



January 18, 2005

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SUBJECT: Audit Report – Accountability at the San Francisco Vehicle Maintenance Facility (Report Number FT-AR-05-008)

This report presents issues concerning controls over vehicles, vehicle parts, and bulk fuel and oil inventories at the San Francisco Vehicle Maintenance Facility (VMF). While the amounts described in this report are not material to the financial statements, we wanted to highlight control issues that could lead to more significant control weaknesses if not corrected timely. This issue was identified during our self-initiated audit of the fiscal year (FY) 2004 Postal Service Financial Statements – San Mateo Information Technology and Accounting Service Center (IT/ASC) (Project Number 04XD009FT002).

Background

Vehicle maintenance facilities are accountable for vehicles, vehicle parts, and inventories of bulk fuel and oil. Specifically, the San Francisco VMF and its auxiliary garage in San Mateo, California, accounted for approximately 2,300 vehicles. In addition, the San Francisco VMF held both owned and consigned parts used in the repair of vehicles. The facility also used three bulk fuel storage tanks, one holding diesel fuel, and two containing bulk oil. Bulk oil was also held in drums at its auxiliary garage. Fuel usage was recorded by meters on the fuel pumps, the TRAK system, and the Veeder-Root system.¹ Oil usage was recorded using the Veeder-Root system at the San Francisco VMF and manually at the auxiliary garage.

¹ The TRAK system is a commercial off-the-shelf software package that accumulates daily fueling transactions and maintains vehicle, site, tank, and (fuel) hose data, manufactured by Trak Engineering, Inc. The Veeder-Root system is a fuel control system used to measure the fuel and oil tank volumes.

Personnel at the VMF use the local Vehicle Management Accounting System (VMAS) as a reporting and management control system for the vehicle fleet. It provides fleet managers information to improve management of their inventories, vehicle utilization, and maintenance and repairs of vehicles. Postal Service policies and procedures require facility personnel perform regular inventories of its vehicle, vehicle parts, and bulk fuel and oil inventories to ensure purchases are entered correctly, quantities on hand are recorded correctly, and discrepancies are investigated and corrected.

Objective, Scope, and Methodology

The objective of this portion of our audit was to determine whether VMFs were properly accounting for vehicle parts, bulk fuel and oil inventories, and vehicles. The San Francisco VMF was one of four VMFs² judgmentally selected to test existence, ownership, and valuation of vehicles, vehicle parts, and bulk fuel and oil as part of the annual financial statements audit of the San Mateo IT/ASC. To accomplish our objective, we reviewed and evaluated the methods used by the San Francisco VMF to account for vehicle parts, bulk fuel and oil, and vehicles. We reviewed Postal Service policies and guidance and evaluated whether the methods used conformed with those policies and guidance. We also verified the existence of vehicles and vehicle parts.

This audit was conducted from June 2004 through January 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with appropriate management officials and included their comments, where appropriate. We relied on computer-generated data from the national VMAS, maintained by the San Mateo IT/ASC, to validate vehicle existence, and the local VMAS, maintained by the San Francisco VMF, to validate parts inventory.

Prior Audit Coverage

In our FY 2000 audit,³ we found 17 of 21 main VMFs and auxiliary garages were not properly accounting for fuel inventory. Postal Service management issued a memorandum that addressed the monitoring, reporting, and reconciliation requirements for bulk fuel inventories. In FY 2001,⁴ we validated that the controls over accounting for fuel inventories were in place and functioning at the locations visited.

² During FY 2004, we visited the VMFs located in Alexandria, Virginia; St. Louis (Weathers auxiliary), Missouri; St. Paul, Minnesota; and San Francisco, California.

³ Fiscal Year 2000 Postal Service Financial Statement Audit - San Mateo Information Technology and Accounting Service Center (Report Number FT-AR-01-008, dated March 6, 2001).

⁴ Fiscal Year 2001 Postal Service Financial Statement Audit - San Mateo Information Technology and Accounting Service Center (Report Number FT-AR-02-009, dated February 12, 2002).

In FY 2002,⁵ the Postal Service did not independently account for or track consigned inventories of vehicle parts (consigned parts). In response, Postal Service management issued Vehicle Maintenance Bulletin V-04-03,⁶ which required the VMFs to account for consigned parts. Our follow-up tests confirmed the VMFs accounted for consigned parts. In addition, the San Bernardino, California, VMF did not properly account for bulk fuel inventories.⁷ We recommended that San Bernardino VMF personnel regularly reconcile bulk fuel inventories. Our follow-up tests verified bulk fuel inventories were regularly reconciled at this facility.

Results

Accounting for Parts Inventories

The San Francisco VMF did not maintain accountability over vehicle parts inventories. During FY 2004, the San Francisco VMF purchased approximately \$1.2 million in parts for both itself and the auxiliary VMF in San Mateo, California. During our unannounced physical inventory of 15 different types of vehicle parts valued at \$5,253, 5 types valued at \$657 could not be reconciled to the local VMAS. This occurred because the San Francisco VMF did not comply with requirements to account for vehicle parts inventory.⁸ VMF personnel generally conducted periodic physical inventories. However, they did not always research and explain vehicle inventory part discrepancies or adjust VMAS as required. San Francisco VMF personnel stated parts were sometimes taken out of the stockroom without recording them on work orders or work orders could get lost. VMF personnel also noted that differences were resolved by adding the missing parts to outstanding work orders or creating work orders to account for the missing parts. As a result, inaccurate inventory records diminish the value of the inventory management system and increases the risk that the Postal Service could pay more than once or pay for parts that it did not receive.

The San Francisco VMF performed and recorded physical vehicle parts inventories for both owned and consigned parts. We compared the counts recorded for three accounting periods. During those periods, the VMF counted owned parts with a value of about \$36,000 and consigned parts with a value of about \$9,500. For all three periods, differences of \$1,850 existed between the two physical counts used to update the two systems. In addition, differences of about \$3,200 existed between the physical counts and the amounts recorded in VMAS. However, these differences were not reconciled, and VMAS was not updated to reflect the accurate numbers of parts.

⁵ Fiscal Year 2002 Postal Service Financial Statement Audit San Mateo Information Technology and Accounting Service Center (Report Number FT-AR-03-006, dated January 23, 2003).

⁶ Vehicle Maintenance Bulletin V-04-03, Mandatory (Interim) Physical Inventories, dated January 2, 2003.

⁷ Accounting for Bulk Fuel Inventories at the San Bernardino Vehicle Maintenance Facility (Report Number FT-AR-03-005, dated January 23, 2003).

⁸ Requirements to account for vehicle parts are included in Handbook PO-701, Fleet Management, and Vehicle Maintenance Bulletin V-04-03, Mandatory (Interim) Physical Inventories, dated January 2, 2003.

Additionally, our independent counts of 15 different types of vehicle parts identified five differences with the parts recorded in VMAS. Further, our counts found a sixth instance where VMAS indicated parts valued at \$85 were owned by the Postal Service, while the consignment vendor's inventory accounting system indicated the parts were held on consignment.

Recommendation

We recommend the Program Manager, Pacific Area Vehicle Maintenance Facilities:

1. Require personnel at the San Francisco Vehicle Maintenance Facility to conduct counts of vehicle parts in accordance with the Postal Service procedures, to include the proper way of investigating and resolving identified differences.

Management's Comments

Management agreed with the recommendation and implemented several actions to help ensure VMF personnel better control and account for its vehicle parts inventory. For example, the VMF manager now reviews all interim inventory activities to ensure the counts are accurately performed, the difference report is complete, and the actual adjustments to on hand quantities are made. Additionally, a comprehensive physical inventory of both owned and consigned vehicle parts will be completed by March 2005. Management's comments, in their entirety, are included in the appendix of this report.

Recommendation

We recommend the Program Manager, Pacific Area Vehicle Maintenance Facilities:

2. Provide training to San Francisco Vehicle Maintenance Facility personnel on how to control inventories, conduct proper counts of parts, and investigate and reconcile differences.

Management's Comments

Management agreed with the recommendation and noted that training on the consignment system was completed in November 2003. In addition, VMF personnel will complete additional training on applicable inventory control policies and procedures by August 2005.

Evaluation of Management's Comments

Management's comments are responsive to recommendations 1 and 2, and actions taken and planned should correct the issues identified in the finding.

Accounting for Bulk Fuel and Oil Inventories

The San Francisco VMF did not fully account for fuel and oil inventories.⁹ Specifically:

- The VMF did not properly perform daily and monthly fuel inventory reconciliations.
- Only about one-third of the VMF-measured bulk oil at its auxiliary facility was recorded in the VMAS oil inventory.

This occurred because San Francisco VMF personnel did not follow Postal Service guidance for recording and reconciling accounting records for fuel and oil inventories.¹⁰ As a result, there was no assurance that bulk fuel and oil managed by the facility were used appropriately, or that the inventory accounting system properly reflected the available fuel and oil on hand.

The San Francisco VMF recorded diesel fuel usage every day using the fuel pump meters and Veeder-Root systems. In addition, the TRAK system in place at the San Francisco VMF automatically recorded, by vehicle, daily diesel fuel amounts pumped. The TRAK system also sums the daily amounts pumped. The VMF compared the daily diesel fuel usage amounts recorded on the fuel pump meters to daily diesel fuel usage amounts recorded in the Veeder-Root system. Although differences existed, the VMF did not investigate the nature of the differences. Rather, twice weekly, the VMF simply adjusted VMAS to reflect the amounts recorded by the TRAK system. At the end of the month, the VMF adjusted VMAS to reflect the amount measured by the Veeder-Root system. However, the VMF did not compare diesel fuel usage information recorded on the TRAK system to either the pump meters or the Veeder-Root system.

Bulk oil was held in two tanks at the San Francisco VMF and in drums at its auxiliary facility in San Mateo, California. The San Francisco VMF recorded all bulk oil in VMAS in one tank. In order to update VMAS, the VMF totaled the amounts measured from its two tanks with the amounts it recorded from the San Mateo auxiliary facility at the end of each month. An adjustment was made to VMAS to record the difference between the totaled amounts and the amount recorded in VMAS. For the three months tested, the San Mateo auxiliary VMF reported 3,504 quarts of bulk oil, yet the San Francisco VMF only added 1,198 of these quarts when updating VMAS for the amounts measured. San Francisco VMF personnel could not explain why incorrect amounts were added to determine the total amounts measured.

⁹ During FY 2004, the San Francisco VMF purchased approximately \$1 million in diesel fuel and bulk oil for both itself and the auxiliary VMF in San Mateo, California.

¹⁰ Underground storage tank management and fuel inventory procedures are included in Vehicle Maintenance Bulletin V-03-01, Underground Storage Tanks, dated January 29, 2001, and Postal Service Handbook PO-701, Fleet Management, dated March 1991.

Recommendation

We recommend the Program Manager, Pacific Area Vehicle Maintenance Facilities:

3. Require personnel at the San Francisco Vehicle Maintenance Facility to perform reconciliations of bulk fuel and oil in accordance with Postal Service procedures. This would include: (1) comparing diesel fuel amounts used and recorded daily among the pump meters, TRAK, and Veeder-Root systems, (2) investigating and resolving discrepancies, and (3) recording adjustments.

Management's Comments

Management agreed with our recommendation and implemented several actions to help ensure VMF personnel perform reconciliations of bulk fuel and oil in accordance with Postal Service procedures. For example, each accounting period, the VMF manager reviews the adjustment histories of the tanks holding bulk fuel and oil and ensures the completeness and accuracy of the tank volumes. Further, management replied that all but one master key for fueling will be deactivated. The accountability for this active key will be maintained by the stock room and will be available via a checkout log. Completion is expected by March 2005.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and actions taken and planned should correct the issues identified in the finding.

Accounting for Postal Service Vehicles

The San Francisco VMF had responsibility for over 2,300 vehicles at the facilities it supported. Though the VMF coordinated the annual counts of vehicles at those facilities, VMF personnel did not reconcile the information with the VMAS listings or take actions when discrepancies existed. This occurred because San Francisco VMF personnel were not aware of the requirements of Vehicle Maintenance Bulletin V-05-97. As a result, the San Francisco VMF cannot determine the disposition of one of its vehicles nor attest to the accuracy of its vehicle accounting records.

Postal Service procedures require an annual physical inventory of vehicles.¹¹ The VMFs provide each facility they support with a printout of active and stored vehicles assigned to them. The facilities are required to note all discrepancies on the printouts and send them back to the VMFs. The VMFs then must document any adjustments and provide the results to the San Mateo IT/ASCs motor vehicle accounting section.

¹¹ Vehicle Maintenance Bulletin V-05-97, Resumption of Annual Vehicle Inventory, dated January 16, 1997.

The San Francisco VMF provided printouts listing the vehicles assigned to the facilities it supported. The facilities annotated discrepancies on the printouts and sent the results back to the San Francisco VMF. Rather than performing a reconciliation for noted discrepancies, the San Francisco VMF filed the documents without further investigation.

We also attempted to verify the existence of 7 of the 83 vehicles assigned to the San Francisco VMF; however, we were unable to locate one vehicle valued at about \$8,800. San Francisco VMF records showed the vehicle was authorized for sale in June 2001. However, the VMF's records did not document the sale or other outcome. In addition, VMF personnel were unable to provide information regarding its disposition. As a result, VMAS was not accurate and up-to-date for vehicles for which the San Francisco VMF was responsible.

Recommendation

We recommend the Program Manager, Pacific Area Vehicle Maintenance Facilities:

4. Provide training to San Francisco Vehicle Maintenance Facility personnel regarding Postal Service policies on accounting for vehicles. The training should address following up on discrepancies identified during physical inventories of vehicles, notifying the Inspection Service and the area vehicle maintenance program analyst of missing vehicles, documenting adjustments, and providing the results to the San Mateo Information Technology and Accounting Service Center.

Management's Comments

Management agreed with our recommendations and stated that the FY 2003 vehicle inventory was not accurate because the system used to track vehicle movement failed. Management added that actions taken prior to and during the audit produced significantly improved results for the FY 2004 vehicle inventory, resulting in only two unaccounted vehicles. Management initiated action to report these vehicles.

To ensure consistent and accurate VMAS updates, the VMF plans to develop a best management practice for an internal vehicle transfer and correction system. Further, the VMF plans to flowchart and locally train all administrative staff on vehicle inventory procedures, with emphasis placed on the best management practice. Completion of all corrective actions is expected by March 2005.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and actions taken and planned should correct the issues identified in the finding.

Based on the results of our testing, controls were in place and functioning at the other three facilities. Consequently, we believe that this issue is specific to the San Francisco, California, VMF.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact John E. Cihota, Director, Financial Statements, or me at (703) 248-2300.

/s/ John M. Seeba

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APPENDIX. MANAGEMENT'S COMMENTS

PACIFIC AREA OFFICE



December 30, 2004

KIM H. STROUD
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OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Accountability at the San Francisco Vehicle
Maintenance Facility (Report Number FT-AR-05-DRAFT)

Management agrees with the finding, **Accounting for Parts Inventory**.

Management believes the audit performed by the OIG team to be complete in its findings.

Recommendation [1]:

Require personnel at the San Francisco Vehicle Maintenance Facility to conduct counts of vehicle parts in accordance with Postal Service procedures, to include the proper way of investigating and resolving identified differences.

Response

Management agrees with this recommendation.

The following actions will be taken:

1. Management has ensured that all VMB's (Vehicle Maintenance Bulletins) and the PO 701, Fleet Management Handbook provisions pertaining to inventory control and accountability are adhered to. The VMF Manager reviews all interim inventory activities to ensure the counts are accurately performed, the difference report is complete, and the actual adjustments to on hand quantities are made. -- *Currently implemented*.
2. Management will enforce procedures and policies that would provide for complete work order accountability. The VMAS Work Order Detailed Report is being reviewed to pinpoint missing work orders prior to AP Close Out. Missing

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work orders are investigated. Finally, random sampling review of work orders is performed to gauge the accuracy of the data input to VMAS – *Currently implemented.*

3. Management will ensure the complete security of the stock room. The policy: "No Unauthorized Personnel in the Stock Room" is consistently adhered to. The parts room accesses are kept locked from the outside at all times. *Currently implemented.*
4. A complete physical inventory of all USPS owned and Consignment vendor parts will be accomplished to enable a correct base to start from. This inventory shall be completed at the end of AP5, 1st week of March 2005 with all adjustments finalized by March 15, 2005.

Responsible person(s) for implementation of the agreed upon actions:

Manager, Vehicle Maintenance Facility
Supervisor, Supplies
Supervisor, Vehicle Maintenance Facility Operations

Recommendation [2]:

Provide training to San Francisco Vehicle Maintenance Facility personnel on how to control inventories, conduct proper counts of parts, and investigate and reconcile differences.

Response

Management agrees with this recommendation. This facility went on consignment in November of 2003. Training was conducted at the same time of implementation of the consignment system.

The following actions will be taken:

1. Flow chart all relevant procedures – This will be local training which will include applicable Vehicle Maintenance Bulletins (VMB), PO 701 and local implemented procedures and policies. – *Estimated completion date: March 14, 2005*
2. Manager, Vehicle Maintenance Facility has enrolled in applicable NCED training. Course specifics included with the provided NCED training schedule for both San Francisco VMF Management and Administrative staff. *Completion is August 17, 2005.*

Responsible person(s) for implementation of the agreed upon actions:

Manager, Vehicle Maintenance Facility
Supervisor, Supplies

Management agrees with the finding, **Accounting for Bulk Fuel and Oil Inventories.**

Recommendation [3]:

Require personnel at the San Francisco Vehicle Maintenance Facility to perform reconciliations of bulk fuel and oil in accordance with Postal Service procedures. This would include (1) comparing diesel fuel amounts used and recorded daily among the pump meter, TRAK and Veeder-Root systems, (2) investigating and resolving discrepancies, and (3) recording adjustments.

Response

Management agrees with all sections of this recommendation.

The following actions will be taken:

1. Management will ensure that daily reconciliations are conducted timely and properly as outline in VMB V03-01 and the PO 701. To include:
 - a. Review daily reconciliation of Veeder Root, dispensing pump reading and TRAK
 - b. Balance tank readings with VMAS with explanations of adjustments. A print screen printout will be notated and filed for quick reference, if needed.
 - c. Spot check VMAS monthly to ensure correctness and accuracy. – *All currently implemented.*
2. All major discrepancies and/or possible issues leading to discrepancies, will be reported to the Manager, VMF. – *Currently implemented.*
3. All master keys for fueling will be deactivated. Only one Master Key will exist and the accountability for this key will be maintained by the stock room via a "check out" log. Implementation complete upon the reactivation of the bulk tanks currently being replaced. *Est. March 30, 2005 dependent upon construction progress.*
4. For fuel and oil drops, run Veeder Root printout before and another after. Then compare printouts to guarantee correct quantity being purchased. – *Currently implemented.*
5. VMF Manager reviews bulk tanks adjustment history each accounting period. Ensures completeness and accuracy of tank volumes.

Responsible person(s) for implementation of the agreed upon actions:

Manager, Vehicle Maintenance Facility
Supervisor, Supplies
Supervisor, Vehicle Maintenance Facility Operations

Management agrees with the finding, **Accounting for Postal Service Vehicles.**

Recommendation [4]:

Provide training to the San Francisco Vehicle Maintenance Facility personnel regarding Postal Service policies on accounting for vehicles. The training should address following up on discrepancies identified during physical inventories of vehicles, notifying the Inspection Service and the Area Vehicle Maintenance Program Analyst of missing vehicles, document adjustments, and providing the results to the San Mateo Information Technology and Accounting Service Center.

Response

Management agrees with this recommendation.

The following actions will be taken:

1. The FY '03 annual physical vehicle inventory was not accurate. This was an ongoing problem which was further compounded with the UVAS (Unit Vehicle Authorization Summary) process. The UVAS process is a procedure that "right sized" a delivery unit to one vehicle per motorized carrier route. There was a considerable amount of vehicle relocations during this process. The system that was used to track this movement of vehicles failed and caused VMAS and the mainframe database not to synchronize.

Management action taken prior to and during the audit produced significantly improved results for the Vehicle Inventory of FY '04. Of the 2199 vehicles that the San Francisco and San Mateo VMFs are responsible for, the list of vehicles unaccounted for is down to two. The procedure for reporting these vehicles missing has been initiated as outlined in V05-97 and section 8 of the PO 701. – *Estimated completion date: January 4, 2005.*

2. Develop a local Best Management Practice for an internal vehicle transfer and correction system to ensure consistent and accurate VMAS updating. – *Estimated completion date: February 7, 2005*
3. Flow chart and locally train all administrative staff on vehicle inventory procedures, with added emphasis placed on the new Best Management Practice. – *Estimated completion date: March 14, 2005*

Responsible person(s) for implementation of the agreed upon actions:
Manager, Vehicle Maintenance Facility
Supervisor, Supplies
Supervisor, Vehicle Maintenance Facility Operations

Report contains no FOIA exempt information.



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