OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Use of Leased Trailers – Western Area

Audit Report

Report Number
NO-AR-15-010

September 28, 2015

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

Opportunities exist for the Western Area to improve management of leased trailers, return unneeded trailers, and reduce lease costs.

Background

The U.S. Postal Service leases more than 8,000 trailers nationwide for its operations. It procures trailers to meet local transportation needs and assigns them to specific facilities. Each Postal Service area is responsible for its own trailer use and requirements. As of October 2014, 1,600 trailers were leased in the Western Area.

Our objective was to assess the use of leased trailers in the Western Area.

What the OIG Found

Opportunities exist for the Western Area to improve management of leased trailers, return unneeded trailers, and reduce lease costs. The Western Area returned about 140 unneeded leased trailers to suppliers in fiscal year (FY) 2014. As of the end of FY 2014, the Postal Service reported a total of 1,674 leased trailers in the Western Area.

However, we found an additional 84 trailers in FY 2013, and 78 trailers in FY 2014 that were underused. These trailers were considered underused because they did not comply with the Postal Service's guidance for showing that a trailer is needed. That guidance prescribes at least one trailer move every 7 days, or about 52 moves per year. Of the 84 underused trailers in FY 2013, data showed that 15 percent never moved and 85 percent moved less than once per week, on average.

Of the 78 underused trailers in FY 2014, data showed 27 percent never moved and 73 percent moved less than once per week, on average. These conditions occurred because the Postal Service did not have controls or a standard operating procedure requiring local officials to assess the need for leased trailers based on use and return unneeded trailers to suppliers. Further, the Postal Service did not have an accurate and effective inventory system for recording, monitoring, and tracking leased trailers.

As a result, the Western Area incurred unnecessary trailer lease costs of about $275,000 in FY 2013, and about $254,000 in FY 2014. We also concluded it could avoid about $264,000 annually over 2 years if it were to return the remaining underused trailers.

In FY 2015, the Postal Service issued a new trailer lease policy and began developing requirements for a trailer management module in its Solutions for Enterprise Asset Management application to help manage leased trailers. The scheduled completion is extended to May 2016, due to data issues.

What the OIG Recommended

We recommended management enforce new leased trailer policies, thoroughly assess trailer needs, and return any unneeded leased trailers to suppliers.

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OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 28, 2015

MEMORANDUM FOR: LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

DREW T. ALIPERTO
VICE PRESIDENT, WESTERN AREA OPERATIONS

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop

for

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

SUBJECT: Audit Report – Use of Leased Trailers – Western Area
(Report Number NO-AR-15-010)

This report presents the results of our self-initiated audit of the Use of Leased Trailers in the Western Area (Project Number 14XG025NO002).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

We found that the Western Area was managing leased trailers however, we identified an additional 84 trailers in FY 2013 and 78 trailers in FY 2014 that were underused.

Introduction

This report presents the results of our self-initiated audit of the Use of Leased Trailers in the Western Area (Project Number 14XG025NO002). This is the third in a series of leased trailer reports. Our objective was to assess the use of leased trailers in the Western Area. See Appendix A for additional information about this audit.

The U.S. Postal Service leases more than 8,000 trailers nationwide for its operations. The trailers are procured to fulfill local transportation needs and are assigned to specific facilities, with each Postal Service area responsible for its trailers.

In fiscal year (FY) 2014, the Postal Service's leased trailer costs[1] were about $36.6 million nationwide. The Western Area, with more than 1,600 leased trailers, accounted for $6.2 million (18.5 percent) of those costs. The Postal Service is reducing the number of trailers it leases through its Delivering Results, Innovation, Value, and Efficiency (DRIVE)[2] initiative. Under the initiative, the Postal Service plans to reduce its use of leased trailers by 35 percent in FY 2016.

Summary

Opportunities exist for the Western Area to improve management of leased trailers, return unneeded trailers, and reduce lease costs. We determined the Western Area returned about 140 unneeded leased trailers to suppliers in FY 2014, which we excluded from our analysis.[3] As of the end of FY 2014, the Postal Service reported a total population of 1,674[4] leased trailers in the Western Area; however, we found an additional 84 trailers in FY 2013 and 78 trailers in FY 2014 that were underused.

We concluded these trailers were underused because the Postal Service did not comply with the guidance for showing a trailer is needed. That guidance prescribes at least one trailer move every 7 days, or about 52 moves per year.

These conditions occurred because the Postal Service did not have controls or a standard operating procedure requiring local officials to assess the need for leased trailers based on use and return unneeded trailers to suppliers. Further, the Postal Service did not have an accurate and effective inventory system for recording, monitoring, and tracking leased trailers.

As a result, the Western Area incurred unnecessary trailer lease costs of about $275,000 in FY 2013, and about $254,000 in FY 2014. As of July 2015, 57 of the trailers we identified as underused were returned. The Postal Service could avoid about $264,000 annually over 2 years if it were to return the remaining underused trailers.

In FY 2015, the Postal Service issued a new trailer lease policy and began developing requirements for a trailer management module in its Solutions for Enterprise Asset Management (SEAM) application to help manage leased trailers. The scheduled completion is extended to May 2016 due to data issues.

1 This figure excludes associated trailer damages, which were about $2.3 million in FY 2014.
2 In 2011, the Postal Service established the DRIVE initiative with a management goal to improve business strategy development and execution, focusing on a portfolio of strategic initiatives to meet ambitious performance and financial goals, including optimization of the postal network.
3 The DRIVE initiative may be one of the contributing factors behind the drop in underused trailers in the Western Area between FYs 2013 and 2014.
4 We removed 452 trailers from the total population. These trailers consisted of Mail Transport Equipment Service Center (MTESC), storage, hitches, and invalid trailer identifiers. After these trailers were removed, we used the remaining 1,222 roadworthy trailers to perform our analysis.

Leased Fleet Trailer Management in the Western Area

The Western Area could more effectively manage use of leased fleet trailers. Tracking trailers is highly dependent on accurately capturing trailer identifiers and movement data in the Transportation Information Management Evaluation System (TIMES)[5] and maintaining an accurate inventory list. If a leased trailer is transporting mail or mail transport equipment it should have movements recorded in TIMES.

We analyzed trailer move data in TIMES and identified 13 roadworthy trailers in FY 2013, and 21 in FY 2014 that had no moves. The lack of trailer moves recorded in TIMES could be because the trailer is missing, is being inappropriately used for storage, or was inaccurately identified. Additionally, we identified 71 roadworthy trailers in FY 2013, and 57 in FY 2014 that had fewer than 52 moves per year based on TIMES data. These 71 trailers would be considered underused based on Postal Service criteria that a trailer that does not move at least once per week is underused.

See Table 1 for the total number of underused trailers for FYs 2013 and 2014, and Table 2 for underused trailers by facility.

Table 1. Summary of Underused Leased Trailers

Description	FY 2013		FY 2014	
Trailers without TIMES moves	13	15%	21	27%
Trailers with below 52 TIMES moves	71	85%	57	73%
Total	**84**	**100%**	**78**	**100%**

Source: U.S. Postal Service Office of Inspector General (OIG) analysis of TIMES data.

Table 2. FYs 2013 and 2014 Underused Trailers by Facility

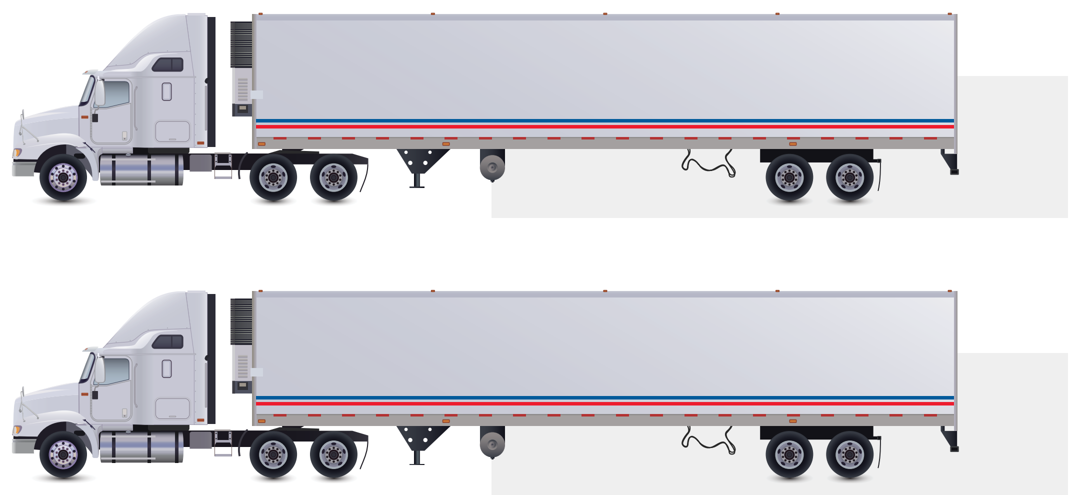
Facility	2013	2014
Albuquerque Processing and Distribution Center (P&DC)	2	2
Denver Terminal Handling Service	5	3
Des Moines P&DC	11	11
Des Moines NDC	19	20
Kansas City NDC	1	2
Kansas City P&DC	2	1
Minneapolis P&DC	5	8
Phoenix P&DC	4	2
Reno P&DC	1	1
Salt Lake City P&DC	22	18
Seattle NDC	12	10
Grand Total	**84**	**78**

Source: OIG analysis of Postal Service TIMES data.

5 The Yard Management System (YMS), which tracks trailer movements within a network distribution center's (NDC) yard, was generally not used, except to confirm trailer numbering conventions and finding zero move trailers. Roadworthy trailers are more expensive and should not be used exclusively for storage and yard movement. The Postal Service leases less expensive trailers for storage and yard moves.

We also found inconsistent trailer identification numbers between Postal Service systems (TIMES and YMS) used to track trailer movement and headquarters manual inventory records. For example, data recorded in TIMES showed 457 instances where two identifying numbers were in the systems for the same trailer. See Figure 1.

Figure 1. EXAMPLES OF MULTIPLE TRAILER NUMBERING

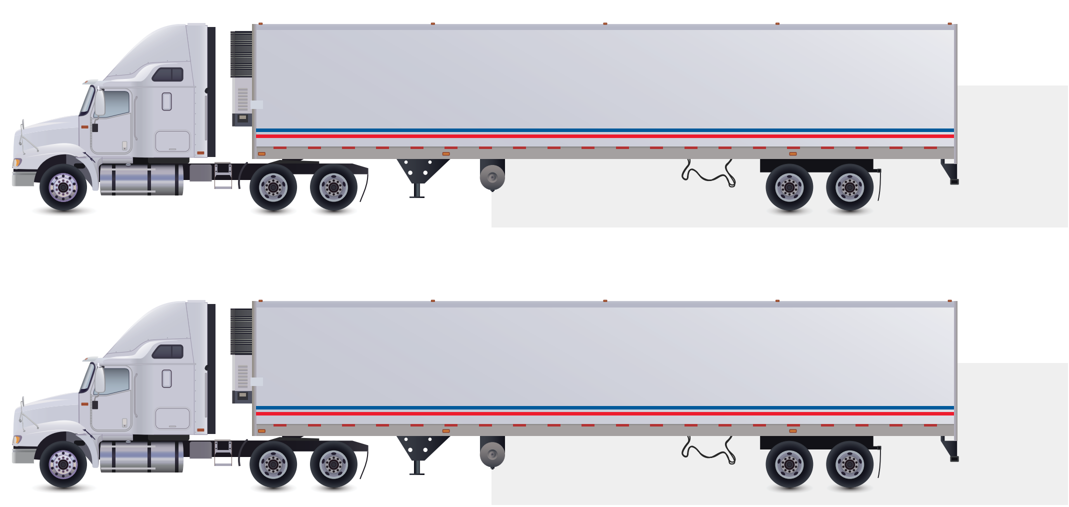


Click on the number set below to reveal the inconsistencies between Postal Service systems (TIMES and YMS) and manual inventory records used at headquarters.

SET 1 SET 2 SET 3 SET 4 SET 5

The manual inventory records spreadsheet that was maintained by headquarters Surface Transportation did not always include the second trailer identifying number, which was required to identify trailer movement in TIMES. For example, we obtained leased trailer lists from local facilities and found 290 trailers that had no movements based on data in TIMES until the second identification number was added. See Figure 2.

Figure 2. OIG FOUND SECOND TRAILER NUMBER

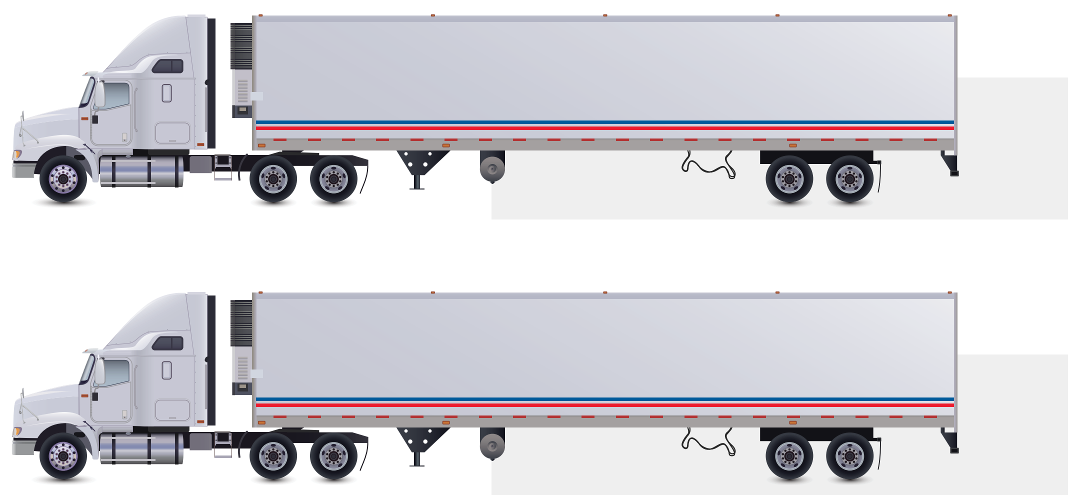


Click on the number set below to reveal the discrepencies between trailer numbers as recorded on manual inventory records and those in TIMES.

SET 1 SET 2 SET 3 SET 4

Additionally, we found that trailer-identifying numbers in the manual inventory records did not always match what was recorded in TIMES. We reconstructed the inventory list by manually cross-validating data against local lists and other system reports. There were significant inconsistencies with trailer identifiers. For example, identifiers were truncated or missing leading zeroes. See Figure 3.

Figure 3. **EXAMPLES OF INCORRECT TRACKING IDENTIFCATION**



Click on the number set below to reveal the discrepencies between trailer numbers as recorded on manual inventory records and those in TIMES.

SET 1 SET 2 SET 3 SET 4

We also identified and removed 90 trailers during analysis because they were recorded as regular trailers but were actually storage trailers or trailer dollies.[6] Additionally, we excluded MTESC trailers.

Management's Actions

The Western Area has been actively involved in managing leased trailers. As of July 2015, the Western Area was in the process of returning 57 trailers and it continues to review for opportunities to return additional trailers.

In FY 2015, the Postal Service issued a new policy that mandates the assessment of leased trailer needs and use. The policy provides guidance on numbering leased trailers and requires a contracting officer representative to be designated at each facility to oversee leased trailer operations. If enforced, the policy could help increase the effectiveness of leased trailer operations and reduce the costs noted in our report.

In addition to the policy, the Postal Service began developing a leased trailer application in SEAM. The module, when fully implemented, will document receipt of, help monitor movement of, and track the return of trailers. Future headquarters Surface Transportation inventory records for leased trailers will be generated from SEAM, creating one central database for leased trailer inventory records. The Postal Service's goal was to train staff on SEAM by the end of March 2015; however, the system will not be fully implemented until May 2016 because of data issues.

6 Dollies connect two smaller trailers.

Recommendations

We recommend management enforce new leased trailer policies, thoroughly assess trailer needs, and return any unneeded leased trailers to suppliers.

We recommend the vice president, Western Area Operations, in coordination with the vice president, Supply Management, and the vice president, Network Operations:

1. Ensure compliance with the newly established trailer policy.

2. Assess leased trailer needs and return any underused or unneeded leased trailers to suppliers.

Management's Comments

Management generally agreed with the findings and recommendations. Also, management generally agreed with the monetary impacts with the exception of accountability for storage trailers that moved three or fewer times within a specified timeframe.

Regarding recommendation 1, management agreed to ensure compliance with the trailer policy issued December 17, 2014. Management stated that since implementation of the policy, the Western Area has established that contracting officer representatives (CORs) perform inventory reviews, facilitate the return of leased trailers, and monitor trailer use. Management also stated that Surface Transportation Operations, area trailer coordinators, and facility's CORs are using SEAM information along with Transportation Information Evaluation Systems and Surface Visibility to manage the leased trailer fleet inventory. Finally, management stated that Surface Transportation Operations reviews and approves leased trailer requests and will establish periodic reviews to manage the inventory. Management expects to fully implement corrective actions by May 31, 2016.

Regarding recommendation 2, management agreed to assess leased trailer needs and return any underused or unneeded trailers to suppliers. Management stated that the Western Area has identified and returned 23 trailers to the supplier in FY 2015. Management also stated the Western Area will continue to review inventory needs and is developing plans for the return of 98 underutilized trailers. Management expects to fully implement corrective actions by December 31, 2015.

See Appendix B for management's comments, in their entirety.

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.

Regarding management's exception to the monetary impact calculation for storage trailers that moved three or fewer times within a specified timeframe, the OIG excluded trailers used for storage. However, there was a specific group of storage trailers that can be available during the peak season for highway use. We generally excluded these trailers from our analysis, except for a small quantity that had moves but could not readily be accounted for at the facility. The OIG considered these trailers to be underused for the purposes of our analysis.

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

Appendices

Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Background

The Postal Service leases trailers to transport mail and equipment between various postal facilities nationwide. Leased trailers are considered one of the most cost-effective ways to move large volumes of mail and related equipment. In FY 2000, the Postal Service began a major corporate initiative to terminate local leased trailer contracts, centralize leased trailer acquisition at Postal Service Headquarters, and commit to a single national contractor. Around FY 2012, the national contractor departed the leased trailer industry. Subsequently, the Postal Service contracted with several leasing trailer suppliers. As of FY 2015, there were three large trailer suppliers and a few smaller ones. Although the suppliers changed, frequently the trailers did not. More than half of the leased trailers have been in the fleet for the last 14 years.

Postal Service Headquarters Supply Management procures most leased trailers under the national trailer leasing initiative and Network Operations issues national policy. Leased trailers are procured based on locally identified transportation needs through the Postal Service's Supply Management Transportation Portfolio. These trailers are assigned to specific facilities, with each Postal Service area having responsibility and accountability over the trailers it uses. The Western Area accounted for more than 1,600 trailers leased by the Postal Service and about 18.5 percent of the Postal Service's total leased trailer costs.

The Postal Service has spent, on average, $37.9 million on trailer leases in FYs 2013 and 2014. There are more than 8,000 leased trailers nationally, covering common fleet, non-road worthy trailers for storage, and MTESC operations. The Postal Service is in the process of integrating leased trailers into SEAM for inventory and tracking.

Objective, Scope, and Methodology

Our objective was to assess the use of leased trailers in the Western Area. To assess the Postal Service's need for and use of leased trailers, we analyzed leased trailer moves data obtained from the Postal Service's transportation systems, including TIMES and YMS. We examined relevant Postal Service policies and procedures. We also reviewed prior OIG reports and Postal Service documents. We conducted observations and interviews at Postal Service P&DCs and NDCs in the Western Area and visited contractors servicing leased trailers. We also discussed our analyses and conclusions with management officials throughout our audit work, considered their perspective, and included their comments where appropriate.

When we began our audit, the Postal Service was in the process of transitioning from tracking the leased trailer fleet in manual Excel workbooks to a more automated system in SEAM. We identified the three highest risk facilities in the Western Area to observe. Risk was based on comparing TIMES data to the manual lists to identify underused trailers. We found the quality of those lists to be very poor and began supplementing our observations with lists from SEAM.

We examined Postal Service computer-generated data and other records. We did not audit or comprehensively validate the data; however, we applied alternative audit procedures, such as comparing the data to source documents, looking for close matches between data sources, conducting observations, and talking with the appropriate officials. We experienced data limitations with TIMES data and inventory records. To compensate for these limitations, we used procedures such as modifying our methodology. Specifically, we incorporated both trailer-identifying numbers into our analysis to ensure we did not undercount the movement of trailers. We also added a leading zero or removed the dash from trailer identifying numbers that did not match what was recorded in TIMES in order to determine movement of trailers. In addition, we used data supplied by leased trailer providers to validate trailer numbers and quantities. Lastly, we excluded returned trailers, storage trailers, MTESC trailers, and hitches from our analysis.

We took these additional steps to validate the accuracy of the data due to the previously mentioned data limitations. After using these alternative procedures, we determined the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from February through September 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 September 2, 2015, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
Management Alert – Leased Trailer Damage Payments	NO-MA-15-005	9/1/2015	$6 million
Report Results: Our report determined that the Postal Service's leased trailer damage claim payment process is not effective because it did not always require all documentation to ensure that each claim involved a single incident and represented Postal Service negligence before payment. The process also lacks direct authorization and receipt confirmations from local facilities. Additionally, local facility officials generally have not taken appropriate steps to obtain replacement trailers or stop daily trailer lease payments when trailers are out of service beyond 10 days. Management agreed with report's finding, recommendations, and monetary impacts.			
Use of Leased Fleet Trailers - Northeast Area	NO-AR-15-009	8/5/2015	$12 million
Report Results: Our report determined that opportunities exist for the Northeast Area to improve management of leased trailers, return unneeded trailers, and reduce costs. From a total population of 3,575 leased trailers in FY 2013 and 3,021 in FY 2014, we found, on average, another 999 trailers and 810 trailers, respectively, were underused. Management agreed with all three recommendations in the report, but generally disagreed with the findings and part of the monetary impact calculations.			
Missing Leased Trailers in the Northeast Area	NO-MA-14-004	8/25/2014	$287,374
Report Results: Our report determined that Postal Service officials in the Northeast Area were unable to account for 35 trailers and could not provide documentation of ever receiving the trailers from the leasing company. We analyzed the data for the 35 missing trailers in the TIMES and Surface Visibility (SV) systems and confirmed no record of trailer movement or use in Postal Service operations. Officials were unable to account for these trailers because the Postal Service does not have an adequate process to document that leased trailers have been delivered and accepted, an inventory system for leased trailers, or a process to periodically validate the number of leased trailers on hand. Also, the Postal Service sometimes inconsistently labeled trailers and incorrectly entered trailer identification numbers or temporary identification numbers into SV and TIMES, resulting in incomplete and inconsistent data needed for tracking. Further, the missing trailers did not have satellite-tracking devices so area and plant managers could not track them. Management agreed with our findings, recommendations, and monetary impact.			

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

September 21, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report - Use of Leased Trailers - Western Area (Report Number NO-AR-15-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on this report. Management agrees in general with the report's findings, recommendations and impacts and will address each separately below.

Monetary Impact

The Office of Inspector General (OIG) cited the monetary impacts as $1,056,875, comprised of $528,437 in questioned costs and $528,438 in funds put to better use. Regarding the $528,437 in questioned costs, the OIG concluded that the Postal Service paid $274,794 in Fiscal Year (FY) 2013 and $253,643 in FY 2014 in questioned costs for lease trailers in the network that were underused. If lease trailers in the network are frequently and routinely monitored and validated, the OIG estimated $264,219 annually in funds put to better use for two subsequent years.

Management agrees with these findings in general, with the potential exception of accountability for storage trailers that moved three or fewer times within a specified timeframe.

OIG Recommendations

We recommend the Vice President, Western Area Operations, in coordination with the Vice President, Supply Management, and Vice President, Network Operations:

Recommendation 1: Ensure compliance with the newly established trailer policy.

Management Response/Action Plan: Management agrees with this recommendation. The newly established trailer policy was issued December 17, 2014. The OIG report reflects information and data relative to FYs 2013 and 2014. Since implementation of this policy, the Western Area has established that Contracting Officer Representatives (CORs) perform inventory reviews in FY 2015, facilitate the return of lease trailers, and monitor trailer usage.

Additionally, lease trailer inventory management procedures have been established utilizing the Solutions for Enterprise Asset Management (SEAM) Trailer Management system with reporting capabilities on trailer utilization. Surface Transportation Operations and the Area Trailer Coordinators and Facility CORs are using the SEAM information along with Transportation Information Management Evaluation Systems and Surface Visibility to manage the leased trailer fleet inventory.

As established within the December 2014 policy and in coordination with the Area's roles and responsibilities, Surface Transportation Operations reviews and approves lease trailer requests and will establish periodic reviews of lease trailers to manage the inventory and ensure trailer leakage outside of the Area/Facility is kept to a minimum and capture information on trailers that have not moved within specified timeframes. Communications and training continues for the CORs, as well as the validation and update of the SEAM database.

Target Implementation Date: May 2016

Responsible Official: Manager, Distribution Networks, Western Area Operations in conjunction with Manager, Surface Transportation Operations, Network Operations

Recommendation 2: Assess leased trailer needs and return any underused or unneeded leased trailers to suppliers.

Management Response/Action Plan: Management agrees with this recommendation. The December 17, 2014 policy established procedures, roles and responsibilities for assessing leased trailer needs and returns. Western Area is continuing inventory reviews and assessing needs. For this FY, Western Area has identified and returned 23 trailers to the supplier. The Area will continue to review inventory needs and are developing plans for the return of 98 underutilized trailers.

Target Implementation Date: December 2015

Responsible Official: Manager, Distribution Networks, Western Area Operations; Manager, Surface Transportation Operations, Network Operations; and Manager, Fuel Management Category Management Center, Supply Management

Drew T. Aliperto
Vice President, Western Area Operations

Linda M. Malone
Vice President, Network Operations

Susan M. Brownell
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cc: Manager, Corporate Audit Response Management

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