August 27, 2008

MEGAN BRENNAN
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – Vehicle Management – National Trailer Lease Renewal – Eastern Area (Report Number NL-AR-08-005)

This report presents the results of our nationwide audit of the National Trailer Lease renewal.[1] The objectives of our self-initiated audit were to determine whether the renewal was effective and economical (Project Number 07XG007NL003). This report focuses on trailer lease requirements in the Eastern Area. Click here to go to Appendix A for additional information about this audit.

Conclusion – National Trailer Fleet Management

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

As a result, the U.S. Postal Service incurred about $249,000 in unnecessary lease costs over a 6-month period. We estimate the Postal Service could save about $3.9 million in lease costs over the next 10 years if the Eastern Area improves its processes for trailer fleet management and returns unneeded trailers. Click here to go to Appendix B for our detailed analysis for this topic. Click here to go to Appendix C for our monetary impact calculation.

We recommend the Vice President, Eastern Area Operations:

1. Develop a comprehensive process to identify trailer requirements and manage trailer inventory and use, including installing satellite tracking devices on trailers.

2. Analyze the number of trailers needed to transport mail and equipment and return unneeded trailers to Postal Service Headquarters for reallocation or return to the leasing contractor, saving the Postal Service about $3.9 million over the next 10 years.

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

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

Management's Comments

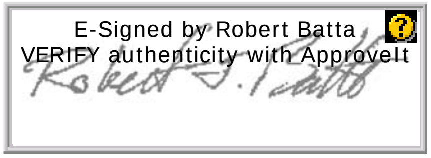
Management agreed with our findings and recommendations. They stated they would solidify procedures for managing trailer inventory using satellite tracking devices and the Vehicle Performance and Tracking System. In addition, management stated they have returned 135 trailers to the National Trailer Lease supplier effective July 1, 2008, and reduced the number of storage trailers in the Eastern Area by 79 since April 2008. They also agreed to continue to evaluate storage requirements. However, management did not agree with the total monetary impact. Instead, they agreed to $1,531,943 as funds put to better use, which represents the projected monetary impacts through the end of the current contract period of July 1, 2012. Management's comments, in their entirety, are included in Appendix D. Click here to view management's comments.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations, and the corrective actions should resolve the issues identified in the report. Management agreed to the monetary impact of funds put to better use only through the end of the current National Trailer Lease contract period. However, our calculations were based on the facts that the Postal Service will continue to need trailers beyond the current contract period; and the weakness we identified is with the Postal Service's management of the trailer fleet, not with the contract itself, so the weakness would not be corrected by a new contract after 2012. Therefore, we consider our calculations and projections valid for the 10-year period, and will report $4,135,496 in monetary impact in our *Semiannual Report to Congress*, including $248,779 in questioned costs and $3,886,717 in funds put to better use.

The OIG considers recommendations 1, 2, and 3 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 follow-up tracking system until the OIG provides written confirmation that they can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Jody Troxclair, Director, Transportation, or me at (703) 248-2100.



Robert J. Batta
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Attachment

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

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

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

The Postal Service uses a unique numbering system for TIP "National Trailer Lease" trailers it assigns to facilities. These trailers, beginning with the numbering sequence "19Z," were photographed at the Philadelphia Bulk Mail Center (BMC) on October 10, 2007.

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

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

National Trailer Lease Renewal – On July 1, 2006, the Postal Service signed a renegotiated 6-year lease renewal. The new agreement reduced the lease cost to [redacted] and was intended to:

- Improve inventory controls by requiring the leasing contractor to install satellite tracking devices on all trailers by November 1, 2006.

- Save money by allowing the Postal Service to return unneeded trailers.

Under the National Trailer Lease, Postal Service officials allocated 508 trailers to the Eastern Area, which subsequently assigned 80 to the Pittsburgh BMC; 104 to the Philadelphia BMC; and 115 to the Cincinnati BMC. The remaining trailers were allocated among 10 other Eastern Area facilities.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

During our work, we interviewed Postal Service officials at headquarters and in the Eastern Area and visited the Cincinnati, Philadelphia, and Pittsburgh BMCs and other facilities in the Eastern Area. We observed and photographed operations, inspected trailers, interviewed supervisors and employees, and examined Postal Service policies and procedures. We used computer-assisted analysis techniques to examine computer data in management's Transportation Information Management Evaluation System for the period June 1, 2005, through March 17, 2008.

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

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

We conducted work associated with this performance audit report from July 2007 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on June 24, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

The OIG has worked with the Postal Service to improve vehicle management and reduce vehicle costs. As indicated by the chart below, since April 2005, we have issued five audit reports that identified potential trailer lease savings exceeding $14 million. The reports addressed vehicle management weaknesses similar to those identified in this report.

Report Title	Report Number	Final Report Date	Monetary Impact (In millions)
Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations	NL-MA-05-001	April 21, 2005	Not applicable
Vehicle Management – National Trailer Lease – A.T. Kearney, Inc. Analysis	NL-ID-06-002	February 7, 2006	Not applicable
Vehicle Management – National Trailer Lease Requirements – Capital Metro Area	NL-AR-06-013	September 29, 2006	$1.9
Vehicle Management – National Trailer Lease Renewal – Southwest Area	NL-AR-07-005	June 15, 2007	$4.8
Vehicle Management – National Trailer Lease Renewal – Pacific Area	NL-AR-07-009	September 28, 2007	$7.5

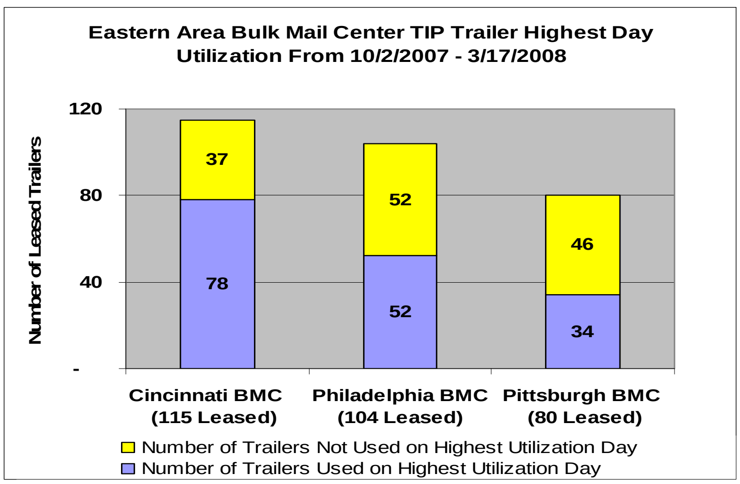
APPENDIX B: DETAILED ANALYSIS

National Trailer Fleet Management – Eastern Area

We concluded the National Trailer Lease renewal was not as effective and economical as it could have been, because the Eastern Area BMCs had more trailers than needed. Of the 508 trailers leased in the Eastern Area, 299 were assigned to the BMCs, and the remaining 209 trailers were allocated to 10 other facilities in the Eastern Area. Our analysis did not reveal material underutilization of trailers at the 10 other facilities.

However, in analyzing the use of BMC trailers, we identified the maximum number of trailers used at each of the three BMCs[2] during the period October 2007 through mid-March 2008 and found the following.

- 78 (68 percent) of the 115 trailers leased at the Cincinnati BMC were used for their intended purpose – to move mail.
- 52 (50 percent) of the 104 trailers leased at the Philadelphia BMC were likewise used to move mail.
- 34 (43 percent) of the 80 trailers leased at the Pittsburgh BMC were likewise used to move mail.



We concluded that the remaining 135 trailers, or more than 26 percent of the 508 trailers currently allocated to the Eastern Area, were not needed to move mail. We estimated the Postal Service incurred about $249,000 to lease the unneeded trailers over a 6-month period. We estimate the Postal Service could save about $3.9 million by improving its processes for trailer fleet management and taking advantage of the

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

lease provisions that allow the Postal Service to return unneeded trailers. Click here to go to Appendix C for detailed calculations.

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

The Eastern Area had excess trailers because it did not have a comprehensive process for identifying trailer requirements, tracking trailers, and ensuring their proper use. Local managers identified control weaknesses and stated:

- Many trailers left the Eastern Area for use in other areas and were not returned.
- Numerous leased trailers were used to store equipment.
- Although global positioning system (GPS) tracking devices were installed in some trailers, many trailers still did not have GPS devices approximately 21 months after the scheduled due date of November 1, 2006.

We also determined that although the National Trailer Lease was intended to provide trailers to meet transportation requirements, the Eastern Area had too many roadworthy[3] national lease trailers being improperly used for storage. For example, the Philadelphia and Pittsburgh BMCs reported that combined, they were using nearly 90 trailers, or almost 50 percent of their leased fleet, for this purpose.

Stored equipment at the Lancaster Processing and Distribution Center, October 9, 2007.

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

A Postal Service Headquarters policy letter dated August 11, 2004, requires that trailer storage requirements must be analyzed and validated and stipulates that Postal Service policy is to fill storage requirements with non-roadworthy trailers at lower rates.

The trailers were being improperly used for storage because the Eastern Area did not have a comprehensive process to identify trailer storage requirements. The practice of storing equipment in trailers leased for transportation was unneeded and costly.

APPENDIX C: ESTIMATED SAVINGS

Unneeded Trailers – Questioned Costs

	Cincinnati BMC	Philadelphia BMC	Pittsburgh BMC	Total
Leased Trailer Count	115	104	80	299
Less: Number of Trailers Utilized on Highest Day	78	52	34	164
Number of Trailers that Should Have Been Returned to the Vendor During 6-month Period	37	52	46	135

$10.07 per day* × 135 trailers x 183 days = $248,779**
Total missed opportunity to save costs = $248,779
* Daily lease rate = $10.07 per day
** Day count from October 2007 – March 2008 = 183 days

Funds Put to Better Use

Projection Year	0	1	2	3	4	5	6	7	8	9	10	Total
Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Lease Amount	$0	$454,849	$496,199	$496,199	$496,199	$496,199	$496,199	$496,199	$496,199	$496,199	$496,199	$4,920,643
Discounted Amount	$0	$435,263	$454,385	$434,818	$416,094	$398,176	$381,029	$364,621	$348,920	$333,895	$319,516	$3,886,717

Total Expenditure	$4,920,643
Net Present Value	$3,886,717

Indemnity at 1/12 of annual rate = $41,350
(Deducted from year 1 savings only)
Discount rate @ 4.5 percent
Note: The analysis above does not include any additional costs that may be incurred to find alternatives for storage of mail equipment.

APPENDIX D: MANAGEMENT'S COMMENTS

MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA

UNITED STATES POSTAL SERVICE

August 15, 2008

Lucine Willis
Office of Inspector General
Director, Audit Operations
1735 N. Lynn St.
Arlington VA 22209-2020

SUBJECT: Draft Audit Report – Vehicle Management – National Trailer Lease Renewal – Eastern Area (Report Number NL-AR-08-DRAFT)

The Eastern Area has reviewed the subject Draft Audit Report (Project Number 07XG007NL003) and is in general agreement with the findings and recommendations, with the exception of the monetary calculated savings.

Recommendation 1:

Strengthen management controls over inventory and use of trailers allocated to the Eastern Area, including installing satellite tracking devices.

Response:

The Eastern Area agrees with the recommendation and is in the process of solidifying procedures for managing its inventory through the use of satellite tracking devices (GPS) and Vehicle Performance and Tracking System (VTAPS). The effective date for the inventory tracking process to be implemented is September 5, 2008.

Recommendation 2:

Analyze the number of trailers needed to transport mail and equipment and return unneeded trailers to the control of Postal Service Headquarters for reallocation or return to the leasing contractor, saving the Postal Service about $3.9 million over the next ten years.

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Response:

The Eastern Area has returned to the National Trailer Lease Supplier 135 underutilized trailers as identified in the audit report. The National Trailer Lease Supplier was given 30 day written notification, in compliance with the contractual agreement, for the stated trailer reduction. The effective date for the reduced trailer complement was July 1, 2008.

The Eastern Area disagrees with the monetary impact of about $3.9 million dollars over the next ten years. The national trailer lease contract is scheduled to renew on July 1, 2012. A review of BMC trailer requirements would take place at that time. We believe that the funds to be put to better use would be approximately $1,531,943. This amount was arrived at by summing the discounted amounts for fiscal years 2009, 2010, 2011 and 182 days for 2012, from the table in Appendix C.

Recommendation 3:

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

Response:

The Eastern Area agrees with the recommendation and has been reviewing its storage needs for all of its facilities. This process began in April 2008. As of this date, the Eastern Area has reduced the number of storage trailers by 79 area-wide. We will continue to evaluate our storage requirements as mail volume, MTE needs and processing needs change.

If you have any questions or require further information, please contact Jim Hallstein, Transportation Budget & Financial Analyst at 412-494-2621.

Kevin A. Seaver
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Attachments: PS Forms 7406 (3)

cc: Mark Tappe
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