



September 24, 2010

KELLY M. SIGMON
VICE PRESIDENT, ENGINEERING

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Vehicle Parts Program (Report Number DR-AR-10-008)

This report presents the results of our audit of the Vehicle Parts Program (Project Number 10XG004DR000). Our objective was to evaluate the vehicle parts purchasing and inventory management process. This self-initiated audit addresses financial and operational risks. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service has a fleet of more than 211,000 vehicles and spends more than \$270 million annually for parts to repair and maintain these vehicles. Although some parts are obtained from local commercial sources, approximately \$145 million a year is spent on parts purchased from two main consignment suppliers. The Postal Service's vehicle parts purchasing process established in 1997 through consignment suppliers provided the Postal Service with a reliable, more consistent means of acquiring and managing vehicle parts assets. In each district, vehicle maintenance facility (VMF) unit officials are responsible for securing and safeguarding consignment parts and Postal Service owned parts.

Conclusion

Although the vehicle parts purchasing process has significantly reduced Postal Service costs for vehicle parts, the audit identified the Postal Service did not always pay the lowest price for vehicle parts and vehicle part assets were at risk in some VMF units.¹ These conditions occurred because of inadequate processes, unclear purchasing policies, and resource constraints, as well as insufficient internal controls to secure vehicle parts assets in some VMF inventory stockrooms.

¹ We visited 16 VMFs during our review.

Purchasing of Vehicle Parts

The process of purchasing vehicle parts could be more effective. Our comparison of 100 similar parts² from the two consignment suppliers revealed the Postal Service paid \$3.6 million or 17 percent more than necessary for vehicle parts. Further, Vehicles Category Management Center (CMC) personnel were unaware of alternate sources used by VMFs to purchase vehicle repair parts at a lower cost than parts provided by the two consignment part suppliers.

These conditions occurred because Postal Service Headquarters Vehicles CMC and Vehicle Programs Management did not:

- Consistently monitor, analyze, and obtain vehicle part price information between the two consignment suppliers for those parts that met the form, fit, and function criteria.
- Ensure VMFs had clear and consistent policy regarding purchasing parts from consignment suppliers and alternate sources for parts.
- Consistently obtain feedback from VMFs on lower cost alternate sources used to purchase vehicle repair parts and provide the information to CMC.

Purchasing vehicle parts at a lower cost between the two major consignment suppliers based on form, fit, and function as well as from alternate sources could reduce vehicle parts cost by \$17,488,469. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our calculation of monetary impact.

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

1. Establish a process to analyze similar vehicle parts by form, fit, and function from the two consignment suppliers to aid in negotiations with suppliers, as necessary, to ensure the Postal Service receives the lowest available cost on vehicle parts.
2. Communicate consistent clear policy to vehicle maintenance facility personnel on purchasing vehicle parts from consignment suppliers and alternate sources to ensure the Postal Service pays the lowest price for vehicle parts.

² Our comparison of 100 similar parts focused on the parts identified that had a price per unit variance of more than 10 percent and had the largest net cost difference between the two main consignment suppliers.

We recommend the vice president, Engineering:

3. Require Headquarters Vehicle Programs solicit feedback from vehicle maintenance facilities regarding vehicle part purchases from alternate sources and provide this data to Vehicles Category Management Center to ensure the Postal Service obtains the lowest price for vehicle parts.

Vehicle Parts Assets

Our review disclosed that 13 of the 16 VMF units³ visited had assets at risk. Specifically, we found:

- VMF management did not always control access and secure vehicle part storage locations at nine of the VMFs.
- No internal controls (for example, lack of separation of duties) for receipt, disbursement, and inventorying of vehicle part assets at 10 of the VMFs. See [Appendix B](#) for our detailed analysis of this topic.

As a result, vehicle parts assets valued at more than \$13 million were at risk during calendar year (CY) 2009. See [Appendix C](#) for additional information about this issue.

We recommend the vice president, Engineering:

4. Re-emphasize stockroom management policies and procedures on physical security and inventory management policies for vehicle part assets, to include separation of duties, in accordance with Handbook AS-701, *Material Management*.

Management's Comments

Management agreed in principle with the findings, recommendations, and monetary impact in our report.

In response to recommendation 1, management stated that the Postal Service will establish a process to analyze similar parts by form, fit, and function between consignment suppliers to identify, discuss, and if necessary, negotiate lower prices where significant price variances exist. Management further stated they are in the process of standardizing the parts lists in implementing the vehicles and vehicle parts phase within the Solutions for Enterprise Asset Management system that is scheduled for deployment in fiscal years (FYs) 2011 and 2012 by Asset Management. Once they have completed this system, information will be available to support the complete analysis for this recommendation. In the interim, they will analyze parts with the same part number identified with the price variances provided during the U.S. Postal Service

³ Six of the 16 VMF units met both conditions. Three of 16 VMF units had insufficient physical access restrictions and four of 16 VMF units had insufficient inventory controls.

Office of Inspector General (OIG) audit. Management estimated the completion date for the price adjustment of parts identified in this audit is February 2011.

In response to recommendation 2, management stated they will publish a *Vehicle Maintenance Bulletin* (VMB) to clearly communicate policy requirements and management responsibilities to purchase vehicle repair parts in the most cost effective manner. Management estimated the VMB will be published by November 2010.

In response to recommendation 3, management agreed with the intent of the recommendation and stated that obtaining the lowest purchase price may not always yield the lowest total cost; and, therefore, alternate sources would require further evaluation to ensure the Postal Service receives the lowest total cost. However, management stated they will include instructions for informing Headquarters Vehicle Programs of opportunities for alternative suppliers in the above-mentioned VMB publication.

In response to recommendation 4, management stated they would emphasize security and purchasing procedure guidelines in the above-mentioned VMB publication.

Management also stated that the monetary impact identified is based entirely on the purchase price without consideration of inventory costs, shipping, or lifecycle/failure rate, and, therefore, cannot be confirmed, and that the lowest purchase price may not always yield the lowest total cost. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

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

Management stated that the monetary impact identified was based entirely on the purchase price without consideration of inventory costs, shipping, or lifecycle/failure rate, and, therefore, cannot be confirmed. Further, the lowest purchase price may not always yield the lowest total cost. Although we agree that the lowest purchase price may not always yield the lowest total cost, our analysis did in fact account for these costs. Specifically, our monetary impact calculation included a 10-percent cost adjustment to account for any inventory and shipping costs associated with acquiring parts from sources other than the current consignment supplier. This, in addition to the lower priced parts, could more than offset any inventory and shipping costs. Regarding, management's concern about lifecycle/failure rate, this should not be a factor as long as the Postal Service continues to use the criteria of purchasing parts with the same form, fit, and function. For example, when purchasing from an alternate source, the Postal Service would want to validate the quality and effectiveness of the parts before considering it for maintenance and repairs of vehicles.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita Oliver, director, Delivery, or me at 703-248-2100.

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Edward L. Gamache
Susan A. Witt
Lisa C. Reed
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service spends more than \$270 million on vehicle parts for repairing and maintaining its fleet of over 211,000 vehicles. Because the delivery vehicle fleet is approaching the end of its useful life, parts purchases have increased. In 2006, the Postal Service standardized its strategy for purchasing vehicle parts.

The Postal Service's vehicle parts purchasing process established in 1997 uses consignment suppliers. This process has provided the Postal Service with a reliable, more consistent means of acquiring and managing vehicle parts assets. The Postal Service acquires most vehicle parts via consignment from two primary suppliers: Wheeler Brothers, Incorporated; and Jasper Innovative Solutions, Incorporated (formerly Mac Motors). Wheeler Brothers, Incorporated, is the consignment supplier for about [REDACTED] of the Postal Service's 322 VMFs, and Jasper Innovative Solutions, Incorporated, is the consignment supplier for about [REDACTED]. The consignment process eliminated the need to store, stock, and manage more than \$200 million in annual inventory (capital assets). Management estimated that the vehicle parts consignment process has reduced Postal Service costs for vehicle parts by \$120 million in the last 10 years. Purchasing parts on a consignment basis is encouraged in an effort to reduce the overall value of the Postal Service-owned inventory of VMF units.

Although the majority of spare parts for vehicles are acquired through consignment suppliers,⁴ VMF unit management also acquires and maintains spare parts from other sources. The Postal Service manages and accounts for these parts through the Vehicle Management Accounting System (VMAS). Postal Service policies and procedures require VMF unit personnel to ensure they safeguard all assets; record correctly, quantities purchased and inventoried; and investigate and correct discrepancies.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the vehicle parts purchasing and inventory management process. To accomplish this objective, we:

- Obtained data on vehicle parts purchased in CY 2009 through consignment suppliers from the Vehicles CMC.
- Compared key elements of consignment supplier data to Enterprise Data Warehouse data to verify its integrity.

⁴ Each VMF unit is required to select a main consignment vendor and encouraged to purchase any parts available through the consignor even when other, more cost-effective sources are readily available.

- Performed cost comparison analysis of the prices for 100 vehicle parts with the same form, fit, and function from both consignment suppliers. We judgmentally selected the parts based on their price variance in either net cost or percentage cost per unit.
- Calculated the value of vehicle part assets using VMAS data.
- Performed cost comparison analysis of vehicle parts locally purchased by VMFs compared to parts procured from the two consignment suppliers.
- Additionally, we visited 16 judgmentally selected VMF units in four areas. We randomly selected parts to check the accuracy of on-hand balances and observed physical access controls. We also interviewed management to discuss the process of conducting inventories to determine adherence to separation of duties and other inventory management procedures.

We conducted this performance audit from October 2009 through September 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 4, 2010, and included their comments where appropriate.

We assessed the reliability of vehicle parts data by reviewing various data elements and interviewing personnel knowledgeable about the data and the parts purchased. To verify consignment suppliers' cost data, we compared the costs each consignment company reported as purchased to internal data systems. We determined that the data were sufficiently reliable for the purposes of this audit.

The OIG has issued two reports related to our objective in the last several years.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Estimated Supply Chain Management Impact Associated With National Office Supply Contract</i>	CA-MA-05-002 9/7/2005		None	Management agreed that the cost avoidance expected for a contract for office supplies was overstated, in part, to not obtaining the best available price available on an office supply contract.
<i>Delivery Vehicle Replacement Strategy</i>	DA-AR-10-005 6/16/2010	0	\$342,127,370	Management agreed that rising delivery vehicle repair costs are not always within established thresholds, because approval procedures were not always being followed. When repair costs exceed the threshold, we recommended replacing vehicles in lieu of making costly repairs.

APPENDIX B: DETAILED ANALYSIS

Purchasing of Vehicle Parts

The Postal Service's vehicle parts purchasing process did not ensure the Postal Service paid consignment suppliers the lowest price⁵ for vehicle parts. Further, some VMF units purchased similar vehicle repair parts from alternate sources at lower prices than the two consignment suppliers offered.

Consignment Suppliers

Our comparison of 100 similar parts from the two consignment suppliers revealed the Postal Service paid \$3.6 million or 17 percent more than necessary for vehicle parts. To illustrate, for the 10 sample parts shown in Table 1, the Postal Service would have saved \$369,863 in CY 2009 if it had obtained the lower prices. For example:

- The Postal Service purchased [REDACTED] lower control arms from the two primary consignment suppliers. The price varied by 140 percent for this part.
- The Postal Service purchased [REDACTED] exhaust clamps from the two primary consignment suppliers to repair long-life vehicles (LLVs) during 2009. While one of the consignment suppliers charged [REDACTED] for the units, the other charged [REDACTED] for the part, a 421-percent price difference.

⁵ The *Postal Service's Supplying Principles and Practices* dated February 2010; Section 2-8.7 states "Identify purchase price variances" as a means of identifying opportunities when conducting cost analysis.

Table 1. Sample of CY 2009 Parts Purchased and Price Differences

Part Description	Consignor A		Consignor B		Percentage Cost Difference	Total Units Purchased	Cost From Not Using Lower Cost Parts	Estimated Savings From Buying Lower Cost Parts ⁶
	Cost per Unit	Quantity Purchased	Cost per Unit	Quantity Purchased				
ARM CONTROL LWR	██████	██████	██████	██████	██████	██████	\$381,648	\$196,208
BLADE WIPER	██████	██████	██████	██████	██████	██████	55,220	28,844
BRK EXH MUFFHGR	██████	██████	██████	██████	██████	██████	42,788	13,961
CAP COOLNT RCV	██████	██████	██████	██████	██████	██████	10,567	7,984
CLAMP EXH CNV 2	██████	██████	██████	██████	██████	██████	37,069	29,090
CNCTR TRANS	██████	██████	██████	██████	██████	██████	24,760	10,661
END TIE ROD	██████	██████	██████	██████	██████	██████	18,149	11,379
FILTER FUEL	██████	██████	██████	██████	██████	██████	219,633	12,124
FILTER TRANS	██████	██████	██████	██████	██████	██████	15,411	8,119
HANDL WND CRNK	██████	██████	██████	██████	██████	██████	115,005	51,492
Total							\$920,249	\$369,863

Source: OIG analysis

This condition existed primarily because Postal Service Headquarters Vehicles CMC and Vehicle Program Management did not always monitor and analyze vehicle parts price variances between the two primary consignment suppliers based on the criteria of form, fit, and function.⁷ According to management, price variances between the two consignment suppliers are usually based on brand name or whether the official equipment manufacturer made the part. Management also indicated, in some cases, the consignment supplier might have received a discount based on the quantity of particular parts they purchased and passed the savings on to VMF units. Although we agree that brand name and manufacturer of the part could impact price, it is not pertinent in this case, because both consignment suppliers provide parts that meet the Postal Service’s form, fit, and function criteria. Furthermore, even though volume purchasing discounts were not apparent in the 100 items reviewed, our analysis considered factors of this nature and only included price differences exceeding 10 percent.

[Alternate Sources](#)

Major electrical components such as starters that VMF units purchased from an alternate source were less costly than those offered by either of the two major consignment suppliers. For example, in CY 2009, the Postal Service purchased more than ██████ starters for the LLVs nationwide from one of the consignment suppliers at a

⁶ This savings are calculated based on purchasing the higher priced consignors quantity at the lower consignor's price plus 10 percent.

⁷ Headquarters Vehicle Programs management informed us that the new data system (Solution for Enterprise Asset Management) will replace VMAS near the end of FY 2011. Management indicated the new system should allow for more comparisons of similar parts among the two consignment suppliers.

cost of almost [REDACTED] each. Purchasing these starters from the alternate source at [REDACTED] (about 14 percent less), would have saved the Postal Service \$848,011. Further, our analysis showed if the Postal Service had acquired all starters from the alternate source, they could have saved \$1,027,031. See Table 2.

Table 2. Comparison of Consignment Suppliers and Alternate Sources for Major Electrical Components Purchased in CY 2009

Part Description	Quantity Sold in 2009	Cost Per Unit by Consignment Supplier	Cost Per Unit by Alternate Source	Difference in Cost Per Unit	Percentage Difference	Total Consignment Supplier Cost to Postal Service	Total Alternate Source Cost to Postal Service	Estimated Savings if Alternate Source Used for Lower Cost Parts
STARTER, [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$5,932,011	\$5,084,000	\$848,011
STARTER, [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,079,071	925,500	153,571
STARTER, [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	205,074	179,625	25,449
Total Consignment Supplier Costs Versus Alternate Source Costs						\$7,216,156	\$6,189,125	\$1,027,031

Source: OIG analysis

Two factors contributed to this condition:

- Although 18 VMFs purchased electrical components such as distributors and starters from an alternate source, Vehicles CMC officials were unaware of these purchases. VMF unit officials at locations that used the alternate sources indicated that they purchased parts at reduced costs and the parts met the requirements in terms of form, fit, and function.
- VMF unit officials lacked clear and consistent policy⁹ on purchasing parts from primary consignment suppliers and alternate sources. Specifically, Vehicles CMC officials issued a letter to VMF units stating that purchasing preferred parts from local suppliers as an alternative to parts provided by the consignment suppliers was prohibited.¹⁰ However, Postal Service Headquarters Vehicle Programs officials told us that this letter only prohibits VMF units from purchasing “preferred parts from other sources.” VMF units have the flexibility to purchase parts from an alternate supplier, other than the two primary consignment suppliers, when the price was more cost effective. Headquarters Vehicle Programs officials have not issued an official written policy on using alternate sources.

⁸ Prices in Table 2 are per unit. Further discounts are offered if purchased in quantities of four or more.

⁹ Our analysis of a judgmental sample of 32 VMFs showed that 19 (about 59 percent) were unaware they could obtain parts from a consigner other than the one assigned or from alternate sources when the price was more cost effective.

¹⁰ Vehicle CMC standardization criteria letter, dated May 2006, prohibits purchasing preferred parts from local suppliers as an alternative to purchasing approved parts from managed inventory providers (consignment suppliers).

Purchasing vehicle parts at a lower cost between the two major consignment suppliers based on form, fit, and function as well as from alternate sources could reduce vehicle parts cost by \$17,488,469. See [Appendix C](#) for the monetary impact.

Vehicle Parts Assets

Physical safeguards and inventory management controls over vehicle parts at 13 of 16 VMF units were not always adequate.

- Access to vehicle parts¹¹ storage locations was not restricted at nine of the VMF units. At one location, three separate entry points had no access restriction. Management at these locations were either unaware of the requirement or had not considered the potential risk.
- Separation of duties for receipt, disbursement, and inventorying of vehicle parts assets was not adequate at 10 of the VMF units. In many cases, personnel responsible for receiving, maintaining, and issuing parts were also conducting the monthly mandatory inventory. VMF unit officials indicated that staffing constraints led to not providing the required separations of duty.

As a result, assets valued at \$13,047,909 were potentially at risk during CY 2009. See [Appendix C](#) for the value of assets at risk for VMF units.

¹¹ Handbook AS-701, Section 434.4 identifies methods to protect stock from loss, to include directing limited access to stockrooms.

APPENDIX C: MONETARY AND NON-MONETARY IMPACT

Table 3. Monetary and Non-Monetary Impact¹²

Finding	Impact Category	Amount
Vehicle Parts Purchasing	Funds Put to Better Use ¹³	\$9,257,751
Vehicle Parts Purchasing	Unrecoverable Questioned Costs ¹⁴	\$8,230,719
Vehicle Parts Assets	Assets at Risk ¹⁵	\$13,047,910

Source: OIG analysis

We estimated a monetary impact of \$17,488,469 in unrecoverable questioned costs and funds put to better use by obtaining cheaper prices on the same products. This amount includes approximately \$8.2 million in questioned costs in 2008 and 2009, and \$9.2 million in funds put to better use in 2010 and 2011 (see Table 4).

Table 4. Vehicle Parts Estimated Savings¹⁶

Finding	Impact Category	Estimated Savings
Vehicle Parts Price Comparison – 2008	Unrecoverable Questioned Costs	\$3,601,844
Vehicle Parts Price Comparison – 2009	Unrecoverable Questioned Costs	3,601,844
Alternate Source – 2009	Unrecoverable Questioned Costs	1,027,032
Vehicle Parts Price Comparison – 2010	Funds Put to Better Use	3,601,844
Vehicle Parts Price Comparison – 2011	Funds Put to Better Use	3,601,844
Alternate Source – 2010	Funds Put to Better Use	1,027,032
Alternate Source – 2011	Funds Put to Better Use	1,027,032
Total		\$17,488,469

Source: OIG analysis

¹² Totals may not add up due to rounding.

¹³ Funds that could be used more efficiently by implementing recommended actions.

¹⁴ Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation.

¹⁵ Physical operations assets (for example, plant computer equipment or vehicles) that are unsafe or at risk of loss because of inadequate physical protection or safety practices.

¹⁶ Totals may not add up due to rounding.

We estimated a non-monetary impact of \$13,047,909 in assets at risk due to inadequate security and safeguarding of assets (see Table 5).

Table 5. Assets at Risk

Finding	Impact Category	Estimated Assets at Risk
Safeguarding of Assets	Physical Safety and Security	\$13,047,910

Source: OIG analysis of site visits and VMAS documentation for value of assets at risk.

Our review included a visit to 16 VMF unit locations. At nine of the 16 locations, we identified physical access weaknesses to the vehicle repair and maintenance parts stored at the VMF units. Ten of the 16 VMF units also had inventory control weaknesses. We calculated the value of the parts issued during CY 2009 for each of the VMF unit locations that had one or both of the risk factors identified (see Table 6).

Table 6. VMF Units Visited and Value of Assets at Risk¹⁷

Area	VMF Unit Visited	Assets At Risk Category ¹⁸	Value of Assets At Risk in CY 2009
Southwest	Dallas Main	None	\$ 0
	Fort Worth Main	Physical	1,329,663
	Coppell Auxiliary	Physical	605,430
	Tyler	Physical & Inventory Controls	441,776
Southeast	Birmingham Main	Inventory Controls	1,640,207
	Montgomery	Physical & Inventory Controls	703,761
	North Metro	Inventory Controls	2,552,841
	Decatur Auxiliary	Physical & Inventory Controls	849,371
Western	Portland Main	None	0
	Vancouver Auxiliary	Inventory Controls	159,599
	Seattle Main	Inventory Controls	1,035,035
	Tacoma Physical		1,148,030
Pacific	Anaheim	Physical & Inventory Controls	669,962
	Santa Ana	Physical & Inventory Controls	1,256,704
	San Francisco	None	0
	San Mateo	Physical & Inventory Controls	655,532
Total		13 VMF Units with Assets at Risk	\$ 13,047,910

Sources: OIG analyses of site visits and VMAS documentation for value of assets at risk.

¹⁷ Totals may not add up due to rounding.

¹⁸ Definition for at risk categories, physical-access to stock room was not restricted and Inventory Control Unit did not have separations or duties for issuing stock or conducting inventories.

APPENDIX D: MANAGEMENT'S COMMENTS



September 20, 2010

LUCINE M. WILLIS

SUBJECT: Draft Audit Report Response – Vehicle Parts Program
(Report Number DR-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We have reviewed the report and agree in principle with the findings, recommendations, and monetary impact. The Postal Service has and will continue to seek ways to identify and reduce vehicle repair costs. As identified within the report, \$120 million in savings over the past ten years was achieved. This significant savings is due to the continuing efforts of Vehicle Programs and the Vehicles Category Management Center in managing the parts program.

The following is our response to the recommendations contained in the report.

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

Recommendation 1: Establish a process to analyze similar vehicle parts by form, fit, and function from the two consignment suppliers to aid in negotiations with suppliers, as necessary, to ensure the Postal Service receives the lowest available cost on vehicle parts.

Management Response Recommendation 1: The Postal Service agrees in principle with this recommendation, however, the monetary impact identified is based entirely on the purchase price without consideration of inventory costs, shipping, or lifecycle/failure rate; and, therefore, cannot be confirmed. Obtaining the lowest purchase price may not always yield the lowest total cost. The overall objective of the parts program is to achieve best value which provides the optimal combination of elements such as lowest total cost of ownership, technology, innovation, and efficiency, assurance of supply, and quality relative to the Postal Service's needs.

The Postal Service will establish a process to analyze similar parts by form, fit, and function between consignment suppliers to identify, discuss, and if necessary, negotiate lower prices where significant price variances exist. We are in the process of standardizing the parts lists, for implementing the vehicles and vehicles parts phase within the Solutions for Enterprise Asset Management system that is scheduled for deployment in FY2011-2012 by Asset Management. Once this has been completed information will be available to support the complete analysis for this recommendation. In the interim, the analysis will be made on parts with the same part number identified with price variances provided during the audit. The estimated completion date for the price adjustment of parts identified in this audit is February 2011.

Recommendation 2: Communicate consistent clear policy to vehicle maintenance facility personnel on purchasing vehicle parts from consignment suppliers and alternate sources to ensure the Postal Service pays the lowest price for vehicle parts.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260

Management Response Recommendation 2: The Postal Service agrees to publish a Vehicle Maintenance Bulletin (VMB) to clearly communicate policy requirements and management responsibilities to purchase vehicle repair parts in the most cost effective manner. This VMB will be published by November 2010.

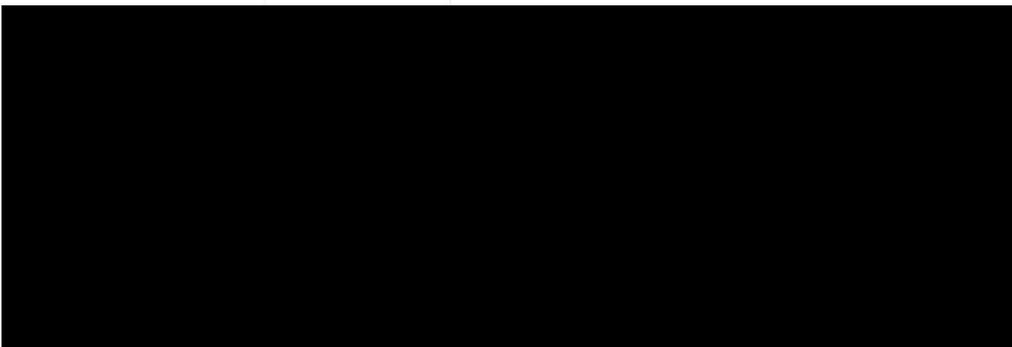
We recommend the vice president, Engineering:

Recommendation 3: Require Headquarters Vehicle Programs solicit feedback from vehicle maintenance facilities regarding vehicle part purchases from alternate sources and provide this data to Vehicles Category Management Center to ensure the Postal Service obtains the lowest price for vehicle parts.

Management Response Recommendation 3: The Postal Service agrees with the intent of this recommendation. Again, obtaining the lowest purchase price may not always yield the lowest total cost; and, therefore, alternate sources would require further evaluation to ensure the Postal Service receives the lowest total cost. However, we will include instructions for informing Vehicle Programs of opportunities for alternative part suppliers in the above mentioned VMB to be published by November 2010.

Recommendation 4: Re-emphasize stockroom management policies and procedures on physical security and inventory management policies for vehicle part assets, to include separation of duties, in accordance with Handbook AS-701, *Material Management*.

Management Response Recommendation 4: The Postal Service agrees with this recommendation and will publish a VMB to emphasize security and purchasing procedure guidelines. This VMB will be published by November 2010.



Susan M. Brownell
Vice President
Supply Management

Kelly M. Sigmon
Vice President
Engineering

cc: Steven J. Forte
Joseph Corbett
Ed Gamache
J Otis Smith
Paula Garner
Ira Feldman
Susan A. Witt
Lisa C. Reed
Corporate Audit and Response Management