January 29, 2003

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SUBJECT: Management Advisory – New York Metro Area Operational Use of Trailers (Report Number TD-MA-03-001)

This report presents results from our management advisory of New York Metro Area Trailer Acquisition – Operational Use of Trailers (Project Number 02YG019TD001). The objective of the review was to determine if the New York Metro Area effectively utilized common fleet trailers for transporting mail and equipment.

On March 27, 2002, the Office of Inspector General (OIG) received a congressional request asking the OIG to determine if the proposed acquisition of trailers is in the best interest of the Postal Service considering the financial and operational needs of the agency. This management advisory is the third in a series of reports.

Results in Brief

The New York Metro Area did not effectively utilize common fleet trailers. Specifically, we found the New York Metro Area contracted for more trailers than needed to transport mail and equipment, resulting in at least $2.2 million in unnecessary annual transportation costs. This occurred primarily because Postal Service used the common fleet trailers for on-site equipment storage instead of mail and equipment transport.

We recommended New York Metro Area management explore alternative methods for storing mail transportation equipment and formulate common fleet trailer requirements based on actual mail and equipment transportation needs.

Background

The New York Metro Area leases approximately 2,500 common fleet[1] trailers. Leases with two contractors for about 1,800 of these trailers expire in March 2003. In addition, the New York Metro Area leased over 500 additional trailers to supplement the trailer fleet for seasonal or emergency use.

LEASED TRAILERS PARKED AT NEW YORK METRO AREA MAIL FACILITY

Objective, Scope, and Methodology

The objective of the review was to determine whether the proposed acquisition would provide operational and/or financial benefit to the Postal Service. This management advisory report is the third in a series of reports to provide Postal Service officials with information regarding the operational use of common fleet trailers in the New York Metro Area.

To accomplish our objectives, we analyzed trailer utilization data contained in the Transportation Information Management Evaluation System for the period August 6, 2000, to August 5, 2002. We also interviewed Postal Service officials at Postal Service Headquarters, in the New York Metro Area, and representatives from trailer companies. Finally, we visited Postal Service facilities where we observed trailer utilization. We conducted the review from April 2002 through January 2003 in accordance with the President's Council on Integrity and Efficiency, <u>Quality</u>

[1] The common fleet leased trailers are used to transport mail and equipment exclusively in and around the New York Metro Area.

Standards for Inspections. We discussed our conclusions and observations with appropriate management officials, and included their comments, where appropriate.

Prior Audit Coverage

Our report, Safety and Security of the Postal Service Leased Trailer Fleet (Report Number TR-AR-01-002), dated March 30, 2001, involved a statistical sample, randomly selected from a universe of 74 contracts and 8,715 trailers, inspected at 28 locations nationwide. We projected that 17 percent of trailers leased for transportation were used for storage instead of transportation. We recommended management prohibit the use of transportation trailers for storage. Management agreed with our recommendation and stated mail transport equipment should not be stored in trailers leased for transportation unless it was being staged for transportation to another site.

In our report, Leased Trailer Deficiencies in the New York Metro Area (Report Number TR-MA-01-001), dated March 30, 2001, we identified that the New York Metro Area had performed a survey of trailer use and identified 41 percent of trailers they leased for transportation were being used for storage. Officials stated they believed this situation indicated facilities were hoarding excess equipment, had inadequate storage, and were paying for trailers not needed. Management agreed with our two suggestions to address the issues involving storing equipment in trailers.

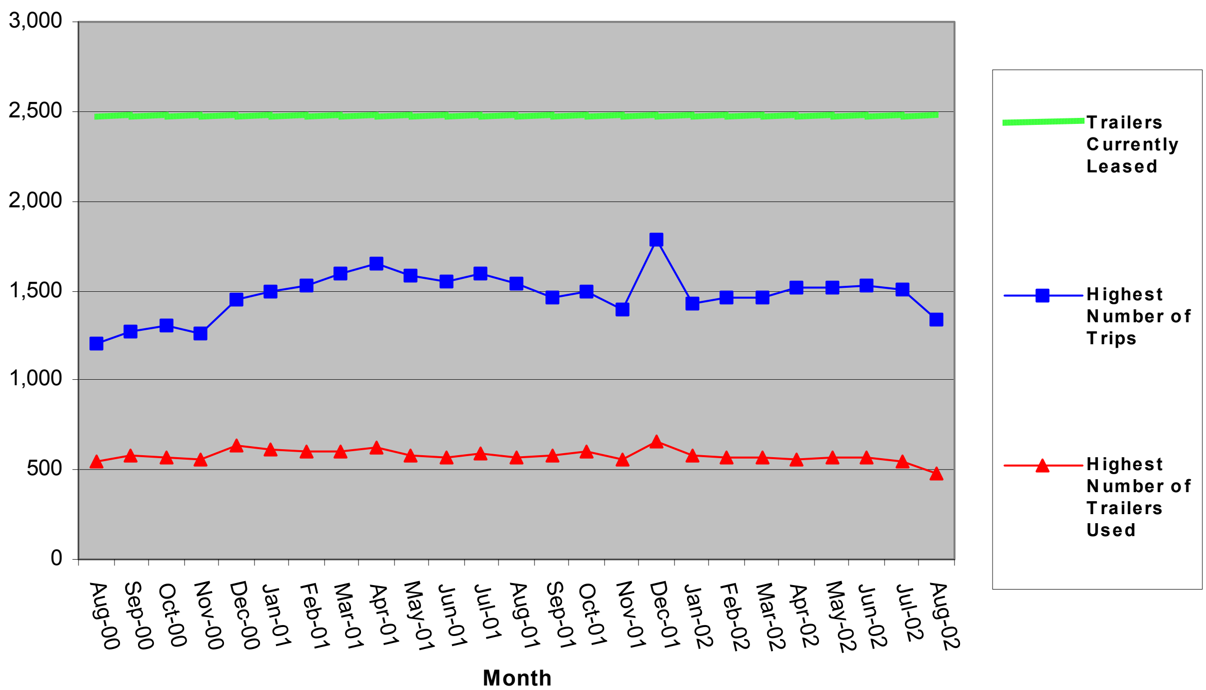
Our report, New York Metro Area Trailer Acquisition Requirements (Report Number TD-MA-02-003), dated July 10, 2002, examined the draft purchase plan the New York Metro Area submitted to Postal Service Headquarters in March 2002. We found that the New York Metro Area did not properly analyze or document trailer requirements or their underlying operational need before submitting their acquisition request to headquarters. We made two recommendations to address the issues identified in the report. Management agreed with both of our recommendations.

Operational Use of Common Fleet Trailers

The New York Metro Area did not effectively utilize common fleet trailers. Specifically, we found the New York Metro Area contracted for at least 700 more trailers than needed to transport mail and equipment, which resulted in at least $2.2 million in unnecessary annual transportation expenditures. This occurred primarily because the Postal Service used the common fleet trailers for on-site equipment storage instead of mail and equipment transport.

Based on our analysis of Transportation Information Management Evaluation System (TIMES) data from August 2000 to August 2002, even on the busiest day (December 20, 2001), the New York Metro Area's 2,500 common fleet trailers recorded only about 1,800 trips transporting mail and equipment to and from area facilities. Because individual trailers routinely record two or more trips in a single day, far fewer trailers were used than the number of trips made. Our analysis further revealed about 1,800 trips made on December 20, 2001, used only about 700 trailers, indicating the New York Metro Area leased far more trailers than necessary to meet mail transportation requirements. The chart below illustrates a comparison of the number of common fleet trailers currently leased with the highest number of trailer trips recorded on any single day as well as the highest number of trailers used on any single day during each month of the period reviewed:

New York Metro Highest Single Day Use of Common Fleet Trailers (Per information recorded in TIMES)



In a previous OIG management advisory report,[2] we identified that New York Metro Area officials had performed their own survey of trailer usage and determined 41 percent of trailers leased for transportation were instead used for equipment storage. We recommended management prohibit storing equipment in trailers leased for transportation. Postal Service Headquarters agreed and stated guidelines would be more clearly defined to reduce the storage of mail transportation equipment in trailers. However, the Postal Service continued using these trailers for storage. We obtained reports at two area facilities[3] verifying that, on a daily basis in April and May 2002, an average of 520 trailers were used for on-site storage. We believe that using leased trailers for storage is not cost efficient and gives a false impression of actual transportation costs for the New York Metro Area.

LEASED TRAILERS PARKED AT NEW JERSEY INTERNATIONAL AND BULK MAIL CENTER AND USED FOR STORAGE OF MAIL TRANSPORT EQUIPMENT

We believe the Postal Service should consider alternative methods of storing equipment needed for operations in the New York Metro Area such as:

- Using excess Postal Service-owned trailers for storage. The 5-year Postal Service vehicle plan includes replacement for 3,000 trailers between fiscal years (FY) 2004 and 2006. In addition, we identified several

[2] Leased Trailer Deficiencies in the New York Metro Area (Report Number TR-MA-01-001), dated March 30, 2001.
[3] New Jersey International and Bulk Mail Center and the Dominic V. Daniels Processing and Distribution Center, New Jersey.

transactions in the past 4 years where the New York Metro Area sold Postal Service owned trailers for $500 each. If these excess trailers were instead used for on-site storage, the Postal Service could lease fewer common fleet trailers.

- Identifying and returning excess mail transportation equipment to mail transport equipment service centers to avoid storing this equipment in leased trailers.

In addition, a New York Metro Area manager stated common fleet trailer requirements were based on available funding rather than analyzing the actual number of trailers required for transportation needs.

According to our estimates, the Postal Service spent approximately $3,216[4] annually per trailer to store equipment in hundreds of leased common fleet trailers, which resulted in more than $2.2 million annually or over $4.4 million in a 2-year period for unnecessary transportation expenditures. (See Appendix A.)

Recommendation

We recommend the vice president, New York Metro Area Operations:

1. Determine storage requirements for mail transport equipment maintained for facilities in the New York Metro Area and explore alternative methods for storing necessary equipment.

Management's Comments

Management agreed with our recommendation. They stated they would:

- Reassess all mail transport equipment requirements in the New York Metro Area, complete that analysis by April 2003, and notify the OIG of resulting savings.

- Explore alternatives for storing equipment.

[4] Average cost per trailer is based on actual common fleet lease payments made during FY 2002 accounting periods 4 through 9 ($8.81 times 365 days per year = $3,215.65).

- Direct facility managers to make better use of Postal Service owned warehouse facilities for equipment storage.

Management disagreed with the magnitude of our findings, but did not quantify their disagreement or support their disagreement with an analysis. Nonetheless, management agreed to conduct such an analysis and agreed the analysis could identify savings. Management's comments, in their entirety, are included in Appendix B of this report.

Recommendation

We recommend the vice president, New York Metro Area Operations:

2. Formulate common fleet trailer requirements based on actual mail and equipment transportation needs and not storage needs.

Management's Comments

Management agreed with our recommendation, stated they would reassess trailer requirements, and stated that reducing equipment storage in trailers could "lead to a reduction in the need for trailers." Management also stated that they would return 300 trailers to suppliers by February 1, 2003, at an estimated annual saving of $1.1 million. Finally, management stated that they disagreed with the OIG's position that New York Metro Area trailer requirements were not properly analyzed and cited their response to our previously issued report, <u>New York Metro Trailer Acquisition Requirements</u> (Report Number TD-MA-02-003), dated July 10, 2002, which found the New York Metro Area did not properly analyze trailer requirements and recommended they do so.

Evaluation of Management's Comments

Although management disagreed with the magnitude of our findings, they did not quantify their disagreement or support their disagreement with an analysis consistent with Postal Service policy. Regarding management's disagreement with our finding New York Metro Area requirements were not properly analyzed or documented, the issue was not a specific finding in this report, but rather a finding in the previous report management cited. In their response to our previous report, management agreed they would perform an analysis consistent with Postal Service policy and work with

Postal Service Headquarters throughout the process. As of the publication date of this report, the New York Metro Area has not completed their analysis.

Nonetheless, management agreed with all of the recommendations made in this report. Specifically management agreed to reassess all mail transport equipment and trailer requirements; explore alternatives for storing equipment; make better use of Postal Service owned warehouse facilities; and return 300 trailers to suppliers by February 1, 2003, at an estimated annual savings of $1.1 million. Management's comments are responsive to our recommendations and actions taken or planned should correct the issues identified in the report.

The OIG considers recommendations 1 and 2 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 the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, or need additional information please contact Joe Oliva, director, Transportation and Delivery, at 703-248-2100, or me at (703) 248-2300.

B. Wayne Goleski
Assistant Inspector General
for Core Operations

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APPENDIX A. COST OF EXCESS TRAILERS NOT USED TO TRANSPORT MAIL AND EQUIPMENT

Month/Year	High Number of Trips on any Day During Month (per TIMES)	High Number of Trailers Used on any Day During Month (per TIMES)
08/00	1,209	542
09/00	1,270	575
10/00	1,308	564
11/00	1,261	563
12/00	1,454	637
01/01	1,498	609
02/01	1,533	597
03/01	1,597	604
04/01	1,654	619
05/01	1,584	576
06/01	1,555	573
07/01	1,593	590
08/01	1,537	570
09/01	1,456	578
10/01	1,490	606
11/01	1,391	553
12/01	1,783*	660*
01/02	1,427	577
02/02	1,457	564
03/02	1,456	570
04/02	1,513	560
05/02	1,522	571
06/02	1,531	571
07/02	1,509	542
08/02	1,338	483

* Denotes Highest 1-Day Activity Recorded in TIMES During the 2-Years Reviewed

Average Current Cost per Common Fleet Trailer per Day = $8.81[5]

	Common Fleet Trailers Currently Leased Per Day:	2,471
	Minus Highest Number of Trips Recorded on Any Day During the Past 2 Years:	1,783
	Minimum Excess Number of Trailers Currently Leased:	688
Low-Range[6] Annual Expenditure on Excess Trailers:	688 X $8.81 X 365 days =	**$2,212,367**
	Common Fleet Trailers Currently Leased Per Day:	2,471
	Minus Highest Number of Trailers Recording Use During Any Day the Past 2 Years:	660
	Maximum Excess Number of Trailers Currently Leased:	1,811
High-Range[7] Annual Expenditure on Excess Trailers:	1,811 X $8.81 X 365 days =	**$5,823,542**

[5] Average based on actual common fleet lease payments made during FY 2002 accounting periods 4 through 9.
[6] Annual savings projection based on reducing leased trailers from current level (2,471) to the highest number of trips recorded in TIMES on the busiest day the past 2 years.
[7] Annual savings projection based on reducing leased trailers from current level (2,471) to the highest number of trailers recording use in TIMES on the busiest day the past 2 years (660).

APPENDIX B. MANAGEMENT'S COMMENTS

VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA

UNITED STATES
POSTAL SERVICE

January 13, 2003

Mr. B. Wayne Goleski
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Office of the Inspector General
1735 N. Lynn Street
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Subject: Draft Management Advisory–New York Metro Area Operational Use of Trailers–
(Report Number TD-MA-03-Draft)

Reference is made to the above subject matter. Enclosed are management's comments to subject recommendations:

Finding: The OIG believes that the New York Metro Area could save approximately $2.2 million per year by reducing their leased trailer inventory by at least 700 trailers. The OIG audit concluded that the New York Metro Area facilities might not have effectively used Common Fleet trailers. The OIG audit revealed that Common Fleet trailers were not being exclusively used for mail or MTE movement. Many trailers were also being used for on-site equipment storage.

Recommendation # 1: Determine storage requirements for mail transport equipment maintained for facilities in the NY Metro Area and explore alternative methods for storing necessary equipment.

NYMA Response: We concur with the intent of the IG recommendation. We agree that mail and MTE-moving Common Fleet trailers should not be used for long-term equipment storage. We also agree to explore better alternative methods for storing necessary equipment. We acknowledge that some of the common fleet has been used periodically for on-site equipment storage.

However, we disagree with the conclusion drawn by the OIG that the New York Metro Area could reduce its Common Fleet inventory by 700 trailers (and save $2.2 million per year). That conclusion was reached based on the OIG analysis of data extracted from the Transportation Information Management Evaluation System (TIMES) from August 2000 to August 2002. In that analysis, the OIG concluded that, "New York Metro Area's common fleet trailers recorded only about 1,800 trips transporting mail and equipment to and from area facilities". The OIG analysis does not take into account that there are Postal Service daily transportation operations that are not captured in TIMES. Some examples, but not limited to, are:

- 30 high volume major mailers who use USPS common fleet trailers daily to transport mail from their plants to Postal Service facilities. Mailer information is not captured in TIMES. The amount of trailers in mailer possession varies day to day, but may amount to several hundred in a given day.

- The two Mail Transport Equipment Service Centers (MTESCs) are not linked to TIMES. On an average day, the MTESCs may have approximately 300 to 400 Common Fleet trailers in their possession. Since the MTESC has a 72-hour window to process unworked MTE, these common fleet trailers are not in the TIMES database during this time period. That data is not captured in your analysis

- The Fort Dix Prison MTE Repair Center is in possession of some of our common fleet trailers. That data is not part of TIMES.

We believe that the specific assumptions arrived at by the OIG, from the data analysis extracted from TIMES, are misrepresented and therefore skewed. We strongly feel that a sudden reduction of the magnitude of 700 trailers would drastically impact New York Metro Area operations. We are in the process of returning 300 trailers to our suppliers (by Feb. 1st) which we believe responsibly addresses the excess trailer issue, but not negatively impact operations. This action would result in savings of approximately $1.1 million dollars.

As for specific actions that the New York Metro Area will take (or is currently engaged in), to satisfy the intent of the OIG recommendation, we submit the following:

- We have been directing our facility managers to make better use of the T-20 USPS-owned warehouse in Somerville NJ, a 240,000 square foot facility to store air containers, facility activation equipment, obsolete or excess equipment. Each Performance Cluster has been allocated specific space for storage. This will reduce the number of fleet trailers being used for storage. A copy of that memorandum is included with this response.

- We will revisit with Headquarters the OIG suggestion regarding excess Postal-owned trailers for short-term shortage. This is not a new idea. We pursued this course of action almost 2 years ago, but the idea was rejected by Headquarters NOM. They advised that the purchase of new USPS-owned trailers was contingent (as required in the DAR) on the one for one exchange with an old USPS-owned trailer. However, we agree with you that this is a good approach worth revisiting. We will pursue with Francis Eddy of Headquarters NOM.

- We will undertake a reassessment of all MTE requirements from each New York Metro Area facility with the intent of potentially eliminating any unnecessary excess-to-actual needs MTE that ultimately accumulates in many of our facilities. This may possibly lead to a reduction in the need for fleet trailers. We will begin that undertaking NLT than A/P 7 (February 22nd) and complete it within 60 days. We will notify the OIG of any resulting savings from this effort.

Our management action plans to curb the use of trailers for long-term storage of equipment (to address OIG Report TR-MA-01-001: March 30, 2001) were severely hampered by the extraordinary events of September 11th and the Anthrax issue in the New York metropolitan area. Many of our common fleet was tied up with temporary and replacement equipment (letter cases, flat cases, MTE, etc) for the Trenton and Church Street P&DCs interim facilities.

Recommendation # 2: Formulate common fleet trailer requirements based on actual mail and equipment transportation needs and not storage needs.

NYMA Response: We agree with the intent of the OIG's recommendation, but we disagree with the OIG's position that the New York Metro Area did not properly analyze or document trailer requirements (we previously addressed this issue in our response to OIG Report TD-MA-02-003). We will, however, reassess the data again to revalidate the requirements.

David L. Solomon

Attachment

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NEW YORK METRO AREA

UNITED STATES POSTAL SERVICE

January 10, 2003

DISTRICT MANAGERS
SENIOR PLANT MANAGERS

SUBJECT: T-20

In FY 2000, the New York Metro Area purchased from Headquarters a 240,000 square foot warehouse-type facility referred to as T-20 in Somerville, NJ. Through the efforts of Frank Tulino, the T-20 facility has been considerably upgraded and organized.

T-20 is ideal for longer-term storage and contingency storage (air containers, facility activation equipment, etc.). To facilitate the "best" utilization of the facility, I have asked Frank Tulino to allocate specific space to each Performance Cluster to ensure the accountability and integrity of your storage.

We are encouraging, in a systematic approach, the opportunity to clean up our facilities and fleet trailers of storage items that may be affecting operations. You need to designate if the material you plan to store is for general or specific storage. As an example: general storage may be a piece of automation being depreciated or equipment (scales, strapping machines), or equipment excess to your requirements.

It is also important we reduce the number of fleet trailers being utilized for storage. The recent Inspector General's report noted up to 40% of our lease trailers are for short (which is OK) and longer-term storage.

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