June 15, 2007

ELLIS BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Vehicle Management – National Trailer Lease Renewal – Southwest Area (Report Number NL-AR-07-005)

In September 2000, U. S. Postal Service Headquarters signed a National Trailer Lease to acquire trailers to transport mail. The contract plus renewal option was for a 12-year period and would cost the Postal Service more than $250 million over that period. In July 2006, the Postal Service executed the lease renewal for 6 years.

This report presents results from the Southwest Area portion of our nationwide audit of the National Trailer Lease renewal (Project Number 07XG007NL000). The objectives of our nationwide audit are to determine whether the trailer procurement was effective and to identify opportunities to save money. Because individual Postal Service areas control the National Trailer Lease fleet, our audit approach is regional. This report is one in a series of reports; it focuses on the Southwest Area and the 302 nationally leased trailers Postal Service Headquarters allocated to the area. The purpose of this audit was to determine whether the Southwest Area properly analyzed and reported trailer requirements in support of the National Trailer Lease procurement and to identify opportunities to save money.

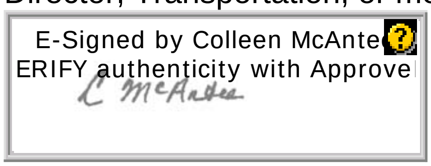
The National Trailer Lease renewal could have been more effective if the Southwest Area had improved trailer fleet management control, properly analyzed trailer requirements, and reported those requirements to Postal Service Headquarters before headquarters renewed the National Trailer Lease. However, because of weaknesses in fleet management control, the Southwest Area did not accurately identify its trailer requirements, and the Postal Service may have missed an opportunity to save $997,016 because Postal Service Headquarters leased more trailers than the Southwest Area needed.

The Postal Service can save $3,757,385 by properly analyzing requirements and returning unneeded trailers. We recommend that the Southwest Area improve management control, analyze trailer requirements, and return unnecessary trailers to the control of Postal Service Headquarters for reallocation or return them to the leasing contractor. We will report $997,016 in questioned costs and $3,757,385 in funds put to better use in our *Semiannual Report to Congress*.

Management agreed with our findings and recommendations. They stated they would strengthen management control, had already analyzed the number of trailers needed, would return some trailers by June 30, 2007, would conduct further evaluation and report that information along with their savings estimate by December 31, 2007. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General (OIG) considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the 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 audit. If you have any questions or need additional information, please contact Joe Oliva, Director, Transportation, or me at (703) 248-2100.



Colleen A. McAntee
Deputy Assistant Inspector General
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Attachments

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INTRODUCTION

Background

During fiscal year 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.

National Trailer Lease and other trailers at the Dallas Bulk Mail Center (BMC), Dallas, Texas, May 2, 2007.

In September 2000, the Postal Service signed a "National Trailer Lease" for 4,475 trailers with Transportation International Pool, Inc., a wholly-owned trailer and equipment leasing subsidiary of General Electric. The anticipated cost of the 12-year lease plus renewal option was more than $250 million. Management stated that the centralized national contract would:

- Reduce the average cost to lease a trailer from $11.57 to $10.21 per day.
- Save the Postal Service more than $2.2 million annually.
- Provide the flexibility to have trailer inventory only when and where trailers were needed because unneeded trailers could be returned to the leasing contractor.

In March 2002, the New York Metro Area requested 1,500 additional trailers under National Trailer Lease Phase II. The lease plus renewal option was 12 years, and the anticipated cost exceeded $40 million. New York Area officials explained that they were excluded when Postal Service Headquarters negotiated Phase I because their local contracts would not expire for 3 years.

Prior Report Coverage

We audited National Trailer Lease Phase I and Phase II and issued a series of reports. Collectively our reports concluded:

- The Postal Service could have saved money by purchasing needed trailers instead of leasing them.
- The acquisition decision did not comply with Postal Service policy or the analytical discipline commensurate with a $250 million trailer acquisition.
- The acquisition decision was not supported by reliable data, necessary documentation, or adequate records.
- The Postal Service did not adequately consider the number of trailers required, and consequently, may have leased more trailers than needed.
- The Postal Service did not have the inventory control necessary to identify unneeded trailers so those trailers could be returned to the leasing contractor.
- The Postal Service was improperly storing equipment in costly roadworthy national lease trailers when non-roadworthy storage trailers or other cost effective storage solutions were available.

Management agreed that New York (National Trailer Lease Phase II) already had more trailers than needed, agreed to immediately return 300 trailers to suppliers, and estimated that returning trailers would save more than $1 million annually. They acknowledged that Postal Service computer data was unreliable and did not accurately capture all operational requirements. Management further stated that they needed a comprehensive analysis to determine if their trailer leasing decision was appropriate, and agreed to conduct that analysis, improve inventory control, return any unneeded trailers to the leasing contractor, and reinforce their policy precluding equipment storage in national lease trailers. For additional information on our reports see Appendix A.

Lease Contract Renewal

On July 1, 2006, the Postal Service signed a renegotiated 6-year lease renewal. The new agreement reduced the lease cost to $10.07 per trailer per day and was intended to:

- Improve inventory control 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.

Trailer Allocation to the Southwest Area

Under the National Trailer Lease, Postal Service officials allocated 302 trailers to Southwest Area, which subsequently assigned 300 to the Dallas Bulk Mail Center (BMC). The Southwest Area assigned the other two trailers to the Albuquerque Processing and Distribution Center (P&DC).

Three hundred trailers, or more than 99 percent of all National Trailer Lease trailers allocated to the Southwest Area, are assigned to the Dallas BMC.

National Trailer Lease and other trailers in the Dallas BMC yard, May 2, 2007.

This is a nationwide audit. Because individual Postal Service areas control the National Trailer Lease fleet, our audit approach is regional. This report is one in a series of reports and focuses on the Postal Service Southwest Area.

Objectives, Scope, and Methodology

The objectives of our nationwide audit are to determine whether the trailer procurement was effective and identify opportunities to save money. The purpose of this audit was to determine whether the Southwest Area properly analyzed and reported trailer requirements in support of the National Trailer Lease procurement, and to identify opportunities to save money.

During our work, we interviewed Postal Service officials at headquarters and in the Southwest Area and visited the Dallas BMC and other facilities in and around Dallas. We observed and photographed operations, inspected trailers, interviewed supervisors and employees, and examined applicable Postal Service policies and procedures. Because more than 99 percent of the trailers allocated to the Southwest Area were assigned to the Dallas BMC, we limited our physical inspections and analysis to trailers assigned to that facility.

National lease trailer leaving the Dallas BMC for the North Texas P&DC, May 2, 2007.

We used computer-assisted analysis techniques to examine computer data in management's Transportation Information Management Evaluation System (TIMES) for the period October 1, 2004, to September 30, 2006. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that 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 examining 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. For details about our monetary impact methodology, see Appendix B.

We conducted work associated with this report from December 2006 through June 2007 in accordance with generally accepted government auditing standards, and included such tests of internal controls as we considered necessary under the circumstances.

AUDIT RESULTS

National Trailer Lease Fleet Management

The National Trailer Lease procurement could have been more effective if the Southwest Area had:

- Improved management control of the trailer fleet.
- Properly analyzed Southwest Area trailer requirements.
- Reported accurate Southwest Area trailer requirements to Postal Service Headquarters before headquarters renewed the National Trailer Lease.

However, because of weaknesses in fleet management control, the Postal Service may have missed an opportunity to save $997,016 because headquarters leased more trailers than needed for the Southwest Area.

National Trailer Lease equipment and other trailers at the Dallas BMC, January 9, 2007.

We analyzed trailer usage for October 1, 2004, through September 30, 2006, and concluded that the Southwest Area did not have the management control necessary to identify unneeded trailers so those trailers could be returned to the leasing contractor. However, the Postal Service can save $3,757,385 by improving control and taking advantage of the lease provisions that allow the Postal Service to return unneeded trailers.

Postal Service transportation operations are dynamic and vehicle requirements change constantly. As discussed in the objectives, scope, and methodology section, Postal Service data has certain limitations. Therefore, throughout our audit, we coordinated with local transportation managers to gain their on-site perspective. In January 2007, as a follow-up to our data analysis, we visited Dallas to talk to local managers, observe operations, and inspect trailers. We noted that management had taken some steps to improve control, such as installing satellite tracking devices on all trailers. However, the area's National Trailer Lease inventory was still larger than needed because management control was inadequate, Southwest Area transportation managers had not prepared for the lease renewal by properly analyzing trailer requirements, and regional facilities were improperly using more than 43 percent of nationally leased trailers to store equipment.

Postal Service policy requires vehicle managers to analyze trailer requirements to determine whether trailers are needed for Postal Service operations.

National lease trailers located in the Dallas BMC yard, January 10, 2007.

Management Control

In response to our inquiries, local managers identified various control weaknesses. For example, during our January 2007 site visit, local managers explained that they:

- Had not analyzed how many trailers they needed for transportation; instead, they assumed that a trailer in place before lease renewal implied a valid requirement.
- Could not specify how all trailers were used, or whether all trailers were needed.
- Had not been trained on the satellite tracking system and had not used it.

- Had not performed a trailer inventory since November 21, 2006.

- Could not locate two trailers assigned to them because their inventory records were incomplete. The unaccounted-for trailers were worth about $40,000.

- Frequently used national lease trailers to store mail transport equipment.

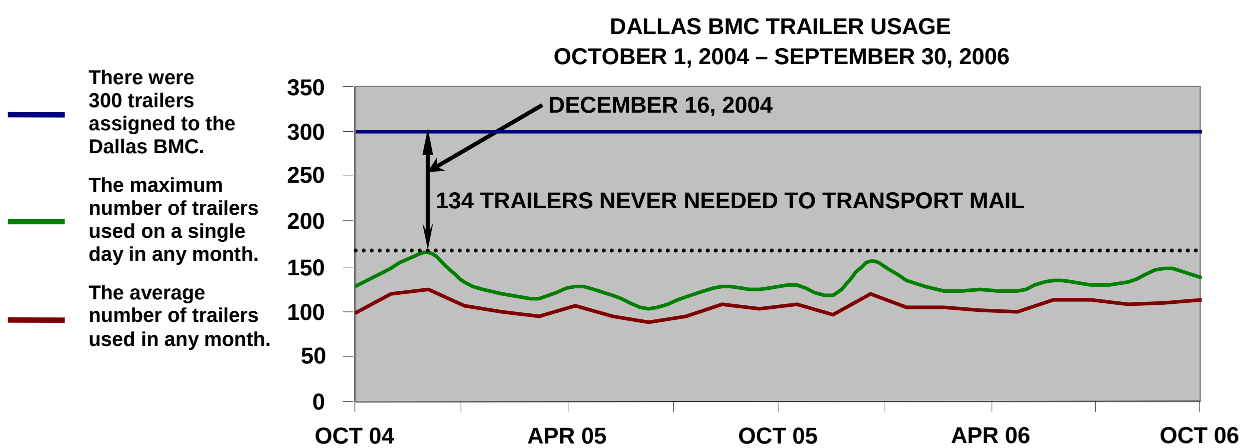
Trailer Usage

In addition to analyzing trailer fleet control weaknesses, we examined trailer usage. As shown in the following chart, Postal Service TIMES data indicated:

- On average, only 105 trailers, or about one-third of the total 300 trailers allocated to the Dallas BMC, were used every day.

- In 2 years, the maximum number of trailers used on a single day was 166; this maximum was reached on December 16, 2004.

- Consequently, 134 trailers, or more than 44 percent of the 300 trailers allocated to the Dallas BMC, were not needed to move mail.



Equipment Storage

The National Trailer Lease is intended to provide trailers to meet transportation requirements. The Southwest Area had too many roadworthy national lease trailers in part because the area was using these roadworthy trailers to store equipment. Our inspections of National Trailer Lease equipment at the Dallas BMC, the Dallas P&DC, North Texas P&DC, Fort Worth P&DC, and the Dallas Airport Mail Center, identified 130 trailers loaded with equipment. This represents more than 43 percent of the nationally leased trailers assigned to the Southwest Area. Storing equipment in nationally leased trailers is inconsistent with Postal Service policy. A Postal Service Headquarters policy letter dated August 11, 2004 (see Appendix C) states that storing equipment in trailers leased for transportation is an excessive and costly practice. The letter specifies that any trailer storage requirement be analyzed and validated, and that Postal Service policy is to fill storage requirements with non-roadworthy trailers at lower rates.

These national lease trailers were loaded with pallets at the Dallas BMC, January 9, 2007.

Implementation and Audit Exit Conference

On May 3, 2007, we met with the Vice President, Southwest Area Operations, and the Area Manager, Operations Support. The officials agreed with our report and recommendations. They said they had already begun reviewing National Trailer Lease requirements, would review alternatives for equipment storage, and believed they could reduce the number of trailers assigned to the Southwest Area and Dallas BMC.

Recommendations

We recommend the Vice President, Southwest Area Operations:

1. Strengthen management control over National Trailer Lease equipment allocated to the Southwest Area.

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.

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

Management's Comments

Management agreed with our findings and recommendations, stating they:

- Would strengthen management control by raising awareness of trailer utilization;

- Had already analyzed the number of trailers needed to transport mail and equipment, determined some trailers could be returned this month, and would return the trailers no later than June 30, 2007;

- Would further evaluate the number of trailers needed and report that information by December 31, 2007; and

- Would research cost-effective storage space opportunities to offset the practice of storing equipment in trailers.

Management also agreed there were savings to be captured and they would report their savings estimate when they completed their further evaluation. Management's comments, in their entirety, are included in Appendix D.

Evaluation of Management's Comments

Management's comments are responsive to the findings and recommendations. Management's actions taken or planned should correct the issues identified in the findings.

APPENDIX A

PRIOR REPORT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact
Safety and Security of the Postal Service Leased Trailer Fleet	TR-AR-01-002	Mar 30, 2001	$17,561,800
Leased Trailer Deficiencies in the New York Metro Area	TR-MA-01-001	Mar 20, 2001	0
Management Advisory – Trailer Damage	TD-MA-02-002	Mar 22, 2002	5,000,000
Trailer Lease Justification	TD-AR-02-002	Mar 29, 2002	85,000,000
Trailer Damage Video Report	TD-VD-02-001	Mar 9, 2002	0
New York Metro Area Trailer Acquisition Requirements	TD-MA-02-003	Jul 10, 2002	0
New York Metro Area Trailer Acquisition – Safety and Length	TD-AR-03-001	Oct 28, 2002	0
New York Metro Area Operational Use of Trailers	TD-MA-03-001	Jan 29, 2003	4,424,734
New York Metro Area Trailer Acquisition – Safety and Length Video	TD-VR-03-001	Feb 5, 2003	0
New York Metro Area Trailer Acquisition – Lease versus Buy	TD-AR-03-009	Mar 31, 2003	4,021,234
Vehicle Management – Trailer Requirements – Northeast Area	NL-AR-04-006	Sep 30, 2004	9,316,625
Vehicle Management – National Trailer Lease – A.T. Kearney, Inc. Analysis	NL-ID-06-002	Feb 6, 2005	0
Vehicle Management – National Trailer Lease – Unresolved Audit Recommendations	NL-MA-05-001	Apr 21, 2005	0
Vehicle Management – National Trailer Lease Requirements – Capital Metro Area	NL-AR-06-013	Sep 29, 2006	1,916,648
Total Number of Reports: 14			$127,241,041

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

The Postal Service may have missed the opportunity to save almost $1 million because it leased more trailers than the Dallas Bulk Mail Center needed.

Cost of leased trailer per day, October 1, 2004, through June 30, 2006 = $10.21
Cost of leased trailer per day, July 1, 2006, through September 30, 2006 = $10.07

Common fleet trailers leased daily at the Dallas Bulk Mail Center:	300
Minus the highest number of trailers recording use on any 1 day between October 1, 2004, and September 30, 2006:	166
Minimum excess number of trailers leased:	134

Number of days from October 1, 2004, through June 30, 2006 = 638
Number of days from July 1, 2006, through September 30, 2006 = 92

$10.21 per day x 134 trailers x 638 days =	$872,873
$10.07 per day x 134 trailers x 92 days =	124,143
Total missed savings opportunity =	**$997,016**

The Postal Service can save almost $3.8 million during the next 10 years of the National Trailer Lease by returning unneeded trailers.

Cost of leased trailer per day = $10.07

Trailers leased at the Dallas BMC	300
Minus maximum number of trailers with recorded use on any 1 day between October 1, 2004, and September 30, 2006:	166
Minimum excess number of trailers leased:	134

Potential 10-year savings on returned trailers:

$10.07 per day x 134 trailers x 365 days x 10 years =	**$4,925,237**
Present value of savings using the Postal Service Finance discount rate of 5.25 percent =	**$3,757,385**

** Any associated costs to replace national lease trailers with alternative storage methods for material and equipment will affect the potential savings for the remaining life plus the renewal option of the lease.

APPENDIX C

POLICY FOR EQUIPMENT STORED IN LEASED (SERVICE) TRAILER

MANAGER, LOGISTICS

UNITED STATES
POSTAL SERVICE

August 11, 2004

MANAGERS, DISTRIBUTION NETWORKS (AREA)

SUBJECT: Policy for Equipment Storage in Leased (Service) Trailers

As you know, previous audits conducted by the Office of Inspector General (OIG) cited inefficient management and misuse of the service trailer fleet. In April 2001, we provided you with a summary of the deficiencies reported in the OIG audit and shared management's response to the recommendations for corrective action.

In a recent OIG audit completed in June 2004 to revisit this issue, the practice of using leased (service) trailers for transportation to store mail transport equipment (MTE) continues to be excessive and costly. To ensure that the Postal Service honors its commitment to improve fleet utilization and reduce expenses, the following policy is established to clarify guidelines for appropriate use of leased (service) trailers for storage:

- *Leased (service) trailers may be acquired to store equipment and materials when area storage space is not available. This instruction is in accordance with Handbook AS-701, Material Management, Section 385 – Policy on Trailers for Storage.*

- *When storage space for MTE is required, space requirements must be initially coordinated with the serving Distribution Network Office. Analyze and validate trailer requirements as described in Handbook AS-701, Section 384.22, Identifying Detailed Elements. The area Distribution Network specialist will forward all requests to headquarters Manager, MTE Program, who will, along with the manager of Material Distribution, review the request.*

Acquisition of trailers for storage will be evaluated based on best value for the operation. It is the policy of the Postal Service to award contracts for storage use by acquiring non-road worthy trailer equipment to obtain lower rates.

For assistance in acquiring trailers for storage, please contact Jack Mitchell at (202) 268-4655, Surface Mail Transportation Category Management Center or Gregorio Garcia, Surface Operations (202) 268-5954.

Tony Pajunas

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Ms. Van Soest
Mr. Sykes

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APPENDIX D. MANAGEMENT'S COMMENTS

Ellis A. Burgoyne
Vice President, Southwest Area Operations

UNITED STATES POSTAL SERVICE

June 8, 2007

KIM H. STROUD
DIRECTOR, AUDIT REPORTING
1735 NORTH LYNN STREET
ARLINGTON, VA 22209-2020

SUBJECT: Vehicle Management – National Lease Trailer Lease Renewal Southwest Area (Report Number – NL-AR-07-DRAFT)

Southwest Area agrees that management control should be strengthened over the National Trailer Lease equipment. In support of our position, we have analyzed the number of trailers needed to transport mail and equipment and have identified trailers that can be returned to the leasing contractor. We will re-evaluate the number of trailers required within 6 months and will provide that information by December 31, 2007.

Recommendation (1):

Strengthen management control over National Trailer Lease equipment allocated to the Southwest Area.

Response (1):

We agree that management control over National Trailer Lease equipment allocated to the Southwest Area should be strengthened. We have raised the awareness of trailer utilization and required all metroplex area plants to release all roadworthy trailers currently being utilized for equipment storage.

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.

Response (2):

We agree that the trailer utilization needed to be analyzed. The Dallas Bulk Mail Center has performed an assessment of their assigned lease trailer fleet and determined that trailers can be returned this month. Further evaluation will be conducted on trading off some other roadworthy trailers for non-roadworthy trailers.

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Fax: 214-905-8227

The Dallas BMC will make the trailers available to the Southwest Area Distribution Networks office for return no later than June 30, 2007.

Recommendation (3):

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

Response (3):

We will continue to research cost-effective storage space opportunities for mail transport equipment that may offset the continued practice of storing equipment on trailers. At present we have not identified any storage space that can be used at any of the existing facilities.

Monetary Impact:

We agree there are savings to be captured, and will provide the actual savings by December 31, 2007.

If any additional savings are identified, we will provide that information as it becomes available.

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Lynn Forness
Katherine S. Banks
Rowena C. Dufford