OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 28, 2009

JORDAN M. SMALL
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Vehicle Management – National Trailer Lease Renewal – Capping Report (Report Number NL-AR-09-009)

This capping report focused on the National Trailer Lease renewal process.[1] The objective of our self-initiated audit was to identify opportunities to enhance the National Trailer Lease process nationwide (Project Number 09XG020NL001). This report focuses on improving processes from a headquarters perspective. See Appendix A for additional information about this audit.

Conclusion

We concluded in prior audits of eight U.S. Postal Service areas that the National Trailer Lease renewal process was not as effective and economical as it could have been. This occurred because the Postal Service areas did not have adequate management processes in place to routinely identify trailer requirements, ensure proper trailer use, and adjust trailer inventory based on continued need. We concluded in these audits that improved management processes could save the Postal Service more than $32 million by returning 1,102 unneeded trailers to the leasing contractor, and we identified about $5.9 million in questioned costs. We also found additional guidance and oversight by Postal Service Headquarters is needed to further improve the National Trailer Lease renewal process nationwide.

Specifically, the Postal Service areas were not:

- Following a uniform, comprehensive process to routinely identify trailer needs and return unneeded trailers to the leasing contractor, because Postal Service Headquarters had not required them to do so.

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

- Using the leased trailers for their intended purpose but were using them to store equipment[2] and did not seek more cost effective storage alternatives. Postal Service Headquarters did not reinforce compliance with their policy requiring management to analyze and validate trailer storage requirements.

- Fully utilizing the capabilities of the satellite-tracking system and tracking devices for the leased trailers, because area and plant managers had not been trained properly in the system's use.

- Replacing trailers that were older than specified in the National Trailer Lease contract, because headquarters management was not always ensuring the supplied fleet continued to meet contract specifications and requirements after acceptance.

As a result, the Postal Service may continue to incur costs for trailers that are not needed or may not be utilizing the most economical storage alternatives. In addition, the Postal Service may not have benefited from available technology to monitor trailer inventory and track trailer use, and ensure use of the most efficient and safe transportation in accordance with the National Trailer Lease agreement. See Appendix B for our detailed analysis of the National Trailer Lease Fleet Management.

We recommend the Vice President, Network Operations:

1. Develop a policy to require areas to establish a comprehensive process to routinely identify trailer requirements and manage trailer inventory and use, including a process to routinely determine whether trailers are improperly used for storage.

We also recommend the Vice President, Network Operations, coordinate with the Vice President, Supply Management to:

2. Provide training on the features and functionality of the satellite-tracking system for the National Trailer Lease trailers, including training on the ability to adjust the daily timing for location confirmations and on the features and functionality of the related web-based management system.

3. Ensure that the supplied trailers are of the appropriate age as specified in the National Trailer Lease.

Management's Comments

Management agreed with our findings and recommendations. Management stated they will issue a policy to strengthen procedures for leased trailer acquisition, fleet management, and the trailer lease renewal. In addition, they have agreed to update and reissue the policy on the use of trailers for storage, including guidelines for routine inspection and compliance monitoring.

[2] This occurred in seven of the eight postal areas we reviewed.

Furthermore, Network Operations and Supply Management have already begun developing an approach to train area and local employees on the features and functionality of the satellite tracking and web-based management systems. They intend to provide refresher training to those who have had training on the systems, and plan to designate area "trainers" that will provide on-going training. They expect to complete the training program in 2010.

In addition, by the end of November 2009, Supply Management will issue a notice to the leasing contractor that reiterates the trailer age requirements within the National Trailer Lease agreement and will request a plan to bring the leased fleet into full contract compliance.

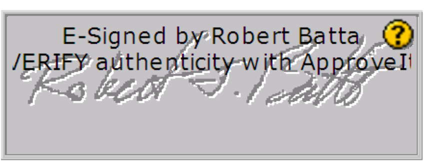
We have included management's comments, in their entirety, in Appendix D.

Evaluation of Management's Comments

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

The OIG considers recommendation 1 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 recommendation. This recommendation 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.



Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Cynthia F. Mallonee
Russell A. Sykes
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

During fiscal year 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.

These national lease trailers were loaded with pallets at the Dallas Network Distribution Center, January 9, 2007.

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 $11.55 to $10.21 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 $10.07 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 2006 National Trailer Leases, Postal Service officials allocated 4,692 trailers to eight postal areas.

Table 1. 2006 Trailer Count by Area

Area	2006 Trailer Count at Inception
Capital Metro	190
Eastern	582
Great Lakes	1,003
Northeast	667
Pacific	668
Southeast	131
Southwest	272
Western	1,179
Total	**4,692**

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit is to identify opportunities to enhance the National Trailer Lease process nationwide based on issues identified in prior audits of eight Postal Service areas. Although the objectives of our specific Postal Service area audits changed slightly throughout the series, the overall audit objectives were to determine whether the trailer lease and subsequent renewal were effective and economical. Although the audit was nationwide in scope, we used a regional approach, because individual Postal Service areas control the National Trailer Lease fleet.

During our work, we interviewed Postal Service officials at headquarters and in each area and visited 19 network distribution centers[3] and other facilities nationwide. 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.

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.

[3] In 2009, the Postal Service changed the names of Bulk Mail Centers to Network Distribution Centers (NDC).

We conducted this performance audit during August and September 2009. We conducted work associated with eight Postal Service areas from July 2003 through August 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 provided a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on September 2, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The U.S. Postal Service Office of Inspector General (OIG) has worked with the Postal Service to improve vehicle management and reduce vehicle costs. As indicated by the following chart, since September of 2004, we have issued 10 audit reports that identified potential trailer lease savings exceeding $37 million. Eight of these reports are part of the National Trailer Lease series, and two reports relate other issues concerning trailer fleet management. The Postal Service agreed with all of the recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Vehicle Management – National Requirements – Northeast Area	NL-AR-04-006	September 30, 2004	$9.3
Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations	NL-MA-05-001	April 21, 2005	Not applicable
Vehicle Management – National Trailer Lease – A.T. Kearney, Inc. Analysis	NL-ID-06-002	February 7, 2006	Not applicable
Vehicle Management – National Trailer Lease Requirements – Capital Metro Area	NL-AR-06-013	September 29, 2006	$1.9
Vehicle Management – National Trailer Lease Renewal – Southwest Area	NL-AR-07-005	June 15, 2007	$4.8
Vehicle Management – National Trailer Lease Renewal – Pacific Area	NL-AR-07-009	September 28, 2007	$7.5
Vehicle Management – National Trailer Lease Renewal – Eastern Area	NL-AR-08-005	August 27, 2008	$4.1
Vehicle Management – National Trailer Lease Renewal – Southeast Area	NL-AR-08-007	September 25, 2008	$2.2
Vehicle Management – National Trailer Lease Renewal – Great Lakes Area	NL-AR-09-004	March 26, 2009	$5.7
Vehicle Management – National Trailer Lease Renewal – Western Area	NL-AR-09-008	August 14, 2009	$2.3
Total			**$37.9**[4]

[4] Minor variance due to rounding.

APPENDIX B: DETAILED ANALYSIS

National Trailer Lease Fleet Management

We determined in prior audits of eight Postal Service areas, that the National Trailer Lease renewal process was not as effective and economical as it could have been because the Postal Service areas did not have adequate management processes in place to routinely identify trailer requirements, ensure proper trailer use, and adjust trailer inventory based on continued need. Of nearly 5,500 trailers leased nationwide, more than 1,100 were identified as trailers that could be returned to the leasing contractor.

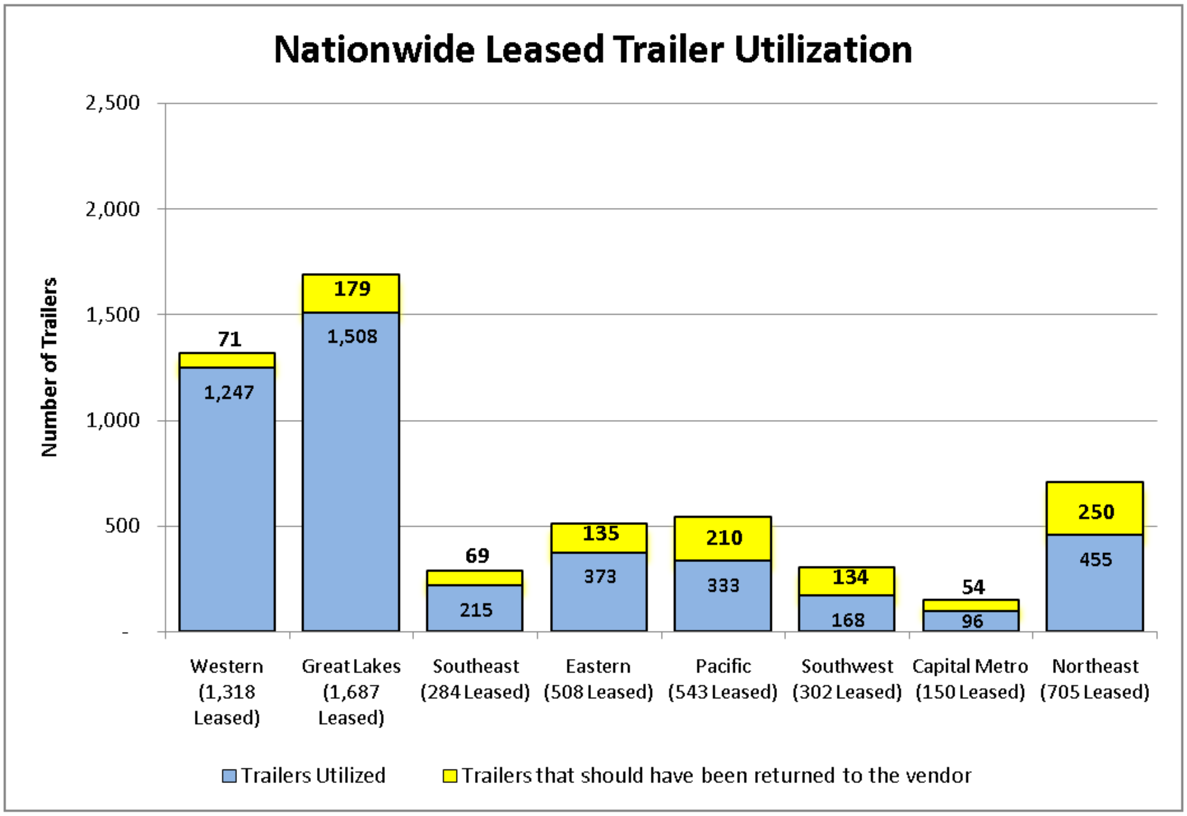
In analyzing the use of trailers, we identified the maximum number of trailers used during the analysis period, which was at least a 6-month period. Our analysis revealed underutilization of trailers in all of the eight areas. Specifically, we found the Postal Service used only 4,395 of the leased trailers (80 percent) and did not need 1,102 trailers. Postal Service management also has taken some action to return trailers and achieve additional savings after our individual audits were completed, and have reported 4,259 leased trailers.

Table 2. Underutilization of Trailers in Eight Postal Service Areas

Area	Trailers Leased at Start of Audit	Trailers OIG Recommended to Return	Trailers OIG Reported as Needed	Leased Trailers
Northeast	705	250	455	665
Capital Metro[5]	150	54	96	270
Southwest	302	134	168	205
Pacific	543	210	333	487
Eastern	508	135	373	340
Southeast	284	69	215	268
Great Lakes	1,687	179	1,508	842
Western	1,318	71	1,247	1,182
Total	**5,497**	**1,102**	**4,395**	**4,259**

These conditions occurred because Postal Service areas were not following a uniform, comprehensive process to routinely identify trailer needs and return unneeded trailers to the leasing contractor because Postal Service Headquarters had not required them to do so. In 2003, the OIG made its first recommendation relating to the need for the Postal Service to identify trailer requirements and manage their use. This same recommendation was made in each of the eight issued audit reports. However, the Postal Service has not yet developed a comprehensive policy or standardized process requiring postal areas to routinely identify trailer needs and trailers that can be returned to the leasing contractor.

[5] The current leased trailers increased in the Capital Metro Area because the Postal Service realigned areas in 2005, giving Capital Metro more geographical area.



Since the beginning of our audit series, the OIG has recommended that the Postal Service return 1,079 trailers, estimating savings of more than $37 million. The Postal Service identified and returned 23 trailers estimated to save about $700,000. In addition, during our audit review, we noted that only the Western Area had taken some proactive measures in managing overall inventory by reducing the number of leased trailers from 1,353 to 1,200.

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 2000 National Trailer Lease and the subsequent 2006 renewal, 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 Postal Service did not fully benefit from part of the lease because of inadequate Postal Service Headquarters' guidance and oversight in the regular assessment of trailer need.

Trailer Storage. In seven of the eight areas we audited, the OIG found trailers being improperly used for storage. The OIG first identified the use of leased trailers for storage in 2001. Since then, nine additional reports issued through 2009 addressed the same condition. The OIG observed excessive storage of mail transportation equipment and dismantled Postal Service processing equipment in leased trailers. Local managers stated they used trailers to store excess equipment because of inadequate storage space.

A Postal Service Headquarters policy letter dated August 11, 2004, requires that management analyze and validate trailer storage requirements. The letter also stipulates it is Postal Service policy to meet storage requirements with non-roadworthy trailers at lower rates. However, since 2004, Postal Service Headquarters has not provided additional guidance or oversight to ensure that this policy has been followed. In addition, the Postal Service does not have a comprehensive process to ensure the proper use of trailers, including identifying trailer storage requirements. The practice of storing equipment in roadworthy trailers leased for transportation is unnecessary and costly.

Satellite Tracking Devices. The 2006 National Trailer Lease renewal was intended to improve inventory controls by requiring the leasing contractor to install wireless satellite-tracking devices on all trailers by November 1, 2006. Through a web-based management information system, Postal Service management has the capability to identify idle and lost trailers by locating installed wireless tracking devices once each day via satellite. We found system limitation issues as follows.

- The data produced from these devices can be limiting if the trailers' locations are reported at the same time each day. For example, a trailer may be erroneously reported as idle if it is in the same location as it previously was at that particular time of day; however, the trailer may have been used at other times during the day.

- Some facilities were unaware of the capability to change the time of daily positioning checks and stated that the data was not useful to identify utilization because of this limitation.

Area and plant managers are not fully utilizing the capabilities of the satellite-tracking system and tracking devices, because they have not been trained fully in their use. In addition, the OIG reported that one area did not have the devices installed on 47 of its trailers as late as 21 months after the scheduled due date.

Trailer Age. We determined that some trailers in the National Trailer Lease fleet were older than specified in the lease. At the beginning of the term of the 2006 National Trailer Lease, the leasing contractor was to supply trailers that were no more than 10 years old. Because trailers were considered 1 year old at the end of the year in which they were manufactured, they should not have aged beyond 13 years by the beginning of 2009. As of June 18, 2009, 458 of the 4,259 trailers (10.8 percent) leased nationwide were more than 13 years old. This occurred because headquarters management was not always ensuring the supplied fleet continued to meet contract specifications and requirements after acceptance, and the leasing contractor failed to adhere to this part of the contract. The older trailers could potentially affect safety and require more maintenance than newer trailers.

APPENDIX D: MANAGEMENT'S COMMENTS

UNITED STATES POSTAL SERVICE

September 22, 2009

Lucine Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Transmittal of Draft Report – Vehicle Management – National Trailer Lease Renewal – Capping Report (Report Number NL-AR-Draft)

Thank you for the opportunity to review and comment on the subject draft report. As was noted within the report, the total leased trailers renewed in 2006 was reduced by 14 percent (*Reference Table 1: 2006 Trailer Count at Inception: 4,692*), resulting in the elimination of 805 units from the Office of Inspector General (OIG) baseline (*Reference Table 2: Trailers Leased at Start of Audit: 5,497*). We also acknowledge that while the total number of leased trailers renewed was slightly higher than the number of trailers the OIG reported as needed, management actions since 2006 to address under-utilization have resulted in decreasing trailer inventory by an additional 9 percent (433 trailers returned; actual leased trailer inventory count ~ 4,259).

We agree additional opportunities remain to capture more savings but also recognize efforts by the areas in removing a total of 1238 leased trailers from inventory since the inception of the OIG audit series on this subject. This reduction exceeds the total number of trailer recommended by the OIG to return to the leasing contractor (*Reference Table 2: Trailers OIG Recommended to Return ~ 1102).* We will continue working with the area offices to ensure excess trailer capacity is removed from the network, unnecessary leased trailers are returned and procedures are followed to "right-size" leased trailer requirements in accordance with operational needs.

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Management agrees with Recommendations 1 through 3 of the report and offers the specific actions planned for each recommendation below.

The OIG recommends the Vice President, Network Operations:

Recommendation 1:
Develop a policy to require areas to establish a comprehensive process to routinely identify trailer requirements and manage trailer inventory and use, including a process to routinely determine whether trailers are improperly used for storage.

Response:
Network Operations will issue policy to strengthen procedures for leased trailer acquisition, leased trailer renewal and fleet management. Procedures will standardize instructions for assessment of vehicle requirements and routine evaluation of required resources to support current and future operational needs. Instructions will incorporate the prerequisite for data driven analyses and documentation to justify trailer leasing requests submitted to the national level. Network Operations will assume management oversight and responsibility for review, approval and authorization of trailer lease acquisition (and continuation).

Network Operations will update and reissue current policy on proper trailer use for storage. Current policy will be amended to include guidelines for routine inspection and compliance monitoring.

The OIG also recommends the Vice President, Network Operations, coordinate with the Vice President, Supply Management, to:

Recommendation 2:
Provide training on the features and functionality of the satellite tracking system for the National Trailer Lease trailers, including training on the ability to adjust the daily timing for location confirmations and on the features and functionality of the web-based management system.

Response:
Network Operations and Supply Management have already begun discussions to determine the most economical approach to train area and local employees. We are in agreement that training is necessary for instructing employees on the features and functionality of both the satellite tracking and web-based management systems. Refresher training will also be provided to employees who have already received training that was conducted in calendar years 2006 and 2007. Furthermore, we intend to require areas to designate "trainers" that should be proficient and qualified to provide on-going training as needed.

Network Operations and Supply Management will coordinate training requirements with area and local offices. Training will be conducted in small groups and via NetMeeting teleconference venues during fiscal year 2010. A schedule of completed training will be provided at the end of the fiscal year.

Recommendation 3:
Ensure that the supplied trailers are of the appropriate age as specified in the National Trailer Lease.

Response:
We agree with this recommendation. Supply Management will issue a notice to the supplier within the next 60 days that reiterates the age requirement within the National Trailer Lease contract and request that they provide a plan to bring the trailer services fleet into full contract compliance.

In closing, we have reviewed the audit report and do not believe that any portion of the document requires exemption from disclosure under the Freedom of Information Act.

Susan M. Brownell

Susan M. Brownell
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Supply Management

Jordan M. Small
Acting Vice President
Network Operations

cc: Mr. Forte
Ms. Mallonee
Mr. Young
Mr. Harris