



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Plant Load Agreements — Central Pennsylvania District

Audit Report

Report Number
MS-AR-15-003

April 8, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Background

The U.S. Postal Service offers its commercial customers special arrangements called plant load agreements. These agreements stipulate that the Postal Service will verify and pick up mail at a customer's plant and transport it directly to a Postal Service destination facility. In return, the customer agrees to provide sufficient mail volume and revenue to offset transportation costs and yield a net cost savings for the Postal Service.

Plant loading bypasses handling at a Postal Service facility, which reduces processing time, staffing, and dock space requirements. Plant load agreements should be financially and operationally beneficial to the Postal Service and are a productive way to foster positive relationships with customers.

District staff and postmasters help initiate, coordinate, and monitor plant load agreements. They should also monitor performance under these agreements since conditions – such as mail volume and transportation routes – can change.

Our objective was to assess how effectively plant load agreements in the Central Pennsylvania District protect Postal Service revenue and control costs. We selected this district because it presented an opportunity for cost savings based on revenue. The district had 40 plant load agreements as of October 2014. In fiscal year (FY) 2014, these 40 agreements were associated with revenue of over \$1.7 billion.

What The OIG Found

The Central Pennsylvania District was not sufficiently approving and monitoring plant load agreements. Thirty-eight of 40 agreement documents were missing information such as signatures, expiration dates, and cost analysis; and some contained errors. Additionally, twenty-two of the 25 plant loads observed did not meet the minimum requirements for volume or weight. District management was also not aware that some plant loads had reduced activity. This occurred because management did not have an adequate system in place to monitor compliance with plant load agreement requirements.

As a result, there is an increased risk of unnecessary transportation-related costs. We estimated transportation costs of \$1.14 million in FY 2014 as disbursements at risk.

What The OIG Recommended

We recommended the district manager, Central Pennsylvania District, improve current procedures to ensure compliance with plant load agreements, particularly provisions related to approving and monitoring these agreements.

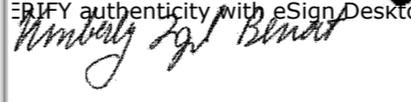
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 8, 2015

MEMORANDUM FOR: JAMES G. DRUMMER
DISTRICT MANAGER,
CENTRAL PENNSYLVANIA DISTRICT

E-Signed by Kimberly Benoit
VERIFY authenticity with eSign Desktop


for

FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Revenue and Resources

SUBJECT: Audit Report – Plant Load Agreements –
Central Pennsylvania District
(Report Number MS-AR-15-003)

This report presents the results of our audit of Plant Load Agreements –
Central Pennsylvania District (Project Number 15RG006MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Joseph Wolski, director, Retail,
Sales, and International, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management
Vice President Area Operations, Eastern Area

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Findings

Introduction

This report presents the results of our self-initiated audit of Plant Load Agreements – Central Pennsylvania District (Project Number 15RG006MS000). Our objective was to assess how effectively plant load agreements in the Central Pennsylvania District protect U.S. Postal Service revenue and control costs.

Under plant load arrangements, the Postal Service picks up mail from a detached mail unit (DMU)¹ at a customer's plant and transports it to a Postal Service destination facility. In exchange for this service, customers agree to provide sufficient mail volume and revenue to offset costs and yield a net cost savings for the Postal Service. Plant loading bypasses handling at Postal Service facilities, which reduces processing time, staffing, and dock space requirements. The Postal Service authorizes plant load operations in accordance with regulations based on projected cost savings or other benefits.² These agreements should be financially and operationally beneficial to the Postal Service and are a productive way to foster positive relationships with its customers.

District staff and postmasters approve and monitor plant load agreements. It is important that the Postal Service monitor these agreements as conditions – such as mail volume and transportation routes – could change. As of October 2014, the Central Pennsylvania District had 40 plant load agreements in place, with related revenue of over \$1.7 billion in fiscal year (FY) 2014 and an estimated transportation cost of \$1.14 million. See [Appendix A](#) for additional information about this audit.

Conclusion

The Postal Service did not sufficiently approve and monitor plant load agreements in the Central Pennsylvania District because district management did not have an adequate system in place for these agreements. As a result, there was an increased risk of unnecessary transportation-related costs. Plant load agreement documents were missing signatures, expiration dates, and cost analysis; and some contained errors. Additionally, district management was not aware that some plant loads had reduced activity. We estimated transportation costs of \$1.14 million in FY 2014³ as disbursements at risk.

Plant Load Agreements

Plant load agreements should be financially and operationally beneficial to the Postal Service and its customers if properly executed and monitored. Because its plant load agreement monitoring process was inadequate, the Central Pennsylvania District staff was not ensuring agreement documents were complete and accurate or adequately monitoring customer performance. As a result, the FY 2014 transportation budget was subject to increased risk of unnecessary disbursements.

Approval Process and Documentation

The district did not follow approval procedures during the plant load agreement application process.⁴ The local postmaster and the plant load committee should review applications and the district and area managers must ultimately approve them; however application errors went undetected because the district did not have an adequate process for ensuring documents were complete and accurate. As a result, 38 of 40 plant load agreements were incomplete or inaccurate. These agreements omitted information such as signatures, expiration dates, and plant load cost analyses. In addition, six intra-district plant loads were inaccurately

¹ An area in a mail customer's facility where Postal Service employees verify, accept, and dispatch mail; and perform other Postal Service functions.
² *Domestic Mail Manual (DMM)* Sections D020 and M074 provide a complete description of plant load operations.
³ We used total FY 2014 transportation costs for scheduled plant load agreements as the basis for this estimate.
⁴ Handbook PO-512, *Plant Loading Authorization and Procedures Guidelines*, Sections 2 and 3-1, October 2002.

approved as inter-district plant loads, eight inter-district plant load were approved as single intra-district plant loads, and seven district plant loads that were both intra- and inter-district plant loads were either approved as only one or the other.⁵ Complete and accurate plant load documents clearly identify each party's responsibilities and protect the Postal Service from potential disputes.

Monitoring Customer Performance

The district did not sufficiently monitor customer performance of plant load agreements because management did not have an effective system in place. For example, the district relied on DMU clerks to monitor customer compliance at plants, but the clerks⁶ did not know the minimum mail weight and volume⁷ required for plant load transportation or research that information in the locally filed copy. As a result, district management was not aware of conditions that had changed.

For example, as detailed in [Appendix B](#), we found that:

- Twenty-two of 25 plant loads we observed did not meet the minimum required mail volume or weight.
- In FY 2014, one DMU had about 57 canceled plant load transportation pickups on a Highway Contract Route (HCR) contract.

District management needs an effective system in place to monitor customer performance. Monitoring performance allows the Postal Service to protect revenue and control costs by initiating discussions with noncompliant customers and adjusting transportation arrangements when conditions change. Adjustments could involve using smaller trucks, combining pickup from different locations, picking up mail less often, or cancelling a plant load agreement.



Plant load not meeting minimum volume.

-
- 5 Intra- and inter-district plant loads apply to vehicle movements of mail from the customer's plant to a mail processing facility. Intra-district plant loads are vehicle movements within the Postal Service district and inter-district plant loads are vehicle movements between districts.
- 6 During our plant load observations, we found that 21 of 22 Postal Service clerks did not know the required weight or volume, although documentation was available to them.
- 7 The Postal Service uses a cubic foot to determine the unit of volume equal to a 1 foot space. The formula for measuring a cubic foot is "length multiplied by width multiplied by height".

Recommendation

We recommend the district manager, Central Pennsylvania District:

1. Improve current procedures to ensure compliance with plant load agreements, particularly provisions related to their approval and monitoring.

Management's Comments

Management generally agreed with our findings and recommendation. Regarding the recommendation, management will generate plant load agreements that are complete and accurate, as required, and monitor volumes and weight for compliance. The targeted implementation date for these actions is April 30, 2015. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

Appendices

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Appendix A: Additional Information

Background

The Postal Service authorizes plant load agreements in accordance with the DMM and districts must consider these agreements based on projected cost savings or other potential benefit to the Postal Service. Plant load agreements are categorized as either *scheduled or as required*. For *scheduled* plant load agreements, the Postal Service provides regularly scheduled transportation between the customer's plant and destination Postal Service facilities. *As required* plant load agreements have no predetermined mailing schedule and include various destination Postal Service facilities.

District staff and postmasters help initiate, monitor, and coordinate these agreements. Each district manager must establish a cross-functional district Plant Load Committee to review plant load agreement applications and address plant load issues in the district. The district manager is responsible for coordinating the approval of Postal Service (PS) Forms 3815, Plant-Load Authorization Application, Worksheet, and Agreement; and maintaining a file for each agreement that contains all original approval documents and customer records. The local postmaster serving the customer's plant is responsible for monitoring plant load agreements and coordinating with the district Plant Load Committee.

Conditions such as customer mail volume and Postal Service transportation routes can change during the course of an agreement. As a result, the Postal Service is required to periodically review and update all plant load agreements to ensure savings and efficiency for the Postal Service and the customer. The customer and the Postal Service must renew PS Form 3815 at least once every 4 years by updating information as necessary. If a customer does not meet the terms of the plant load agreement for 2 consecutive Postal Service accounting periods, the postmaster must promptly notify the plant manager and district manager, and the district plant load committee should re-evaluate the plant load agreement. If the customer does not make permanent corrections within 30 days after a written warning from the Postal Service, the district manager must immediately terminate the customer's plant load agreement.

We selected the Central Pennsylvania District in the Eastern Area because it presented an opportunity for cost savings based on revenue. As of October 2014, the Central Pennsylvania District had 40 plant load agreements with related revenue of over \$1.7 billion in FY 2014.

Objective, Scope, and Methodology

Our objective was to assess how effectively plant load agreements in the Central Pennsylvania District protect Postal Service revenue and control costs. Our audit scope covered the Central Pennsylvania District in the Eastern Area and related facilities. The review included plant load agreements currently in place in the Central Pennsylvania District in FY 2014 and related cost and volume data, as appropriate.

To accomplish our objective, we:

- Reviewed and analyzed plant load agreements and reviewed data on the number, type, and location of these agreements.
- Reviewed policies and procedures governing the creation, approval, maintenance, data, and review of plant load agreements; and discussed them with district personnel.
- Obtained and reviewed plant load agreements to evaluate the criteria and process for committee approval/disapproval of plant load agreements.

- Conducted tests on the volume per selected agreement specifications.
- Observed plant load operations at 17 facilities – including observing the amount of mail placed on trucks – and interviewed DMU clerks and customers.
- Interviewed current plant load agreement customers to understand the process and obtain their feedback on needed services.

We conducted this performance audit from October 2014 through April 2015, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on March 5, 2015, and included their comments where appropriate.

We relied on computer-processed data maintained by Postal Service operational systems, which include PostalOne! and the Enterprise Data Warehouse. We did not test the validity of controls over these systems. However, we assessed the reliability and verified the accuracy of the data by confirming our results with Postal Service managers and other data sources. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Our *Plant Load Agreements – Greensboro District* report (Report Number [MS-AR-14-003](#), April 30, 2014) found that the Greensboro District was not adequately approving or monitoring plant load agreements. During our audit the district began to implement several corrective actions, such as updating current plant load agreements and creating a Plant Load Committee to review applications and address issues. Additional improvements are needed, however, to ensure the district complies with approval and monitoring requirements in these agreements. The Postal Service did not have an adequate system in place to monitor compliance with plant load agreement requirements and, consequently, had an estimated \$1.5 million in disbursements at risk.

Appendix B: Summary of Plant Load Agreement Issues in the Central Pennsylvania District

We found 38 of 40 plant load agreements that were incomplete or inaccurate:

- The district representative's signature was missing on 17 of 40 agreements.
- The effective or expiration date was not indicated on 30 of 40 agreements.
- The cost analysis was not completed for two of 40 agreements.
- There was incorrect approval of 21 intra- or inter-district plant load agreements.
- There were no agreements on file at two sites we visited.

We found 22 of 25 plant loads we observed did not meet the minimum requirements for volume or weight:

- Sixteen plant loads did not meet the minimum vehicle volume requirement.
- Twenty-two plant loads did not meet the minimum weight requirement.
- One DMU had about 57 canceled plant load transportation pickups on a HCR contract.

Appendix C: Management's Comments

March 2015

Laurie Dillard
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Plant Load Agreements – Central Pennsylvania District (Report Number MS-AR-15-Draft)

The audit resulted in two summary Plant Load Agreement issues in the Central Pennsylvania District (CPA). The district is in agreement with the OIG in the general findings of the Plant Load Agreements were incomplete or inaccurate and some plant loads did not meet minimum requirements for volume or weight. CPA does agree with the calculation of transportation costs identified by the OIG as being the total transportation costs for the Plant Load Agreements in FY14. This amount is \$1.14 million and is identified by the OIG as disbursements at risk.

Finding #1: OIG found 38 of 40 plant load agreements that were incomplete or inaccurate:

- The district representative's signature was missing on 17 of 40 agreements.
 - CPA disagrees that the district representative's signature was missing on the agreements but does agree that the agreements were not signed in the correct area or page on all agreements.
- The effective or expiration date was not indicated on 30 of 40 agreements.
 - CPA disagrees that the effective or expiration date was not indicated on the agreements but does agree that the dates were indicated on a cover sheet letter in each agreement, but not on the space available on the official agreement papers.
- The cost analysis was not completed for two of 40 agreements.
 - CPA agrees that the cost analysis for two of the agreements was not in the Plant Load Agreement file. The analysis was completed but was not filed as required.
- There was incorrect approval of 21 intra- or inter-district plant load agreements.
 - CPA agrees the Plant Load Agreements contain signatures signed on the Intra-District approval line when the agreement was an inter-District one and visa-versa. The correct signatures were obtained but the signatures were not on the correct lines.
- There were no agreements on file at two sites we visited.
 - CPA agrees the site could not produce their copy of the agreements during the OIG visit, but all agreement copies were furnished to each site to keep on file in the unit. All agreements were on site at the district office.

Finding #2: OIG found 22 of 25 plant loads observed did not meet the minimum requirements for volume or weight

- Sixteen plant loads did not meet the minimum vehicle volume requirement.
 - CPA agrees the volume requirement may not have been met during the OIG observation, but many of the district's plant load agreements combined multiple mailings and stops that may not meet volume or weight requirements individually but when combined will meet the requirements on the final run.
- Twenty-two plant loads did not meet the minimum weight requirement.
 - CPA agrees the volume requirement may not have been met during the OIG observation, but many of the district's plant load agreements combined multiple mailings and stops that may not meet volume or weight requirements individually but when combined will meet the requirements on the final run.
- One DMU had about 57 canceled plant load transportation pickups on a HCR contract.
 - CPA agrees the one DMU, Fry Communications did have 57 canceled plant load pickups. The mailer did not produce mail on these days, but the HCR contract is connected with another run. Even on the days the mailer cancels a trip, the truck departs because the driver must start another run on that contract. The entire contract is not canceled.

Recommendation:

OIG recommends the district manager of Central Pennsylvania District will improve current procedures to ensure compliance with Plant Load Agreements, particularly provisions related to their approval and monitoring.

Management Response/Action Plan:

CPA district is in agreement with improving compliance with Plant Load Agreements, addressing approval and monitoring portions closely. Future Plant Load Agreements will be completed accurately and completely. Volumes and weights will be monitored, with agreements being canceled if warranted.

Target Implementation Date:

April 2015. OIG recommended that current agreements remain in the file as they are and all future Plant Load Agreements going forward be completed as required and monitored for compliance.

Responsible Official:

Plant Load Agreements will be developed by the District BME Manager and District Transportation Manager. Signatures will be obtained from the District Manager and District Plant Managers, and final approval through Area Transportation. District Transportation Managers and District BME Managers will monitor volumes

/ weights / cancelations to ensure the requirements for a Plant Load Agreement are met.

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



James G Drummer
District Manager, Central Pennsylvania District

cc: Vice President Area Operations, Eastern Area
Sally K. Haring, Manager, Corporate Audit Response Management
CPA District SR. Plant Manager
CPA District Marketing Manager
CPA District Transportation Manager



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