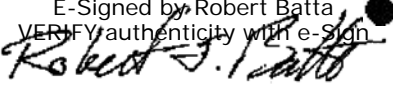




September 1, 2015

**MEMORANDUM FOR:** SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

LINDA M. MALONE  
VICE PRESIDENT, NETWORK OPERATIONS

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


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

**SUBJECT:** Management Alert – Leased Trailer Damage Payments  
(Report Number NO-MA-15-005)

This management alert presents our concerns with invalidated and unsupported leased trailer damage claim payments to suppliers (Project Number 15XG034NO000). We also found that the U.S. Postal Service needs to avoid or recover associated daily lease payments for trailers that are out of service for more than 10 days for repair. Damaged trailer claims have averaged about \$2.1 million per year nationwide over the last 2 fiscal years. These issues came to our attention during our ongoing project, *Use of Leased Trailers – Western Area* (Project Number 14XG025NO002).

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

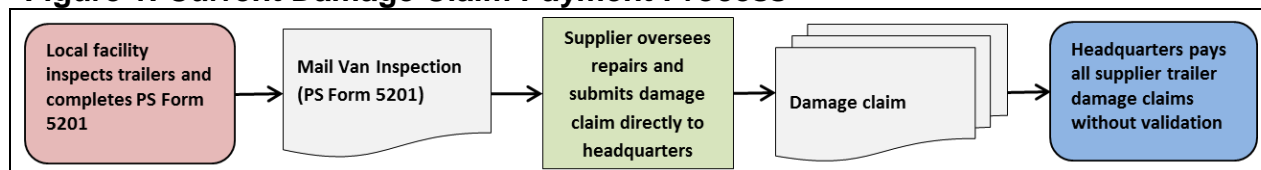
**Introduction**

We are issuing this alert due to an urgent need for the U.S. Postal Service to ensure trailer damages are validated and documented before payments are issued to suppliers and to avoid or recover excess daily trailer lease rate payments for out-of-service trailers.

The Postal Service leases over 8,000 trailers nationwide to fulfill its surface transportation needs. The trailers are assigned to specific facilities, with each Postal Service area responsible for the trailers it uses. The leased trailer contracts include provisions for trailer damages that may occur through negligent acts of Postal Service employees or its agents. Accordingly, the contractual terms and conditions allow the supplier to file a claim for the actual cost of returning the trailer to its pre-damaged condition.

Trailer contracts reference Management Instruction PO-530-2001-2, *Processing Trailer Damage Claims*, dated May 24, 2001, for submitting and processing trailer damage claims caused by Postal Service negligence. Contract terms and conditions set a minimum for damage repair costs per single incident before the Postal Service is responsible. Generally, this amount is \$1,000; however, there are older contracts with either a \$250 or no set minimum. All documents supporting damage claims are submitted directly by suppliers to Postal Service Headquarters for payment. The local facilities' input is limited to what is communicated regarding the nature, scope, extent, and cause of the damage, via Postal Service (PS) Form 5201, Mail Van Inspection, which is provided to the supplier. We outlined the process flow in Figure 1.

**Figure 1. Current Damage Claim Payment Process**



Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

Additionally, the Postal Service allows 10 days for trailer repairs during which regular daily lease rates continue to accrue to the supplier. If repairs go beyond 10 days, suppliers should provide a replacement trailer at the Postal Service's request. If no replacement trailer is provided, the Postal Service is not required to continue the regular daily lease payments on the trailer.

## Conclusion

We determined the Postal Service leased trailer damage claim payment process is not effective. We reviewed 935 trailer damage claim payments nationally,<sup>1</sup> from February 25, 2014, through May 21, 2015. We found 887, or 95 percent, did not have all the required supporting documentation to properly process and pay trailer damages. The Postal Service's "Supplying Principles and Practices"<sup>2</sup> require that any method to ensure payment must have effective controls and procedures to ensure proper authorization, acceptance, and payment to safeguard the interests of the Postal Service.

As reflected in Table 1, more than half of the claims we reviewed (52 percent) did not include PS Form 5201, which is the first step in filing a damage claim. This also presents the opportunity to validate that damage occurred due to Postal Service negligence. Although 74 percent of the claims reviewed contained a repair invoice showing that work was completed, there was no validation from local Postal Service officials that work was actually completed before the trailer was returned to service. Additionally, in 51 percent of the claims, there was no photographic evidence present to show damage and completed repairs. The other required documentation, shown in Table 1, serves as specific controls. See [Appendix A](#) for more details.

**Table 1. Review of Damage Claims for Required Documentation and Evidence**

Results	Form PS- 5201 <sup>3</sup>	Form SF-95 <sup>4</sup>	Estimate <sup>5</sup> 1	Estimate 2	Evidence <sup>6</sup>	Repair Invoice
Document Not Present	487	141	605	836	479	241
Document Present	448	794	330	99	456	694
Total Claims Reviewed	935	935	935	935	935	935
<b>Percentage Not Present (non-compliance)</b>	<b>52%</b>	<b>15%</b>	<b>65%</b>	<b>89%</b>	<b>51%</b>	<b>26%</b>
Percentage Present	48%	85%	35%	11%	49%	74%

Source: Requirements are based on Management Instruction PO-530-2001-2 and contract terms and conditions. Summary of OIG damage claim review in Postal Service Headquarters contract files.

Additionally, we noted damage claims that combined multiple incidents into a single claim, contrary to requirements. Some claims were the result of normal wear and tear

<sup>1</sup> The contracting officer for all leased trailers is located at headquarters in the Fuel and Trailer Category Management Center and initiates payment through the Transportation Contract Support System.

<sup>2</sup> The Supplying Principles and Practices are intended to provide internal advice and guidance to Postal Service professionals on approaches to performing supply chain management functions.

<sup>3</sup> Mail Van Inspection Form, see [Appendix A](#) for description, and [Appendix B](#) for example.

<sup>4</sup> Claim for Damage, Injury, or Death, see [Appendix A](#) for description.

<sup>5</sup> For damages over \$100, two repair estimates must be obtained and submitted with the SF-95.

<sup>6</sup> The requirement is actually, "include estimates and all supporting documentation, such as photos, accident reports, witness statements and/or notes from physical inspection of the equipment to substantiate the claim." However, the evidence is almost always photos.

but were incorrectly submitted as damage claims caused by Postal Service negligence. See examples in Figure 2.

**Figure 2. Combined Events and Wear and Tear Included as Damage Claims**



The bumper was bent and replaced. It was showing heavy corrosion.



Roller door failure may be attributed to rusted hinge and roller mechanism.

Source: These photographs are from the contract files at Postal Service Headquarters for paid damage claims. The damage claim invoice was dated April 30, 2015 for leased trailer number 2025026.

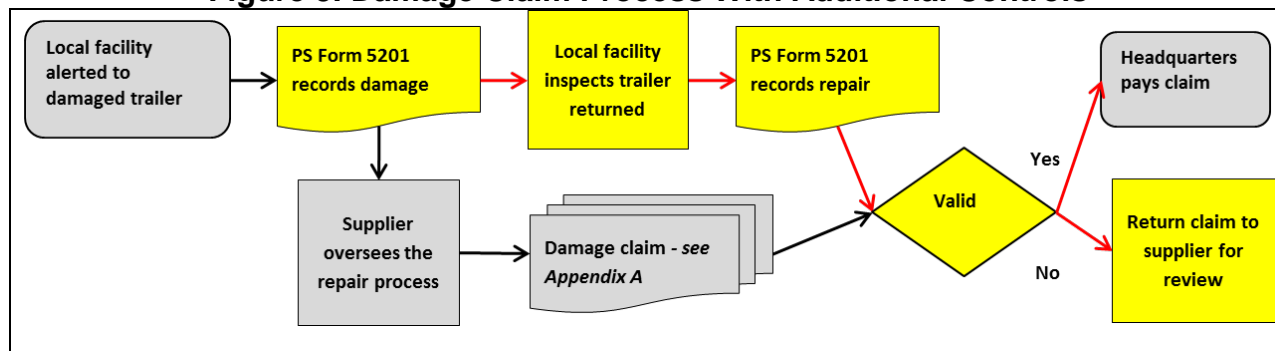
These conditions occurred because of the lack of effective controls over the payment process. Specifically:

- The payment process does not ensure trailer damage claims are valid. Postal Service Headquarters receives claim documentation directly from the supplier as opposed to receiving a local area initiation of the transaction.
- Postal Service Headquarters is not following payment policy and procedures, including requiring suppliers to furnish all required supporting documentation.
- The Postal Service does not have a process to validate repairs were adequately completed by local areas receiving the trailer back into service.
- There are no procedures to ensure that trailer damages are due to the Postal Service's negligence, as opposed to repairs and maintenance, and to ensure the claims are for a single, vs. multiple, damage incident.
- PS Form 5201 is inadequate. It does not require a printed name and contact information of the local official signing and authorizing the damage claim. See [Appendix B](#) for details.

Postal Service Headquarters was unable to locate or identify contract terms and conditions for some older contracts related to damage claims, yet the term and conditions are still in force.

Compared to the current payment process shown in Figure 1, the Postal Service lacks the proper controls needed to ensure the integrity of the damage claim payment process. Figure 3 details the payment process with the proper controls highlighted.

**Figure 3. Damage Claim Process With Additional Controls**



Source: OIG analysis.

Overall, the process does not provide sufficient support and validation to allow Postal Service Headquarters to adequately assess the reasonableness and validity of damage claims prior to payment. As a result, the Postal Service paid about \$1.8 million in fiscal year (FY) 2013 and \$2.3 million in FY 2014 in unsupported costs<sup>7</sup> for trailer damage claims. Some of the paid claims were due to wear and tear as opposed to damage due to negligence.

The lack of controls over the verification and documentation process creates opportunities for fraud, waste, and abuse.<sup>8</sup> PS Form 5201 does not identify whether a required repair was due to negligence or normal wear and tear. Some forms we viewed were simply a list of items requiring repairs. Moreover, headquarters currently pays on one copy, which is sent from the supplier. Since PS Form 5201 serves as authorization from local Postal Service facilities' management that a claim may exist, a copy should also go directly from the local facilities to headquarters. This would help deter some types of fraud by repair contractors, such as creating fictional claims.

We also found local facility officials generally have not taken appropriate steps to obtain replacement trailers or stop daily trailer lease payments when trailers are out of service beyond 10 days. These actions were not taken because local plant managers were not always aware of the contract terms and the process for executing them. Further, there has been inadequate oversight and guidance from Postal Service Headquarters, where the contracting officer functions reside. In FYs 2013 and 2014, we estimated about \$496,000 annually was paid in excess for the days trailers were out of service beyond the 10-day authorized service period.<sup>9</sup> If these procedures are effectively followed and enforced, about \$496,000 could be avoided annually over the next 2 years.

<sup>7</sup> Although 5 percent of the claims met all documentation requirements, we were unable to determine whether those claims were proper since there is no validation process.

<sup>8</sup> We are referring claims information to our Office of Investigations for further consideration.

<sup>9</sup> There are stricter days allowed for maintenance, but that level of detail is not available in the records.

## Management Actions

In December 2014, the Postal Service issued an additional leased trailer policy supporting the implementation of its Solutions for Enterprise Asset Management - Trailer Management module. The Trailer Services Team at headquarters provided seven training webinars in early May 2015, for more than half the contracting officer's representatives. Training included the damage trailer repair documentation and processing requirements. The Postal Service expects the module will provide a platform for tracking repairs and uploading supporting documentation. However, the scheduled completion date for this Trailer Management module has been extended to May 2016 due to many data limitations and trailer documentation issues.

## Recommendations

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

1. Review and update damage claims policy and procedures.
2. Ensure all policies and procedures for damage claims are being enforced before payments are issued.
3. Ensure suppliers provide all supporting documentation for damage claims as required in the contract terms and conditions on leased trailers and that the claims represent a single damage incident caused by Postal Service negligence.
4. Identify any improper damage claim payments already made and initiate recovery of those payments where practical.
5. Ensure all responsible local Postal Service personnel follow terms and conditions to timely request substitute trailers or pay adjustments if repairs go beyond 10 days, and ensure they submit payment adjustments to recoup the daily trailer lease rate beyond the allotted 10 day period.

## Management's Comments

Management generally agreed with the findings, recommendations, and monetary impact.

Regarding recommendation 1, management stated they provided guidance and training to support the deployment of the Solution for Enterprise Asset Management system. The current damaged claim process is outlined in *Management Instruction PO-530-2011-2 Processing Trailer Damage Claims* - dated May 24, 2001, and management will review and update the policy as necessary. The target implementation date is April 2016.

Regarding recommendation 2, management stated they appointed a Contracting Officer's Representative (COR) at every facility with leased trailers and provided training on COR responsibilities. The Category Management Center will review all internal review processes, strengthen procedures, and implement changes to ensure leased trailer damage claims are validated before payment. The target implementation date is October 2015.

Regarding recommendation 3, management stated they would communicate to all suppliers to reinforce policies and procedures for processing damaged claims and documentation requirements. The target implementation date is October 2015.

Regarding recommendation 4, management agreed to review claims and determine if there are circumstances that warrant payment recovery and to the extent practical, initiate recovery. The target implementation date is July 2016.

Regarding recommendation 5, management stated they would communicate policy and procedures for days out for service to all CORs to ensure a substitute trailer is requested, or a deduction from daily trailer usage as appropriate. The target implementation date is October 2015.

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 in the report.

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

**Appendix A: Trailer Damage Claims Process**

Management Instruction *PO-530-2001-2*, outlines the requirements for trailer damage claims. See Table 2.

**Table 2. Requirements for Damage Claims**

Requirement	Explanation
<b>General Requirements</b>	
Negligence	The Postal Service is only liable for leased trailer repairs if the damages were due to negligence. Suppliers should not submit claims covering routine maintenance and repairs for normal “wear and tear.”
Single Incident	Suppliers are prohibited from combining multiple incidents of damages into one claim to meet the contract threshold.
Contract Minimum	Most contract terms state that the Postal Service will be only liable for trailer damages exceeding \$1,000 resulting from Postal Service negligence. Trailer lease contract terms specifically state the Postal Service will not be responsible for any damage below the \$1,000 requirement. Some older contracts, which were carried over without solicitation, continue to contain older terms of \$250 or no minimum for damages.
Documentation	In order for the Postal Service to process payment for trailer damages, suppliers must provide all necessary supporting documentation with the damage claims, as specified below.
<b>Documentation Requirements</b>	
PS Form 5201	The local facilities’ management is required to complete the PS Form 5201, which includes the nature of the damage, date, trailer number, and signatures, see <a href="#">Appendix B</a> . This form is used for events other than damage claims (such as repairs for maintenance). The section on the left of the form serves as authorization acknowledging the damages were caused by the Postal Service. Proper completion of this form reduces the risk of unauthorized invoice submissions, claims that are normal wear and tear, and multiple claims for the same event.



SF 95	This is the standard form for making a claim against the federal government. The claimant, under penalty of a false claim, states the amount of property damage and certifies that the damages are only from the incident. The management instruction also requires a statement that the damage was caused by Postal Service negligence. This form serves as a preventative control to discourage submission of fraudulent claims.
Two repair estimates	For damages over \$100, the supplier must provide two repair estimates. This requirement reduces the risk of collusion between the leased trailer supplier and its preferred repair contractor.
Supporting documentation	Suppliers are required to include all documentary evidence, such as photos <sup>10</sup> of damages, accident reports, witness statements, and/or other pertinent documentation to substantiate the damage claims. The required supporting documentation serves to authenticate the occurrence of damage incidents and assist in validating the claims.
Proof that repairs have been completed	Proof <sup>11</sup> that repairs were completed is required. Proper documentation supporting the repairs reduces the risk of incomplete substandard repairs or non-completed work.

Source: OIG analysis.

<sup>10</sup> In our observations, when “supporting documentation” was present, they were principally photos.

<sup>11</sup> As noted in the Management Actions section, this will be covered going forward by requiring facilities to complete the right side of the respective PS Form 5201.

**Appendix B: Trailer Damage Claims – Examples of Mail Van Inspection Form**

In our observations and discussion with Postal Service management, we identified weaknesses with PS Form 5201, which is used for several other purposes. For example, Figure 4 was a paid claim with a signature; however, it is difficult to determine the approving official. The form should include fields for printing the name and contact information. Reduced traceability and verification increases the risk of fraud.

**Figure 4. Example Mail Van Inspection Form**

U.S. Postal Service MAIL VAN INSPECTION										
Post Office				Date						
VAN CONDITION										
<p>KEY: To identify damages use the following symbols and place in exact location on diagrams.</p> <p>CI - Damage or Break in Interior Cargo Compartment Lining                      B - Bruise (Dent or Bump; no break in body metal)                      C - Cut (Dent or Bump; break in body metal)                      S - Scratch (Small abrasion)</p> <p style="text-align: right;">H - Hole in body                      BR - Broken (Broken parts)                      CR - Cracked (Cracked parts)                      PM - Part Missing (missing hub cap, door handle, etc.)</p>										
Initial Receipt Inspection (Before)				Return Receipt Inspection (After)						
LEFT SIDE		FRONT		LEFT SIDE		FRONT				
TOP		REAR		TOP		REAR				
RIGHT SIDE		REAR		RIGHT SIDE		REAR				
BRAKES		FLAPS		BRAKES		FLAPS				
GLAD HANDS OR AIR HOSE				GLAD HANDS OR AIR HOSE						
TARP				TARP						
LANDING GEAR				LANDING GEAR						
DOORS <i>1 missing</i>				DOORS						
LIGHTS				LIGHTS						
CLEARANCE		STOP		TAIL		INDICATOR				
T I R E S	POSITION	CONDITION	POSITION	CONDITION	POSITION	CONDITION	POSITION	CONDITION		
	R.O. Front		L.O. Front		R.O. Front		L.O. Front			
	R.I. Front		L.I. Front		R.I. Front		L.I. Front			
	R.O. Rear		L.O. Rear		R.O. Rear		L.O. Rear			
	R.I. Rear		L.I. Rear		R.I. Rear		L.I. Rear			
SPARE		SPARE		SPARE		SPARE				
TIME OUT		A.M.	P.M.	Date		TIME IN		A.M.	P.M.	Date
The above unit was received from the contractor this day in good condition, except as noted below:				The above unit was returned to the contractor as originally received, except as follows:						
				<i>Patch woodwork, corner radius</i>						
				<i>at top</i>						
				<i>Straighten rear rail</i>						
				<i>Replace tube on ICC bumper</i>						
CERTIFICATION										
This is to certify that the van indicated has been examined at time of receipt and deficiencies noted above.				This is to certify that the van indicated has been examined at time of return and deficiencies noted above.						
Postmaster's Signature				Postmaster's Signature						
Contractor's Signature (Mail Transportation)				Contractor's Signature (Mail Transportation)						

PS Form 5201, Apr. 1988

(Previous edition usable)

Source: Damage claims from contract files at Postal Service Headquarters.

## Appendix C. Management's Comments



August 28, 2015

LORI LAU DILLARD

SUBJECT: Response to Draft Management Alert - Leased Trailer Damage Payments  
(Report Number NO-MA-15-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject report. The Postal Service continues to implement enhancements to the leased trailer program that will improve asset tracking and program oversight. Management is in general agreement with the findings, recommendations, and monetary impact associated with the draft report. The recommendations are addressed separately below.

### **OIG Recommendations**

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

**Recommendation 1:** Review and update the damage claims policy and procedures.

**Management Response/Action Plan:** Management agrees. When implementing the Trailer Management module in the Solution for Enterprise Asset Management (SEAM), the Postal Service provided guidance and training to support the deployment. The Postal Service will continue to explore the feasibility of using SEAM to enhance the leased trailer damage claim process. The damaged claim process is described within Management Instruction PO-530-2001-2 *Processing Trailer Damage Claims* – dated May 24, 2001. This policy and associated documents will be reviewed and updated as necessary to strengthen the controls over the validation and documentation process for leased trailer damage claims.

**Target Implementation Date:** April 2016

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

**Recommendation 2:** Ensure all policies and procedures for damage claims are being enforced before payments are issued.

**Management Response/Action Plan:** Management agrees. The Postal Service Contracting Officer appointed a Contracting Officer's Representative (COR) for each facility that has leased trailers and provided training in May 2015 that included COR responsibilities associated with the

procedures and documentation of trailer damage. Additionally, the Vice President, Supply Management has directed that, within the next 30 days, the Manager, Fuel Management Category Management Center in conjunction with the Contracting Officer, assess the current internal review process and strengthen procedures and implement any new review procedures for the team to ensure leased trailer damaged claims are properly validated before payment is made.

**Target Implementation Date:** October 2015

**Responsible Official:** Manager, Fuel Management Category Management Center, Supply Management

**Recommendation 3:** Ensure suppliers provide all supporting documentation for damage claims as required in the contract terms and conditions on leased trailers that represent a single damage incident caused by Postal Service negligence.

**Management Response/Action Plan:** Management agrees; and, will issue a communication to the leased trailer suppliers that will:

- Reinforce policies and procedures for processing damaged claims.
- Notify all trailer suppliers of required documenting procedures;
- Clarify the “single damage cause for a single incident”

**Target Implementation Date:** October 2015

**Responsible Official:** Manager, Fuel Management Category Management Center, Supply Management; in coordination with Manager, Surface Transportation Operations, Network Operations

**Recommendation 4:** Identify any improper damage claim payments already made and initiate recovery of those payments where practical.

**Management Response/Action Plan:** Management agrees and will review and determine the nature of the claims, assess if circumstances warrant recoupment (i.e., wear and tear vs damage), and will pursue recoupment to the extent practical.

**Target Implementation Date:** July 2016

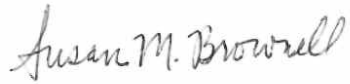
**Responsible Official:** Manager, Fuel Management Category Management Center, Supply Management; in coordination with Manager, Surface Transportation Operations, Network Operations

**Recommendation 5:** Ensure all responsible local Postal Service personnel follow terms and conditions to timely request substitute trailers or pay adjustments if repairs go beyond 10 days, and ensure they submit payment adjustments to recoup the daily trailer lease rate beyond the allotted 10 day period.

**Management Response/Action Plan:** Management agrees with this recommendation and will provide communications for field CORs monitoring contract requirements for trailer maintenance and repairs to either request substitute trailers as needed or request deductions from daily trailer usage payments for the period exceeding authorized maintenance or repair days.

**Target Implementation Date:** October 2015

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



Susan M. Brownell  
Vice President  
Supply Management



Linda M. Malone  
Vice President  
Network Operations

cc: Manager, Corporate Audit Response Management