OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Use of Leased Fleet Trailers – Northeast Area

Audit Report

Report Number
NO-AR-15-009

August 5, 2015

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

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

Background

The U.S. Postal Service leases about 9,000 trailers nationwide for operations. It procures trailers to meet local transportation needs and assigns them to specific facilities. Each Postal Service area is responsible for trailer use and requirements. As of September 2014, 3,021 trailers were leased in the Northeast Area. Our objective was to assess the use of leased trailers in the Northeast Area.

What The OIG Found

Opportunities exist for the Northeast Area to improve management of leased trailers, return unneeded trailers, and reduce costs. The Postal Service stated the Northeast Area returned about 700 unneeded leased trailers to suppliers in fiscal years (FY) 2013 and 2014. However, 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.

We concluded these trailers were underused because the Postal Service did not comply with the guidance for showing a trailer is needed, which is at least one trailer move every 7 days (or four moves per month). Of the 999 underused trailers in FY 2013, 82 percent never moved and 18 percent moved one to three times per month, on average. Of the 810 trailers underused in FY 2014, 81 percent never moved and 19 percent moved one to three times per month, on average.

These conditions occurred because the Postal Service did not have controls or procedures to require local officials to assess needs for leased trailers based on use and return unneeded trailers to suppliers. Further, the Postal Service did not have an effective inventory system for recording, monitoring, and tracking leased trailers.

As a result, the Northeast Area incurred unnecessary trailer lease costs of about $3.5 million in FY 2013 and $2.8 million in FY 2014. Further, it could avoid about $2.8 million annually for 2 years if it were to return unneeded 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 module, when fully implemented, will document receipt of, help monitor movement of, and track the return of trailers. The scheduled completion date is May 2016.

What The OIG Recommended

We recommended management enforce new leased trailer policies, thoroughly assess trailer needs, return unneeded leased trailers to suppliers, and promptly finish implementing the Solutions for Enterprise Asset Management application for managing and tracking leased trailers nationwide.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 5, 2015

MEMORANDUM FOR: RICHARD P. ULUSKI
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Robert Batta
VERIFY authenticity with e-Sign

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

SUBJECT: Audit Report – Use of Leased Fleet Trailers – Northeast Area (Report Number NO-AR-15-009)

This report presents the results of our audit Use of Leased Fleet Trailers – Northeast Area (Project Number 14XG025NO001).

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

The Northeast Area needs to more effectively manage the use of leased fleet trailers. We found an average of 999 trailers were underused in FY 2013, and an average of 810 trailers were underused in FY 2014.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's Use of Leased Fleet Trailers – Northeast Area (Project Number 14XG025NO001).This is the second in a series of leased trailer reports.[1] Our objective was to assess the use of leased trailers in the Northeast Area. See Appendix A for additional background information about this audit.

The Postal Service leases over 9,000 trailers nationwide for operations. The trailers are procured to fulfill local transportation needs and are assigned to specific facilities, with each Postal Service area responsible for the trailers it uses. As of September 2014, there were 3,021[2] leased trailers in the Northeast Area.

In fiscal year (FY) 2014, the Postal Service's leased trailer costs were about $36.6 million nationwide and $12.5 million for the Northeast Area. The Postal Service tries to reduce the number of trailers it leases through its Delivery Results, Innovation, Value, and Efficiency (DRIVE)[3] initiative. Under the initiative, the Postal Service plans to reduce use of leased trailers by 35 percent by FY 2016. As of January 2015, the Postal Service was leasing 14 percent fewer trailers nationwide and 19 percent fewer trailers in the Northeast Area since it established the DRIVE initiative in 2011.

Conclusion

Opportunities exist for the Northeast Area to improve management of leased trailers, return more unneeded trailers, and reduce trailer lease costs. The Postal Service stated the Northeast Area returned about 700 leased trailers to suppliers in FYs 2013 and 2014. However, based on OIG analysis from a total population of 3,575 leased trailers in FY 2013 and 3,021 for FY 2014,[4] we found on average another 999 trailers and 810 trailers were underused, respectively.

1 The U.S. Postal Service Office of Inspector General (OIG) issued a management alert, *Missing Leased Trailers in the Northeast Area*, (NO-MA-14-004, dated August 25, 2014), addressing concerns over the ineffective monitoring, tracking, and management of trailers in the Northeast Area.
2 3,021 represent total storage and pooled trailers provided by Postal Service management prior to OIG analysis. To complete the analysis, we removed trailers that had a rate of $4.00 or less including trailers that were classified as pooled trailers. Storage trailers are leased at a daily rate of $4 or less.
3 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 its network.
4 Our initial population was 3,575 in FY 2013, but we removed 328 storage and pooled trailers to arrive at 3,247 leased trailers. Our initial population was 3,021 in FY 2014, but we removed 232 storage and pooled trailers to arrive at 2,789 leased trailers.

The Postal Service did not comply with the guidance for showing that a trailer is needed: at least one move every 7 days (or four moves per month). Of the 999 trailers underused in FY 2013, 82 percent never moved and 18 percent moved one to three times a month, on average. Of the 810 trailers underused in FY 2014, 81 percent never moved and 19 percent moved one to three times per month, on average.

These conditions occurred because the Postal Service did not have controls or standard operating procedures 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 effective inventory system for recording, monitoring, and tracking leased trailers.

As a result, the Northeast Area incurred unnecessary trailer lease costs of about $3.5 million in FY 2013 and $2.8 million in FY 2014. Further, it could avoid costs of about $2.8 million annually for 2 years if it returned unneeded 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 that will help manage leased trailers. The trailer management module, when fully implemented, will document receipt of, help monitor movement of, and track return of trailers. Completion of the module is scheduled for May 2016.

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Leased Fleet Trailer Management in the Northeast Area

The Northeast Area needs to more effectively manage use of leased fleet trailers. We found the Northeast Area identified and returned about 700[5] leased trailers in FYs 2013 and 2014 as part of the DRIVE initiative to reduce costs. However, an average of 999 trailers were leased but not needed based on a total population of 3,575 trailers in FY 2013. An average of 810 trailers were leased but not needed based on a total population of 3,021 trailers in FY 2014 (see Table 1 for our analysis).

Table 1: Leased Trailers with Three Moves or Fewer

Month	Trailers with Three or Fewer Moves in FY 2013	Trailers with Three or Fewer Moves in FY 2014
October	1,028	810
November	952	764
December	852	653
January	989	844
February	1,078	934
March	1,004	856
April	1,008	823
May	1,055	815
June	1,014	828
July	974	782
August	995	836
September	1,035	770
Average	**999**	**810**

Source: U. S. Postal Service Enterprise Data Warehouse (EDW), Transportation Information Management Evaluation System (TIMES), Headquarters Supply Management, and OIG analysis.

To determine how many trailers were leased but not needed in the Northeast Area, we compared how often trailers moved[6] against the Postal Service's internal guidance[7] on trailer movement. The Postal Service states that it needs a leased trailer to move at least once every 7 days or at least four times per month.[8]

As reflected in Table 2, in FY 2013, 819 trailers (82 percent) never moved and 179 (18 percent) had an average of one to three moves per month. Similarly, for FY 2014, 654 (81 percent) never moved and 156 (19 percent) moved one to three times per month, on average.

5 Given the data and control issues noted in this report, there are different numbers from different sources for the total number of trailers returned; however, the numbers are in the same range. We did not audit the actual number of trailers returned.
6 We used data obtained from TIMES via the EDW application and the Yard Management System (YMS) to assess leased trailer movement.
7 The Postal Service does not have formal criteria but has provided internal guidance to the field for determining trailer need based on usage.
8 Using the criteria of one move every 7 days, we determined that four moves would be the equivalent to one move every 7 days within a month. Therefore, trailers that had three moves or less were determined unnecessary for operations.

Table 2: Leased Trailers with Three Moves or Fewer

Fiscal Year	Average Number of Trailers with One to Three Moves per Month	Percentage of Trailers With an Average of One to Three Moves per Month	Number of Trailers That Never Moved	Percentage of Trailers That Never Moved	Average Number of Trailers with Three Moves or Fewer per Month
2013	179	18%	819	82%	999
2014	156	19%	654	81%	810
Average	**168**	**19%**	**737**	**82%**	**905**

Source: EDW, TIMES, Headquarters Supply Management, and OIG analysis.

See Appendix B for additional details.

These conditions occurred because the Postal Service did not have controls or standard operating procedures for assessing the need for leased trailers and returning unneeded trailers to suppliers. In addition, during this same time period, the Postal Service did not have an effective inventory system for recording, monitoring, and tracking leased trailers.

We found the Postal Service used cumbersome manual processes (using Excel spreadsheets) to account for and track trailer use. There were discrepancies in the number of trailers recorded by headquarters' Surface Transportation and Supply Management offices, which separately maintained leased trailer fleet inventories (see Table 3).

Table 3: Leased Trailer Count Discrepancies

Fiscal Year	Headquarters Network Operations - Surface Transportation	Headquarters Supply Management - Fuel Management/Trailer Services
2013	3,645	3,575
2014	3,138	3,021

Source: Postal Service Headquarters Surface Transportation, Postal Service Headquarters Supply Management, and OIG analysis.

We also found inconsistent trailer identification numbers among those Postal Service systems (TIMES and YMS) used to track trailer movement and headquarters' manual inventory records. For example, data recorded in TIMES, indicated that 468 trailers had two identifying numbers in the systems for the same trailer (see Table 4).

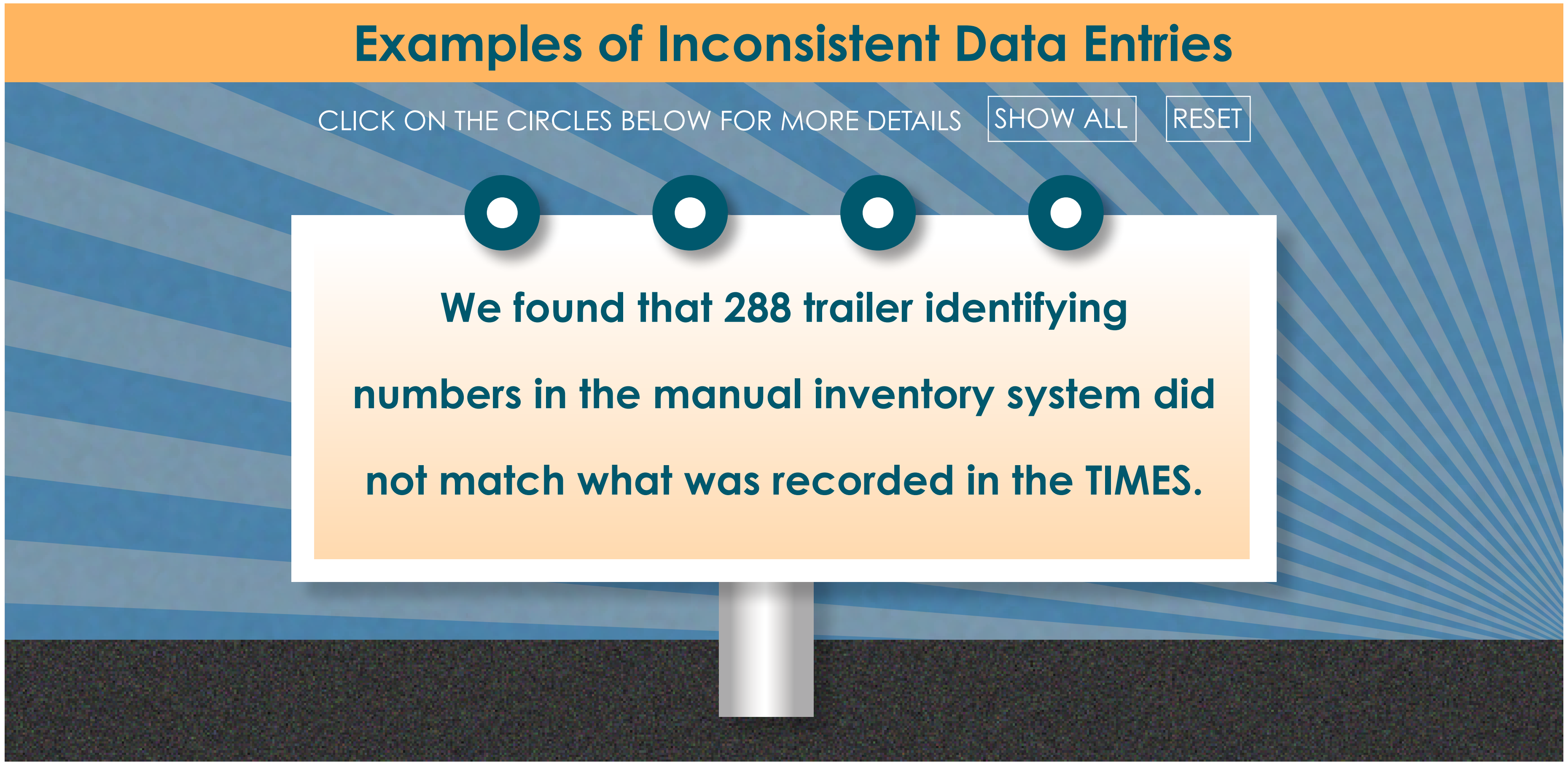
Table 4: Examples of Inconsistent Trailer Numbering of Leased Trailers Recorded in TIMES

1st Trailer Identifying Number	2nd Trailer Identifying Number
396692	01Z125
601080	01Z440
8112	01Z208
7909	01Z080
385930	01Z462

Source: Postal Service Headquarters Supply Management.

Additionally, we found that identifying numbers for 288 trailers in the manual inventory system did not match what was recorded in TIMES (see Figure 2).

Figure 2:



Source: Postal Service Headquarters Supply Management.

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Because of these inconsistencies, the Northeast Area was not able to effectively manage its leased trailer fleet, return unneeded leased trailers, and reduce lease trailer costs. We estimated the Postal Service incurred unnecessary lease costs of about $3.5 million in FY 2013 and $2.8 million in FY 2014. In addition, the Northeast Area could avoid future lease trailer costs of about $2.8 million[9] annually for 2 years if it were to adequately manage its leased trailer fleet and identify and promptly return trailers not needed for operations.

Management's Actions

In FY 2015, the Postal Service issued a new policy that mandates the assessment of leased trailers' needs and use. The policy provides guidance on numbering leased trailers and requires designation of a contracting officer representative (COR) at each facility to oversee leased trailer operations. If enforced, the policy could help to 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 and inventory information still needs to be validated.

9 The calculation was based solely on the number of trailers as of the end of FY 2014. Our calculation excluded trailers returned in FYs 2013 and 2014.

Recommendations

We recommend management ensure compliance with the new leased trailer policy; assess leased trailer needs and return any unneeded trailers; and finish implementing the Solutions for Enterprise Asset Management trailer management module.

We recommend the vice president, Northeast Area Operations:

1. Ensure compliance with the newly established leased trailer policy.

2. Assess leased trailer needs and routinely identify and return any unneeded leased trailers to suppliers.

We also recommend the vice president, Network Operations, in coordination with the vice president, Supply Management:

3. Finish implementing the Solutions for Enterprise Asset Management application for managing and tracking leased trailers nationwide.

Management's Comments

Management agreed with all three recommendations, but generally disagreed with the findings and part of the monetary impact calculations. Regarding the findings and related monetary impact, management disagreed with the full population of trailer data, as we may not have included trailers not recorded in EDW, purchased, or returned throughout the year, out of service, and in storage. Management also indicated we did not use the total trailer population figure in the finding, which may lead to misinterpretation of the data in the report. Management also disagreed with the questioned cost calculations for FY 2014, and the projected annual lease trailer costs savings for the next 2 years.

Regarding recommendation 1, management stated the Northeast Area Distribution Networks Office met with area CORs on June 12, 2015, to review the new leased trailer policy process. They also stated that each facility participates in the quarterly leased trailer audit process for any corrections and changes to the trailer fleet. In subsequent correspondence, management agreed to implement this recommendation by June 27, 2015.

Regarding recommendation 2, management agreed that there are opportunities to reduce the leased trailer fleet. The Distribution Networks Office implemented a quarterly leased trailer audit process. The target implementation date is October 31, 2015.

Regarding recommendation 3, management stated they will continue implementing the recommendations identified in the OIG's *Missing Leased Trailers in the Northeast Area* report. The SEAM application is operational and functioning, with about 8,400 trailer profiles in the system. However, due to the interdependencies on prior recommendations and actions required to complete the implementation and validation of SEAM, the target implementation date has been extended to May 2016.

See Appendix C 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.

Regarding management's comments on the full population of trailer data for FYs 2013 and 2014, we began our analysis with a total population of leased trailers provided by the Postal Service (3,575 in FY 2013 and 3,021 in FY 2014). We removed storage and pooled trailers from the populations. After removing these trailers, the trailer population was revised to 3,247 in FY 2013 and 2,789 in FY 2014. We used this as our baseline to determine trailer moves for an average of 999 trailers and 810 trailers that were underused.

The OIG conducted an independent analysis of the Postal Service's data from manually maintained leased trailer inventory spreadsheets and systems generated data (TIMES, EDW, and YMS). We used the best available data at the time of our audit to identify trailer movement. Regarding management's comments on data discrepancies issues:

- The OIG could not exclude trailers in the process of conversion because management did not inform us about the conversion process during our audit engagement. Our analysis was for the period of FYs 2013 and 2014. We used data provided by Postal Service Supply Management in December 2014. The OIG could not update the trailer list for purchased or returned trailers removed from the contracts. However, we did exclude trailers with expired contracts during FYs 2013 and 2014, based on data provided by Postal Service Supply Management in December 2014.

- The OIG could not account for out-of-service trailers because the Postal Service did not have a tracking mechanism to ensure out-of-service trailers did not exceed the 10 day requirement. Further, as management stated in their comment letter, the repair program was not managed in a timely manner. Leased trailer data provided by Postal Service Supply Management did not show out-of-service trailers. Thus, we could not account for them in our analysis.

- The OIG excluded roadworthy trailers used for storage and not under contract. Specifically, we removed storage trailers in our analysis with a daily lease rate of $4.00 or less. If the Postal Service were using roadworthy trailers as storage, we would not have been able to identify these trailers in our analysis, as they were leased at a much higher rate and they were not identified as storage trailers in the database. Further, the Postal Service's policy *Handbook AS-701 (January 2014), 38 - Acquiring Commercial Warehouse, Storage Space, and Services Section 383 – Consultation*, notes that roadworthy leased trailers should not be used for storage.

OIG had numerous discussions with Postal Service Headquarters, Area management, and staff throughout the audit engagement. Specifically, we discussed issues regarding out-of-service trailers, storage trailers, inadequate and unreliable data associated with trailer identifiers, and other factors that impacted our analysis. Throughout the audit, management did not express concerns with the OIG analysis noted in their comments. Postal Service management completed its analysis and provided comments regarding data discrepancies after the OIG analysis of trailer movement. We used the best available information to identify trailer movement based on a snapshot in time during our audit engagement. We discussed our scope and methodology for identifying trailer movement in detail during our exit conference with Postal Service management.

Regarding the monetary impact calculations, the OIG continues to believe the numbers are accurate and valid.

The OIG considers all 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 among 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 lease trailer acquisition at Postal Service Headquarters, and commit to a single national contractor.

Leased trailers are procured to meet local transportation needs through the Postal Service's Supply Management Transportation Portfolio. Leased trailers are assigned to specific facilities, with each Postal Service area responsible for the trailers it uses.

The Postal Service's standard for determining whether a leased trailer is needed is that it moves at least once every 7 days. If it moves less often, it should be returned to the supplier. Leased roadworthy trailers should only be used to transport mail and equipment and not for storage because storage trailers cost less.[10]

In FY 2014, there were 9,051 leased trailers nationwide at a cost of about $36.6 million. In that year, the Northeast Area had a total of 3,021 trailers at a cost of $12.5 million. In FY 2013, there were 10,159 leased trailers nationwide at a cost of about $38.8 million. In that year, the Northeast Area had a total of 3,575 trailers at a cost of $13.6 million.

The Postal Service continues to focus on reducing the number of trailers it leases through its DRIVE initiative goal. Officials want to reduce use of leased trailers by 35 percent. As of January 2015, the Postal Service was leasing 14 percent fewer trailers nationwide and 19 percent fewer trailers in the Northeast Area since it established the DRIVE initiative in 2011.

Objective, Scope, and Methodology

Our objective was to assess the use of leased trailers in the Northeast 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 the TIMES and the YMS. We examined relevant Postal Service policies and procedures. We also reviewed prior OIG reports and Postal Service documents and spoke with Postal Service management and staff.

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 to incorporate both trailer identifying numbers into our analysis to ensure we did not undercount the movement of trailers and adding a leading zero or removing the dash from trailer identifying numbers that did not match what was recorded in TIMES in order to determine need for and movement of trailers. Lastly, we excluded storage trailers from our analysis of trailer moves[11] when we calculated our cost savings by excluding trailers that had a $4 daily contract rate or less. After using these alternate procedures, we determined the data was sufficiently reliable for the purposes of this report.

We also discussed our analyses and conclusions with management officials throughout our audit work, considered their perspective, and included their comments where appropriate.

10 Storage trailers are leased at a daily rate of $4 or less and roadworthy trailers are typically leased at a daily rate of $8 or more.
11 We identified 14 trailers that should have been categorized as storage trailers in the system and will provide that information to management.

We conducted this performance audit from July 2014 through August 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, analysis and conclusions with management on May 28, 2015, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Management Alert - Missing Leased Trailers in the Northeast Area	NO-MA-14-004	8/25/2014	$287,374
Report Results: 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 that area and plant managers could not track them. Management agreed with our findings, recommendations, and monetary impact.			
Vehicle Management – National Trailer Lease Renewal – Capping Report	NL-AR-09-009	9/28/2009	None[12]
Report Results: We concluded 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. This occurred because 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. Management agreed with our findings and recommendations.			

12 Monetary impact was claimed in each of the eight reports.

Appendix B: Analysis of Leased Trailer Moves

Table 6: FY 2013 Leased Trailers with Three Moves or Fewer

Month	Three Moves Per Month	Two Moves Per Month	One Move Per Month	Zero Moves Per Month	Total of Three Moves or Less
October 2012	38	63	68	859	1,028
November 2012	48	65	81	758	952
December 2012	30	55	83	684	852
January 2013	28	65	82	814	989
February 2013	45	76	74	883	1,078
March 2013	50	57	71	826	1,004
April 2013	37	69	75	827	1,008
May 2013	34	79	75	867	1,055
June 2013	42	72	82	818	1,014
July 2013	28	77	77	792	974
August 2013	39	68	72	816	995
September 2013	29	50	68	888	1,035
Average	**37**	**66**	**76**	**819**	**999**[13]

Source: EDW, TIMES, Headquarters Supply Management, and OIG analysis.

13 The total in this cell is slightly larger due to rounding.

Table 7: FY 2014 Leased Trailers with Three Moves or Fewer

Month	Three Moves Per Month	Two Moves Per Month	One Move Per Month	Zero Moves Per Month	Total of Three Moves or Less
October 2013	24	52	62	672	810
November 2013	23	53	61	627	764
December 2013	32	49	71	501	653
January 2014	30	71	94	649	844
February 2014	43	64	87	740	934
March 2014	27	60	70	699	856
April 2014	23	66	79	655	823
May 2014	24	59	69	663	815
June 2014	25	62	66	675	828
July 2014	22	62	55	643	782
August 2014	28	59	70	679	836
September 2014	17	48	62	643	770
Average	**27**	**59**	**71**[14]	**654**	**810**[15]

Source: EDW, TIMES, Headquarters Supply Management, and OIG analysis.

14 The totals of the averages for three moves per month, two moves per month, and one move per month equal 157. This is larger than the 156 noted for the average number of trailers with one to three moves per month in Table 2 due to rounding.
15 The total in this cell is slightly larger due to rounding.

Appendix C: Management's Comments

UNITED STATES POSTAL SERVICE

July 15, 2015

LORI LAU DILLARD
Director, Audit Operations

SUBJECT: Use of Leased Fleet Trailers - Northeast Area
(Project Number 14XG025NO001)

Thank you for providing the Postal Service with the opportunity to review and comment on the recommendations contained in Draft Report Use of Leased Fleet Trailers – Northeast Area (Report Number NO-AR -15-DRAFT).

While Management agrees with the recommendations, management is in general disagreement with the findings and monetary impacts associated with the draft report.

Management agrees with the concept of the OIG document but does not agree with the full population of data that was presented. Our findings will be reviewed in the following section.

Data Discrepancy Issues

- Trailer numbers not recorded in EDW because the trailers were in the middle of a trailer number conversion process
- Trailers were purchased or returned throughout the two year period and the OIG list was not updated to capture the trailers removed from contract
- Trailers were out of service and the repair program was not managed in a timely manner that would ensure the trailers were back in road-worthy compliance
- Trailers were used as storage trailers even though they were not on a storage contract

The following chart outlines these findings for the FY14 data component:

Findings	Quantity
No Longer on Contract	539
MTE Trailer Number Conversion	383
Out of Service/Non-Road Worthy	250
TOTAL	**1172**

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On average there are 250 Non-Roadworthy/Out-of-Service trailers for the Northeast Area in the fleet each day. Out-of-service trailers are a large part of the reason that trailers are reporting a lack of use four times a month. The average out of service trailers at the NJ NDC last year was about 140 to 150 trailers at any time. Springfield facility averaged 85 to 100 out-of-service trailers.

The data and information provided by the OIG was reviewed and the Northeast Area has since taken an active approach working with the suppliers to manage the daily out-of-service trailer inventories and supplier timely expectations. Since changes have been put in and closer monitoring has been implemented, the number of out-of-service days for the trailer fleet has dropped significantly to an average of about 50 trailers per day.

Overall, there were 2,458 unique trailer numbers on the OIG report. Of that quantity 539 have been returned or are no longer in the fleet. There are 383 trailers on the OIG report that are in the process of a number conversion. The old trailer numbers would not report in TIMES and would therefore appear to be inactive.

A revision of the trailer quantities by month after removal of the trailers no longer on contract, and using the revised number of 1876 trailer numbers is as follows:

Month	Quantity	MTE	USPS Revised Analysis
OCT 2013	601	112	489
NOV 2013	550	119	431
DEC 2013	448	94	354
JAN 2014	626	120	506
FEB 2014	708	151	557
MAR 2014	638	129	509
APR 2014	555	124	431
MAY 2014	589	121	468
JUN 2014	591	117	474
JUL 2014	544	110	434
AUG 2014	585	118	467
SEP 2014	510	116	394
Average per month			**460**
Average OOS/NRW Per Month			**20**

The USPS revised analysis, removing the trailers we found not to be no longer in the data pool, represents 460 average underutilized trailers per month.

As the out-of-service trailer number fluctuates so greatly from day to day and month to month, the "average per month" number on the table above is adjusted down to deduct a percentage of out-of-service/non-roadworthy from the total.

Additionally, we have reviewed the projected expense related to the unneeded trailers and estimate $770K in savings based on the removal of the trailers identified above. Out-of-service and non-roadworthy trailers add an additional $28K in savings. Also, the monetary and other impacts statement calculates a projected annual lease trailer cost of $2.8M for FY 2014, 2015 and 2016. We reviewed the data using the findings stated above and using the same calculation process outlined in the OIG document:

(total number of trailer not needed x contract rate x calendar days = Questioned Costs)

We find the costs for FY14 to be closer to $1.7M, and the FY15 and FY16 costs would be $1.1M below the OIG Summary of Questioned Costs. Therefore we disagree with the monetary finding of the OIG.

The OIG report states that as of September 2014, there were 3,021 trailers leased in the Northeast Area. Of that total for FY14, 654 were identified as having Zero moves per month. This represents 22% of the fleet population. The content on Table 2 "Leased Trailers with Three Moves or Fewer" implies that 81% of the trailer fleet never moved. The 81% represents the population of trailers that had 3 or fewer moves (810), not the fleet population of 3,021 trailers.

It is our concern that this representation of data has the potential to be incorrectly interpreted. The chart below illustrates the population of trailers with 1-3 moves and zero moves based on the overall total leased trailer fleet. We find this to be a more accurate interpretation of the opportunity.

FY 2014	OIG Analysis	USPS Analysis
Leased Trailer Fleet	3021	2458
# of Trailers with 1-3 moves per month	156	132
% of Trailers with 1-3 moves per month	5.2%	5.3%
# of Trailers with 0 moves per month	654	446
% of Trailers with 0 moves per month	21.6%	18.1%

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

Management Response/Action Plan:
Management agrees with this recommendation. The Northeast Area Distribution Networks Office conducted a meeting with the Area Contracting Officer Representatives (COR) on Friday June 12, 2015 to review the new leased trailer policy process for quarterly trailer inventories and input into the Solutions for Enterprise Asset Management (SEAM) system. Also, each facility is participating in the quarterly lease trailer audit process and making corrections and changes to the fleet size as needed.

Target Completion Date:
All Contracting Officer Representatives have been notified of the policy, and full implementation of quarterly trailer inventories will begin on June 27, 2015.

Responsible Official:
Manager, Networks Operations, Northeast Area

Recommendation 2:
Assess leased trailer needs and routinely identify and return any unneeded leased trailers to supplier.

Management Response/Action Plan:
Management agrees that there are opportunities to reduce the trailer fleet. The ongoing process is to zero base each processing facilities lease trailer needs. The Distribution Networks Office created a trailer calculator that enables them to identify the exact trailer needs by HCR, day of the week and operational hour for each network facility (L&DC, NDC, & STC). This process, in conjunction with justifying additional trailer needs for PVS and storage at all Northeast Area plants, will enable us to right size the lease trailer needs for the entire Area. The Distribution Networks Office has in place a process to conduct audits of all Northeast Area plants to identify trailer needs by contract.

Target Completion Date:
October 31, 2015

Responsible Official:
Manager, Networks Operations, Northeast Area

Recommendation 3:
Finish implementing the Solutions for Enterprise Asset Management (SEAM) application for managing and tracking leased trailers nationwide.

Management Response/Action Plan:
Management agrees to continue with implementation of the recommendations under NO-MA-14-004 Missing Leased Trailers in the Northeast Area. The SEAM application is operational and functioning with approximately 8,400 trailer profiles entered into the system. But, due to the inter-dependencies of the five recommendations under the previous audit, and the actions required for complete implementation and validation, our original implementation dates required adjustment. We anticipate finishing implementation by May 2016.

Target Implementation Date:
May 2016

Responsible Official:
Manager, Surface Transportation Operations, Network Operations; Manager, Asset Management, Supply Management; and, Manager, Fuel Management Category Management Center, Supply Management

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