August 25, 2014

MEMORANDUM FOR: DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

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

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

SUBJECT: Management Alert – Missing Leased Trailers in the Northeast Area (Report Number NO-MA-14-004)

This management alert presents our concerns with Missing Leased Trailers in the Northeast Area (Project Number 14XG025NO000). The issue came to our attention during our ongoing project, *Procurement and Use of Common Fleet Trailers – Northeast Area* (Project Number 14XG025NO001).[1]

If you have any questions or need additional information, please contact Jody Troxclair, deputy director, Network Processing and Transportation, at 404-507-8312, or me at 703-248-2100.

Attachment

cc: Richard P. Uluski
Corporate Audit and Response Management

[1] The title of the initial project was *Procurement and Use of Common Fleet Trailers – Northeast Area* (Project Number 14XG025NO001). We changed the title to *Missing Leased Trailers in the Northeast Area* in order to issue this management alert. A new project number (14XG025NO000) was initiated to continue the ongoing Northeast Area leased trailer work.

Introduction

The purpose of this alert is to bring to your attention the need for the U.S. Postal Service to immediately inventory and account for its leased trailers in the Northeast Area. We are issuing this alert due to the urgency associated with protecting leased trailers to avoid unnecessary lease and residual value expenses for lost trailers, especially in light of the Postal Service's financial constraints.

During the course of our project announced in March 2014, *Procurement and Use of Common Fleet Trailers – Northeast Area* (Project Number 14XG025NO001), we became aware of 35 trailers from the New Jersey Network Distribution Center (NDC) in the Northeast Area that could not be located. Additionally, the Postal Service could not locate any record that they received these trailers from the leasing company even though the trailers were identified at some point in their manual tracking processes.

The U.S. Postal Service Office of Inspector General (OIG) has been expressing concern about the Postal Service's controls over leased trailers since 2001. The OIG has issued over 19 reports covering leased trailers from March 30, 2001, through September 28, 2009. The reports identified the need for a comprehensive process to routinely identify trailer needs and return unneeded trailers to the leasing contractor; use leased trailers only to move mail and equipment; fully use the satellite-tracking system and tracking devices to locate leased trailers, and safeguard trailers in secured locations. While Postal Service management has taken action in the past to periodically identify and return unused trailers, it has not established an effective inventory system to record and track trailers or to ensure local facilities routinely identify and return unused trailers. Due to our prior findings, continued concerns, and the expense associated with the missing leased trailers of $287,374,[2] we referred this matter to the OIG's Office of Investigations.

Owned and leased trailers are one of the most cost-effective ways to move large volumes of mail and related equipment. The Postal Service spent more than $39 million[3] in fiscal year (FY) 2013 for leased trailers.[4] Today, about 17 trailer suppliers provide more than 10,000 leased trailers nationally to the Postal Service. Currently, the Postal Service does not have a policy or an inventory system for its leased trailers.

[2] This is the total monetary impacts amount, which includes unnecessary lease payments of $249,454 and $37,920 in residual value payments.
[3] The average lease cost for a single trailer is $10.02 per day. The annual lease cost for a single trailer would be $3,656.67 ($10.02 x 365 days = $3,656.67).
[4] The single national contractor left the trailer leasing industry in June 2012 when the national contract expired. These National Trailer Lease trailers were sold to two of the companies currently leasing trailers to the Postal Service and they are presently in use in its operations.

In 2011, the Postal Service established the Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiative.[5] As part of Initiative 1, Optimize Network Operations, the Postal Service established goals for reducing its trailer fleet by 35 percent.[6] As a result, plants in the Northeast Area began assessing leased trailer inventory and trailer requirements. During this inventory process, the New Jersey NDC performed an inventory of all trailers on record as having been received to account for them and identify their location. Unfortunately, they could not account for the 35 leased trailers. They were initially determined to be missing and after an extensive search for these trailers, they were subsequently classified as lost.

Conclusion

We confirmed that Postal Service officials in the Northeast Area were unable to account for 35 trailers and could not provide documentation of ever receiving the trailers from the leasing company. The Postal Service continued paying lease costs of $249,454 for the trailers for 2 years (October 1, 2011 to September 30, 2013),[7] even though it could not validate their location or use during that period. We confirmed that New Jersey NDC and Northeast Area officials searched for the missing trailers,[8] and the search did not reveal any records of trailer movements. As a result, the Postal Service stopped the monthly lease payments in October 2013 and paid the trailer supplier $37,920 for the residual value[9] of the 35 trailers. They received the titles in April 2014 for the lost trailers.

We performed our own analysis of the data for the 35 missing trailers in the Transportation Information Management Evaluation System (TIMES)[10] and Surface Visibility (SV)[11] systems, and confirmed no record of trailer movements or use in Postal Service operations.

Officials were unable to account for these trailers because:

- The Postal Service does not have an adequate process to document that leased trailers have been delivered and accepted;

[5] The DRIVE initiative is a management goal to improve business strategy development and execution, focusing on a portfolio of strategic initiatives to meet ambitious performance and financial goals, including optimization of its network.
[6] The Postal Service originally set October 2013 as the goal for reducing leased trailers by 35 percent, but it did not meet that goal and extended the date to the end of FY 2014. The Postal Service has acknowledged that it might need a further extension into FY 2015.
[7] The U. S. Postal Service paid the lease costs for the 35 trailers from October 1, 2011, to September 30, 2013. The cost of the lease is $7,127 for one trailer for two years.
[8] The New Jersey NDC and Northeast Area officials used the Transportation Information Management Evaluation System (TIMES) to try to identify the last known trailer movement date.
[9] The residual value of the trailers is defined as the depreciated value of the trailers.
[10] TIMES is a web-based application that enables dock clerks to collect data about the arrival and departure of surface transportation of mail and to communicate that information to other processing facilities.
[11] SV captures real time data during surface transportation of mail at the handling unit, container, and trailer level through the use of bar codes and wireless handheld scanners within Postal Service facilities. SV data feeds into TIMES.

- The Postal Service does not have an inventory system for leased trailers or a process to periodically validate the number of leased trailers on hand;

- The Postal Service is sometimes inconsistently labeling trailers and incorrectly entering trailer identification numbers or temporary identification numbers[12] into SV and TIMES, resulting in incomplete and inconsistent data needed for tracking; and

- The missing trailers did not have satellite-tracking devices so that area and plant managers could track them.

During our review, we determined that Postal Service Headquarters' management intends to consolidate leased trailer information in a central database for integration with other systems for better tracking and tracing of leased trailer inventory. Integration relates to the Postal Service's systems – SEAM (Solution for Enterprise Asset Management) and GPS (Global Positioning System). However, this effort is still in the planning phase.

Because the Postal Service was unable to locate the 35 missing trailers or show details on trailer utilization, we estimate the Postal Service unnecessarily paid $124,727[13] annually in leasing costs, or $249,454 over 2 years. In addition, the Postal Service unnecessarily paid an additional $37,920 in damages to the supplier to replace these lost trailers. See Appendix A for details on system and process weaknesses.

Recommendations

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

1. Implement its plans to consolidate leased trailer information into a central database to clearly document receipt of the leased trailer assets and to improve tracking and tracing of leased trailer inventory.

2. Develop a process to identify trailers that are not being used and ensure unused trailers are promptly returned to suppliers to avoid unnecessary lease expenses.

3. Develop an interim tracking system and provide written instructions to plant management requiring them to routinely inventory and account for all leased trailers.

4. Require local facilities to have suppliers place numbers that meet the U.S. Postal Service's specifications for numbering on leased trailers for ease of identification and tracking through consistent and accurate data.

[12] The Northeast Area scanned over 2,900 unique "99Z" (or temporary) bar codes in March 2014, due to missing permanent bar codes on the trailers.
[13] This is for FY 2012 to FY 2013.

5. Ensure all leased trailers are equipped with satellite-tracking devices and issue policy and provide training on the features and functionality of the satellite-tracking system for leased trailers, including functionality of the related web-based management system to help track and manage leased trailers.

Management's Comments

Management agreed with our finding, recommendations, and monetary impact.

In response to recommendation 1, management stated they would use SEAM as the primary tracking tool for leased trailers. They further stated they would use SEAM to document receipt, return, and other movements of leased trailers; store information on trailer characteristics; and improve methods for tracking and tracing leased trailer inventory, including the use of GPS data and maintaining a log on historical GPS locations for trailers. The target completion date is January 2015.

In response to recommendation 2, management stated they would implement a process for identifying trailers that have not moved in 30 days and flag them for return to the suppliers. The target completion date is March 2015.

Regarding recommendation 3, management stated they would issue a standard operating procedure to ensure that leased trailer procurement, return, and inventory processes are consistent nationally. Management also plans to conduct training workshops on how to use the GPS monitoring application installed in most leased trailers. The target completion date is November 2014.

In response to recommendation 4, management stated they would develop and use a consistent numbering system for their leased trailer fleet. As part of this process, each geographical area will have a unique numbering system and bar code location and trailer numbers will be standardized. Further, they will ensure the removal of old Postal Service numbering and bar codes when trailers are returned. The target completion date is December 2014.

Regarding recommendation 5, management stated that future solicitations for leased trailers would include requirements that GPS devices be installed on trailers and maintained by the supplier. In addition, management will coordinate national training sessions on the SEAM system. The target completion date is January 2015.

See Appendix B for management's comments, in their entirety.

Evaluation of Management's Comments

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

The OIG considers all 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: Details on System and Process Weaknesses

Lack of Inventory System and Monitoring Process. The Postal Service has automated systems designed to account for trailer "movement," such as the TIMES and SV systems. However, these are not inventory systems and not reliable sources of leased trailer inventory. Without an inventory system or a process to periodically inventory the number of leased trailers, the Postal Service is not always aware of where its trailers are and how they are being used.

Inconsistent Trailer Labeling and Identification Practices. As noted, we observed inconsistent trailer numbering practices. Both the TIMES and SV systems rely on consistent, accurate, and complete trailer labeling and data input to effectively identify leased trailers. In addition, both the TIMES and SV systems use manual data entry to record the identifying numbers of trailers and reconcile them to SV bar codes for scanning purposes. However, manual data entries are often subject to human error and contribute to the difficulty in identifying and locating trailers. Our analysis of the SV data indicated many invalid van numbers.

In addition, the Postal Service issues SV bar codes to uniquely identify each asset and enable tracking of the asset across the network. The SV policy further provides use of temporary trailer bar codes, referred to as "99Z" codes. The "99Z" bar codes are designed for one-time use only for drop shipment trailers and other infrequently used trailers that do not have the permanent "99T" bar codes. We found over 2,900 of the "99Z" bar codes scanned in the Northeast Area during March 2014. Frequent use of "99Z" bar codes complicates the ability to locate trailers because a trailer can be listed under more than one bar code. For example, trailers could be identified by a "99T" bar code or several "99Z" bar codes.

Satellite Tracking Devices. To improve inventory controls, the Postal Service requires leasing contractors to install wireless satellite-tracking devices on all trailers. Through a web-based management information system, the Postal Service can identify idle and lost trailers by locating installed wireless tracking devices once each day via satellite. Although the Postal Service receives one free "ping" per day, it generally only uses the tracking system to locate missing trailers. Presently, the Postal Service has GPS tracking devices on about half of its leased trailers.

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

August 20, 2014

Lori Lau Dillard
Acting Director, Audit Operations
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Missing Leased Trailers in the Northeast Area
(REPORT NUMBER NO-MA-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the recommendations contained in Draft Management Alert – Missing Leased Trailers in the Northeast Area (Report Number NO-MA-14-DRAFT). Management is in general agreement with the findings, recommendations and the monetary impact associated with the draft report and will address each separately below. We understand the final report will be addressed to the Vice President, Network Operations and the Vice President, Supply Management and will not require a response from the Vice President, Northeast Area Operations.

Recommendation 1:
Implement its plans to consolidate leased trailer information into a central database to clearly document receipt of the leased trailer assets and to improve tracking and tracing of leased trailer inventory.

Management Response/Action Plan:
Management agrees with this recommendation. The Solutions for Enterprise Asset Management (SEAM) will be utilized as the primary tracking tool for Postal Service leased trailers. Supply Management has already begun the pre-deployment testing phase of implementation for the phase-in of this inventory into SEAM and is developing training materials for the application roll-out.
The SEAM application for leased trailer inventory will include the ability to:

- Track the initial purchase of leased trailers;
- Track leased trailer receipt, return and other leased trailer movements within the Postal Service fleet;
- Track leased trailer maintenance activities;
- Store information on other characteristics of the leased trailer such as size, height and door specifications;

475 L'Enfant Plaza SW
Washington, DC 20260

- Extract Global Positioning System (GPS) signaling data from GPS devices installed on each leased trailer;
- Maintain a log of GPS locations to trace the history for each leased trailer.

Currently, the majority of the leased trailers have the GPS tracking devices installed and will be able to provide data feeds to SEAM after implementation. Supply Management will continue to work with suppliers to ensure GPS requirements are included within the contracts.

Target Completion Date:
January 2015

Responsible Official:
Manager, Asset Management, Supply Management; and Manager, Fuel Management Category Management Center (CMC), Supply Management

Recommendation 2:
Develop a process to identify trailers that are not being used and ensure unused trailers are promptly returned to suppliers to avoid unnecessary lease expenses.

Management Response/Action Plan:
Management agrees with this recommendation. Surface Transportation Operations will implement a process to monitor this activity and utilize SEAM reports to identify trailers not moved in 30 days. These trailers will be flagged for return to the suppliers.

Target Completion Date:
Beginning, March 2015

Responsible Official:
Manager, Surface Transportation Operations, Network Operations

Recommendation 3:
Develop an interim tracking system and provide written instructions to plant management requiring them to routinely inventory and account for all leased trailers.

Management Response/Action Plan:
Management agrees with this recommendation. Surface Transportation Operations will create Standard Operating Procedure guidelines to ensure the leased trailer procurement, return and inventory processes are consistent across the Postal Service and coordinate National training workshops on how to utilize the web-based navigational (GPS) monitoring applications provided leased trailer suppliers. These systems that are on most of the currently leased trailers are able to use GPS to look up leased trailer movement history and current location.

Target Completion Date:
November 2014

Responsible Management Official:
Manager, Surface Transportation Operations, Network Operations

Recommendation 4:
Require local facilities to have suppliers place numbers that meet the Postal Service's specifications for numbering on leased trailers for ease of identification and tracking through consistent and accurate data.

Management Response/Action Plan:
Management agrees with this recommendation and will develop and use a consistent numbering system for our leased trailer fleet. Each Area will have a unique numbering system to identify lease trailers from their Area.

The following standardization criteria will be added to all contract solicitations:

- The suppliers will stencil or re-stencil leased trailers as needed;
- When removing lease trailers from our fleet the old Postal numbering will be removed and the Surface Visibility barcodes removed;
- PEAK leased trailers will have unique numbering so as to not be mistakenly mixed in with the regular fleet;
- Standardize the locations of barcodes and trailer numbers.

Target Completion Date:
December 2014, ongoing

Responsible Management Officials:
Manager, Surface Transportation Operations, Network Operations; and Manager, Fuel Management CMC, Supply Management

Recommendation 5:
Ensure all leased trailers are equipped with satellite-tracking devices and issue policy and provide training on the features and functionality of the satellite-tracking system for leased trailers, including functionality of the related web-based management system to help track and manage leased trailers.

Management Response/Action Plan:
Management agrees with this recommendation and will ensure all leased trailer contracts for solicitation include requirements for a GPS to be installed and maintained by the supplier. Surface Transportation Operations will coordinate National training sessions for the implementation of the SEAM application.

.

Target Completion Date:
Beginning, January 2015

Responsible Management Official:
Manager, Surface Transportation Operations, Network Operations; and
Manager, Fuel Management CMC, Supply Management

Additionally, we have reviewed the projected expense related to the original 35 lost trailers $287,374 and agree that the expenses were incurred for the lost trailers. However, once the implementation of SEAM is completed, the Postal Service will have a tool for management of the lease trailer fleet and the expense should not be repeated at that level in the future.

We have reviewed the audit report and do not believe that any portion of the document requires exemption from disclosure under the Freedom of Information Act (FOIA).

Susan M. Brownell

David E. Williams
Vice President, Network Operations

Susan M. Brownell
Vice President, Supply Management

cc Sally K. Haring
Manager, Corporate Audit and Response Management
E-FOIA@uspsoig.gov