



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Trailer Lease Reduction Projects

Audit Report

Report Number
NL-AR-16-007

September 30, 2016





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UNITED STATES POSTAL SERVICE

Highlights

Background

In fiscal year (FY) 2015, the U.S. Postal Service's annual network transportation costs were about \$6.6 billion and they are projected to be \$7 billion in FY 2016. After employee compensation and benefits, transportation costs are the Postal Service's largest operating expense.

Since FY 2014, the Postal Service has leased more than 8,000 trailers nationwide, with an annual cost of over \$36 million. The trailers transport mail and mail transport equipment between network distribution centers, processing and distribution centers, associate offices, material transport equipment service centers, and major mailers. Trailers are also used as dock extensions and mail transport equipment storage.

The Postal Service's trailer lease reduction plans for FYs 2014, 2015, 2016, and Quarter (Q)1 FY 2017, consisted of 20 projects related to quarterly submission of trailer lease reduction savings, validating the lease trailer fleet, renumbering trailers, monitoring trailer use with a global positioning system (GPS), making trailer management enhancements in Solutions for Enterprise Asset Management, and identifying underused leased trailers for return every month.

The projects were projected to save the Postal Service over \$24.5 million in FYs 2014 through 2016, by improving the overall management of leased trailers, right-sizing the leased trailer fleet through increased use, and returning unneeded leased trailers.

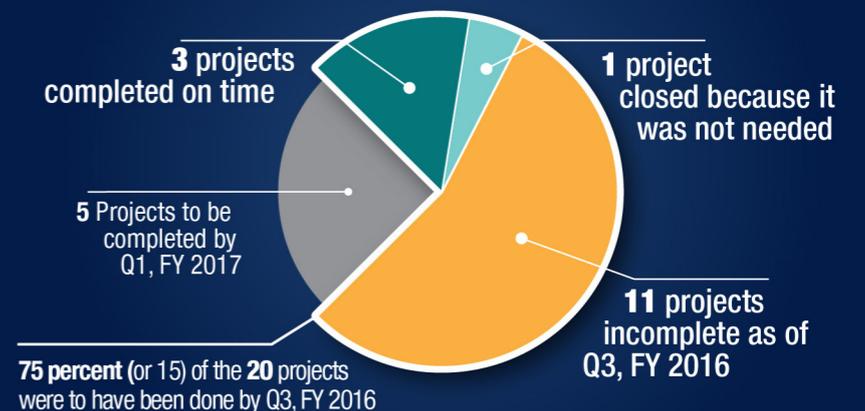
Our objective was to determine whether the Postal Service's trailer lease reduction projects are increasing use and right-sizing the leased trailer fleet while reducing costs.

What The OIG Found

The Postal Service can improve its overall plan for trailer lease reduction projects to increase leased trailer use, right-size the leased trailer fleet, and reduce costs.

We found that 15 of the 20 projects we reviewed (or 75 percent) were supposed to be completed by Q3, FY 2016. Three projects were completed on time, one was closed because it was not needed, and 11 projects (or 73 percent) were incomplete as of Q3, FY 2016.

Plan for Trailer Lease Reduction Projects 20 projects to be completed Q1, FY 2017





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For example, not all leased trailers had operational GPS units as of December 10, 2015. During the audit we determined about 600 leased trailers that needed their GPS units replaced and almost 2,000 leased trailers that needed to have GPS units installed. All leased trailers were not renumbered for current accountability as of January 25, 2016, because of ongoing contract revisions.

In addition, trailer management enhancements for Solutions for Enterprise Asset Management were not completed as of January 15, 2016. Also, in February 2016, the monthly identification of underused leased trailers for return was inconsistent and not in a standard format.

Management stated that the projects were not complete due to staff changes, inadequate global positioning system information, and ongoing trailer lease contracts revisions. Consequently, the Postal Service is not currently able to effectively manage and reduce the number of leased trailers and achieve the projected savings. We estimate a savings shortfall of over \$2.2 million for Qs 1 and 2, FY 2016; and over \$1.5 million in funds put to better use for Qs 3 and 4, FY 2016, and Qs 1 through 4, FY 2017, if the projects are completed as planned.

What The OIG Recommended

We recommended the vice president, Network Operations, finish the 11 remaining trailer lease reduction projects as planned, by addressing staff changes, inadequate GPS information, and ongoing trailer lease contracts revisions.

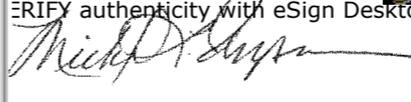
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 30, 2016

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop


FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Trailer Lease Reduction Projects
(Report Number NL-AR-16-007)

This report presents the results of our audit of the U.S. Postal Service's Trailer Lease Reduction Projects (Project Number 16XG024NO000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service can improve its overall plan for trailer lease reduction projects to increase leased trailer use, right-size the leased trailer fleet, and reduce costs. We found that 73 percent of the projects were incomplete as of Q3, FY 2016.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's trailer lease reduction projects (Project Number 16XG024NO000). Our objective was to determine whether the Postal Service's trailer lease reduction projects are increasing the use of and right-sizing the leased trailer fleet while reducing costs. See [Appendix A](#) for additional information about this audit.

In fiscal year (FY) 2015, the Postal Service's annual network transportation costs were about \$6.6 billion and they are projected to be \$7 billion in FY 2016. After compensation and benefits, transportation costs are the Postal Service's largest operating expense.

The Postal Service's trailer lease reduction plans for FYs 2014, 2015, 2016, and Quarter (Q)1, FY 2017, consisted of 20 projects. These projects relate to the quarterly submission of trailer lease reduction savings, validating the lease trailer fleet, renumbering trailers, monitoring trailer use with a global positioning system (GPS), making trailer management enhancements in Solutions for Enterprise Asset Management (SEAM), and identifying underused leased trailers for return each month. The projects were projected to save the Postal Service over \$24.5 million in FYs 2014 through 2016 by improving the overall management of leased trailers, right-sizing the leased trailer fleet through increased use, and returning unneeded leased trailers.

Since FY 2014, the Postal Service has leased more than 8,000 trailers nationwide, with an annual cost of over \$36 million. The trailers transport mail and mail transport equipment (MTE) between the network distribution centers (NDC), processing and distribution centers (P&DC), associate offices, material transport equipment service centers (MTEESC), and major mailers. Trailers are also used as dock extensions and MTE storage.

Summary

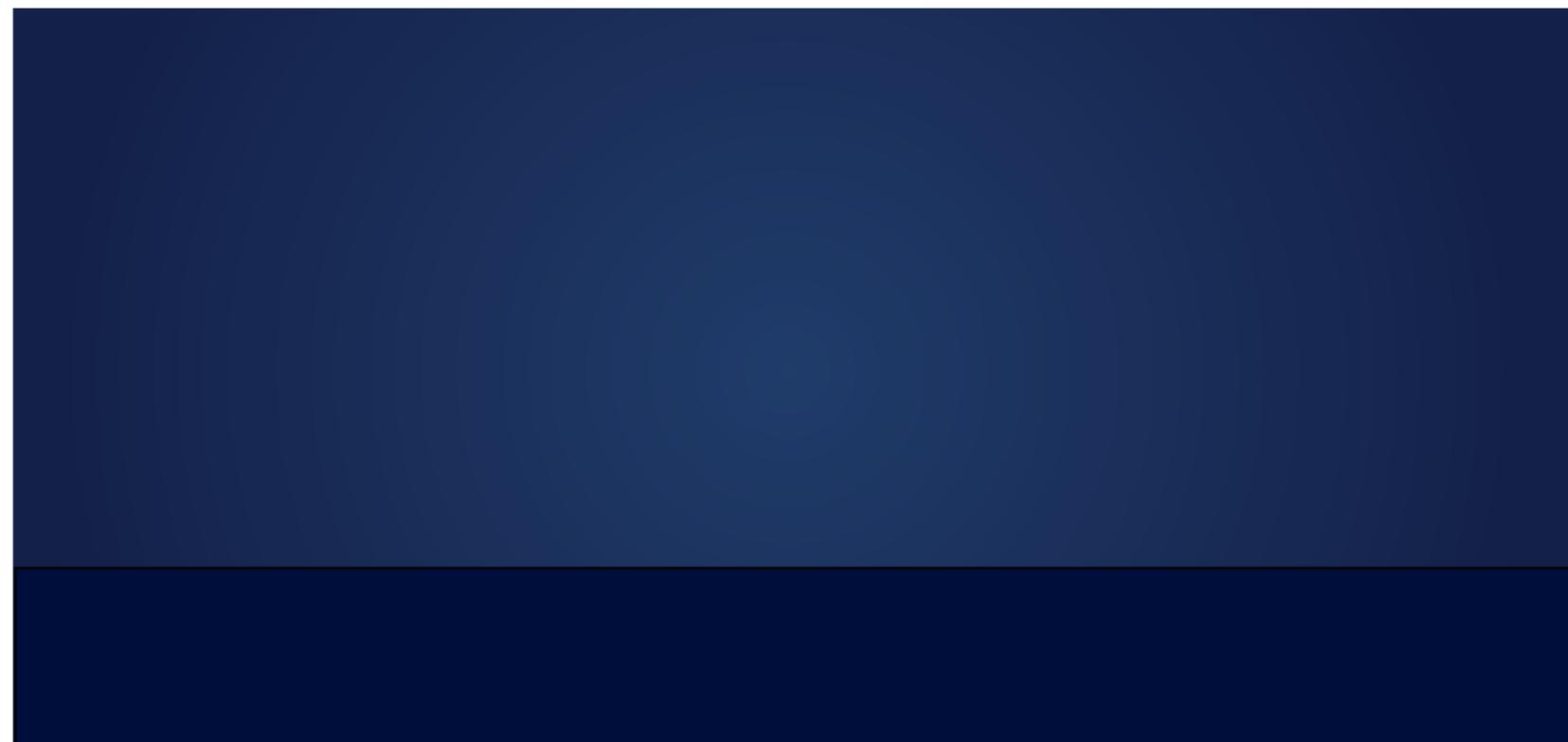
The Postal Service can improve its overall plan for trailer lease reduction projects to increase leased trailer use, right-size the leased trailer fleet, and reduce costs. We found that 15 of the 20 projects we reviewed (or 75 percent) were supposed to be completed by Q3, FY 2016.

Three projects were completed on time and one — the Mapout Greenfield process for leased trailers — was closed because the manager, Surface Transportation Operations (STO), determined it was not needed. The remaining 11 projects (or 73 percent) were incomplete as of Q3, FY 2016. The STO manager stated that the projects were incomplete due to staff changes, inadequate GPS information, and ongoing trailer lease contract revisions. Consequently, the Postal Service is not currently able to effectively reduce the number of leased trailers and achieve the projected savings. We predict a savings shortfall of over \$2.2 million for Qs 1 and 2, FY 2016, and estimate over \$1.5 million in funds put to better use for Qs 3 and 4, FY 2016, and Qs 1 through 4, FY 2017, if the projects are completed as planned.

Trailer Lease Reduction Results

The Postal Service's trailer lease reduction plans for FYs 2014, 2015, 2016, and Q1 FY 2017, consisted of 20 projects. These projects relate to quarterly submission of trailer lease reduction savings, validating the leased trailer fleet, renumbering trailers, monitoring of trailer use with GPS, making trailer management enhancements in SEAM, and identifying underused leased trailers for return each month. The projects were projected to save the Postal Service over \$24.5 million in FYs 2014 through 2016 by improving overall management of leased trailers, right-sizing the leased trailer fleet through increased use, and returning unneeded leased trailers. The Postal Service submitted quarterly trailer lease reduction savings to Finance for validation of over \$5.8 million as of Qs 1 and 2, FY 2016 (see [Figure 1](#)).

Figure 1. Trailer Lease Reduction Results FYs 2014 and 2015 through Qs 1 and 2, FY 2016



The Trailer Lease Reduction projects were projected to save the Postal Service over \$24.5 million in FYs 2014 through 2016.

We found that three projects were completed on time, one was closed because it was not needed, and 11 projects were incomplete as of Q3, FY 2016.

Source: Postal Service.

We found that 15 of the 20 projects we reviewed (or 75 percent) were supposed to be completed by Q3, FY 2016. Two projects for submitting quarterly savings were completed on time and one project planned for contract services to validate the lease trailer fleet was completed on time in-house by STO officials. The Mapout Greenfield project was closed because the STO manager determined it was unnecessary. The remaining 11 projects (or 73 percent) were incomplete as of Q3, FY 2016.

For example:

- The renumbering of lease trailers inventory project was scheduled for completion by January 25, 2016; however, as of Q3, FY 2016, the project is incomplete because of staff changes and ongoing contract revisions that will add newer lease trailers. The project will help the Postal Service adequately track leased trailers. Prior U.S. Postal Service Office of Inspector General (OIG) audits reported that the Postal Service did not have an accurate and effective inventory system for recording, monitoring, and tracking leased trailers. In addition, there were sometimes inconsistently labeled trailers or temporary trailer identification numbers incorrectly entered into data systems, resulting in incomplete and inconsistent tracking data.²
- The equipping all leased trailers with operational GPS units project was scheduled for completion by December 10, 2015. But, as of Q3, FY 2016, the project was incomplete. Almost 600 leased trailers need their GPS units replaced and about 2,000 leased trailers need GPS units installed. The GPS units will accurately determine the location and use of leased trailers through

¹ Total for actual for Qs 1 and 2, FY 2016.

² *Use of Leased Trailers - Western Area* (Report Number NO-AR-15-010, dated September 28, 2015) and *Missing Leased Trailers in the Northeast Area* (Report Number NO-MA-14-004, dated August 25, 2014).

daily pings. They can provide information about estimated times of arrival, near real-time location status, historical information regarding trip line of travel (often called “bread crumbs”), and compliance with contract requirements. The STO manager stated that the project was incomplete due to staff changes and ongoing contract revisions that will required all lease trailers to have GPS equipment installed.

- The trailer management enhancements for SEAM project was scheduled for completion by January 15, 2016, with full accountability of leased trailers. But, as of Q3, FY 2016, the project is incomplete with about 10 to 15 percent of the work remaining. Prior OIG audits indicated that the Postal Service would fully implement the leased trailer application in SEAM by May 2016.³ SEAM provides the Postal Service with the ability to track trailer receipt, movement, and returns. The Technology Office Management System reported the project was completed on January 20, 2016; however, the manager, STO, stated that the project will be finished by November 15, 2016. The STO manager stated that the project was incomplete due to staff changes and ongoing contract revisions.
- The identification of underused leased trailers for return project was to be completed by the 20th of each month, starting February 20, 2016, by area distribution network (DN) officials.⁴ DN officials identify underused leased trailers, which are trailers the Postal Service uses fewer than 10 times in 30 days; however, as of June 30, 2016, DN officials inconsistently reported trailer use results to the STO specialist and the information was not submitted in a standard format, requiring additional time to analyze. The STO manager stated that DN officials are having difficulty identifying underused leased trailers because of inadequate GPS information.

Consequently, the Postal Service is not currently able to effectively manage and achieve the planned reduction of leased trailers and the projected savings. We estimate over \$2.2 million for Qs 1 and 2, FY 2016, in predictive savings shortfall. We also estimate over \$1.5 million in funds put to better use for Qs 3 and 4, FY 2016, and Qs 1 through 4, FY 2017, if the projects are completed as planned.

³ *Use of Leased Fleet Trailers - Northeast Area* (Report Number NO-AR-15-009, dated August 4, 2015) and *Use of Leased Trailers - Western Area* (Report Number NO-AR-15-010, dated September 28, 2015).

⁴ Area network offices submit trailer requirements using an electronic Service Change Request (eSCR) to the STO specialist for approval. The STO manager routes the approved eSCR with its finalized requirements to the Fuel Management Category Management Center (CMC) for procurement. *Network Operations/Transportation Portfolio Funding Processes*, dated February 14, 2012.

Recommendation

We recommend management finish the 11 remaining trailer lease reduction projects as planned, by addressing staff changes, inadequate GPS information, and ongoing trailer lease contracts revisions.

We recommend the vice president, Network Operations:

1. Finish the 11 remaining trailer lease reduction projects as planned by addressing staff changes, inadequate global positioning system information, and ongoing trailer lease contracts revisions.

Management's Comments

Management generally agreed in principle with our finding and recommendation. However, management disagrees with the term “projects” used in the report and believes “milestones” is a better term. They believe there are actually three main projects: renumbering of lease trailers, deployment of GPS units to all lease trailers, and full capability of using GPS data to determine the utilization of lease trailers. These projects are targeted for completion in June 2017.

Management believes the monetary impact may be overstated because we based Funds Put to Better Use on monthly variances in actual trailer expenses and these do not account for situations such as converting Highway Contract Routes to Postal Vehicle Service Routes. Management also believes that we calculated other impact using the Postal Service’s aggressive Delivering Results, Innovation, Value, and Efficiency (DRIVE) goals, which do not necessarily reflect what actually could have been achieved.

See [Appendix B](#) for management’s comments in their entirety.

Evaluation of Management's Comments

The OIG considers management’s comments responsive to the recommendation in the report.

Management disagrees with the term “projects” used in the report and believes “milestones” is a better term. However, the OIG identified the projects from the Postal Service’s trailer lease reduction plans for FYs 2014, 2015, 2016, and Q1, FY 2017, characterized as 20 projects.

Management believes the monetary impact may be overstated because we based Funds Put to Better Use on monthly variances in actual trailer expenses and these do not account for real world situations. However, management did not provide a new monetary impact or support for how they would calculate the monetary impact. We believe our analysis is reasonable. The OIG analyzed quarterly differences between projected and actual savings from the previous 10 quarters using time-series decomposition and regression analysis. Time-series decomposition included seasonal consideration and additional centered moving average smoothing. However, given the limited historical data, linear regression — which we used — provided a more conservative forecast.

Management also believes that our calculated other impact does not reflect what actually could have been achieved because the OIG used the Postal Service’s aggressive DRIVE goals. However, management did not provide support for how they would calculate the other impact or different goals. We believe our analysis is reasonable. Our analysis indicated DRIVE is a tool used to bring revenue in line with expenses through strategic initiatives with measurable outcomes. Therefore, for “Other Impact,” the OIG totaled the differences between the projected and actual savings for Q1 and Q2, FY 2016 to arrive at the total saving shortfall.

Although management takes exception with the term “projects” in the recommendation, their corrective action should resolve the recommendation. All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the Postal Service’s follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

In response to declining mail volume, the Postal Service is challenged with right-sizing its transportation network and adjusting its processing infrastructure, while reducing costs and maintaining service. In FY 2015, network transportation costs of about \$6.6 billion annually were the Postal Service's next largest operating expense after compensation and benefits.

From FY 2014 to 2015, the Postal Service leased more than 8,000 trailers nationwide at a cost of over \$36 million annually. The trailers to transport mail and mail transport equipment between NDCs, P&DCs, associate offices, MTEsCs, and major mailers. Trailers are also used as dock extensions and MTE storage.

The Postal Service awards lease trailer agreements to individual suppliers based on local area needs. Lease agreement costs may include trailer utilization, maintenance or repairs. The Transportation portfolio in Supply Management is responsible for managing the leased trailers with six Surface Transportation teams in five locations:

- Largo, MD – Surface Transportation CMC
- Largo, MD – Eastern Transportation Contract management Team (TCMT)
- Windsor, CT – Northern TCMT
- Memphis, TN – Southern TCMT
- Denver, CO – Central TCMT
- Tacoma, WA – Western TCMT

The Postal Service's trailer lease reduction plans for FYs 2014, 2015, 2016, and Q1 FY 2017, consisted of 20 projects related to the quarterly submission of trailer lease reduction savings, validating the lease trailer fleet, renumbering trailers, monitoring trailer use with a GPS, making trailer management enhancements in Solutions for Enterprise Asset Management, and monthly identifying underused leased trailers for return each month. The projects were projected to save the Postal Service over \$24.5 million in FYs 2014 through 2016, by improving the overall management of leased trailers, right-sizing the leased trailer fleet through increased use, and returning unneeded leased trailers.

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service's trailer lease reduction projects are increasing use and right-sizing the leased trailer fleet while reducing costs.

To achieve our objective we:

- Identified, reviewed, and evaluated procedures and criteria related to establishing trailer lease reduction projects.
- Interviewed the vice president, Network Operations, to obtain information regarding trailer lease reduction projects and understand the overall strategy to meet the Postal Service's long-term goals.

- Interviewed the STO manager to discuss the objective of trailer lease reduction projects and interviewed the STO manager and specialist in June 2016 to confirm completion dates for trailer lease reduction projects for Q3, FY 2014, through Q2, FY 2016.
- Obtained and reviewed trailer lease reduction project metrics for FYs 2014 and 2015, and Qs 1 and 2, FY 2016, to determine if the Postal Service met projected goals and completed planned projects by projected milestone dates.

We conducted this performance audit from March through September 2016, 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 finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on September 8, 2016, and included their comments where appropriate.

We did not test the reliability of any computer-generated data for the purposes of this report. We did assess the reliability of the data in terms of monitoring the progress of trailer lease reduction projects by reviewing existing information about the data and the system that produced it. We also interviewed the STO manager, who is knowledgeable about the data. Based on our analysis and interviews, we believe the data, overall, is reliable for the purposes of monitoring the progress of trailer lease reduction projects.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Transportation Strategic Planning</i>	NL-AR-16-001	5/20/2016	None
<p>Report Results: This report found that the Postal Service needs to improve its strategy for optimizing its transportation network. DRIVE Initiative 1.13 projected savings through FY 2015 of \$329 million but only realized \$145 million of those savings. In addition, we found the transportation optimization strategy did not have a contingency plan to re-evaluate program process roadmaps when they did not yield the projected savings. We recommended management update the 1.13 section of DRIVE 1 to include an achievable projected transportation cost reduction goal and contingency planning to mitigate unexpected events in FYs 2016 and 2017. Management was unresponsive to the recommendation and findings.</p>			
<i>Use of Leased Trailers – Western Area</i>	NO-AR-15-010	9/28/2015	None
<p>Report Results: This report found the Postal Service did not ensure compliance with the newly established trailer policy, assess leased trailer needs, and return underused or unneeded leased trailers to suppliers. We concluded the Western area incurred unnecessary trailer lease costs of about \$275,000 in FY 2013, and about \$254,000 in FY 2014. The Postal Service could avoid about \$264,000 annually over 2 years if it returned the remaining underused trailers. We recommended management ensure compliance with the newly established trailer policy, assess leased trailer needs, and return any underused or unneeded leased trailers to suppliers. Management generally agreed with the findings and recommendations and generally agreed with the monetary impact.</p>			
<i>Use of Leased Trailers – Northeast Area</i>	NO-AR-15-009	8/5/2015	None
<p>Report Results: This report found that opportunities exist for the Northeast Area to improve management of leased trailers, return unneeded trailers, and reduce costs. We concluded the Northeast Area incurred unnecessary trailer lease costs of about \$3.5 million in FY 2013 and \$2.8 million in FY 2014, and could avoid about \$2.8 million annually for 2 years if it were to return unneeded trailers. We recommend the Postal Service ensure compliance with the newly established leased trailer policy, assess leased trailer needs and routinely identify and return any unneeded leased trailers to suppliers, and finish implementing the SEAM application for managing and tracking leased trailers nationwide. Management agreed with the recommendations but generally disagreed with the findings and part of the monetary impact.</p>			

Appendix B: Management's Comments

ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS



September 26, 2016

LORI LAU DILLARD

SUBJECT: Trailer Lease Reduction Projects
(Report Number NL-AR-16-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the recommendations contained in the draft audit report, Trailer Lease Reduction Projects. We have reviewed the report and generally agree in principle with the findings. However, management believes the monetary impact may be overstated as the audit report calculated funds put to better use based upon monthly variances in our actual trailer expenses. The calculation does not take into account any real world situations that arise such as conversion of HCR to PVS routes, increased usage during fall mailing season, etc. In addition, the other monetary impacts were calculated using our aggressive DRIVE goals and are not necessarily reflective of what could have been actually achieved. Further, while management agrees with most of the recommendations, management does not agree with how the term "Projects" is being used in this report.

The following is our response to the recommendations contained in the report.

We recommend the Vice President, Network Operations:

Recommendation 1:

Finish the 11 remaining trailer lease reduction projects as planned by addressing staff changes, inadequate global positioning system information, and ongoing trailer lease contracts revisions.

Management Response Recommendation 1:

Management in general agrees with this recommendation; however we take exception to the use of the term projects the way it is being portrayed in this document. In reality, there are three main projects covered under the lease reduction program 1) renumbering of lease trailers 2) equipping all leased trailers with GPS units 3) using the GPS data under SEAM to identify underutilized trailers. The other items that are being called projects are really milestones to report out the status of savings each quarter.

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In reference to renumbering of lease trailers, the new trailer lease contracts that are expected to be awarded in October 2016 have the requirement to use the new numbering system. It is expected once the contractual terms are fully in place that by June 2017 all leased trailers will have the new numbers.

In our initial attempt to deploy GPS units to our leased trailer fleet we learned several lessons that have caused us to take a different approach. The new GPS contract for leased trailers is expected to be awarded in October 2016 with full deployment to all leased trailers by June 2017.

Finally, since the data we were receiving in our initial GPS project was not sufficient to accurately reflect trailer utilization, movement to the new GPS and requirements should give us the capability originally planned. The full capability using GPS data to determine trailer utilization should be available to coincide with full GPS deployment in June 2017.

Target Implementation Date:

All three projects are targeted for completion in June 2017.

Responsible Official:

Manager of Surface Transportation, Network Operations

If you have any questions about this response, please contact Brent Raney at (202) 268-6431.



Robert Cintron

cc: Manager, Corporate Audit Response Management



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