August 14, 2009

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS

SUBJECT: Audit Report – Vehicle Management – National Trailer Lease Renewal – Western Area (Report Number NL-AR-09-008)

This report presents the results from our nationwide audit of the National Trailer Lease renewal.[1] The objectives of our self-initiated audit were to determine whether the lease renewal was effective and economical (Project Number 09XG020NL000). This report focuses on trailer lease requirements in the Western Area. See Appendix A for additional information about this audit.

Conclusion

The National Trailer Lease renewal was not as effective and economical as it could have been, because the Western Area did not have a comprehensive management process in place to routinely identify its trailer requirements, ensure proper trailer use, and adjust trailer inventory based on continued need.

As a result, the U.S. Postal Service incurred more than $130,800 in unnecessary lease costs over a 6-month period. We estimate the Postal Service could save about $2.1 million in lease costs over the next 10 years, if the Western Area improves its processes for trailer fleet management and returns unneeded trailers. See Appendix B for our detailed analysis of this topic, and Appendix C for our monetary impact calculation.

We recommend the Vice President, Western Area Operations:

1. Develop a comprehensive process to routinely identify trailer requirements and manage trailer inventory and use.

[1] On July 1, 2006, the Postal Service executed 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.

2. Verify the actual return of leased trailers to the leasing contractor that management identified during the audit,[2] saving the Postal Service about $700,000 over the next 10 years.[3]

3. 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 $1.5 million over the next 10 years.

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

Management's Comments

Management agreed with our findings and recommendations. They have already begun implementing the four recommendations and expect full implementation by September 1, 2009. Management generally agreed with the calculated monetary savings; however, they expect the actual savings to differ by the amount associated with 10 returned Des Moines Bulk Mail Center trailers management will reallocate to the Omaha Processing and Distribution Center (P&DC).

Management emphasized the steps they have taken to proactively manage the leased trailer fleet, which has resulted in the identification of 119 trailers returned to the leasing contractor, with estimated savings of over $430,000 annually. We have included management's comments, in their entirety, in Appendix D.

Evaluation of Management's Comments

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

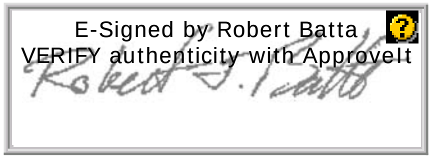
We will report a total of $2,279,428 in monetary impact in our *Semiannual Report to Congress*, including $130,840 in questioned costs and $2,148,588 in funds put to better use.

The OIG considers recommendations 1, 3 and 4 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. We appreciate the prompt action already taken and will continue working with management to obtain support for those actions in the process of closing the recommendations. These recommendations should not be

[2] During the course of our audit, we determined that Postal Service management had already taken action to identify and return 23 trailers to the leasing contractor.
[3] The standard OIG practice for calculations of this type employs a 10-year cash flow methodology, discounted to present value.

closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that they can be closed.

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



Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Susan Brownell
Jordan M. Small
Cynthia F. Mallonee
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

During fiscal year 2000, the Postal Service began a major, multi-phased corporate initiative to terminate local trailer contracts, centralize trailer acquisition at Postal Service Headquarters, and commit to a single national contractor.

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

The Postal Service uses a unique numbering system for TIP "National Trailer Lease" trailers it assigns to facilities. We photographed these trailers, beginning with the numbering sequence "50Z", at the Des Moines Network Distribution Center (NDC) on May 20, 2009.

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

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

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

- Improve inventory controls by requiring the leasing contractor to install satellite-tracking devices on all trailers by November 1, 2006.
- Save money by allowing the Postal Service to return unneeded trailers.

Under the National Trailer Lease, Postal Service officials allocated 1,353 trailers to the Western Area, which subsequently assigned them as follows:

- 85 trailers to the Denver P&DC
- 210 to the Des Moines NDC[4]
- 167 to the Kansas City NDC
- 270 to the Minneapolis/St. Paul NDC
- 354 to the Seattle NDC
- 133 to the Phoenix P&DC.

The Postal Service allocated the remaining trailers among five other Western Area facilities.[5]

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 ninth in a series of reports and focuses on the Western Area.

During our work, we interviewed Postal Service officials at headquarters and in the Western Area and visited the Denver P&DC, the Des Moines, Kansas City, Minneapolis/St. Paul, and Seattle NDCs, and other facilities in the Western 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 May 26, 2008, through November 25, 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 throughout our audit and included their comments where appropriate.

---

[4] Effective August 1, 2009, the Postal Service changed the names of Bulk Mail Centers (BMC) to Network Distribution Centers (NDC).
[7] There were no TIP trailers assigned to the Denver NDC.

We conducted work associated with this performance audit report from November 2008 through August 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on July 1, 2009, 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 eight audit reports that identified potential trailer lease savings exceeding $26 million. The reports used the same methodology and addressed vehicle management weaknesses similar to those identified in this report. The Postal Service agreed with all recommendations.

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
Vehicle Management – National Trailer Lease Renewal – Eastern Area	NL-AR-08-005	August 27, 2008	$4.1
Vehicle Management – National Trailer Lease Renewal – Southeast Area	NL-AR-08-007	September 25, 2008	$2.2
Vehicle Management – National Trailer Lease Renewal – Great Lakes Area	NL-AR-09-004	March 26, 2009	$5.7
Total			**$26.2**

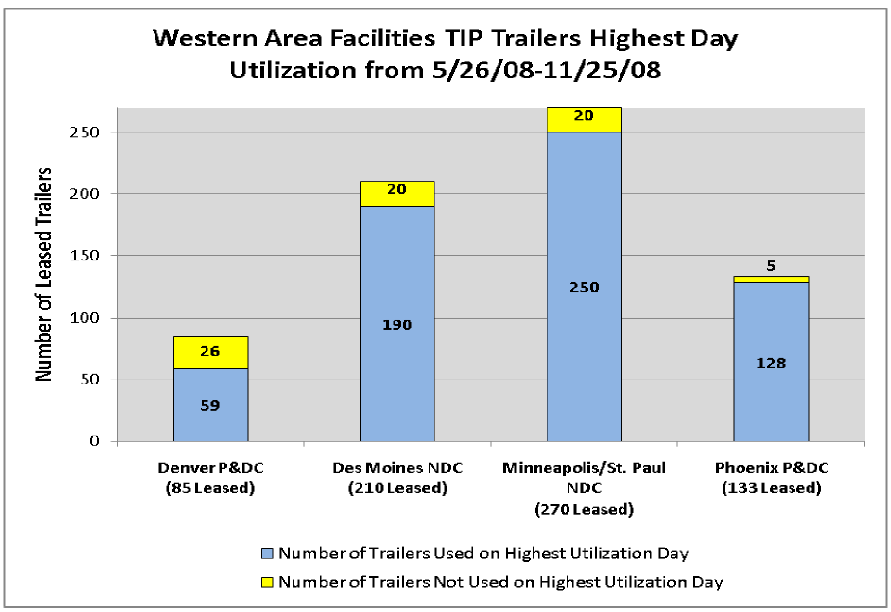
APPENDIX B: DETAILED ANALYSIS

National Trailer Lease Fleet Management – Western Area

We concluded the National Trailer Lease renewal was not as effective and economical as it could have been because four plants had more trailers than needed. Of the 1,353 trailers leased in the Western Area, management assigned 1,001 to the NDCs and allocated the remaining 352 trailers to seven other facilities in the Western Area.

In analyzing the use of NDC and P&DC TIP trailers, we identified the maximum number of trailers used at each of the 11 facilities[6] during the period May 2008 through November 2008. Our analysis revealed underutilization of trailers at four (two P&DCs and two NDCs) of the 11 facilities with leased trailers in the Western Area. Specifically, we found the Postal Service only used:

- 59 of the 85 trailers (69 percent) leased at the Denver P&DC to move mail.
- 190 of the 210 trailers (90 percent) leased at the Des Moines NDC to move mail.
- 250 of the 270 trailers (93 percent) leased at the St. Paul NDC to move mail.
- 128 of the 133 trailers (96 percent) leased at the Phoenix P&DC to move mail.



Therefore, the Postal Service did not need 71 trailers. Our analysis did not reveal material underutilization of trailers at the other seven facilities, including the Seattle NDC, with leased trailers in the Western Area. These conditions occurred because Postal Service management did not have a comprehensive management process in place to routinely identify its trailer requirements or adjust trailer inventory based on

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

continued need.

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

The Postal Service had taken some proactive measures in managing overall inventory. For example, since January 2008, local and area officials reduced, or planned to reduce, the number of leased trailers from 1,353 to 1,200. We identified 23 of these trailer returns during the course of our audit. In addition, based on our recommendations, local and area officials agreed to return an additional 48 underutilized trailers to the leasing contractor.

We estimate that the Postal Service incurred more than $130,800 to lease the unneeded trailers over a 6-month period, and it could save about $2.1 million by improving its processes for trailer fleet management and taking advantage of the lease provisions that allow it to return unneeded trailers. See Appendix C for detailed calculations.

The Western Area also improperly used TIP trailers for storage. For example, we observed the Denver P&DC used 14 trailers – or almost 25 percent of its leased fleet – for this purpose. Area-wide, we observed 73 trailers that were used to store equipment. This occurred because the Western Area did not have a comprehensive process to ensure the proper use of trailers including identifying trailer storage requirements. Local managers stated that Western Area NDCs and other local facilities used trailers to store excess equipment because of inadequate storage space. The practice of storing equipment in trailers leased for transportation was unneeded and costly.

The Seattle P&DC used non-roadworthy trailers as a less expensive method for storing equipment. We photographed these trailers on May 7, 2009.

A Postal Service Headquarters policy letter dated August 11, 2004, requires that management analyze and validate trailer storage requirements. The letter also stipulates it is Postal Service policy to meet storage requirements with non-roadworthy trailers at lower rates.

APPENDIX C: ESTIMATED SAVINGS

Questioned Costs[7] – Unneeded Trailers

	Denver P&DC	Des Moines NDC	Minneapolis / St. Paul NDC	Phoenix P&DC	Total
Leased Trailer Count	85	210	270	133	698
Less: Number of Trailers Utilized on Highest Day	59	190	250	128	627
Number of Trailers that should have been returned to the vendor during 6-month period	26	20	20	5	71
Postal Service identified trailers for return during our review	8	10	5	0	23
Addition trailer returns local and area officials agreed to based on our audit	18	10	15	5	48
Total Trailer Returns	26	20	20	5	71

Postal Initiated Missed Opportunity: Daily lease rate of [redacted]* = $42,385

Postal Agreed Missed Opportunity: Daily lease rate of [redacted]* = 88,455

Total Missed Opportunity = $130,840

*** Day count from May – November 2008 = [redacted]**

[7] Unrecoverable costs that are unnecessary, unreasonable or an alleged violation of law or regulation.

Funds Put to Better Use - Postal Service Initiated[8]

Project Year	0	1	2	3	4	5	6	7	8	9	10	
Fiscal Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Lease Amount	($7,045)	$84,538	$84,538	$84,538	$84,538	$84,538	$84,538	$84,538	$84,538	$84,538	$84,538	$838,332
Discounted Amount[9]	($7,045)	$81,679	$78,917	$76,248	$73,670	$71,178	$68,771	$66,446	$64,199	$62,028	$59,930	$696,021

Funds Put to Better Use - Postal Service Agreed

Project Year	0	1	2	3	4	5	6	7	8	9	10	
Fiscal Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Lease Amount	($14,702)	$176,426	$176,426	$176,426	$176,426	$176,426	$176,426	$176,426	$176,426	$176,426	$176,426	$1,749,562
Discounted Amount	($14,702)	$170,460	$164,696	$159,127	$153,745	$148,546	$143,523	$138,670	$133,980	$129,450	$125,072	$1,452,567

	Postal Service Initiated	Postal Service Agreed	Total
Total Expenditures	$838,332	$1,749,562	$2,587,894
Net Present Value	$696,021	$1,452,567	$2,148,588

Indemnity at 1/12 of annual rate = $21,747 ($7,045 + $14,702) *(Deducted from current year savings only)*

Discount rate @ 3.5 percent

Note: The analysis above does not include additional costs that may be incurred to find alternatives for storage of mail equipment.

[8] Funds that could be used more efficiently by implementing recommended actions.
[9] The standard OIG practice for calculations of this type employs a 10-year cash flow methodology, discounted to present value by applying factors published by Postal Service Headquarters Finance.

APPENDIX D: MANAGEMENT'S COMMENTS

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS

UNITED STATES POSTAL SERVICE

August 6, 2009

Lucine M. Willis
Director, Audit Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Vehicle Management – National Trailer Lease Renewal – Western Area

The Western Area agrees with the general findings and observations provided in the OIG audit of the National Trailer Lease Renewal. We have already begun to implement the four recommendations, including the return of the 48 trailers. We expect the recommendations to be fully implemented by September 1, 2009.

We also generally concur with the OIG's estimated savings that will result from the return of these trailers; however, the actual savings will differ due to our decision to take the 10 trailers that Des Moines NDC agreed to return, renumber, and reposition, along with financial responsibility, to the Omaha P&DC. This move would leave Des Moines NDC with 170 units as agreed and Omaha P&DC with 29 total units in inventory.

The proper budget adjustments will be completed this month. These additional trailers will eliminate Omaha's need to improperly use the Des Moines BMC's fleet, primarily caused by Omaha's FedEx THS operation which has severe building constraints and limitations.

In addition, we would like to address our proactive steps taken over the last year to manage the leased trailer fleet and reduce expenses. The Western Area DN developed, implemented and communicated a process for reviewing trailer need via TIMES information and successfully eliminated 119 trailers. Our annualized dollar savings is estimated at $437,390 annually. Our process of reviewing Cluster trailer needs, which has been recently enhanced by adding "Ping data monitoring" of trailers that show 10 days of use or less via TIMES, will continue so that the Western Area maximizes efficiencies and dollar savings.

Please direct any questions or concerns directly to Les Carpenter, Manager, Distribution Networks, at (303) 313-5515.

We appreciate the Review Team's input during this review and the cost savings recommendations to improve service and cost in the Western Area.

Sylvester Black

1745 STOUT STREET, SUITE 1000
DENVER CO 80299-5000
303-313-5100
FAX: 303-313-5102
WWW.USPS.COM