



March 26, 2009

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Vehicle Management – National Trailer Lease Renewal –
Great Lakes Area (Report Number NL-AR-09-004)

This report presents a portion of the results from our nationwide audit of the National Trailer Lease renewal.¹ The objectives of our self-initiated audit were to determine whether the renewal was effective and economical² (Project Number 08XG037NL000). This report focuses on trailer lease requirements in the Great Lakes Area. See [Appendix A](#) for additional information about this audit.

Conclusion

The National Trailer Lease renewal was not as effective and economical as it could have been because the Great Lakes Area did not have a comprehensive management plan in place to accurately identify its trailer requirements, ensure proper trailer use, and adjust trailer inventory based on continued need.

As a result, the U.S. Postal Service incurred about \$329,863 in unnecessary lease costs over a 6-month period. We estimate the Postal Service could save about \$5.4 million in lease costs over the next 10 years, if the Great Lakes Area improves its processes for trailer fleet management and returns unneeded trailers. See [Appendix B](#) for our detailed analysis of this topic. See [Appendix C](#) for our monetary impact calculation.

We recommend the Vice President, Great Lakes Area Operations:

1. Develop a comprehensive process to identify trailer requirements and manage trailer inventory and use.
2. Analyze the number of trailers needed to transport mail and equipment and return unneeded trailers to Postal Service Headquarters for reallocation or return to the leasing contractor, saving the Postal Service about \$5.4 million over the next 10 years.

¹ On July 1, 2006, the Postal Service executed a renegotiated 6-year lease renewal of the September 2000 National Trailer Lease with Transportation International Pool (TIP), Inc., a wholly owned trailer and equipment-leasing subsidiary of General Electric Company.

² We slightly modified the audit objectives in the original announcement letter. Our initial objectives were to determine whether the trailer procurement was effective and to identify opportunities to save money.

3. Analyze storage requirements and procure storage space in the most cost-effective manner.

Management's Comments

Management agreed with our findings and recommendations, but did not agree with our long term calculated monetary savings. They are improving procedures for trailer inventory management and plan to have the new procedures by April 11, 2009. Also, management conducted a review of their trailer requirements and returned 180 trailers to the leasing supplier effective February 12, 2009. The Great Lakes Area is in the process of gathering the documentation to support the trailer returns and will forward these documents the U.S. Postal Service Office of Inspector General (OIG) when they are complete. In addition, the Great Lakes Area will analyze storage requirements and will seek cost-effective storage at all the Great Lakes Area facilities. Management agreed to continually monitor the storage trailer requirements and will adjust the volume as needed. Management's comments, in their entirety, are included in [Appendix D](#).

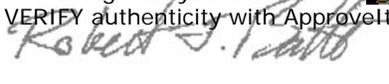
Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Although management did not agree with our 10-year projected savings, they did not provide support for an alternate amount.

We will report a total of \$5,746,726 in monetary impact in our *Semiannual Report to Congress*, including \$329,863 in questioned costs and \$5,746,726 in funds put to better use.

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. We appreciate the prompt action already taken and will continue working with management to obtain support for those actions in the process of closing the recommendations. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that they can be closed.

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.

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

During fiscal year (FY) 2000, the Postal Service began a major, multi-phased corporate initiative to terminate local trailer contracts, centralize trailer acquisition at Postal Service Headquarters, and commit to a single national contractor.

Initial National Trailer Lease – In September 2000, the Postal Service signed a National Trailer Lease contract for 4,475 trailers with TIP, Inc., a wholly owned trailer and equipment-leasing subsidiary of General Electric Company.



The Postal Service uses a unique numbering system for TIP “National Trailer Lease” trailers it assigns to facilities. We photographed these trailers, beginning with the numbering sequence “63Z”, at the St. Louis Bulk Mail Center (BMC) on August 20, 2008.

The anticipated cost of the 12-year contract plus the renewal option was more than \$201 million. The new centralized national contract would:

- Reduce the average cost to lease a trailer from [REDACTED] per day.
- Potentially save the Postal Service more than \$2.2 million annually.
- Provide the flexibility to maintain trailer inventory only when and where trailers are needed because unneeded trailers could be returned to the leasing contractor.

National Trailer Lease Renewal – On July 1, 2006, the Postal Service executed a renegotiated 6-year lease renewal.

The new agreement reduced the lease cost to [REDACTED] per trailer per day and was intended to:

- Improve inventory controls by requiring the leasing contractor to install satellite tracking devices on all trailers by November 1, 2006.
- Save money by allowing the Postal Service to return unneeded trailers.

Under the National Trailer Lease, Postal Service officials allocated 1,687 trailers to the Great Lakes Area, which subsequently assigned 400 trailers to the Chicago BMC, 323 to the Detroit BMC, and 225 to the St. Louis BMC. The Postal Service allocated the remaining trailers among 12 other Great Lakes Area facilities.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our nationwide audit were to determine whether the National Trailer Lease renewal was effective and economical. Although this is a nationwide audit, we used a regional approach because individual Postal Service areas control the National Trailer Lease fleet. This report is the eighth in a series of reports and focuses on the Great Lakes Area.

During our work, we interviewed Postal Service officials at headquarters and in the Great Lakes Area and visited the Chicago, Detroit, and St. Louis BMCs and other facilities in the Great Lakes Area. We observed and photographed operations, inspected trailers, interviewed supervisors and employees, and examined Postal Service policies and procedures. We used computer-assisted analysis techniques to examine computer data in management's Transportation Information Management Evaluation System for the period October 9, 2007, through April 8, 2008.

In addition, we collected and examined yard management reports and information on trailers that were out of service for repairs. We did not audit or comprehensively validate the data; however, several control weaknesses constrained our work. For example, some computer records had missing or inaccurate data. Although data and other limitations constrained our work, we compensated by applying alternate audit procedures such as examination of source documents, observation, physical inspection, and discussions with appropriate officials.

We examined the National Trailer Lease and other relevant Postal Service documents and records. We discussed our conclusions and observations with management throughout our audit and included their comments where appropriate.

We conducted work associated with this performance audit report from July 2008 through March 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

conclusions based on our audit objectives. We believe 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 officials on February 12, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG has worked with the Postal Service to improve vehicle management and reduce vehicle costs. As indicated by the chart below, since April 2005, we have issued seven audit reports that identified potential trailer lease savings exceeding \$21 million. The reports addressed vehicle management weaknesses similar to those identified in this report.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations</i>	NL-MA-05-001	April 21, 2005	Not applicable
<i>Vehicle Management – National Trailer Lease – A.T. Kearney, Inc. Analysis</i>	NL-ID-06-002	February 7, 2006	Not applicable
<i>Vehicle Management – National Trailer Lease Requirements – Capital Metro Area</i>	NL-AR-06-013	September 29, 2006	\$1.9
<i>Vehicle Management – National Trailer Lease Renewal – Southwest Area</i>	NL-AR-07-005	June 15, 2007	\$4.8
<i>Vehicle Management – National Trailer Lease Renewal – Pacific Area</i>	NL-AR-07-009	September 28, 2007	\$7.5
<i>Vehicle Management – National Trailer Lease Renewal – Eastern Area</i>	NL-AR-08-005	August 27, 2008	\$4.1
<i>Vehicle Management – National Trailer Lease Renewal – Southeast Area</i>	NL-AR-08-007	September 25, 2008	\$2.2

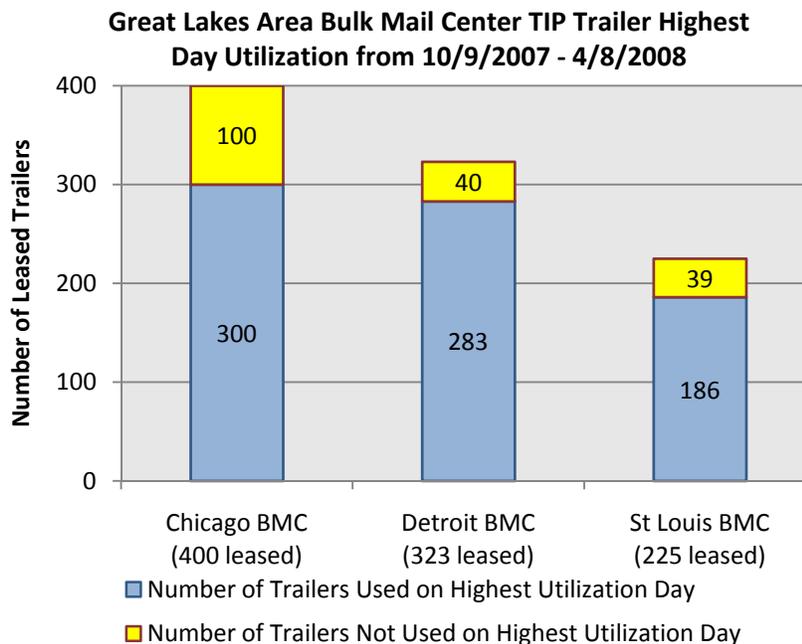
APPENDIX B: DETAILED ANALYSIS

National Trailer Lease Fleet Management – Great Lakes Area

We concluded the National Trailer Lease renewal was not as effective and economical as it could have been because the Great Lakes Area BMCs had more trailers than needed. Of the 1,687 trailers leased in the Great Lakes Area, management assigned 948 to the BMCs and allocated the remaining 736 trailers to nine other facilities in the Great Lakes Area. Our analysis did not reveal material underutilization of trailers at the nine other facilities.

However, in analyzing the use of BMC trailers, we identified the maximum number of trailers used at each of the three BMCs³ during the period October 2007 through early April 2008 and found the Postal Service used:

- 300 of the 400 trailers (75 percent) leased at the Chicago BMC to move mail.
- 283 of the 323 trailers (88 percent) leased at the Detroit BMC to move mail.
- 186 of the 225 trailers (83 percent) leased at the St. Louis BMC to move mail.



We concluded the Postal Service did not need the remaining 179 trailers – or more than 10 percent of the 1,687 trailers currently allocated to the Great Lakes Area – to move mail. We estimate that the Postal Service incurred about \$329,863 to lease the unneeded trailers over a 6-month period, and that it could save about \$5.4 million by improving its processes for trailer fleet management and taking advantage of the lease

³ These numbers represent the highest day of utilization during the approximate 6-month period analyzed.

provisions that allow it to return unneeded trailers. See [Appendix C](#) for detailed calculations.

The Postal Service's general investment policy states that requirements must be documented in detail so that approving officials can make informed procurement decisions. Further, in justifying the need for the National Trailer Lease Renewal contract, management stated the centralized national contract would provide the flexibility to maintain trailer inventory only when and where trailers were needed because unneeded trailers could be returned to the leasing contractor.

The Great Lakes Area had excess trailers because it did not have a comprehensive process for identifying trailer requirements and ensuring their proper use. Local managers identified control weaknesses and stated that Great Lakes Area BMCs and other local facilities used trailers to store excess equipment due to the lack of storage space.



Stored equipment at the St. Louis Pine Street Lot, August 20, 2008.

We also determined that, although the National Trailer Lease was intended to provide trailers to meet transportation requirements, the Great Lakes Area had too many roadworthy⁴ national lease trailers being improperly used for storage. For example, the Detroit BMC used about 50 trailers – or almost 15 percent of its leased fleet – for this purpose.

⁵ Roadworthy trailers are trailers that meet or exceed Postal Service safety standards for use in transporting mail and pose no safety threat to the public.

A Postal Service Headquarters policy letter dated August 11, 2004, requires that management analyze and validate trailer storage requirements. The letter also stipulates that it is Postal Service policy to fill storage requirements with non-roadworthy trailers at lower rates. The Postal Service was improperly using trailers for storage because the Great Lakes Area did not have a comprehensive process to identify trailer storage requirements. The practice of storing equipment in trailers leased for transportation was unneeded and costly.

APPENDIX C: ESTIMATED SAVINGS

Unneeded Trailers – Questioned Costs⁵

	Chicago BMC	Detroit BMC	St. Louis BMC	Total
Leased Trailer Count	400	323	225	948
Less: Number of Trailers Utilized on Highest Day	300	283	186	769
Number of Trailers that should have been returned to the vendor during 6-month period	100	40	39	179

Daily lease rate of [REDACTED] * = \$329,863
 Total Missed Opportunity = \$329,863
 * Day count from October 2007 – April 2008 = [REDACTED] days

Funds Put to Better Use⁶

Project Year	0	1	2	3	4	5	6	7	8	9	10	Total
Fiscal Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Lease Amount	(\$54,827)	\$657,923	\$657,923	\$657,923	\$657,923	\$657,923	\$657,923	\$657,923	\$657,923	\$657,923	\$657,923	\$6,524,408
Discounted Amount	(\$54,827)	\$635,675	\$614,179	\$593,409	\$573,342	\$553,954	\$535,221	\$517,122	\$499,635	\$482,739	\$466,414	\$5,416,863

Total Expenditure	\$6,524,408
Net Present Value	\$5,416,863

Indemnity at 1/12 of annual rate = \$54,827 (Deducted from current year savings only)

Discount rate @ 3.5 percent

Note: The analysis above does not include any additional costs that may be incurred to find alternatives for storage of mail equipment.

⁵ Unrecoverable costs that are unnecessary, unreasonable or an alleged violation of law or regulation.

⁶ Funds that could be used more efficiently by implementing recommended actions.

APPENDIX D: MANAGEMENT'S COMMENTS

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



March 16, 2009

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Vehicle Management – National Trailer Lease
Renewal – Great Lakes Area (Report Number NL-AR-09_DRAFT)

The Great Lakes Area has reviewed the subject Draft Audit Report (Project Number 08XG037NL000) and is in general agreement with the findings and recommendations, with the exception of the long term calculated monetary savings.

Recommendation 1:

Develop a comprehensive process to identify trailer requirements and manage trailer inventory and use.

Response:

The Great Lakes Area agrees with the recommendation and is in the process of solidifying procedures for better trailer inventory management through the use of Global Positioning Systems (GPS), the Vehicle Tracking and Performance System (VTAPS), and the Transportation Information Management Evaluation System (TIMES). The implementation date for the inventory tracking process is April 11, 2009.

Recommendation 2:

Analyze the number of trailers needed to transport mail and equipment and return unneeded trailers to the Postal Service Headquarters for reallocation or return to the leasing contractor, saving the Postal Service about \$5.4 million over the next 10 years.

Response:

We agree that analysis of trailer requirements should be done and have conducted this review and analysis. The Great Lakes Area has returned to the National Trailer Lease supplier 180 under-utilized trailers as identified in the audit report. Thirty day written notification was given to the supplier in compliance with the contractual agreement. The effective date for the reduced trailer complement was February 12, 2009.

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Recommendation 3:

Analyze storage requirements and procure storage space in the most cost effective manner.

Response:

The Great Lakes Area agrees with the recommendation and has been reviewing storage needs for all Great Lakes Area facilities. Due to current mail volume trends and the decreased activity of the Postal Service customer base, current storage trailer contracts are under scrutiny. All storage trailers once leased for [REDACTED] have already been returned to the contractor for lack of need. We will continue to monitor mail volume and customer trends relative to the necessity of storage trailers.


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