



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

**Mail Transport Equipment –
Shortages of Pallets, Tubs, and
Trays – Fall 2011 Mailing Season**

Audit Report

September 28, 2012

Report Number NL-AR-12-011



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

HIGHLIGHTS

Mail Transport Equipment – Shortages of Pallets, Tubs, and Trays – Fall 2011 Mailing Season

Report Number NL-AR-12-011

BACKGROUND:

This report focuses on Mail Transport Equipment (MTE). MTE are containers, such as pallets, flat tubs and letter trays that hold mail during transportation. The U.S. Postal Service loans MTE to its customers for shipments through the Postal Service and has spent about \$426 million on MTE from fiscal years (FY) 2006 to 2011, covering over 149 million pieces of MTE.

This audit was initiated in response to mailers' complaints about MTE shortages during the fall 2011 mailing season. Our objectives were to assess these shortages and management controls over MTE.

WHAT THE OIG FOUND:

We confirmed that unprecedented MTE shortages existed at Postal Service facilities and mailers during the fall 2011 mailing season. This occurred because management did not effectively plan to have sufficient quantities on hand nor develop a risk mitigation plan to avoid shortages. Also, management has not fully developed and instituted adequate controls for effective MTE management. The shortages were compounded by a shrinking MTE budget. As a result, the Postal Service and its mailers faced challenges in moving mail resulting in customer complaints and emergency purchases of less durable equipment to meet the challenges. We determined the

Postal Service could have avoided purchases of less durable MTE totaling \$11.1 million in FY 2011 and \$15.6 million in FY 2012 had adequate planning and controls been in place. We also estimate that MTE purchases of \$24.3 million in FY 2011 and \$23.6 million in FY 2012 are at risk of loss, theft, and misuse due to control weaknesses. Further, MTE shortages reflect poorly on the Postal Service's brand and place revenue at risk and less durable MTE raises safety concerns for mailers. Finally, we determined that the Postal Service initiated efforts to improve management of MTE, including developing a system to track and monitor MTE.

WHAT THE OIG RECOMMENDED:

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 U.S. Postal Service Office of Inspector General recommendations over MTE internal controls; and develop processes and procedures to limit distribution and improve accountability of MTE provided to mailers. We also recommended that management assess and implement industry best practices for inventory control, considering the cost benefit.

[Link to review the entire report](#)

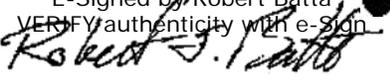


Date: September 28, 2012

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

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

MAURA ROBINSON
VICE PRESIDENT, CONSUMER AND INDUSTRY
AFFAIRS

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


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

SUBJECT: Audit Report – Mail Transport Equipment – Shortages of
Pallets, Tubs, and Trays – Fall 2011 Mailing Season
(Report Number NL-AR-12-011)

This report presents the results of our audit of Mail Transport Equipment – Shortages of Pallets, Tubs, and Trays – Fall 2011 Mailing Season (Project Number 12XG017NL000).

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

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Introduction

This report presents the results of our audit of Mail Transport Equipment (MTE) – Shortages of Pallets, Tubs, and Trays – Fall 2011 Mailing Season (Project Number 12XG017NL000). The U.S. Postal Service Office of Inspector General (OIG) initiated this audit based on mailers' complaints about significant shortages of MTE experienced throughout the U.S. Postal Service and mailer community during the fall 2011 mailing season.¹ Our objectives were to assess these MTE shortages; and management controls over the pallets, flat tubs, and letter trays used in the process. This audit addresses operational and financial risks. See [Appendix A](#) for additional information about this audit.

MTE are containers of various types used to hold mail during processing and transportation within or between Postal Service facilities, its contractors, its mailers, and other customers. The containers pictured below include pallets, tubs, and trays.²



Wood Slat



Plastic



Presswood



Lightweight Plastic



Fiberboard Letter Tray



Plastic Letter Tray



Flat Tub

The Postal Service loans MTE to commercial mailers (such as publishing, banking, insurance, utility and advertising companies, and mailing houses) to use exclusively for mail shipments through the Postal Service. The Postal Service spent about \$426 million on MTE from fiscal years (FY) 2006 to 2011, covering over 149 million pieces of MTE consisting of mostly pallets, flat tubs, and letter trays.

¹ Mailer ordering patterns define the fall mailing season which begins in late-July as some mailers increase MTE ordering for back-to-school advertisements and fall mail order catalogs. Increased demand from fall mailing season ends in November although there may be peaks in other times of the year.

² Source for pictures: Postal Service MTE presentation dated May 14, 2012.

Conclusion

We confirmed that unprecedented shortages of MTE existed at Postal Service facilities and mailers during the fall 2011 mailing season — specifically shortages of pallets, flat tubs, and letter trays. The Postal Service indicated that MTE shortages affected most mailers and Postal Service facilities at the same time for all MTE types.³ For example, in October 2011, the on-hand average daily balances of flat tubs and trays in the MTE Service Center (MTESC) network⁴ were well below the average daily demand as shown below.

October 2011 Balance and Demand Flat Tubs and Trays

MTE Type	On-Hand Average Daily Balance	Average Daily Demand
Tubs	53,000	145,000
MM Trays ⁵	430,000	780,000

Source: Postal Service.

Also, the on-hand average daily balance of pallets in October 2011 was about 96,000, while the required pallets to meet the average daily demand was about 300,000.

This occurred because management did not effectively plan for sufficient quantities to be on hand for use during the fall mailing season and did not develop a risk mitigation plan to avoid the shortages. In addition, as previously reported by the OIG,⁶ management has not fully developed and instituted adequate controls for effective management of its MTE assets. We also found that the shortages were compounded by a shrinking MTE budget.

As a result, the Postal Service and its mailers incurred significant operational challenges resulting in numerous customer complaints and emergency purchases of unnecessary and, in some cases, less durable, equipment. According to the Postal Service, the only possible response to the sudden increases in demand during the 2011 fall mailing season was to purchase cardboard trays and wooden pallets as the plastic trays and pallets require about three months of lead time to begin deliveries. The MTE shortages also resulted in additional labor and equipment costs for some mailers.

We determined the Postal Service could have avoided about \$27 million in questionable emergency purchases of less durable MTE during FYs 2011 and 2012 if adequate

³ The Postal Service stated that mailers and facilities in “deficit” areas were more impacted than those in excess areas (Mail usually moves from the east to west thus creating the western region having excess MTE while the eastern region experiences MTE deficits).

⁴ The network of Mail Transport Equipment Service Centers (MTESCs) process, repair, store, and distribute mail transport equipment (MTE). Postal Service has 15 MTESCs nationwide.

⁵ Letter trays are manufactured in either plastic or fiberboard and come in three sizes: (1) managed mail (MM), (2) extended managed mail (EMM), and half-sized MM. EMM trays are half inch longer, quarter inch wider, and three quarters inch taller than MM trays.

⁶ Previously issued report on September 29, 2010 - Management of Mail Transport Equipment - National Analysis (Report NL-AR-10-009).

planning and controls were in place.⁷ Additionally, we estimate that about \$48 million of MTE purchased during FYs 2011 and 2012 is at risk of loss, theft, and misuse due to control weaknesses. Further, MTE shortages could potentially reflect poorly on the Postal Service's brand and public image and place revenue at risk. Finally, the purchase of less durable MTE (such as wood pallets) raises safety concerns for mailers.

We also noted that, in order to mitigate future MTE shortages, management initiated efforts to improve management of MTE, including developing an automated system to track and monitor MTE and purchasing additional MTE for the fall 2012 mailing season.

Mail Transport Equipment Shortages in the Fall 2011 Mailing Season

We concluded that during the fall 2011 mailing season the Postal Service experienced unprecedented shortages of MTE for use in its facilities and at mailers. While Postal Service associations and mailers initially reported pallet shortages, we confirmed that letter trays and flat tubs were in short supply as well. According to Postal Service officials, the demand for MTE increased significantly and rather quickly in 2011 and that demand could not be supported by on hand inventory levels within the MTE network or by identified empty and available MTE at plants and other facilities. The Postal Service stated that part of the reason for the shortages was that the mailers were requesting significantly more MTE (they saw an increase in demand for all products) in spite of the decline in mail volumes.

For example, in its MTE network, the Postal Service identified:

- About 650,000 flat tubs in July 2011;⁸ however, in October 2011 they were only able to account for about 53,000 flat tubs and the average daily demand for flat tubs at that time had increased to nearly 145,000.
- About 330,000 MM letter trays in July 2011. Although this inventory increased to over 430,000 in October 2011, average daily demand for the trays at that time increased to over 780,000.
- About 310,000 pallets in July 2011; however, in October 2011, they were only able to account for about 96,000 pallets within the MTE network.⁹ The average daily balance of on-hand pallets required to meet the national average daily demand in October 2011 was about 300,000 pallets, far short of the 96,000 pallets on hand at the time.

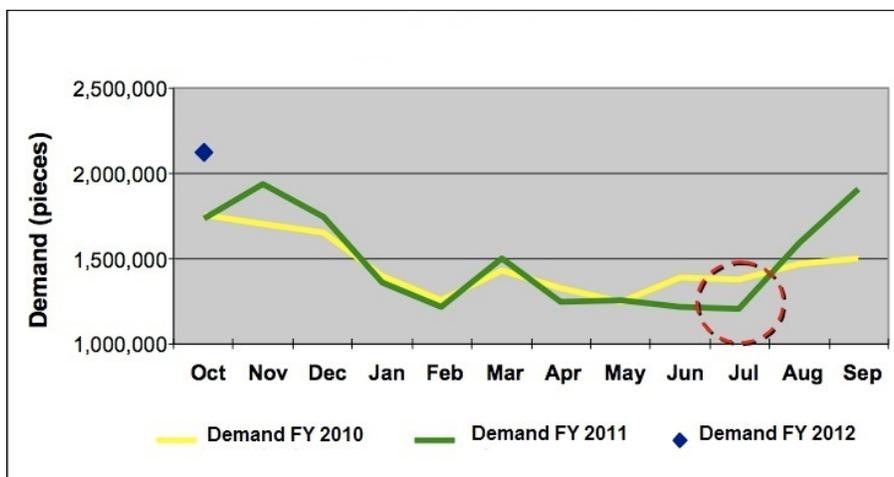
⁷ The Postal Service stated that, although plastic is far more durable than wood and cardboard, several variables are part of its best value analysis, including the total estimated time the item will be available for use in the Postal Service network due to leakage (such as a plastic MTE being lost, stolen or misused); replacement cost; and the optimal mix of plastic and less durable MTE, especially during the fall mailing season and to address emergency orders.

⁸ Inventory data for flat tubs, trays and pallets cover the MTE network only and represents the "average daily balance" of on-hand inventory within the network throughout the stated month.

⁹ The Postal Service advised that the MTE network requires about three times the average daily demand of pallets to be on-hand to meet all pallet requirements nationally and to be in a good operating position.

In addition, the Postal Service tracked total monthly demand for pallets as presented in the graph below. Noticeably, the monthly demand for pallets surged in August 2011 and continued to increase through October 2011. This represented a 4-year high in demand for pallets and reflected an increase of 23 percent when compared to the same period the year before. The Postal Service was unable to explain how or why there was a 4-year high in MTE demand when mail volume has dramatically declined since 2007, covering a total reduction in mail volume of over 44 billion pieces.

Total Pallet Demand



Source: Postal Service.

Overall, although demand increased, we determined that MTE shortages occurred because of ineffective planning, continued control weaknesses, and budgetary shortfalls described below in detail. According to the Postal Service, the relocation of five MTECs during the 2011 fall mailing season also impacted MTE management since these centers had new facilities and new contractors with new employees.

Ineffective Planning and Risk Mitigation

We determined that management did not effectively plan to ensure sufficient MTE was on hand for distribution to Postal Service facilities and its mailers to avoid disruptions to mail processing operations during the fall 2011 mailing season. Further, management did not develop an effective risk mitigation plan for MTE shortages as part of the planning for the fall 2011 mailing season. Management acknowledged the difficulty in managing the shortages and the rapid increase in MTE demand due to:

- Difficulty in compiling an accurate assessment of on hand inventory from the industry. According to the Postal Service, limited inventory and limited data visibility are further compounded by mailers obtaining MTE from plants (rather than the MTEC network, as applicable); mailer hand off of mail and MTE to business partners; and mailers' reluctance to provide information for "on hand" MTE at mailers' facilities.

- Limited funding availability for purchases and replenishment of MTE inventories,
- Supplier requirements (specifically the lead time to obtain new and needed MTE), at times taking up to three months to begin delivery of plastic products.
- Lack of a reliable forecasting model to determine and validate the MTE demand for mailers, including the inability to obtain accurate and validated forecasted mail volumes from mailers.

According to industry best practices (see [Appendix D](#)), risk identification and mitigation should be part of any short- and long-term forecasting and planning. Up until the fall 2011 mailing season, and despite the many efforts over the past two decades, some identified risks related to MTE inventory and demand continued to persist. The Postal Service did not mitigate all known risks (including a reduced MTE budget, concerns with wood pallets, and the existence of a weak control environment over its MTE assets) and did not take proper steps to ensure it would have sufficient proper quality and quantities of MTE at the required places and time to meet its needs throughout the fall mailing season.

For example, a core component of the planning and risk assessment process is to effectively forecast demand¹⁰ to ensure appropriate supply is on hand. However, the Postal Service is unable to effectively identify MTE demand for mailers and required purchases in advance of the fall mailing season due to limited data from mailers on forecasted mail volume and the related demand for MTE. The Postal Service advised that many mailers do not want to provide information about forecasted mail volume due to concerns about proprietary information and competitors. Due to the lack of current, complete, and meaningful mail volume data from mailers, the Postal Service is unable to plan for mailers' short and long-term MTE needs and can only rely on historical mailer volumes, trends, and needs. Additionally, the Postal Service does not have complete and timely information in its inventory and use of MTE at mailer facilities.

These data limitations on effective forecasting are further compounded by limited visibility within the MTE network and at plants and mailers. Further, the Postal Service is not able to readily anticipate mailers' needs and re-deploy inventory within a short timeframe to meet the demands.¹¹ This is further compounded by the need to accurately correlate declining mail volume to MTE demands.

¹⁰ Early forecasting is a key component of supply chain management and can be a valuable mechanism for bringing the supply and demand for goods into convergence and reducing inventory levels and associated costs.

¹¹ The Postal Service noted that recent interaction with mailers concerning the implementation of the new MTEOR system and supporting mailer agreement revealed that they are resistant to some of the steps proposed by the Postal Service to increase accountability, including visits by the Postal Service, inventory reporting, or tracking of MTE flows to business partners.

We found in prior OIG reviews¹² that the Postal Service needs comprehensive, relevant, and reliable information relating to MTE movements and inventory in order to have adequate and necessary visibility of MTE at mailers and Postal Service facilities and to adequately support planning and forecasting. However, the Postal Service still lacks a comprehensive, nationwide system to provide for adequate visibility. Further, the Postal Service continues to lack consistent, standardized, and universal collection of MTE use and inventory data within Postal Service facilities and at mailers.

Although the Postal Service attempted to partially compensate for its lack of comprehensive MTE data and limited visibility by requiring weekly MTE on-hand volume counts at Postal Service plants, concerns still exist about the accuracy, reliability, and completeness of those weekly on hand estimates. The Postal Service stated throughout the audit that they were taking steps to improve weekly reporting of these estimated MTE counts. They advised in September 2012 that their recent focus has improved consistency of reporting and nearly 100 percent of facilities report each week. They are now focusing on obtaining complete counts and accurate data entry. We have not audited or validated the stated improvement in compliance with the weekly reporting requirement.

The Postal Service also acknowledged their limited visibility of MTE and the related costs. They calculated a number of scenarios regarding visibility and related costs to show the potential impacts of the lack of visibility. For example, their analysis indicated that if 5,000 of the large mailers each held 20 pallets of MTE in reserve, the Postal Service would need \$68.7 million to replace the MTE which is out of circulation within its network.

Inadequate Controls Over Mail Transport Equipment Management

We also found that the Postal Service continues to have a weak control environment relating to management of its MTE assets. They have started a number of corrective actions, which are in process and highlighted in the [Management Actions](#) section of this report. However, the Postal Service has not yet completed corrective actions on recommendations from prior OIG reviews.¹³ Based on responses to our prior reviews, the Postal Service has not yet:

- Updated comprehensive MTE policies and procedures, guidance, and oversight that support national MTE requirements.
- Developed a nationwide comprehensive inventory system for identifying and tracking all MTE through the network, such as an automated system¹⁴ to improve monitoring and tracking of MTE inventories.

¹² Four of the five significant recommendations from our previously issued report *Management of Mail Transport Equipment - National Analysis - NL-AR-10-009*, are in an open status.

¹³ *Management of Mail Transport Equipment – National Analysis* (Report Number NL-AR-10-009, dated September 29, 2010). Refer to [Prior Audit Coverage](#) for a brief summary of related reports.

¹⁴ In [Management Actions](#), we note that funding was secured for the development of an automated system. Phase 1 of implementation is planned for September 2012.

- Provided sufficient resources at areas, districts, and plants to monitor and manage MTE¹⁵ in the field or at mailers.

Further, while the Postal Service is now exploring several industry-related best practices (including the use of a closed-loop system,¹⁶ Radio-frequency identification (RFID) and Global Positioning System (GPS) seeding,¹⁷ and an information system to provide visibility of MTE inventory), they have not adopted and implemented many industry-related “best practices” for the control and management of MTE.

The complex system of mail movement and the MTE that holds that mail create many complications, challenges, and considerations for establishing a closed-loop system and tracking MTE. The system involves a number of external parties which increases the chance of leakage. Further, as noted earlier, the mailers’ hand off of MTE to business partners makes it more challenging for the Postal Service to track MTE distribution and return. For example, moving MTE from a printer to a consolidator, possibly to another consolidator, and then to a trucking company before returning to the Postal Service network). For a list of best practices and control activities for developing a managed pallets program, including the Postal Service’s actions or position, see [Appendix D](#).

Overall, we estimate that MTE purchases of \$24.3 million in FY 2011 and \$23.6 million in FY 2012 are at risk of loss, theft, and misuse due to control weaknesses.

Shrinking Mail Transport Equipment Budgets

We also found that, in addition to the shortages, the FY 2011 MTE budget was not adequate to fill MTE demand during the fall 2011 mailing season. Specifically, it was based solely on budgetary restraints, as opposed to forecasted requirements. The Postal Service stated that when the shortages materialized, they did not have the necessary on-hand inventory levels to address the shortages and also meet the increased and unexpected demand. In fact, MTE budgets have regularly been reduced each year since 2006, with the exception of 2008. These budget restrictions had more to do with the Postal Service’s financial condition than the linking of any reduction in

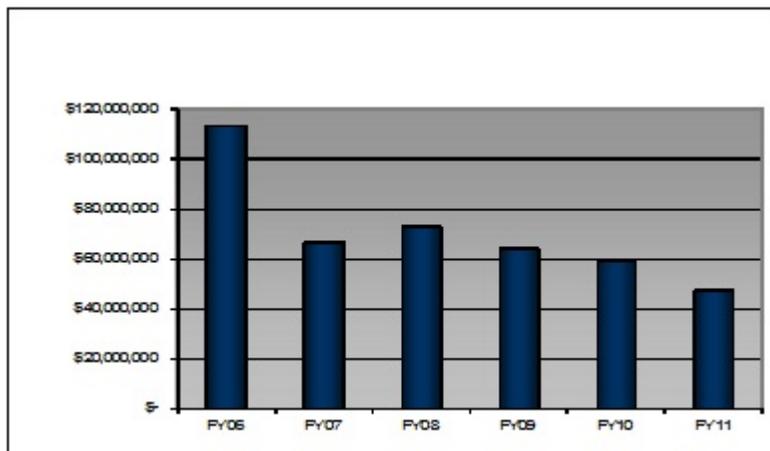
MTE needs to the significant reductions in mail volume experienced over the past 5 years.

¹⁵ In [Management Actions](#), we note that there are plans to provide resources in the areas and at districts and plants for MTE monitoring and management.

¹⁶ A “closed-loop” distribution system would help ensure that MTE provided to customers is returned to the Postal Service.

¹⁷ The Postal Service initiated a pilot program by seeding sample pallets with GPS to track and identify pallets inappropriately removed from the network and also to determine the amount of time it takes for a pallet to return to the network after distribution for mailer use.

MTE Purchases FY 2006-2011



Source: Postal Service.

In an attempt to mitigate budget shortfalls, stretch available funding, and ensure the availability of equipment from suppliers, the Postal Service elected to purchase less expensive and less durable MTE, such as pressed wood pallets and cardboard trays.



Less durable fiberboard letter trays at the Long Beach Processing and Distribution Center on May 10, 2012.
Source: OIG.



Damaged wood slat pallets at the San Francisco MTE SC in Tracy, CA, on December 21, 2011.
Source: OIG.

The shift to using less durable MTE led to an increase in condemnation of less durable MTE types due to damage and breakage, thereby substituting the ongoing problems associated with leakage of plastic MTE. Overall, the decision not to purchase the more costly and durable plastic MTE proved to be not as beneficial as the Postal Service anticipated. In addition, these items create safety concerns within the mailer community and are not the best value. Specifically, less durable MTE does not provide the lowest total cost of ownership based on the total lifecycle cost of these items. Additionally, the shift to less durable MTE resulted in numerous customer complaints (see [Appendix C](#) for several mailer comments on wood pallets). The Postal Service has subsequently concluded that plastic MTE purchases provide the best value on a cost per use basis and better serve the needs of the mailer community and Postal Service facilities.

We determined the Postal Service could have minimized emergency purchases with adequate planning and controls and avoided purchases of less durable MTE totaling \$11.1 million in FY 2011 and \$15.6 million in FY 2012.

Management Actions

In response to the unprecedented MTE shortages experienced in the 2011 fall mailing season and during our review, the Postal Service has taken subsequent actions that enhance the management of and reduce the risks of shortages of MTE going forward. The Postal Service has taken steps to include:

- Making a business case justifying the purchase of significant quantities of MTE and a shift back to more durable plastic MTE in lieu of wood and fiberboard, resulting in additional funding of \$77 million in 2012. The total FY 2012 MTE budget is now about \$120 million.
- Continuing to work on updating the *Postal Operations Manual* (POM) section relevant to MTE and Handbook PO-502, which have not been updated in about 2 decades.
- Securing funding to continue developing an automated management information and tracking system for MTE at facilities and mailers. The Phase I launch is planned for September 5, 2012 and the Phase II launch in early 2013.¹⁸
- Renewed recovery efforts, including newly manufactured flat tubs that have the MTE hotline number and an email address printed on them and the U.S. Postal Inspection Service (Inspection Service) initiated Phase III of their Equipment Recovery Project (ERP) at over 200 recycling¹⁹ locations throughout the U.S. The total estimated value of MTE recovered was nearly \$300,000.
- Providing a live MTE Online Ordering System (MTEOR)/MTE help desk during normal business hours, which provides for improved customer satisfaction, increased tips on misused/leaking MTE, more complete and accurate information obtained from callers and improved tracking on follow-up of equipment recovery.
- Conducting Lean Six Sigma²⁰ projects looking at MTE to reduce excess MTE at delivery and retail units, in plants, and at mailers.

¹⁸ Phase 1 will cover mailers supplied MTE by the MTEESC network and will provide for online ordering and visibility to order status. Phase 2 will include all other mailers (not just mailers serviced by the MTEESC network) and Postal Service facilities.

¹⁹ Recycling locations are referring to businesses that handle various discarded items and turn materials that would otherwise become waste into valuable resources.

²⁰ Lean Six Sigma refers to a combination of two distinct business management strategies, i.e., Lean Manufacturing and Six Sigma. A lean manufacturing strategy concentrates on creating more value with less work. Six Sigma identifies and eliminates defects in product development.

- MTE Coordinators have been identified for each Area, District, and plant. Areas and Districts have an MTE team lead by the MTE coordinator. Further, weekly web meetings are held for Area Coordinators/teams, and monthly webinars are held for plant and District Coordinators/teams.

Recommendations

We recommend the vice president, Network Operations, with input from the vice presidents, Supply Management and Consumer and Industry Affairs (if necessary):

1. Finalize procedures, processes, and guidelines to ensure there is effective planning and budgeting for Mail Transport Equipment (MTE) needs for the fall mailing season, taking into consideration operational and customer needs, financial condition, MTE leakage, and MTE condemnation.
2. Finalize implementation of prior U.S. Postal Service Office of Inspector General recommendations from the *Management of Mail Transport Equipment (MTE) – National Analysis* audit (Report Number NL-AR-10-009, dated September 29, 2010) covering an automated inventory and tracking system, ensuring adequate resources for areas and plants, and update policies and procedures that support current MTE operational requirements.
3. Finalize processes and procedures (considering costs and benefits) to limit or better control distribution and have visibility of Mail Transport Equipment distributed to mailers and other customers.
4. Evaluate the best practices identified in this report and identify any applicable industry best practices for implementation (considering costs and benefits), such as the viability of implementing Radio Frequency Identification technology to control the leakage of plastic pallets and reduce annual purchase of replacement plastic pallets.

Management's Comments

Management agreed with our findings and recommendations. They stated the model for determining MTE purchases will be revised to factor-in more weight to the higher demand period of the fall mailing season. Further, preliminary budgeting for FY 2013 has provided sufficient funding to begin purchase of plastic products with long lead times. In addition, inventory levels and demand will be monitored throughout the fall mailing season, and the demand/purchase model will be run again in November 2012. They also noted that demand at this time may be artificially high due to mailer apprehension over prior MTE shortages.

Management listed several actions relating to finalizing implementation of prior OIG recommendations, including identifying MTE resources for areas, districts, and plants; the continued development of MTEOR in 2013, which will address planned automated

inventory tracking for plants and mailers; and, the update of MTE policies and procedures to encompass changes in the MTE program.

Management stated that a number of activities and changes have taken place to limit and better control the distribution of MTE and enhance visibility of MTE with mailers. Lastly, management stated they will explore industry best practices for feasibility in use in the MTE program. See [Appendix F](#) for management's comments, in their entirety.

In subsequent correspondence, management stated they disagreed with the monetary impact contained in the report because the best value for MTE cannot be limited to the type of materials being bought. Additionally, they said you have to consider situational constraints, such as sudden spike in customers' needs, funding availability, suppliers' capacity and the lead time necessary to purchase the raw materials and produce the MTE. Management also said that this tradeoff is part of setting the MTE mix and ignoring them would lead to a loss of revenue due to MTE shortages. Lastly, they believe that an element of opportunity costs should be factored in to the calculation of the monetary impact.

Evaluation of Management's Comments

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

Regarding monetary impact, as noted in the report, we understand that the Postal Service will at times need less durable MTE, especially to fill emergency orders; however, we questioned the purchases of wood and cardboard MTE in FYs 2011 and 2012 because the Postal Service could have mitigated the need for these purchases if adequate planning and controls were in place. Further, the Postal Service had no procedures or processes in place to determine an optimal mix of MTE, and the mix was basically driven by the need to make emergency purchases of MTE to address the critical shortages. As such, we continue to believe the calculated questioned costs are appropriate and reasonable based on the information available.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

MTE are containers of various types used to hold mail during processing and transportation within or between Postal Service facilities, its contractors, its mailers, and other external customers. As such, MTE is a critical component of Postal Service and mailer operations. There are various types of MTE and our audit focused on the following types:

- Pallets made of plastic, wood (known as wood slat), or chipboard (known as presswood).
- Trays of varying sizes for letters ('letter trays') and flats ('flat tubs').

The Postal Service's goal is to have sufficient quantities of the right type of MTE in the right place at the right time to meet Postal Service and customer needs. MTE has been historically viewed as being consumable or expendable and provided to mailers and other customers as a courtesy. The Postal Service does not carry MTE inventory as an asset for financial reporting purposes and does not know the true size or value of its MTE inventory nationally.

Objectives, Scope, and Methodology

To complete this audit we interviewed headquarters (HQ) officials and staff, including Network Operations, Supply Management, and Consumer and Industry Affairs to determine causes for the MTE shortages during last fall's mailing season; and discuss corrective actions taken and planned to avoid future shortages. Topics of discussion with HQ officials included resource issues at areas and plants and the need to have dedicated, trained, and skilled MTE resources in the field.

We also:

- Gathered and assessed data on MTE forecasting, budgeting, and purchasing.
- Interviewed Mailers' Technical Advisory Committee (MTAC) members and other mailers to determine their insights into the conditions, causes and impact of the MTE shortages on their operations
- Used social media to reach out to mailers and other customers as well as Postal Service employees to identify their concerns and experiences.
- Researched on a limited basis opportunities to limit distribution of MTE by restricting usage to mailers that meet defined criteria.

- Researched ways to enhance distribution of MTE based on mailers' forecasted volumes and MTE requirements.
- Researched on a limited basis to make MTE recoupment efforts more robust.
- Evaluated the effectiveness of MTE inventory and tracking with existing systems, in the Enterprise Data Warehouse (EDW) through the Mail Condition Reporting System, the MTE Support System (MTESS), and other systems.
- Analyzed the total cost of ownership of plastic MTE compared to less durable MTE, such as wood slat, presswood, and cardboard, to determine the best value for the Postal Service.

We conducted this performance audit from March through September 2012 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on August 28, 2012. Management requested the opportunity to provide additional comments on our observations and conclusions and we addressed their comments where appropriate.

We assessed the reliability of the computer-generated purchase data used in our analyses by reviewing existing information about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

As reflected in the table below, the OIG has issued five audit reports since December 2008 addressing the effectiveness of the Postal Service's management and control of MTE. We found common weaknesses, including lack of comprehensive and clear policy and guidance, lack of a nationwide comprehensive inventory system for identifying and tracking all MTE, and insufficient MTE resources allocated in the field to monitor and control MTE and ensure compliance with MTE requirements. In addition, we issued an audit report addressing the performance of Postal Service processing operations during the 2010 fall mailing season.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)	Report Results
<i>Management of Mail Transport Equipment – Needs, Distribution, and Use</i>	NL-AR-11-006	9/23/2011	None	There was an imbalance of MTE rolling stock in the network, with some network distribution centers (NDCs) having excess rolling stock while others had a shortage of rolling stock. We analyzed rolling stock at the 21 NDCs and determined that, on average, there were over 24,500 excess over-the-road containers per month on-hand within the NDC network. Management agreed with all of the recommendations.
<i>Postal Service Performance During the 2010 Fall Mailing Season</i>	NO-AR-11-007	9/7/2011	None	Postal Service management failed to provide adequate oversight, including failing to adjust mail flow, sort plans, and staffing timely to meet operational changes during the 2010 fall mailing season. Further, Business Service Network representatives did not always provide timely feedback to business mailers regarding mail delays. Management agreed with all of the recommendations.
<i>Management of Mail Transport Equipment – National Analysis</i>	NL-AR-10-009	9/29/2010	\$29.1	Postal Service HQ has not provided updated policy and guidance, does not have a nationwide comprehensive inventory system for identifying and tracking all MTE throughout the network and at mailers, and has not ensured that areas have sufficient resources to monitor management of MTE and ensure appropriate compliance with national MTE requirements. Management agreed with all of the recommendations.
<i>Management of Mail Transport Equipment – Eastern Area</i>	NL-AR-10-004	3/17/2010	None	The Eastern Area's effectiveness was limited over the management and control of MTE. Although the Eastern Area has been identified as a deficit area

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)	Report Results
				and often experienced MTE shortages, area and local officials did not always ensure adequate controls over inventory and accountability processes required by national MTE requirements. Management agreed with all of the recommendations.
<i>Management of Mail Transport Equipment – Pacific Area</i>	NL-AR-10-001	10/22/2009	None	The Pacific Area's management and control of MTE was not effective. We determined that area management has taken some positive steps to help manage MTE through development of a standard operating procedure for MTE. However, the Pacific Area did not always ensure compliance with inventory and accounting processes and did not fully execute their responsibilities to control and safeguard MTE assets. Management agreed with all of the recommendations.
<i>Radio Frequency Identification Technology: Asset Management</i>	DA-AR-09-002	12/24/2008	\$126.8	The Postal Service has opportunities to adopt RFID technology to improve the management of MTE inventories and minimize longstanding pallet losses; however management disagreed that RFID would provide a solution for pallet leakage outside their network. As of 2012, industry literature indicates that RFID tag costs have fallen about 33.3 percent since this report was issued. Management agreed with all of the recommendations.

Other Initiatives Covering MTE

In addition to the OIG audits listed above, the Postal Service, MTAC and Inspection Service have undertaken a number of initiatives to address MTE issues to strengthen MTE management. See [Appendix E](#) for a list of these Postal Service, MTAC, and Inspection Service efforts.

Appendix B: Monetary and Other Impacts

Monetary Impacts

Recommendation	Impact Category	Amount
1	Questioned Costs (QC) ²¹	\$26,703,785

QC relate to the emergency purchase²² of less durable MTE given that its functionality and usability do not bring best value based on a per use basis. While we acknowledge that the purchases were made to meet immediate operational needs, improved planning and controls could have minimized the need for emergency purchases.

We summed the spend values for the types of MTE noted below using eBuy²³ data for FYs 2011 and 2012. We worked with the Postal Service to determine estimated shipping costs for FY 2012 purchases not yet finalized in eBuy. We offset the questioned costs relating to the purchase of less durable MTE with a calculated equivalent value of plastic MTE. The chart below represents questioned costs after factoring the calculated offset for the plastic pallets. This value is based on a durability ratio and an average cost of equivalent plastic MTE.

Questioned Costs Calculations for MTE Purchases

Description	FY 2011 QC	FY 2012 QC	Total QC
Wood and Presswood Pallets	\$7,233,398	\$9,944,485	\$17,177,883
Cardboard Trays	3,911,490	5,614,412	9,525,902
Total	\$11,144,888	\$15,558,897	\$26,703,785

Source: OIG Calculations.

We determined these items were not the ‘best value’ based on cost-per-use studies completed²⁴ by the Postal Service.²⁵ Best value is defined as the outcome that provides the optimal combination of elements such as lowest total cost of ownership, technology, innovation and efficiency, assurance of supply, and quality relative to the Postal Service’s needs.

²¹ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, or contract.

²² In order to meet MTE demand, emergency purchases had to be made to ensure continued operations. These emergency purchases covered wood pallets and cardboard trays due to limited financial resources and the required “lead time” to purchase more durable plastic MTE (the lead time for plastic pallets, for example, could be as long as three months from request for purchase to receipt of the initial delivery phase of plastic products).

²³ eBuy is the system used to order MTE inventory from suppliers. eBuy is an electronic commerce portal that provides the Postal Service’s employees with electronic requisitioning, approval, and invoice certification capability. eBuy is the Postal Service’s preferred method of order placement.

²⁴ The Postal Service conducted a study in 1994 on the lifespan of plastic pallets compared to Litco Brand presswood pallets, still in service today. The study supported the use and value of plastic pallets.

²⁵ The Postal Service confirmed that plastic letter trays are a better value than fiberboard trays based on testing of the lifecycle of plastic letter trays in a recent Lean Six Sigma study.

Other Impacts

Recommendation	Impact Category	Amount
2	Assets at Risk ²⁶	\$47,906,701
1	Goodwill/Branding ²⁷	-
1	Physical Safety ²⁸	-
1	Revenue at Risk ²⁹	N/A ³⁰
Total		\$47,906,701

Assets at Risk

We calculated assets at risk based on the following methodology and assumptions:

- The Postal Service classifies annual MTE purchases as an expense for financial reporting purposes. However, the Postal Service considers MTE an operational asset for non-accounting purposes since it is “an item the Postal Service must purchase and inventory for fulfillment of external or internal customer needs.”³¹
- We identified assets at risk as the value of plastic MTE by type. We gathered purchase data from eBuy for FYs 2011 and 2012.
- Because we focused on FYs 2011 and 2012 (the most recent and current period), we did not factor in useful life since these items have many years remaining. Additionally, we did not reduce our calculated total by a condemnation percentage, since condemnation of new plastic equipment is unlikely.
- Based on our audit observations of MTE misuse and misappropriation, Postal Service experience with MTE “leakage” and the Inspection Service’s asset recovery projects, we consider all MTE plastic pallets and trays purchased in FYs 2011 and 2012 to be at risk of loss, theft, or misuse.

²⁶ Assets that are at risk of loss because of inadequate internal controls.

²⁷ An actual or potential event or problem that could harm the reputation of the Postal Service.

²⁸ Physical operations assets that are unsafe or at risk of loss because of inadequate physical protection or safety practices, and includes the safety of employees and others.

²⁹ Revenue the Postal Service is at risk of losing if mailers seek alternative solutions for service currently provided by the Postal Service.

³⁰ We could not estimate the revenue at risk related to the fall 2011 MTE shortages due to data limitations. However, continued MTE shortages impacting mailer operations are likely to place future Postal Service revenue at risk.

³¹ The Postal Service defined MTE as an operational asset during a presentation entitled Asset Management Integration at a Supply Management conference on November 6, 2006.

We summed the costs of these items for FYs 2011 and 2012. The FY 2011 costs are based on eBuy data and FY 2012 costs are based on the quantity of plastic MTE received as of May 30, 2012.

The following is a summary for the purchases of plastic pallets, tubs, and trays shown by type and fiscal year:

MTE Purchases FY 2011 - 2012 at Risk

Description	FY 2011	FY 2012	Total
Plastic pallet (light weight)	\$18,805,500	\$10,570,392	\$29,375,892
Flats tubs (plastic)	5,544,000	9,691,380	15,235,380
MM trays (plastic)	-	3,182,253	3,182,253
EMM trays (plastic)	-	113,176	113,176
Total	\$24,349,500	\$23,557,201	\$47,906,701

Source: Postal Service

Goodwill/Branding

Mailers have voiced concerns about MTE for nearly 20 years through groups such as the MTAC. MTE shortages during peak season are not unusual. However, the unprecedented severity of MTE shortages during the fall 2011 mailing season created several operational issues for mailers. In response, the Postal Service received over 5,000 complaints through its field Business Service Network relating to MTE availability between September 2011 and January 2012. Mailer concerns included:

- Not having MTE, partial deliveries, or outright canceled orders.
- Getting the wrong type of MTE.³²
- Receiving damaged wood pallets.
- Approvals to purchase their own MTE.
- Exceptions to deviate from standard mail staging (such as brick stacking).

The essence of the Postal Service brand is customer perception. The control and management weaknesses and MTE shortages discussed throughout this report could pose a high risk that mailers and the public will negatively perceive the Postal Service's ability to properly manage its assets and service its customers.

Physical Safety

The use of wood slat and press wood pallets created safety concerns for mailers. Specifically, when these pallets are damaged there are risks associated with splintered wood, exposed nails, mold, and the possibility of collapse. For example, a

³² According to the Postal Service, a mailer will deem MTE the "wrong" type because it is not what they ordered. For example, the Postal Service may have to substitute mailer orders of plastic pallets for wood pallets or extended managed mail (EMM) letter trays for MM letter trays based on inventory on-hand. These are considered acceptable substitutes by the Postal Service even though mailers prefer plastic pallets and EMM letter trays.

representative from a large mailer expressed concern about the composition and fragility of wood slat and press wood pallets, placing employees at risk of injury and exposing mailers to potential safety violations.

Revenue at Risk

Critical shortages of MTE during the fall 2011 mailing season impacted Postal Service and mailer operations. These shortages required the Postal Service to grant operational exceptions to the mailers, resulting in additional labor and equipment costs. Mailers and their associations contacted all levels of management at the Postal Service, including senior executives and the Inspector General to voice their concerns. The Postal Service received over 5,000 complaints³³ from mailers between September 2011 and January 2012. Mailers were generally able to insulate their customers and mail owners from the impact of MTE shortages; however, persistent MTE shortages in the future may require mailers to raise their rates to cover these labor and equipment costs or encourage mail owners to seek alternative methods to communicate or ship. This would put future Postal Service revenue at risk. While we could not estimate the revenue at risk related to the fall 2011 MTE shortages, it is clear that subsequent shortages of MTE and negative impact on mailer operations would place Postal Service revenue at risk.

³³ These complaints from mailers were mostly regarding MTE availability. There were also complaints addressing safety concerns stemming from the use of less durable wood pallets; however, we were not able to determine the number of mailer complaints related to safety concerns.

Appendix C: Mailer Comments on Wood Pallets

During our audit, representatives of the mailer community raised concerns about the types of pallets they were receiving with the BSN on OIG blogs and project pages and during audit interviews. Examples of the concerns raised by mailers are below (a description of the source is provided below the comment):

A June 2012 Complaint from a Major Mailer to the Postal Service

The "pressed wood" skids . . . do not hold up well in our manufacturing process. They break very easily under normal handling conditions and leave chunks of skid all around the manufacturing floor. These chunks present a big safety and housekeeping issue. We recently had an OSHA recordable and lost time injury involving one of these chunks. . . Avoiding future use of these skids in our plant would be the optimum solution.³⁴



Source: Postal Service mailer.

A large mailer provided this photograph in a complaint to the Postal Service in June 2012 about presswood pallets breaking easily under normal operations.



Source: Postal Service mailer.

A representative of a large printing company said that presswood pallets are susceptible to environmental conditions and can accumulate moisture that promotes mold growth.

Examples of Mailer Posting to our Audit Projects Page (March-April 2012)

"We received nothing but wooden pallets this year. This caused us a lot of problems. Several of them were rotten and broken. Our product is heavy and the pallets often broke before they were even half filled. The boards would poke through the boxes and damage our perishable product. We really need plastic pallets."

³⁴ The Postal Service stated that pressed wood or wood slat pallets are not inherently dangerous just because plastic pallets can survive extreme conditions and treatment. Regarding the pallet with mold shown above, they stated they require storage of all pallets indoors, and all mailers are required to do the same. However, during audit observations for an unrelated audit project in August 2012, auditors observed pressed wood pallets being stored in the yard and exposed to all elements, including rain.

"Supply only plastic pallets. Using wood and press board pallets causes more injuries. This is due to the wood splinters and weight of these pallets. Plastic is much easier to handle and stack."

[A Mailer Testimonial During an Interview with the OIG \(December 2011\)](#)³⁵

One mailer advised that when the presswood pallets break apart it makes the floors very slippery and the mailer has to clean more often to prevent slip and falls. The mailer also encounters ergonomic issues when pallets exceed 30 pounds in weight. They stated that both the presswood and wood slat pallets were extremely heavy to lift. Overall, they felt wood slat and presswood pallets are not stable and some contain nails, noting they break and jam the mailer's equipment.

³⁵ This testimonial was taken during a prior OIG survey in late December 2011, which preceded this audit.

Appendix D: Best Practices

Best Practices ³⁶ for Developing a Managed Pallet Program	Postal Service Action or Position	Adopted - Yes/No
Outsource management of the pallet program to companies like CHEP, PECO, Intelligent Global Pooling Systems (iGPS), and others.	The Postal Service discussed this with a rental company. Costs were high because of the open nature of the network.	No
Engage in an exchange program.	The administrative burden is unlikely to be effective. Postal Service revenue is perceived to include the cost of MTE.	No
Restrict plastic MTE to customers where a closed-loop management program can be supported.	The Postal Service has started to provide plastic pallets only to customers who can make the case of need based on automation requirements.	No
Provide the returnable transport items needed to transport the product.	The Postal Service provides MTE to all its business customers.	Yes
Have dedicated and knowledgeable staff in the areas that oversee MTE assets and work with all parties (internal and external) to reduce misuse, theft, and hoarding of MTE assets through coordination, monitoring, and site audits.	There are plans to have MTE coordinators increasing the 'line-of-sight' (see MTE National Analysis report ³⁷ – Recommendation 4.)	No
Have an automated management system for the consistent standardized and universal collection of MTE data to provide enhanced visibility into inventory and use (both internally and externally).	Visibility with an automated management system is limited to MTE passing through MTEESC with MTESS MTE (See the National Analysis report – Recommendation 2).	No

³⁶ We determined industry best practices by gaining an understanding of pallet management at large domestic and international companies, such as restaurant chains, wholesalers, manufacturers, and grocers. Additionally, we reviewed MTAC work group documents addressing opportunities to improve the management of MTE; spoke with major mailers on suggestions to improve MTE management; and reviewed industry articles and blogs on ways to improve MTE management. Further, we reviewed domestic and global industry studies related to pallet management and control.

³⁷ The audit of the Management of Mail Transport Equipment – National Analysis [NL-AR-10-009](#). Recommendations are listed on page 4 of the document.

Best Practices ³⁶ for Developing a Managed Pallet Program	Postal Service Action or Position	Adopted - Yes/No
Have and enforce comprehensive MTE policies and procedures addressing inventory and accountability controls, including asset inventory and tracking.	The POM is out of date (see the MTE National Analysis report – Recommendations 1 and 3).	No
Have an asset recovery team that works with all parties involved to safeguard pallet assets.	The MTE group works with areas and plants to recover MTE. Further, the Inspection Service works with the Postal Service and local law enforcement to recover Postal Service assets.	Yes ³⁸
Develop clear communication with all participants in the supply chain.	The Postal Service has increased the awareness program and continues to do so both inside the Postal Service (awareness campaign) and at customers' (MTAC) and at industry sites.	Yes
MTE that are particularly vulnerable to loss, theft, damage, or unauthorized use are physically secured and access to them controlled.	Prior OIG reports and Inspection Service recovery projects have shown there are continued weaknesses in MTE security.	No
MTE are periodically counted and compared to control records and exceptions examined.	Empty MTE in plants is manually 'estimated' weekly, but there are weaknesses in these inventory counts and their ability to ensure full compliance. Further, counts are not compared to any expected result.	No
Dialogue with pallet recyclers through a letter campaign that informs them of the proprietary nature of postal pallets.	The Inspection Service has been engaging recyclers.	Yes
Set up a 1-800 telephone number for pallet recyclers to call if they have stray pallets.	The Postal Service established and published its 1-800 recovery telephone number. Additionally, many equipment types have the HQ-MTE hotline telephone number.	Yes

³⁸ While both Postal Service HQ and the Inspection Service have undertaken efforts to improve their asset control and recovery efforts, there are still many problems in the field with timely recovery efforts. Several customers have noted that even when they contact the Postal Service to report excess or misused MTE, the Postal Service is often slow in responding and physically recovering the MTE assets.

Best Practices ³⁶ for Developing a Managed Pallet Program	Postal Service Action or Position	Adopted - Yes/No
Seed plastic pallets with GPS devices to identify locations of risk and collect pallets before they are lost.	The Postal Service has been testing a seeding program for several years now.	Yes
Quickly return telephone calls and work to reclaim stray assets.	There are concerns regarding follow-up at the local level to recover assets.	No
Develop procedures to adequately compensate recyclers for their costs while protecting the ownership interest of your asset.	We did not identify a Postal Service Action of Position for this Best Practice.	No
Identifying sources of major pallet leakage, through RFID, observation, and so forth.	The Postal Service has not identified specific facilities or mailers outside of its GPS program and the Inspection Service recovery efforts. Further, there is no RFID	No
Establish custody agreements where users agree to terms specified by returnable transport item (RTI) owners.	There is policy regarding the use of MTE; however, audits to monitor use and compliance are not regularly conducted due to resource issues.	Yes
Customer and facility MTE accounts have reconciliations of summary information to supporting detail and checking the accuracy of MTE balances.	Customer MTE balance information is not collected and facilities have manual and often inaccurate inventory counts.	No
Charge a fee for excessive use or capturing of a pooled pallet.	There is policy regarding the charge for lost MTE ³⁹ but not excessive (hoarding) MTE.	No
Conduct regular analysis to gauge the effectiveness of new pallet management initiatives.	The Postal Service is engaged with the Inspection Service, the OIG, and the industry to improve pallet management.	Yes

Source: OIG Research

³⁹ POM Section 581.42 states that mailers are responsible for the use, care, and return of MTE and holds them financially liable for MTE loss or destruction. However, this policy is about 20 years old, is still in the process of being revised, and there is no process in place for tracking or identifying lost or damaged MTE or for collecting money from mailers for lost or damaged MTE.

Appendix E: Other Mail Transport Equipment Initiatives

MTE issues and shortages are nothing new to the Postal Service. The Postal Service, MTAC and Inspection Service have undertaken a number of initiatives to address MTE issues and strengthen MTE management over nearly 2 decades. The Postal Service, MTAC, and Inspection Service efforts are listed below.

MTE Initiatives		Date	Impact	Results
Equipment Recovery Project III – FY 2012	ERP 3	Ongoing	ERP III \$294,182	1) There are ongoing Postal Service MTE accountability and recovery efforts which included almost 26,000 plastic pallets. 2) The Inspection Service conducted a third ERP III at recycling locations throughout the United States in November 2011 which was primarily for plastic pallets from recycling facilities.
Postal Service announced a 2-week amnesty of pallets, trays, and other equipment	Amnesty	11/9/2011	Unknown	The amnesty period to return MTE ran from November 12–26, 2011.
Equipment Recovery Project II - November 16-20, 2009	ERP 2	1/21/2010	\$272,225 for pallets and \$1,038,129 other types of MTE	During the second equipment recovery project, inspectors recovered 13,721 plastic pallets.
Equipment Recovery Project - November 17-21, 2008	ERP	1/12/2009	\$1,914,178	The Inspection Service, in coordination with the Postal Service, recognized there was a concern regarding misuse and misappropriation of large quantities of postal equipment. The loss of this equipment represents a significant loss to the Postal Service. Therefore, the Inspection Service has been tasked with this continuous effort. A total of 268,341 items of MTE were recovered
MTE Forecasting and Tracking – MTAC Workgroup 2006/2007	Workgroup 108	11/08/2007	None	In order to track or forecast MTE, there first needs to be a consistent, standardized, and near universal collection of data to make a baseline for tracking and forecasting.

MTE Initiatives		Date	Impact	Results
MTAC Meeting – MTE Issues & Concerns	Historical	6/15/1994	None	We reviewed MTAC meeting notes and noted that forecasting issues and peak season shortfalls have been an issue for many years, along with persistent causes which include misuse and unauthorized use of MTE.

Source: OIG Research

Appendix F: Management's Comments

DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS



September 27, 2012

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Mail Transport Equipment – Shortages of Pallets, Tubs and Trays – Fall 2011 Mailing Season (Report Number NL-AR-12-Draft)

Thank you for the opportunity to respond to the recommendations contained in the Discussion Draft Audit Report – Mail Transport Equipment – Shortages of Pallets, Tubs and Trays – Fall 2011 Mailing Season - Draft Report Number NL-AR-12. Management agrees with the recommendations and will address each separately below.

Recommendation 1:

Finalize procedures, processes, and guidelines to ensure there is effective planning and budgeting for Mail Transport Equipment (MTE) needs for the fall mailing season, taking into consideration operational and customer needs, financial condition, MTE leakage and MTE condemnation.

Management Response/Action Plan:

The current model for determining quantities of MTE to purchase factors in demand (mailer and USPS), leakage, condemnation and minimum safety inventory levels. Model has been revised to give more weight to the higher demand period of fall mailing season which resulted in projections for higher levels of purchases. Preliminary budgeting for FY13 has provided sufficient funding to begin purchasing plastic products with long lead times including plastic trays, pallets and flat tubs. Demand may be artificially high at this time due to mailer apprehension over prior shortages. Inventory levels and demand will be monitored through fall mailing season, the model will be run again in November 2012, quantities required for all types of MTE will be determined and additional funding will be requested as needed. Additional information will be provided no later than March 31, 2012.

Responsible Official:

Cathy Moon, Manager, Mail Transport Equipment

Recommendation 2:

Finalize implementation of prior U.S. Postal Service Office of Inspector General recommendations from the *Management of Mail Transport Equipment (MTE) – National Analysis* audit (Report Number NL-AR-10-009, dated September 29, 2010) covering an automated inventory tracking system, ensuring adequate resources for areas and plants, and update policies and procedures that support current MTE operational requirements.

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Management Response/Action Plan:

Resources for areas, districts and plants have been identified and focused on MTE as described in the draft audit report on page 10. Continued development of MTEOR in 2013 includes planned automated inventory tracking for plants and mailers. MTE policies and procedures will be updated to encompass changes such as MTEOR, Area MTE Coordinator roles, and MTE Trailer Management guidelines by December 31, 2012.

Responsible Official:

Cathy Moon, Manager, Mail Transport Equipment

Recommendation 3:

Finalize processes and procedures (considering costs and benefits) to limit or better control distribution and have visibility of Mail Transport Equipment distributed to mailers and other customers.

Management Response/Action Plan:

Activities completed include the MTE National Webinar, significant changes in MTE policy such as ensuring only known mailers are provided equipment, and tracking all MTE provided to mailers (by date, type and quantity using Excel model). Plants have been provided resources such as the MTE to Mailers Tracking Tool to support their efforts to comply with the new requirements until further development of MTEOR allows for tracking of MTE provided to mailers from plants in July 2013.

Responsible Official:

Cathy Moon, Manager, Mail Transport Equipment

Recommendation 4:

Evaluate the best practices identified in this report and identify any applicable industry best practices for implementation (considering costs and benefits), such as the viability of implementing Radio Frequency Identification technology to control the leakage of plastic pallets and reduce the annual purchase of replacement plastic pallets.

Management Response/Action Plan:

We will explore industry best practices for feasibility in use with MTE program by March 31, 2013.

Responsible Official:

Cathy Moon, Manager, Mail Transport Equipment

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act (FOIA). All addressees on this report are in agreement with the response.



David E. Williams

Attachment

cc: Ms. Brownell
Mr. Corbett
Ms. Robinson
Mr. Cochrane
Ms. Mallonee
Ms. Moon