Office of Inspector General | United States Postal Service

Audit Report

Review of Mixed Delivery and Collection Vehicles Acquisition

Report Number MI-AR-18-003 | September 6, 2018

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Highlights

Objective

Our objective was to determine whether the U.S. Postal Service's mixed delivery and collection vehicles acquisition achieved the performance metrics, expected costs, and savings.

The mixed delivery and collection vehicle fleet primarily supports Postal Service operations such as mail collection, mixed package delivery routes, and relay drop-offs for city carriers. However, the existing fleet of vehicles had aged beyond its planned life, requiring frequent repairs.

To address these issues, the Postal Service made an investment to replace 6,533 vehicles and completed their deployment in December 2017.

As part of the investment review process, in December 2014, the Postal Service approved funding totaling [redacted] million for the *2015 Vehicle Acquisition - 6533 Mixed Delivery and Collection Vehicles* Decision Analysis Report (DAR).

The DAR contained four performance metrics (vehicle maintenance facility (VMF) labor, contract labor, parts and materials, and fuel) to measure the success of the program.

What the OIG Found

We found the Postal Service achieved three of the four performance metrics for the investment. Specifically, management met the VMF labor, parts and materials, and fuel performance metrics, but did not meet the contract labor performance metric.

We found the Postal Service spent about $[redacted] million less than the original projected [redacted] million to acquire the new vehicles. According to management, they obtained a lower cost through contract negotiations and did not use the contingency funding.

However, the Postal Service did not budget the correct expected net savings for this investment. The Postal Service budgeted net savings of $[redacted], rather than the expected savings of [redacted] million in fiscal years (FY) 2016 and 2017. Management stated the budget reduction was miskeyed as [redacted], rather than $[redacted] in FY 2016. This clerical error was not detected, resulting in $[redacted] million in funds that could be put to better use.

> *"The Postal Service did not budget the correct expected net savings for this investment."*

As a result of this audit, management took corrective action by implementing a formal control process to ensure savings and costs from DARs are entered correctly into the budget. Therefore, we are not making a recommendation to address this issue at this time.

In addition, the Postal Service did not always track and report DAR performance metrics throughout the investment as required. This occurred because management believed they could not meet the requirement until after full deployment. In a prior May 2018 OIG report, we identified the same issue and recommended that Delivery Operations management develop and implement a review process to track and report performance metrics for investments. Management agreed with our prior recommendation; therefore, we are not making a recommendation to address this issue at this time.

Without adequate controls for tracking and reporting, management cannot evaluate achieved benefits and savings, which could cause stakeholders to lose confidence in the value of the program.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 6, 2018

MEMORANDUM FOR: KEVIN L. MCADAMS
VICE PRESIDENT, DELIVERY OPERATIONS

LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING

E-Signed by Kimberly Benoit
ERIFY authenticity with eSign Deskto

FROM: Kimberly F. Benoit
Deputy Assistant Inspector General
for Technology

SUBJECT: Audit Report – Review of Mixed Delivery and Collection Vehicles Acquisition (Report Number MI-AR-18-003)

This report presents the results of our audit of the U.S. Postal Service's mixed delivery and collection vehicles acquisition (Project Number 18TG008MI000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lori Lau Dillard, Acting Director, Major Investments, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's mixed delivery and collection vehicles acquisition (Project Number 18TG008MI000). Our objective was to determine whether the Postal Service's mixed delivery and collection vehicles acquisition achieved the performance metrics, expected costs, and savings.

Background

The mixed delivery and collection vehicle fleet supports Postal Service operations such as mail collection, mixed package delivery routes, and relay drop-offs for city carrier foot routes which require specialized and highly reliable vehicles. However, the fleet of two-ton vehicles currently in operation has aged beyond its planned life, requiring frequent repairs. Prior to the investment, 5,500 of the 6,144 vehicles in the fleet (90 percent) were 2001 and 2003 models and over 400 vehicles (7 percent) were purchased in 1996. Many engine and chassis components were obsolete and parts were no longer available, which required Postal Service automotive technicians to piece together or reuse parts from other vehicles. Moreover, the age of the chassis and component parts resulted in mechanical breakdowns which increased vehicle maintenance costs, regardless of the preventive maintenance performed.

To address the ongoing maintenance issues, the Postal Service made an investment to replace 6,533 vehicles, as shown in Table 1. As part of the investment review process, on December 22, 2014, the Postal Service approved the *2015 Vehicle Acquisition — 6533 Mixed Delivery and Collection Vehicles* Decision Analysis Reports (DAR) totaling [redacted] million. The Postal Service began deploying the new vehicles in February 2016, and completed deployment in December 2017.

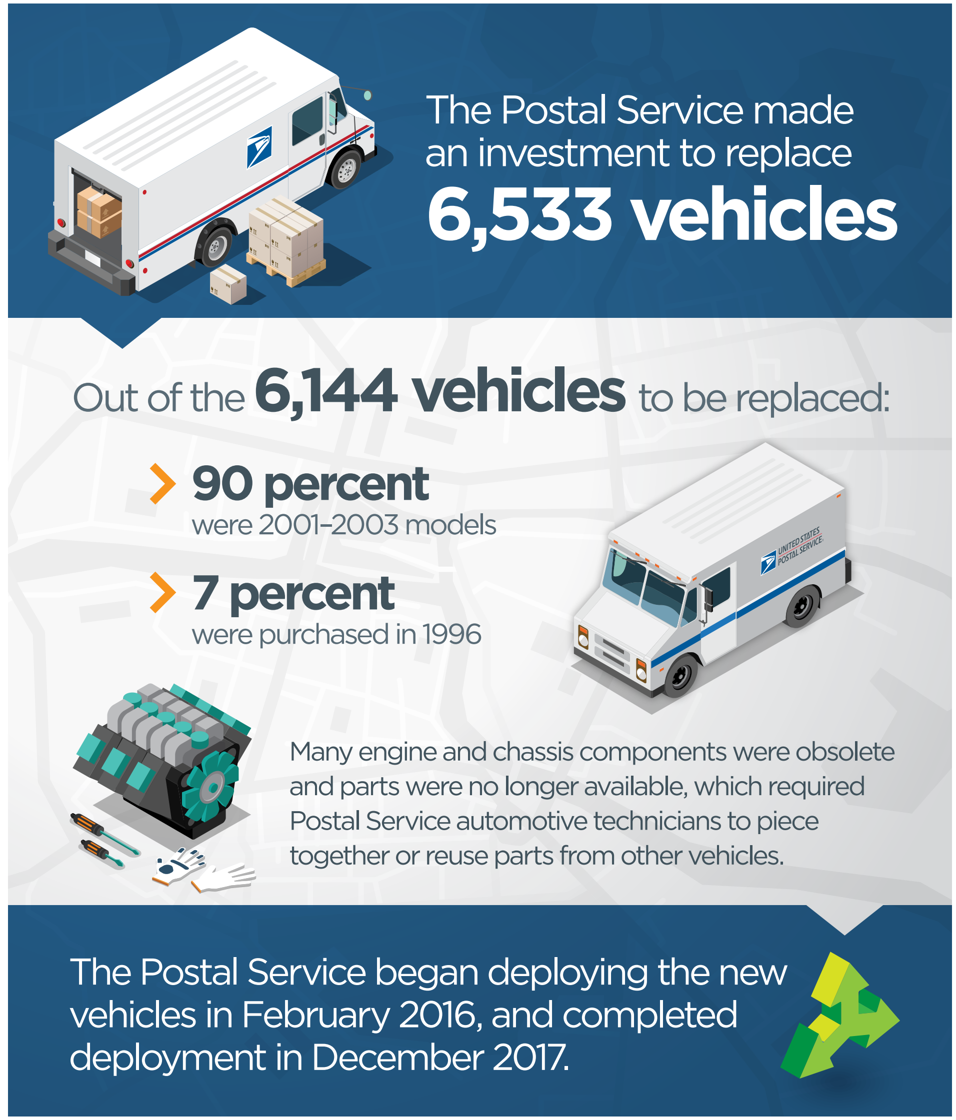


Table 1. Investment Summary

Fiscal Year	Number of Vehicles Purchased	Capital Investment (in millions)	Investment Expense (in millions)	Total Investment (in millions)
2016	3,339	[redacted]	[redacted]	[redacted]
2017	3,194	[redacted]	[redacted]	[redacted]
Total	**6,533**	[redacted]	[redacted]	[redacted]

Source: Postal Service's *2015 Vehicle Acquisition - 6533 Mixed Delivery and Collection Vehicles* DAR, dated December 22, 2014.

The DAR included supporting documentation to enable approving authorities to make an informed investment decision. The DAR contained four performance metrics to measure the success of the program: 1) vehicle maintenance facility (VMF) labor, 2) contract labor, 3) parts and materials, and 4) fuel.

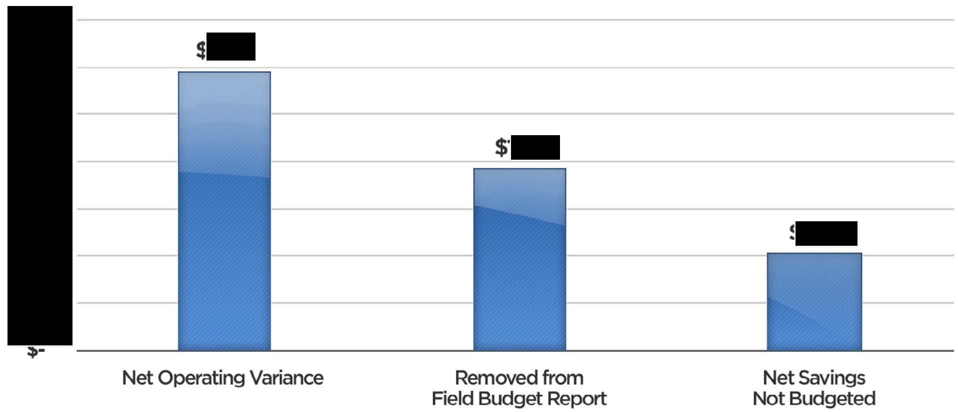
When a DAR investment has labor savings, Headquarters Finance should reduce the impacted area's workhour budget to reflect the operational savings. The Postal Service used historical data to develop performance metrics.

While the Postal Service approved $[redacted] million for the program, management spent $[redacted] million ([redacted] million less) to acquire 6,533 new vehicles. According to management, they obtained a lower cost for the new vehicles during contract negotiations and did not use [redacted] million in contingency funding.

Finding #1: Field Expense Budget

Postal Service management did not budget for the total expected mixed delivery and collection vehicles acquisition net savings.[1] Specifically, the DAR stated the Postal Service would have a net savings (labor, parts and materials, and fuel) of $[redacted] million, but only $[redacted] million was budgeted. There was an additional [redacted] million in expected net savings that should have been removed from the field budget for fiscal year (FY) 2016, as shown in Figure 1.

Figure 1. DAR Savings Summary FY 2016 – 2017 (in millions)



Source: Postal Service's *2015 Vehicle Acquisition - 6533 Mixed Delivery and Collection Vehicles* DAR, dated December 22, 2014; Postal Service FY 2016 *Area Revenue and Expense Budgets* report.

According to Postal Service policy,[2] Finance and Planning should reduce total savings[3] identified in the DAR from the impacted area's budget. Management stated that during FY 2016, the net savings was miskeyed as $[redacted], rather than $[redacted] and the error was not detected. As a result, the $[redacted] million in net savings are funds that could be put to better use. The net savings was not recoverable because the error was made in FY 2016.

"During the audit period, management took corrective action by implementing a formal control process and updated the Budget Cookbook Reports to ensure savings and costs from DARs are entered correctly in the budget."

During the audit period, management took corrective action by implementing a formal control process and updated the *Budget Cookbook Reports* to ensure savings and costs from

1 This represents the net operating variance, which is the difference between total operating cost and the total savings.
2 *Budget Cookbook Reports*, Chapter 1: Budget Development Flow Chart, dated November 2013.
3 Incremental workhour savings must be addressed in the DAR according to the Postal Service memo, *Incremental Workhour Savings in Decision Analysis Reports*, dated December 15, 2010.

DARs are entered correctly in the budget. Therefore, we are not making a recommendation to address this issue at this time.

Finding #2: Performance Metrics

The Postal Service did not always track and report the four key performance metrics identified in the DAR throughout the investment for evaluating the success of the acquisition as required.[4] The program deployment was completed in December 2017. However, we found performance metrics for this program were marked "N/A" or blank on the Postal Service's quarterly *DAR Compliance Report* through Q1, FY 2018.[5]

Based on our analysis, management met three of the four performance metrics identified in the DAR. As shown in Table 2, the net impact of the three performance metrics met (VMF labor, parts and materials, and fuel) totaled $[redacted] million. Management did not meet the contract labor performance metric, which totaled [redacted].

Table 2. DAR Performance Metrics (in millions)

	DAR Information		OIG Analysis					
	Metric	FY 2016 & 2017 Baseline Operating Cost[6]	FY 2016 & 2017 DAR Goal[7]	FY 2016 & 2017 Projected New Vehicle Operating Cost	FY 2016 & 2017 Actual New Vehicle Operating Cost	FY 2016 & 2017 Savings[8]	Net Impact[9] (Met) or Not Met	Goals Met (Yes/No)
1	VMF Labor	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Yes
2	Contract Labor	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	No
3	Parts and Material	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Yes
4	Fuel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Yes

Source: Postal Service's *2015 Vehicle Acquisition - 6533 Mixed Delivery and Collection Vehicles* DAR, dated December 22, 2014; Postal Service 2016 and 2017 Make/Model Cost Report.

Postal Service policy[10] states that sponsors are responsible for ensuring their projects are tracked and reported throughout the progress of the investment using the *DAR Compliance Reports*. The sponsor must document and report actual program performance versus DAR projections and report the results in the quarterly *DAR Compliance Report*, as shown in Table 3. These reports are prepared quarterly from project approval until 18 months[11] after final deployment/completion of the project.

4 Management reported FY 2017 vehicle cost data for the four performance metrics in the Quarter (Q) 2, FY 2018 *DAR Compliance Report*. The report did not show whether the program achieved the performance goals.
5 The investment status report provided to the Board of Governors is identified as the *Investment Highlights*.
6 Baseline is the operating savings for retiring the old vehicles.
7 Annual net savings equal to or greater than the DAR goal amount.
8 Escalated Baseline Cost subtracted by the Actual New Vehicle Operating Cost.
9 DAR goal minus Actual Savings.
10 Handbook F-66, *General Investment Policies and Procedures*, updated through October 2007.
11 Postal Service is in the process of updating the Handbook F-66 to require sponsors to submit quarterly compliance reports for review and analysis from the time the project is approved until two full fiscal quarters after the quarter in which the project is completed.

Table 3. Compliance and Program Status Reporting Responsibilities

Investment Funding Level	Reported By	Reviewed By	Reported To
$25 million+	Sponsor[12]	Capital & Program Evaluation	Board of Governors

Source: Postal Service Handbook F-66.

This occurred because management believed they were unable to track performance metrics until after full deployment. According to management, when a program is not fully deployed, some metrics may not be available or completed for reporting purposes. Management added that they are working with program sponsors to incorporate a status, such as "in deployment" instead of listing N/A within metrics or reporting fields where appropriate. By not tracking and reporting performance metrics from the time the investment was approved, the Postal Service may not be able to fully evaluate achieved benefits and savings or make appropriate business decisions and future planning.

We identified this issue in a May 2018 OIG report titled *Review of Extended Capacity Left-Hand Drive Delivery Vehicle Acquisition*.[13] We recommended Delivery Operations management develop and implement a review process to track and report performance metrics throughout the progress of investments and implement corrective action when performance goals are not met. Management agreed with our recommendation and stated they have updated their process to track costs identified in the cash flow and stated that Fleet Management will also work more closely with Finance to ensure the metrics used to track performance are relative and accessible. However, the recommendation remains open pending support documentation demonstrating corrective action has been taken; therefore, we are not making any recommendations to address this issue at this time.

Management's Comments

Management agreed with finding 1 and partially agreed with finding 2.

Regarding finding 2, management stated that they will use an alternative method to track actual savings versus the DAR performance metrics. Fleet management has begun tracking monthly vehicle acquisition costs and will aggregate totals by quarter and year to determine if annual goals are on target to be met.

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

Evaluation of Management's Comments

We believe the alternative method Fleet management has implemented meets the intent of tracking and reporting investment savings for the mixed delivery and collection vehicles DAR program. In addition, as stated in finding 2, we identified the same issue in the May 2018 OIG report titled *Review of Extended Capacity Left-Hand Drive Delivery Vehicle Acquisition*. Management agreed with the recommendation and stated they had implemented the corrective action on February 28, 2018. However, as of the time of this report, the recommendation remains open pending supporting documentation demonstrating corrective action.

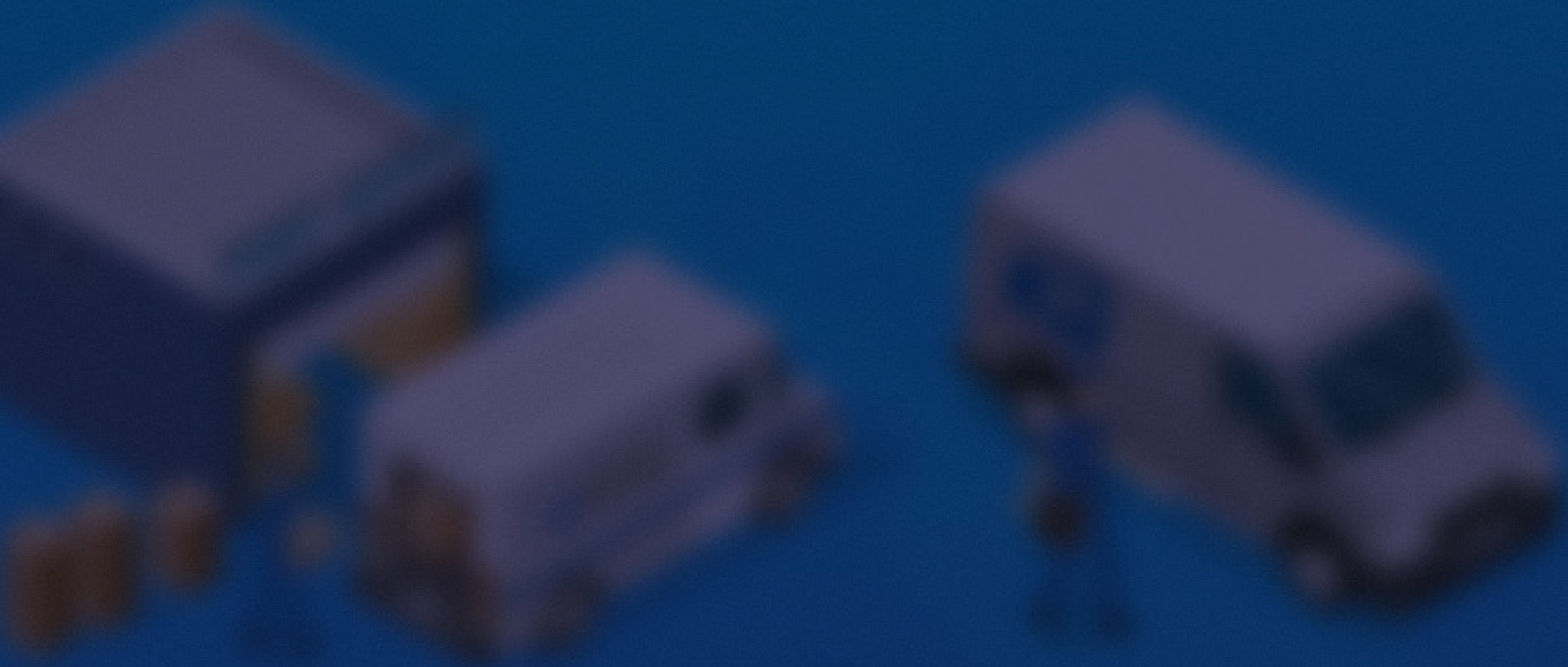
The OIG considers management's comments responsive to the conclusions in this report.

12 The sponsor may delegate compliance reporting responsibility to a designated staff member. The program manager is frequently assigned this responsibility; however, the sponsor retains accountability for ensuring complete, accurate, and timely compliance reporting.

13 Report Number MI-AR-18-002, May 18, 2018.

Appendices

Click on the appendix title below to navigate to the section content.



Appendix A: Additional Information

Scope and Methodology

The scope of this audit was the 2016 and 2017 mixed delivery and collection delivery vehicles program.

To accomplish our objective, we:

- Interviewed key Postal Service management responsible for the program to understand the systems used to manage the program, yearly program budget plan formulation, the impact of deviating from the plan, and actual versus planned program savings.
- Reviewed and evaluated the mixed delivery and collection vehicle acquisition DAR and Postal Service policies and procedures related to vehicle acquisition, including tracking initial and ongoing cash outflows and cash flow savings.
- Determined whether Postal Service management tracked and reported performance metrics, as required by policy.
- Reviewed the cash flow analysis that supports the return on investment (ROI) calculation for this project to determine whether this project achieved the anticipated ROI.

We conducted this performance audit from March through September 2018, 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 July 31, 2018, and included their comments where appropriate.

We assessed the reliability of mixed delivery and collection delivery vehicles program data by evaluating program expenditures in the Enterprise Data Warehouse[14] and evaluating performance metrics in the Solution of Enterprise Asset Management.[15] We also made the assessment by interviewing Postal Service officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
Review of Extended Capacity Left-Hand Drive (LHD) Delivery Vehicle Acquisition	Determine whether the Postal Service's Extended Capacity LHD delivery vehicles acquisition achieved performance metrics, costs, and savings.	MI-AR-18-002	5/18/2018	[redacted]

14 A repository for all data and the central source for information on retail, financial, and operational performance.
15 An Oracle web-based application designed to improve inventory tracking and visibility, implement forecasting and automatic replenishment capabilities, and standardize asset tracking and maintenance/repair functions.

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

August 24, 2018

MONIQUE COLTER
Director, Audit Operations

SUBJECT: Audit Report – Review of Mixed Delivery and Collection Vehicle Acquisition (Report Number MI-AR-18-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report. The Mixed Delivery and Collection Vehicle program was a success, with our investment coming in $[redacted] million below the approved levels, based on contract negotiations. In addition, management achieved the metrics concerning Vehicle Maintenance Facility labor, parts and materials, and fuel. This was a much-needed investment, and has proven successful operationally and financially. We appreciate the work done upfront to resolve several of the issues identified in the early draft report.

Finding 1
Postal Service management did not budget for the total expected mixed delivery and collection vehicles acquisition net savings.

Response:
Management agrees with the finding that a keying error led to an incorrect entry being entered into the budget system. Even with this error, United States Postal Service was able to exceed the projected savings by over $[redacted]million as validated by the Office of Inspector General (OIG). Management has taken corrective action by implementing a formal control process to ensure savings and costs from future Decision Analysis Reports (DAR) are entered properly.

Finding 2
The OIG found that management did not track and report the metrics throughout the investment as required.

Response:
Management agrees in part with this finding. The metrics identified to track savings on this project are based on annual savings when compared to the baseline costs. As per this report, the total savings for fiscal year (FY) 2016 and FY2017 exceeded the projected savings by over $[redacted]million. While the quarterly tracking method does not allow for an actual comparison of savings per quarter, Fleet Management has begun tracking costs associated to vehicle acquisition projects by month with rollup totals by quarter and year. While projected savings are not identified by quarter in the business case, actual costs are currently tracked to determine if annual goals are on target to be met. In addition, for projects that are not fully deployed, management will begin to identify them as "In Deployment" rather than "N/A" in the DAR Compliance Report to show they are not yet complete.

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Monetary Impact
Management agrees with the finding that a keying error led to an incorrect entry being entered into the budget system. Even with this error, United States Postal Service was able to exceed the projected savings by over $[redacted] million as validated by the Office of Inspector General (OIG). Management has taken corrective action by implementing a formal control process to ensure savings and costs from future Decision Analysis Reports (DAR) are entered properly.

Kevin L. McAdams
Vice President
Delivery Operations

Luke T. Grossmann
Vice President
Finance and Planning

cc: David E. Williams
Corporate Audit and Response Management

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