State</b>	<b>On-Site Observations Conducted</b>
Pensacola P&DC	Pensacola, FL	
Pinnacle Data Systems	Suwanee, GA	
Pinnacle Data Systems	Irondale, AL	
Pitney-Bowes Presort Services	Charlotte, NC	
Pitney-Bowes Presort Services	Duncan, SC	
Pitney-Bowes Presort Services	Atlanta, GA	
Publishers Pearson Technology Group (PTG)	Shepherdsville, KY	X
Publishers PTG	Lebanon Junction, KY	X
QC Bindery & Mailing	Marieta, GA	
Quad Graphics	The Rock, GA	X
Quad Graphics	Evans, GA	
Quad Graphics	Atlanta, GA	X
Quebecor World	Versailles, KY	
Quebecor World	Corinth, MS	
RR Donnelley	Danville, KY	X
RR Donnelley	Glasgow, KY	X
RR Donnelley	Senatobia, MS	X
RR Donnelley	Spartanburg, SC	X
Sacred Heart League	Walls, MS	
Source Link	Greenville, SC	X
Source One	Atlanta, GA	
State Farm Insurance	Alpharetta, GA	
Total Systems Services, Inc.	Columbus, GA	X
Transcentra	Charlotte, NC	X
Travelers Insurance	Norcross, GA	
Tupelo P&DC	Tupelo, MS	X
Tuscaloosa MPO	Tuscaloosa, AL	X
United Health Care	Duncan, SC	
United Mail Sorting	Louisville, KY	X
UPS Mail Innovations	Atlanta, GA	
U.S. Post Office	Swainsboro, GA	
Valassis Direct Mail Inc.	Austell, GA	

<b>Processing Facility or Mailer</b>	<b>City &amp; State</b>	<b>On-Site Observations Conducted</b>
Wells Fargo	Charlotte, NC	
World Marketing	Smyrna, GA	X

Source: OIG analysis.

## Appendix C: Mail Transport Equipment Service Center Distribution Flowchart

The MTE network consists of the MTESC, Postal Service processing facilities, and business mailers. Large mailers and processing facilities 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



December 8, 2014

LORI LAU DILLARD

SUBJECT: Response to Draft Audit Report – Internal Controls and Transportation  
Associated With the Atlanta, GA Mail Transport Equipment Service  
Center (MTEC) (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. 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 to the audit team, the Mail Transport Equipment Service Center (MTEC) Reuse Policy transmittal letter states that the processing of letter trays, sleeves, and flat tubs is expected to be reduced by at least 50%. By definition, there is an expectation that the other 50% of the Mail Transport Equipment (MTE) would come to the MTECs unworked as planned when the MTEC network was established. The 50% PPFG target is expected to be achieved without adding staffing. We expect our employees to prepare PPFG as an integral part of their duties in distribution operations, e.g., stacking empty letter trays on pallets after being emptied. We also expect our delivery units with sufficient MTE volumes to prepare PPFG and keep consistent PPFG loads flowing to the MTECs. There are delivery units that do not have sufficient MTE volumes to make this a viable concept without having quantities of MTE sit for long periods of time without cycling back to the MTECs. There is no expectation that the plants prepare PPFG from these delivery units prior to being sent to the MTECs.

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 Atlanta, GA, Mail Transport Equipment

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Service Center, including the processing, invoicing, repair, and handling of mail transport equipment.

Management Response: Management agrees with this recommendation. The operating contractor has reorganized the workspace at the Atlanta MTE SC and has established new dedicated areas for processing equipment, inspecting and storing Plant Processed Finished Goods (PPFG), MTE repair, and MTE audits. The dedicated areas provide an organized working space for the Quality Specialists (Qs) to monitor the contractors' production more effectively. Headquarters MTE (HQ MTE) has implemented an audit report to monitor the Qs weekly audits to ensure compliance. HQ MTE will conduct unannounced internal audits at the Atlanta MTE SC in quarter two 2015. The internal audit will include a review of processing, invoicing, repair, PPFG receipt and general handling of MTE.

The Atlanta MTE SC is currently authorized and staffed with two quality specialist positions. Management will establish modified schedules at the Atlanta MTE SC for the quality specialist to improve internal control over the MTE SC contractor's performance.

Target Implementation Date: March 8, 2015

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

Recommendation 2: Ensure the contractor at the Atlanta, GA 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 contractor at the Atlanta, GA 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 December 2014 with implementation in January 2015.

Target Implementation Date: January 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 Presidents, Eastern, Capital Metro and Southern area operations:

Recommendation 3: Ensure management monitors compliance with established mail transport equipment policies and procedures to minimize risk of accidents and injuries to personnel handling this equipment and ensure proper dispatching and use of over-the-road containers.

Management Response: Management agrees with this recommendation. HQ MTE will re-issue the Standard Operating Procedures (SOP) for MTE Return Handling at Processing Facilities and the Over-The-Road (OTR) Container Usage. A follow up webinar will be conducted with all Atlanta MTEESC feeder Postal plants to review both documents. The Qs at the Atlanta MTEESC will continue to monitor and report non-compliance issues. The HQ MTE office will notify the offending facility for corrective action.

Target Implementation Date: January 31, 2015

Responsible Manager: Manager, Mail Transportation Equipment, Network Operations

Recommendation 4: Reinforce the requirement that processing facilities thoroughly inspect mail transport equipment before it is sent to the Atlanta, GA, Mail Transport Equipment Service Center to ensure it contains no mail.

Management Response: Management agrees with this recommendation. HQ MTE will issue a stand-up talk to both processing and delivery facilities on conducting inspections of MTE. Focus will be on inspecting MTE (trays, tubs, sacks and sleeves) before preparing and returning to the MTEESCs. The Qs at the MTEESCs will continue to monitor non-compliance issues and report to HQ MTE the origin of any mail found in MTE. The HQ MTE office will notify the offending facility for corrective action.

Target Implementation Date: January 31, 2015

Responsible Manager: Manager, Mail Transportation Equipment, Network Operations

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

Management Response: Management agrees 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.

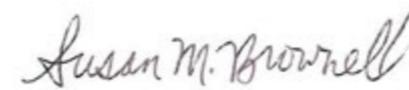
Target Implementation Date: April 30, 2015

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

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.



David E. Williams  
Vice President, Network Operations



Susan M. Brownell  
Vice President, Supply Management



Contact us via our [Hotline](#) and [FOIA](#) forms, follow us on social networks, or call our Hotline at 1-888-877-7644 to report fraud, waste or abuse. Stay informed.

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