

December 5, 2003

WILLIAM P. GALLIGAN
ACTING VICE PRESIDENT, DELIVERY AND RETAIL

DANNY C. JACKSON
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Vehicle Maintenance Facilities – Fraudulent Damage Claim Practices in the Greater Indiana District (Report Number NL-AR-04-001)

This report presents interim results from our self-initiated vehicle maintenance facility audit (Project Number 02YG012TD002). The report focuses on fraudulent practices Greater Indiana District officials used to submit damage claims to private insurance companies.

Background

On March 6, 2002, the Office of Inspector General (OIG) initiated an audit of vehicle maintenance facilities to determine whether vehicle maintenance facility operations were effective, and to identify opportunities to save money. During the course of our



Postal Service vehicle involved in vehicle accident in the Greater Indiana District.

work, we received a referral from the OIG Assistant Inspector General, Investigations, that Postal Service officials in the Greater Indiana District may be committing fraud by submitting false invoices to private insurance companies. As a result, we developed additional audit steps to determine whether these fraudulent practices were widespread in Indiana and elsewhere.

The Postal Service has 326 vehicle maintenance facilities nationwide. These facilities manage a fleet of more than 200,000 vehicles. Over 3,200 are assigned to the Greater Indiana District. The vehicles are periodically involved in accidents caused by private parties.

Objective, Scope, and Methodology

The purpose of this report is to notify management of fraudulent practices Greater Indiana officials used to support damage claims to private insurance companies. We examined OIG investigative files, including witness statements and other relevant investigative material. We also examined relevant Postal Service policies and procedures, vehicle repair records, and claim records for fiscal years 2001 through 2003. We interviewed Postal Service officials at headquarters, in the Great Lakes Area, and in the Greater Indiana District; visited facilities throughout the district; interviewed vehicle maintenance facility personnel and other employees; and visited the Capital and New Hampshire Districts to compare claim filing procedures. Work associated with this audit was conducted from March through December 2003 in accordance with generally accepted auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. Since we had material indicators of fraud, based on testimony, we could not rely on the ethical or internal control environment. Consequently, our work was constrained and we could not determine the scope, monetary impact, or other effect of the improper activity. Nonetheless, we performed sufficient alternative procedures to form a reasonable basis for our opinions. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

Results

Fraudulent Claim Practices

Our audit concluded Greater Indiana District vehicle maintenance facility managers used fraudulent and other improper practices to submit damage claims to insurance companies. Our audit also concluded there were no controls in place to detect and deter such practices and a climate existed where these practices were considered acceptable.

The Postal Service Employee and Labor Relations Manual, Section 600, Subject: Conduct, requires employees to:

- Avoid any action affecting adversely the confidence of the public in the integrity of the Postal Service.
- Not engage in criminal, dishonest, notoriously disgraceful, or immoral conduct, or other conduct prejudicial to the Postal Service.

Other policy governing Postal Service employees includes:

Title 5, Code of Federal Regulations, Part 2635, Standards of Ethical Conduct for Employees of the Executive Branch, Section 101, requires employees to:

- Be honest in the performance of their duties.
- Report fraud or unethical conduct.
- Avoid the appearance of illegal or unethical conduct from the perspective of a reasonable person with knowledge of the relevant facts.

The Postal Service Handbook PO-701, Fleet Management, dated March 1991, identifies specific management controls—including those for processing vehicle damage claims. Paragraph 263, “Claims for Damage to Postal Service Property,” states that when Postal Service vehicles are damaged by a private party, Postal Service officials are required to determine monetary damage and make a claim for restitution. The paragraph requires labor rates to be billed at actual rate schedules established by Postal Service Headquarters, and requires management to document claims in a way that allows insurance companies to audit the information.

Paragraph 263, which pertains only to claims filed by the Postal Service, does not otherwise contain controls to establish what procedures must be followed to determine monetary damage or what documentation must be retained for audit. However, paragraph 266 is instructive because it contains specific procedures for claims filed against the Postal Service. For example, it states claims must be supported by repair estimates on business letterhead from two reputable garages, and can only include damage or other incidental costs actually incurred.

OIG investigative records documented:

- The Fort Wayne Vehicle Maintenance Facility manager admitted he used one body shop exclusively; he knew the body shop prepared fraudulent estimates; and he used fraudulent documents to support insurance company damage claims.

- The manager explained: (1) the body shop prepared an estimate on its own letterhead; (2) prepared a higher bogus estimate on the letterhead of a competitor; and (3) the bogus estimate was used to meet insurance company requirements.
- Other vehicle maintenance facility employees confirmed the practice and explained it was intended to circumvent insurance company requirements.

In addition to information developed by investigators, our audit validated insurance claims by the Greater Indiana District were improper and inflated. Specifically:

- A Fort Wayne Vehicle Maintenance Facility manager admitted he used fabricated estimates to support insurance company claims, in the event insurance companies requested more than one estimate for the damages. However, he stated he stopped obtaining the fabricated estimates during the OIG investigation in 2002.
- Fort Wayne Vehicle Maintenance Facility managers routinely inflated vehicle repair parts by 26 percent for shipping and handling, even though shipping and handling costs were not incurred. For example, a rear bumper taken directly from consigned inventory, cost the Postal Service \$672, but was itemized at \$845 on an insurance company claim. Managers explained the \$173 mark-up was for shipping and handling even though shipping and handling was not required. A Greater Indiana District official explained the practice was widespread and followed industry standards. However, (1) he could not provide documentation to support his statement; (2) we could not identify an industry standard that permitted charging for cost not incurred; (3) headquarters officials stated Postal Service policy did not authorize such mark-ups; and (4) a judgment sample of claims in the Capital and New Hampshire Districts concluded that those districts complied with the “actual cost” provisions of Handbook PO-701.
- Improper mark-up practices were not restricted to Fort Wayne. For example, South Bend Vehicle Maintenance Facility managers indicated they marked-up claims by 30 percent.
- The \$40 per hour labor rate specified by Greater Indiana District officials for damage claims was not based on actual labor rate schedules as required by Handbook PO-701; was not otherwise supported by an analysis to establish an appropriate rate; and was inconsistent with rates used in the Capital and New Hampshire Districts procedures which applied Postal Service published rates.

Greater Indiana District officials submitted improper and fraudulent claims because an environment existed where these practices were acceptable. For example:

- Vehicle maintenance facility managers or employees who were aware of fraudulent estimates, did not report the fraud; thus violating the Postal Service Employee and Labor Relations Manual.
- Managers and officials fostered illegal or unethical activity by condoning bogus estimates and the submission of damage claims for costs not actually incurred.
- Postal Service policy controlling damage claims is outdated. For example, relevant provisions of Handbook PO-701 have not been updated in more than 12 years and do not contain needed information on claim preparation, documentation, or record retention.

As a result of the weak ethical and control environment, the Postal Service is exposed to potential allegations of fraud, overcharging, and other impropriety.

Recommendation

We recommend the acting vice president, Delivery and Retail:

1. Develop controls, policies, and procedures necessary to ensure claims practices followed by Postal Service officials are appropriate, consistent, can be reasonably examined or audited, and contain provisions that ensure damage claims are supported only by actual costs. Publish the controls, policies, and procedures in a Postal Service Bulletin; and incorporate into Handbook PO-701 Fleet Management, dated March 1991.

Management's Comments

Management agreed with the recommendation. They stated Handbook PO-701 could and should be improved; they would work with managing counsel at the National Tort Center to revise the handbook; and they planned to publish the revision no later than December 31, 2003. They also stipulated their published claim recovery labor rates would incorporate system wide overhead costs. Management's comments, in their entirety, are included in the appendix of this report.

Evaluation of Management's Comments

Management's comments were responsive to our recommendation. We believe the actions management has taken or planned are sufficient to address the issues we identified in our report.

Recommendation

We recommend the vice president, Great Lakes Area Operations:

2. Take appropriate actions against Postal Service employees who followed or condoned improper claim practices; refund money obtained through fraudulent or improperly inflated claims; and report action taken to the OIG.

Management's Comments

Management concurred that Postal Service managers used or condoned bogus estimates to support insurance company claims, concurred such activity was inappropriate, and stated the practice was immediately stopped when identified by OIG auditors. Management requested access to our files, witness statements, and other relevant records; stated they would review those records to determine the extent of improper activity; and indicated they would take corrective action as warranted under the circumstances.

Evaluation of Management's Comments

Management's comments were responsive to our recommendation. We believe the actions management has taken or planned are sufficient to address the issues we identified in our report.

Recommendation

We recommend the vice president, Great Lakes Area Operations:

3. Take immediate action to ensure inflated damage claims are not tolerated, damage claims are supported only by actual costs, can be reasonably examined or audited, and are consistent with the Standards in the Postal Service Employee and Labor Relations Manual.

Management's Comments

Management concurred that Postal Service managers used or condoned bogus estimates, emphasized that they had already stopped the practice, and stated insurance company damage claims were now based on paid itemized repair bills. However, they also stated that they had already determined labor and parts rates were not inflated, and consequently, considered our recommendation moot.

Evaluation of Management's Comments

Management's comments were not responsive. Management did not explain how they determined labor and part rates were not inflated, and they did not address certain other

aspects of our recommendation. For example, they did not explain how they intend to ensure damage claims can be reasonably audited. Nonetheless, we consider the actions to which management already agreed sufficient to address the issues we identified. Consequently, we will not pursue the matter through the formal resolution process at this time, but will defer such a decision until after we evaluate the effectiveness of management's action during our standard procedure for closing significant recommendations.

The OIG considers recommendation 1, 2, and 3 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 follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, or need additional information please contact Joe Oliva, director, Network Operations - Logistics, at 703-248-2100, or me at (703) 248-2300.

Mary W. Demory
Deputy Assistant Inspector General
for Operations and Human Capital

Attachment

cc: Patrick R. Donahoe
John A. Rapp
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APPENDIX. MANAGEMENT'S COMMENTS

DANNY JACKSON
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



September 29, 2003

KIM H. STROUD
DIRECTOR
AUDIT OPERATIONS AND FOLLOW-UP
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Vehicle Maintenance Facilities – Fraudulent Damage
Claim Practices in Greater Indiana District (Report No. TD-AR-03-DRAFT)

The following comments are provided in response to the above-referenced draft audit report.

Summary of Response

The draft report contains allegations that Greater Indiana District vehicle maintenance managers engaged in fraudulent claim practices intended to obtain a financial gain to which the Postal Service was not entitled. The report analyzes the preparation of damage claims related to the repair of USPS vehicles by third party auto repair shops, as well as the amounts charged for labor and parts when repairs are made by postal personnel. The OIG findings relate specifically to: 1) the submission of a bogus second repair estimate in the event that an insurance company requested more than one estimate for damages repaired by a third party repair shop; 2) the hourly labor rate charged for postal personnel; and, 3) the amount charged for parts to perform repairs made by postal personnel. We respond to the individual findings as follows.

Second Repair Estimates

The OIG investigation found that the Ft. Wayne VMF manager permitted the use of fabricated estimates to support insurance company claims, in the event an insurance company requested an additional estimate. The report states:

"The manager explained: (1) the body shop prepared an estimate on its own letterhead; (2) prepared a higher bogus estimate on the letterhead of a competitor; and (3) the bogus estimate was used to meet insurance company requirements."

We agree that even if the body shop is charging the lowest available commercial rate for repairs, and therefore no fraud was intended, generating bogus estimates cannot be condoned and postal managers must not be involved in such deceptive conduct, regardless of whether or not it is a common commercial practice. The generation of unreliable "second" estimates has been stopped by Ft. Wayne VMF management. We are unaware, and the report does not reveal, any similar practices condoned at other Indiana facilities.

The report did not conclude that any insurer paid more than the lowest available commercial rate for repairs made to postal vehicles by third party repair shops. It is noteworthy, as discussed

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further on in these comments, that insurers utilize industry resources to determine the cost of parts, the local labor rate, and standard time required to make specific repairs. Moreover, professional claims adjusters are responsible for disputing and negotiating damage claims to ensure that they are reasonable and customary. Accordingly, we have no basis to believe that the Postal Service obtained reimbursement for damages to its Ft. Wayne fleet in excess of that which it was entitled, as a result of these second estimates.

Hourly Labor Rate

The report also criticized the Greater Indiana District's preparation of damage claims related to the repair of postal vehicles by postal personnel. With regards to the hourly labor rate, the report states:

“The \$40 per hour labor rate specified by Greater Indiana District officials for damage claims was not based on actual labor rate schedules as required by Handbook PO-701; was not otherwise supported by an analysis to establish an appropriate rate; and was inconsistent with rates used in the Capital and New Hampshire Districts procedures which applied Postal Service published rates.”

Actually, the Handbook PO-701 indicates that the charge for labor “may not exceed” the current rate schedule established by fleet management. (Section 263.1). Fleet management bulletin V-06-99 established the current rate for a mechanic work hour at \$63.68. This rate includes not only direct personnel costs, but also overhead charges including those related to supervisors and other necessary support staff and the cost of operating the VMF facilities themselves. It is our understanding, from a legal perspective, that all of these costs are related to the total cost of vehicle repairs. This national rate is considered as a maximum rate of recovery. Different parts of the country have different economic conditions that impact what insurance companies in the local area will accept as a reasonable labor rate. District management, in consultation with the District Tort Claims Coordinator, established the \$40 per hour labor rate for repairs by postal personnel as reasonable for its geographical area based upon the demands of private insurance companies in the state. The report provides no evidence that any postal employee improperly performed their job with regard to the rate demanded for postal employee labor.

Repair Parts

The report further alleged that VMF managers improperly inflated charges for parts used by postal personnel to repair vehicles:

“Fort Wayne Vehicle Maintenance Facility managers routinely inflated vehicle repair parts by 26 percent for shipping and handling, even though shipping and handling costs were not incurred.... South Bend Vehicle Maintenance Facility managers indicated they marked-up claims by 30 percent.”

First of all, we are unaware of any specific postal guidelines addressing the amount charged for vehicle parts obtained by the Postal Service. However, we have the right to seek reimbursement for any overhead expenses associated with the procurement of parts, including their shipping, handling, storage, inventorying, processing payment of invoices, and distribution to postal repair facilities, to name a few. From a legal perspective, it is our understanding that all such costs can validly be added to the purchase price of a part. Indeed, a significant markup of approximately 30% reflecting such costs is a standard industry practice in the commercial repair business.

Unlike the maximum hourly labor rate established nationally, fleet management has not yet established a national percentage markup representing the average expected overhead costs related to parts. Accordingly, TCCs and VMF management often adopt industry standards to ensure that the Postal Service is reasonably compensated for such costs. In actuality, Greater Indiana District officials have been claiming reimbursement at the standard retail price for replacement parts. The retail prices charged by the USPS for parts are the same prices manufacturers charge private repair shops that repair postal vehicles. Postal claims for part reimbursement, however, are much cheaper since the private repair shops markup the retail price by approximately 30% to cover overhead costs. We are unaware of any challenges or objections to this practice brought by private insurance companies who similarly have access to manufacturers' price guides.

Recommendation Number 2: [Vice President, Great Lakes Area Operations]

Take appropriate actions against Postal Service employees who followed or condoned improper claim practices; refund money obtained through fraudulent or improperly inflated claims; and report action taken to the OIG.

Response: We concur that it is inappropriate for postal managers to condone the use of bogus second repair estimates to support insurance company claims. This situation was immediately stopped when identified by OIG auditors. As indicated in the report, this practice was not widespread but relegated to some repair activity made by a body shop servicing Ft. Wayne vehicles. The report did not indicate, however, nor can we conclude that this inappropriate activity was intended to cause, or resulted in, any overpayment for repairs by insurers. We have requested that the OIG provide us with their investigative files, witness statements, and other relevant investigative materials related to this audit. Upon receipt, we will further review the facts to determine the extent and impact of such activity, as well as the appropriate corrective action warranted under these circumstances.

We do not agree, however, that Greater Indiana District employees charged an improper hourly labor rate or inflated the cost of parts to obtain a financial gain. To the contrary, the hourly labor rate comported with postal regulations established to ensure that the USPS is fairly compensated for not only its direct personnel costs, but also its overhead related to the repair of its vehicles. Moreover, the hourly labor rate of \$40 is a reasonable rate for this geographical area. Similarly, we find that claims for reimbursement for parts at the published retail price to be fair and reasonable. It is noteworthy that such part charges are lower than those charged by private repair shops.

Recommendation Number 3: [Vice President, Great Lakes Area Operations]

Take immediate action to ensure inflated damage claims are not tolerated, damage claims are supported only by actual costs, can be reasonably examined or audited, and are consistent with the Standards in the Postal Service Employee and Labor Relations Manual.

Response: As discussed above, we have already stopped the use of bogus second repair estimates. Claims for repairs are now based upon the submission of a paid itemized repair bill. Since we have determined that the hourly labor rate and part charges are not inflated, but intended to recover compensable damage costs incurred by the USPS in repairing its own vehicles, we find the remainder of the recommendation to be moot.


Danny Jackson

cc: Susan Duchek
Gregg Sackrider

HENRY A. PANKEY
VICE PRESIDENT, DELIVERY AND RETAIL



September 23, 2003

KIM H. STROUD
DIRECTOR
AUDIT OPERATIONS AND FOLLOW UP
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Vehicle Maintenance Facilities – Fraudulent Damage Claim
Practices in Greater Indiana District (Project Number 02YG012TD002)

The following comments are provided in response to the subject draft audit report (“the report”).

Some of the findings regarding the alleged preparation of fraudulent estimates and inflated claims in the Greater Indiana District, if accurate, are indeed troubling. However, certain elements of discussion concerning fleet management procedures and the claims for damages to postal vehicles in the Results section of the report warrant clarification.

As an initial matter, the report addresses repair work performed by USPS employees and work done by third party auto repair shops interchangeably, but lacks the necessary details to reliably determine which findings relate to which situation. Obviously, those two processes are distinguishable. To the extent we have properly connected the reported activity to the situation in question, we offer the following observations, first regarding the use of commercial body shops to make repairs to postal vehicles and secondly regarding damage claims arising from postal repair work.

The report states:

“The Fort Wayne Vehicle Maintenance Facility manager admitted that he used one body shop exclusively...”

The above-mentioned conduct on its own, which depending on the situation could be contrary to Postal Service purchasing guidelines, does not necessarily provide evidence of a fraudulent activity. There are numerous advantages in dealing with a familiar and trusted body shop. The only circumstances where such a relationship might be in and of itself considered fraudulent would include personal gain derived from monetary or other incentives offered to the individual contracting out the work, or a personal/familial relationship between the parties involved. The report does not suggest such factors were present.

However, the report also states:

“The manager explained: (1) the body shop prepared an estimate on its own letterhead; (2) prepared a higher bogus estimate on the letterhead of a competitor; and (3) the bogus estimate was used to meet insurance company requirements.”

Obviously, even if the body shop is charging the lowest available commercial rate for the repairs, and therefore no actual fraud was intended, generating bogus estimates cannot be condoned and postal

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officials must not be involved in such deceptive conduct, regardless of whether or not it is a common commercial practice.

The report's criticisms of procedures used in the Greater Indiana District to prepare damage claims related to the repair of USPS vehicles by postal personnel focused on the amounts charged for labor and parts. A clear understanding of postal procedures and practices regarding such damage claims, and the law generally applicable to tort claims, make it apparent that even if some of the noted practices are inadvisable, no fraudulent activity occurred in these areas.

The report states:

“The \$40 per hour labor rate specified by Greater Indiana District officials for damage claims was not based on actual labor rate schedules as required by Handbook PO-701; was not otherwise supported by an analysis to establish an appropriate rate; and was inconsistent with rates used in the Capital and New Hampshire Districts procedures which applied Postal Service published rates.”

Both Handbook PO-702, *Accident Investigation—Tort Claims*, and Handbook PO-701, *Fleet Management*, indicate that a labor rate for repairs will be established by fleet management. Vehicle Maintenance Bulletin V-06-99 established the current rate for mechanic work hour of \$63.68. This rate includes not only direct personnel costs, but overhead charges including those related to supervisory personnel, the operation of the VMF facilities, and other related costs. The national \$63.68 per hour rate established on that basis is often commercially acceptable and legally defensible, though it clearly cannot represent the actual costs of repairs made in each instance.

However, the standard national rate is only appropriate as a maximum labor rate. The Postal Service has no special legal right to recover its actual costs in repairing a vehicle, nor a standard estimate of those costs. The USPS, like any other tort claimant, has a legal duty to mitigate its damages. If a USPS vehicle can be repaired at a local auto body shop for less than the standard USPS rate, the entity who receives our damage claim can validly argue that our demand, and more specifically our labor rate, is too high. There is an argument used at times by Tort Claim Coordinators that some postal vehicles are “unique” and that only USPS personnel can fix them, but it is neither universally applicable, nor always successful. Given the way we maintain certain vehicles in our fleet for long periods of time, demanding our standard rate can also lead to a responsive assertion that the vehicles fair market value is so low it should be totaled, not repaired, and our damages are limited to the fair market value. Different parts of the country have different economic conditions that impact what insurance companies in the local area will accept as a reasonable labor rate.

The postal official in the best position to determine what rate should be demanded or accepted in each geographic area is the local Tort Claim Coordinator (TCC). That same individual is tasked with regularly challenging the amount demanded by insurance companies and others for damage to private vehicles caused by Postal Service negligence. It is the District TCC who best knows what rate we should pay for labor in the specific geographic area, and what is a comparable reasonable rate to demand or accept for our repair of our own damages. TCCs are expected to make that determination.

Successful negotiation requires flexibility. If our TCCs cannot apply local standards to our property damage claims, a large number of claims will go unresolved, and the USPS will suffer a decrease in cash flow as claims proceed through time consuming and costly litigation that is unlikely to lead to larger recoveries. No information provided in the report indicates that the employees in question were improperly performing their job with regard to the rate demanded for postal employee labor.

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The report states:

“Fort Wayne Vehicle Maintenance Facility managers routinely inflated vehicle repair parts by 26 percent for shipping and handling, even though shipping and handling costs were not incurred. For example, a rear bumper taken directly from consigned inventory, cost the Postal Service \$672, but was itemized at \$845 on an insurance company claim. Managers explained that the \$173 mark-up was for shipping and handling even though shipping and handling was not required. A Greater Indiana District official explained the practice was widespread and followed industry standards. However, (1) he could not provide documentation to support his statement; (2) we could not identify an industry standard that permitted charging for cost not incurred; (3) headquarters officials stated that Postal Service policy did not authorize such mark-ups; and (4) a judgment sample of claims in the Capital and new Hampshire Districts concluded that those districts complied with the “actual cost” provisions of Handbook PO-701.”

Initially, the suggestion made in the report that when a part is taken from consigned inventory, there are no shipping and handling costs, is overstated. The part was clearly handled by the Postal Service and the Postal Service expended storage costs in maintaining the part. From a tort law perspective, all such costs can validly be added to the purchase price of a part used to repair a vehicle. A markup reflecting such costs is a standard industry practice in the commercial repair business. Insurance companies and the Postal Service regularly pay for such costs as part of vehicle damage repair claim resolutions. Should it choose to do so, the Postal Service would be legally entitled to determine the approximate amount of such costs and add a mark-up to the purchase price of parts when making vehicle damage demands.

However, the report is correct in noting that there are no specific postal guidelines authorizing the addition of such a mark-up to the amount it pays for vehicle parts. There is also no postal guideline proscribing the addition of such actual costs to our demands. It is difficult to tell from the report whether this mark-up occurred when postal parts were used by postal mechanics, when postal parts were provided to commercial body shops repairing our vehicles, or both. It does seem evident from the report that the Greater Indiana District employees in question did not have a properly verifiable basis for the amount added as mark-up. Since it would be inappropriate for the Postal Service to turn a profit in such situations (unlike companies operating in the commercial world), the practice of marking-up parts should be discontinued unless and until it is studied and formally instituted.

Still, without involved analysis, it would be impossible to determine if the rate used at the Greater Indiana District resulted in any actual overcharges. In fact the report seems to assert that the same entities that might have been overcharged for parts were undercharged for labor. Even if some overcharge occurred, there is no evidence provided of any intent to defraud. It should be noted that TCCs are trained to aggressively negotiate down property damage claims made against the USPS, including demands for costs associated with parts and labor. After negotiating numerous property damage claims, an experienced TCC could not help but note that the mark-up of parts is a common cost added to demands for repair damages. Thus, it is understandable that when the situation is reversed, and the Postal Service is making a demand, the TCC would honestly believe it appropriate to include a similar charge at a common commercial rate.

With regard to Recommendation 1, the following response is provided:

Recommendation 1: [the Vice President, Delivery and Retail] develop Controls, Policies and Procedures necessary to insure claims, practices followed by postal service officials are appropriate, consistent, can be reasonably examined or audited, and contain provisions and ensure damage

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claims are supported only by actual costs. Publish the Controls, Policies, and Procedures in a postal service bulletin; and incorporate in the handbook PO-701, Fleet Management, dated March 1991.

Response: Some of the report findings indicate that the problems in the Greater Indiana District go beyond the misunderstanding or misapplication of the existing regulations. Nonetheless, we agree that handbook PO-701 can and should be improved to bring about the consistent use of approved practices and reduce the risk of non-compliance with established policy. We agree with the recommendation, with the caveat that the published labor rate applicable to claim recovery will continue to incorporate system wide overhead costs, and those may not reflect "actual" costs for any given claim. Additionally, because all claims are subject to negotiated settlement, it should be noted that the recovery for labor expenditures may not reach any particular rate set forth in a current or future Vehicle Maintenance Bulletin. Delivery and Retail will work with the Managing Counsel at the National Tort Center to revise handbook PO-701, Fleet Management. Publication within Quarter 1, FY2004 is planned.

With regard to Recommendations 2 and 3 which were addressed to the Vice President, Great Lakes Area Operations, the labor rate basis and any effects of negotiated settlements, as discussed above, should be acknowledged relative to the findings and requested action.

This material may be disclosed in accordance with the Freedom of Information Act. If you have questions or need additional information, please contact Jackie Estes, Manager, Delivery Vehicle Operations at (202) 268-2861.



Henry A. Pankey

cc: Mr. Donahoe
Mr. Strasser
Mr. Rapp
Mr. Jackson