



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Consigned Vehicle Parts

Audit Report

March 18, 2013

Report Number FT-AR-13-010

March 18, 2013



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**INSPECTOR
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UNITED STATES POSTAL SERVICE

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HIGHLIGHTS

BACKGROUND:

The U.S. Postal Service mandated consignment of vehicle repair parts beginning in January 2002 to reduce its capital investment in vehicle parts inventory. Its national ordering agreements define consignment as parts owned by suppliers and stored at vehicle maintenance facilities.

Accordingly, suppliers own the parts until they are installed. Wheeler Brothers, Inc. is the main supplier of vehicle parts at 274 of 308 vehicle maintenance facilities. It provides warranty reimbursements and credits for certain parts. Vehicle maintenance facility personnel used Wheeler Brothers, Inc.'s system to identify and issue parts for vehicle repair. However, effective February 2012, the Postal Service began implementing the Solution for Enterprise Asset Management - Vehicle Maintenance to track and monitor consigned parts.

The objectives of our audit were to determine whether opportunities exist to reduce program costs and the level of accounting adjustments for consigned vehicle parts. Payments for vehicle parts and supplies totaled about \$270 million annually in fiscal years 2011 and 2012.

WHAT THE OIG FOUND:

We identified opportunities to reduce costs for consigned vehicle parts. Specifically, supervisors did not consistently monitor physical inventories

and personnel did not always adequately determine whether Postal Service-owned parts were available. As a result, management could not ensure accurate parts issuance, and expensing and suppliers could inappropriately charge the Postal Service for parts.

Also, vehicle maintenance facility personnel did not consistently determine whether warranties were available or adequately validate parts credits. We estimated that vehicle maintenance facilities could have obtained an additional \$750,000 in annual warranty reimbursements and about \$345,000 in annual parts credits. We also noted accounting adjustments were nominal and the Postal Service had procedures in place to address them.

WHAT THE OIG RECOMMENDED:

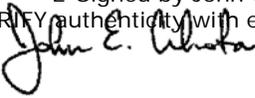
We recommended the Postal Service implement procedures for supplier consigned parts inventories, warranty reimbursements, and returning certain parts and verifying credits. Additionally, management should enhance Solution for Enterprise Asset Management - Vehicle Maintenance reporting capabilities for warranties. Subsequent to management's comments we identified errors in our use of supplier's data that impacted the calculations of monetary and other impacts. This report reflects these changes.

[Link to review the entire report](#)



March 18, 2013

MEMORANDUM FOR: EDWARD F. PHELAN JR.
VICE PRESIDENT, DELIVERY & POST OFFICE
OPERATIONS

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop


FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial and Systems Accountability

SUBJECT: Audit Report – Consigned Vehicle Parts
(Report Number FT-AR-13-010)

This report presents the results of our audit of the U.S. Postal Service's Consigned Vehicle Parts (Project Number 12BG015FT000).

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

Attachments

cc: Joseph Corbett
Timothy F. O'Reilly
Elizabeth A. Schaefer
J. Otis Smith
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the U.S. Postal Service's Consigned Vehicle Parts (Project Number 12BG015FT000). Our objectives were to determine whether opportunities exist to reduce costs and the level of accounting adjustments for consigned vehicle parts. This self-initiated audit addresses operational and financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Service mandated consignment of vehicle repair parts inventories beginning in January 2002 to reduce its capital investment in vehicle parts inventory. The Postal Service's national ordering agreements define consignment as parts owned by suppliers and stored at vehicle maintenance facilities (VMFs). Authorized consignment suppliers have created integrated Postal Service-supplier information networks and are, therefore, able to maintain detailed spare parts usage records, and automatically replenish VMF inventories to maintain appropriate supply levels. Tracking systems and associated hardware and telephone lines are provided and maintained at the supplier's expense. Currently, these five suppliers provide consigned parts to the Postal Service:

- Wheeler Brothers, Inc.
- Jasper Innovative Solutions (formerly Mac Motors Inc.)
- Jasper Engines & Transmissions.
- Axiom Automotive Technologies, Inc.
- Grooms Engines.

The suppliers maintain ownership of the consigned repair parts until they are installed on a vehicle. To maintain appropriate supply levels, the suppliers automatically replenish their consigned inventories. Suppliers are authorized to conduct counts of their consigned inventory at the VMFs at least once per year. Wheeler Brothers, Inc. is the main supplier of vehicle parts at 274 of 308 VMFs. Wheeler Brothers, Inc. created a web-based inventory system to issue, expense, replenish, and maintain detailed spare parts usage records. Because the Vehicle Management Accounting System (VMAS)¹ did not include consigned parts, VMF personnel used Wheeler Brothers, Inc.'s inventory system to identify and issue parts for vehicle repair. The Postal Service required Wheeler Brothers, Inc. to maintain the system and to provide training to VMF personnel.

On February 1, 2012, Supply Management started a phased-in implementation of the Solution for Enterprise Asset Management (SEAM) – Vehicle Maintenance for VMFs. SEAM - Vehicle Maintenance replaces the VMAS for reporting on inventory, assets, and work order transactions; as well as tracking and monitoring consigned parts. This system will replace reliance on consignment suppliers' inventory programs. As of October 1, 2012, management deployed SEAM - Vehicle Maintenance at six pilot sites and all VMFs in the Western, Pacific, Northeast, Southern, and Eastern areas.

¹ The Postal Service's vehicle monitoring and tracking system.

Management targets full implementation of SEAM during fiscal year (FY) 2013. Payments for vehicle parts and supplies totaled about \$270 million annually in FYs 2011 and 2012.

Conclusion

We identified opportunities to reduce costs for consigned vehicle parts, specifically:

- Supervisors did not consistently monitor Wheeler Brothers, Inc.'s physical inventories, so the supplier could inappropriately charge the Postal Service for parts not found. We did not find any specific instances of inappropriate charges during our audit.
- When identifying parts for maintenance or repair of vehicles, VMF personnel did not always adequately determine whether Postal Service-owned parts were available, so the Postal Service may have purchased and issued consigned parts when Postal Service-owned parts were available.
- When issuing vehicle parts, VMF personnel did not consistently determine whether warranties were available to obtain reimbursements for defective parts. We estimated that VMFs could have obtained an additional \$750,000 in annual warranty reimbursements in calendar years (CY) 2010 and 2011. Although implementation of SEAM - Vehicle Maintenance will resolve this issue, it does not maintain history for parts used before its implementation, so there is a risk the Postal Service might not take advantage of warranties during the transition period. Based on historical data and projections, we estimated warranty reimbursements of about \$2.1 million will be available during the implementation phase.
- VMF personnel did not adequately validate core credits² from the supplier, so VMF personnel could not ensure they obtained reimbursement for all deposits on core parts. We identified about \$345,000 in annual core credits the Postal Service did not obtain.

We also noted accounting adjustments were nominal and the Postal Service had procedures in place to address them. We will continue to monitor these adjustments in future financial statement audits.

Consignment Supplier Physical Inventories Monitoring

Supervisors did not consistently monitor Wheeler Brothers, Inc.'s physical inventories. We visited four VMFs³ and found:

² Certain automobile parts have a core price that is used as a form of deposit on the portion of the part that can be remanufactured and is designed to encourage return of the old part. Parts that may have a core price include brake shoes, brake master cylinders, water pumps, starters, alternators, and air conditioning compressors.

³ San Jose, CA; Sacramento, CA; San Francisco, CA; and Oakland, CA.

- Supervisors at two VMFs assigned personnel to accompany Wheeler Brothers, Inc.'s representatives, observe, and answer questions.
- Supervisors at two VMFs made personnel available to answer questions as Wheeler Brothers, Inc.'s representatives conducted the inventory counts. These personnel continued to perform their assigned duties in the stockroom.

Under the National Ordering Agreement,⁴ the consignment supplier is authorized to inventory its own stock at the VMFs at least once per year, or more frequently if circumstances require. These inventory counts identify differences between the consignment supplier's inventory records and the physical parts on hand. After completing the counts, the consignment supplier provides management with an inventory count summary, and charges the Postal Service for parts not found. They also adjust their inventory records to reflect Postal Service-owned parts on-hand to ensure these parts are issued before consigned parts.

Procedures exist regarding monthly (interim) physical inventories performed by VMF personnel that require inventories to be performed, at a minimum, by a two-person team, consisting of a counter and a recorder.⁵ However, the Postal Service does not have nationwide instructions or guidance concerning the responsibilities of Postal Service employees during physical inventory counts conducted by consignment suppliers. Without consistent oversight during the consignment suppliers' physical inventory, Postal Service personnel may not identify errors or differences included in the supplier's inventory count. Accordingly, the Postal Service might pay for parts that are in the consigned inventory. We did not identify any instances during our audit where the Postal Service paid for parts that were in the consigned inventory.

Postal-Owned Vehicle Parts in Inventory

When identifying parts for maintenance or repair of vehicles, VMF personnel at the four sites visited did not use VMAS to determine whether Postal Service-owned parts were available. This occurred because VMAS did not include consigned parts, so personnel relied on Wheeler Brothers Inc.'s inventory system to ensure they queried for both Postal Service-owned and consigned parts. However, because Wheeler Brothers, Inc.'s inventory system did not always include all Postal Service-owned vehicle parts, the Postal Service may have purchased and issued consigned parts when Postal Service-owned parts were available. During CYs 2010 and 2011, Wheeler Brothers, Inc.'s physical inventory counts found \$634,000⁶ in Postal Service-owned vehicle parts that were not included in its inventory system. Also, during CY 2012, at one VMF with the

⁴ An ordering agreement is not itself a contract. It is a written agreement that contains terms and conditions applying to future contracts between the parties. The contracts are established when orders are issued and accepted by the parties. Although there may be a price ceiling for individual orders, there is no limit on the aggregate value of orders and no commitment to purchase.

⁵ *Vehicle Maintenance Bulletin*, VMB-02-11, dated April 15, 2011.

⁶ Wheeler Brothers, Inc. provided this information. We did not validate the value of the parts.

same situation, Wheeler Brothers, Inc. found about \$54,000 of Postal Service-owned vehicle parts that were not included in its system.⁷

Technicians initiate vehicle maintenance work orders that include parts for scheduled maintenance or repairs. On occasion, VMF personnel purchase parts that are not needed and the parts become Postal Service-owned. In these instances, procedures⁸ require VMF personnel to return the parts to inventory as Postal Service-owned. When they physically return the parts to inventory, VMF personnel must record them in VMAS to adjust inventory balances in the system but are not required to record them in Wheeler Brothers, Inc.'s inventory system. When there is a new request to issue the same part, VMF personnel at the four sites visited use Wheeler Brothers, Inc.'s inventory system to check for a Postal Service-owned part. If one is not available, Wheeler Brothers, Inc.'s inventory system will issue a consigned part. As a result, available Postal Service-owned parts remained undetected in physical inventory and parts may have been purchased unnecessarily.

The new SEAM - Vehicle Maintenance system includes both Postal Service-owned and consigned parts. Therefore, upon implementation, personnel will no longer use Wheeler Brothers, Inc.'s inventory system for identifying parts. Accordingly, we are not making a recommendation at this time. However, we will continue to monitor this area to ensure VMF personnel adjust inventory balances upon return of parts to SEAM - Vehicle Maintenance as Postal Service-owned.

Warranty Reimbursements

When issuing parts, VMF personnel did not consistently determine whether warranties were available to obtain reimbursements for defective parts. Specifically, of the four VMFs visited, we found:

- Personnel at two VMFs used Wheeler Brothers, Inc.'s inventory system to determine whether warranties were available before issuing the parts.
- Personnel at two VMFs did not use Wheeler Brothers, Inc.'s inventory system but instead relied on technicians to review the vehicle jacket⁹ to determine whether warranties were available.

Warranties for vehicle parts that are defective or fail are usually available within the first 12 months of use.¹⁰ Wheeler Brothers, Inc.'s inventory system has a feature that allows

⁷ We did not conduct any inventory counts during our audit so were unable to identify additional Postal Service-owned vehicle parts not included in Wheeler Brothers, Inc.'s inventory system.

⁸ Handbook PO-701, *Fleet Management*, Section 452.51, Recording Returned Items to Stock, dated March 1991. *SEAM VMF Student Training Manual*, Chapter 3, Return Material to a VMF Work Order, Copyright 2011, also requires personnel to enter returned parts into the inventory system. However, we did not test parts returns at any sites that transitioned to SEAM - Vehicle Maintenance.

⁹ Vehicle jackets are maintained for each Postal Service-owned or maintained vehicle. The vehicle jacket must contain all documents relating to the repair and maintenance of the vehicles. Vehicle jackets will be phased out with implementation of SEAM - Vehicle Maintenance.

VMF personnel to view the vehicle parts history as part of the process of issuing parts. Another way to obtain the vehicle parts history is to review the vehicle jacket contents. Unlike using Wheeler Brothers, Inc.'s inventory system, this method is not efficient because it is a manual process and requires the technician to review all work orders related to that part.

Once a part is identified, VMF personnel follow supplier's procedures to obtain reimbursement. Specifically, VMF personnel return the authorized part to the consignment supplier on the supplier's Return Material Authorization form. After the supplier validates that the part is defective, the supplier issues a warranty credit.

Postal Service policy states that VMFs are responsible for maintaining aggressive warranty recovery programs.¹¹ However, the Postal Service does not have written procedures for identifying and obtaining reimbursements for parts under warranty. As a result, VMF personnel may not have obtained warranty reimbursements for all eligible defective and failed vehicle parts. Our analysis of Wheeler Brothers, Inc.'s sales for each VMF compared to the percentage of warranties received showed that VMFs could have obtained an additional \$665,000 in warranty reimbursements in CY 2010 and \$837,000 in CY 2011. See [Appendix B](#) for monetary impact.

SEAM - Vehicle Maintenance will automatically identify all parts under warranty. Therefore, upon implementation, personnel will no longer need to identify parts under warranty. However, SEAM - Vehicle Maintenance does not produce exception reports to identify parts that are returned as defective but are not included on the Return Material Authorization form. Therefore, management may still not always obtain all warranty reimbursements. Also, SEAM - Vehicle Maintenance does not include vehicle histories for parts used before implementation of the system and, thus, will not identify warranties for those parts. Based on historical data and projections, we estimate warranty reimbursements of \$2.1 million will be available during the implementation phase. See [Appendix B](#) for other impact.

Core Returns

VMF personnel did not adequately validate core credits from the supplier. Certain automobile parts can be remanufactured for future sales. These parts have a core price that is used as a form of deposit on the portion of the part that can be remanufactured and is designed to encourage return of the old part. Parts that may have a core price include brake shoes, brake master cylinders, water pumps, starters, alternators, and air conditioning compressors. The supplier charges for the cores and provides credits when the cores are returned. Returning cores saves money on replacement parts. At all four VMFs we visited, personnel returned cores for credit. However, they did not consistently document core returns or verify the core credits received. Specifically:

¹⁰ Consigned suppliers warrant engines and transmission for 36 months. Additionally, some turn signal lights have lifetime warranties.

¹¹ Handbook PO-701, Chapter 6, Section 611, dated March 1991.

- At one VMF, personnel used the supplier's standard core return form that included a reference number. Personnel then verified the core credit invoice information provided by the supplier to the core return forms they prepared to ensure they received credit of all cores they returned.
- At two VMFs, personnel were not aware the supplier had a core return form. Personnel at one of these VMFs used a spreadsheet to verify core credit invoice information provided by the supplier to their records to ensure credit for cores they returned. At the other VMF, personnel did not record the cores they returned and were unable to verify core credit information provided by the supplier.
- At one VMF, personnel used the supplier's standard core return form but did not verify information provided by the supplier to their records.

This occurred because the Postal Service did not have procedures for all VMFs regarding returning and verifying core credits. Internal controls should be in place to ensure effective and efficient operations,¹² including obtaining reimbursements and credits when available. During CY 2010, total core charges were \$2.37 million and core credits were \$2.02 million. During CY 2011, total core charges were \$3.13 million, and core credits were \$2.79 million. Accordingly, the Postal Service did not obtain reimbursement for core credits of about \$345,000 annually. See [Appendix B](#) for monetary impact.

SEAM - Vehicle Maintenance enhances the core credit documentation and verification process. Personnel create core return forms in SEAM - Vehicle Maintenance that are summarized in a *Warranty and Core Claims Report*. Personnel can use that report to validate core credits received. However, there are no instructions regarding review of the report to ensure all credits are received.

Recommendations

We recommend the vice president, Delivery and Post Office Operations:

1. Develop and implement nationwide policies and procedures for vehicle maintenance facility personnel to follow during consignment suppliers' consigned parts inventories.
2. Develop and implement nationwide procedures for identifying, returning, and obtaining reimbursements for parts under warranty.
3. Enhance Solution for Enterprise Asset Management (SEAM) - Vehicle Maintenance reporting capabilities to include exception reports listing vehicle parts identified in SEAM - Vehicle Maintenance as being under warranty but are not listed on a Return Material Authorization Form.

¹² *Standards for Internal Control in the Federal Government* issued by the U.S. Government Accountability Office (GAO) (GAO/AIMD-00-21.3.1, dated November 1999).

4. Develop and implement nationwide procedures to capture all warranties during the Solution for Enterprise Asset Management - Vehicle Maintenance implementation phase.
5. Develop and implement nationwide procedures for returning cores and verifying core credits.

Management's Comments

Management agreed, in part, with recommendations 2, 3, and 5; however, management disagreed with recommendations 1 and 4. In addition, management stated they found significant flaws in the analysis of the information supplied by the consignment suppliers that the U.S. Postal Service Office of Inspector General (OIG) prepared. They noted that the data provided and the identified costs associated with part purchases and warranty returns were not accurately associated to VMFs. In particular, while no outliers were identified for warranty reimbursement percentages, over 30 facilities were eliminated in calculating the monetary impact. Further, nine of the facilities eliminated in the calculation showed a warranty reimbursement amount greater than the total parts purchased, indicating a flaw in the analysis. The defective data was verified by the consignment supplier who provided the original information to the audit team. Additionally, the monetary value for core credits did not appear to take into consideration loss reimbursements due to damaged cores.

Management disagreed with recommendation 1. They stated that consignment suppliers are authorized to schedule and perform an inventory count for their parts for each VMF on an annual basis. They stated the audit failed to fully describe the process for making inventory corrections resulting from the inventory counts. Any adjustments identified by the consignment supplier, must be adjusted following the Postal Service process for mandatory or optional inventory adjustments. In addition, they stated with the implementation of SEAM - Vehicle Maintenance system, all parts and inventory levels will be tracked in this system, and procedures for performing inventory counts have been established.

Management agreed with recommendation 2, in part, and stated that, in addition to significantly enhancing the ability to identify parts potentially under warranty with the implementation of SEAM - Vehicle Maintenance, they have created two reports that enable management's visibility of potentially warranted parts and reimbursement tracking. The *SEAM VMF Student Training Manual* documents this procedure. However, management did not agree that they need to take any additional action to comply with the recommendation.

Management agreed, in part, with recommendation 3, but disagreed with the monetary impact related to this recommendation, as noted above. They agree with creating an exception report to identify parts with potential warranties not listed on a Return Material Authorization form. In addition, management will research the best method for

measuring parts with potential warranties and warranty amounts received. However, any enhancements must be justified with proof of hard savings and approved by a Change Control Board. Subsequent discussions with management identified that these actions are scheduled for completion by August 1, 2013.

Management disagreed with recommendation 4 and its related other impact. They stated that the calculation of other impact was flawed, as noted above, and using the consignment vendor's system would cost in excess of \$5 million annually. SEAM- Vehicle Maintenance will allow identification of potential available warranties without adding extra hours researching individual parts.

Management agreed, in part, with recommendation 5 but disagreed with its related monetary impact. Management noted that the monetary impact did not appear to take into consideration loss reimbursements due to damaged cores. They added that they created two reports which allow them visibility over parts issued with core values and reimbursement tracking. Navigation documents and training have been provided to each facility. The procedure is documented in the *SEAM VMF Student Training Manual* for core return and documentation procedures.

See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 3 and 5. Subsequent to receiving management's comments, with regard to monetary benefit calculations, we worked with management's statistician. We identified an error in our alignment of the warranty to sales dollars by VMF. We corrected our analysis and calculations of monetary impact and the potential loss without action is \$1.5 million. Until a vehicle parts transaction history has been in place for 1 year, SEAM - Vehicle Maintenance will not identify parts under warranty.

Also, with regard to other impact, we corrected our calculation errors. The OIG believes that, unless management implements a systematic method to capture warranties for parts used prior to implementing SEAM - Vehicle Maintenance, the Postal Service could lose almost \$2.1 million in warranty reimbursements. This report reflects changes in the figures. With regard to damaged cores reducing the amount of potential additional reimbursement, we queried the consignment supplier who told us that they did not track damaged cores and do not recall rejecting any cores for damages. However, if there were any, the amount was minimal.

With regard to recommendation 1, if observing counts performed by consignment supplier personnel does not take place, errors or differences in their counts may not be identified, which places parts in the stockrooms at risk. However, we agree that, with the implementation of SEAM - Vehicle Maintenance, some mitigating controls will be achieved, such as agreeing to the adjustments. We will not pursue audit resolution but

will continue to monitor warranty consignment supplier physical inventories as part of our annual financial statements audits.

With regard to recommendation 2, we agree that SEAM – Vehicle Maintenance training, enhancements, and reports will supplement VMF personnel's ability to identify and obtain reimbursement for parts under warranty. We will not pursue audit resolution but will continue to monitor warranty reimbursements as part of our annual financial statements audits.

With regard to recommendation 4, if nationwide procedures are not developed, as recommended, VMF personnel may not obtain warranty reimbursements for all eligible defective and failed vehicle parts. However, in subsequent communication, management explained how their costs exceeded the benefit to review for each part, and it is management's decision to determine if procedures would be cost effective to implement. Therefore, we will not pursue audit resolution and consider this recommendation closed.

Appendix A: Additional Information

Background

In FY 2002, management issued a Memorandum of Policy (MOP)¹³ mandating consignment of vehicle repair parts inventory. The Postal Service entered into national ordering agreements (NOAs) with authorized suppliers for the sale of vehicle parts through consignment. Those agreements did not obligate the Postal Service to purchase parts from the suppliers. Instead, the parts remain the property of the suppliers until they are used to repair the vehicles. When used, suppliers charge the Postal Service for the parts. The suppliers are authorized to inventory their own stock at the VMFs at least once a year, or more frequently if required.

Wheeler Brothers, Inc. is the primary supplier for consigned parts at 274 of 308 VMFs.¹⁴ Wheeler Brothers, Inc. created a web-based inventory system for use at the VMFs to receive, issue, expense, and resupply consigned vehicle parts at the VMFs for which Wheeler Brothers, Inc. is the primary supplier. Wheeler Brothers, Inc., in accordance with the NOA, provides training to VMF employees on how to use its inventory system.

Effective February 1, 2012, management began implementing SEAM – Vehicle Maintenance to help reduce costs and provide real-time visibility. SEAM - Vehicle Maintenance replaces VMAS for reporting on inventory assets and work order transactions as well as tracking and monitoring consigned parts. As of October 1, 2012, management deployed SEAM - Vehicle Maintenance at six pilot sites and all VMFs in the Western, Pacific, Northeast, Southern, and Eastern areas. Management targets full implementation during FY 2013.

Objectives, Scope, and Methodology

Our objectives were to determine whether opportunities exist to reduce program costs and the level of accounting adjustments for consigned vehicle parts. To achieve our objectives, we:

- Reviewed payments and adjustments to consignment suppliers.
- Reviewed policies, procedures, and guidance affecting consignment of vehicle parts.
- Reviewed agreements between the Postal Service and authorized consignment suppliers.
- Conducted interviews with VMF personnel, management, and consignment supplier personnel.

¹³ MOP OS-1-17-2002, *Mandatory Consignment of Vehicle Repair Parts Inventory; National Program Controls*, dated January 17, 2002.

¹⁴ As of April 10, 2012.

- Performed walkthroughs and observations at selected VMFs.
- Observed the processes to obtain warranty reimbursements and core credits.
- Reviewed and evaluated VMAS generated data.

We conducted this performance audit from January 2012 through March 2013 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on September 14, 2012, and included their comments where appropriate.

We assessed the reliability of Wheeler Brothers, Inc.'s data by tracing invoice amounts to the National Accounting Oracle Financials Application (NAOFA). We also verified that warranty reimbursement amounts were accurately recorded in NAOFA. We determined that the data were sufficiently reliable for the purposes of this report. We did not confirm the accuracy of all parts overages reported by Wheeler Brothers, Inc. However, we used the data only to show perspective. Accordingly, we believe the data were sufficiently reliable for purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Vehicle Parts Program</i>	DR-AR-10-008	9/24/2010	\$17,488,469
<p>Report Results: The Postal Service’s vehicle parts purchasing process did not ensure the Postal Service paid consignment suppliers the lowest price for vehicle parts. Physical safeguards and inventory management controls over vehicle parts at 13 of 16 VMF units were not always adequate. Management agreed with our recommendations and agreed to establish a process to analyze similar parts by form, fit, and function where significant price variances exist; to publish a <i>Vehicle Maintenance Bulletin</i> to clearly communicate policy requirements and management responsibilities to purchase vehicle repair parts in the most effective manner; and inform headquarters vehicle program managers of opportunities for alternative parts suppliers. Management also agreed to publish <i>Vehicle Maintenance Bulletins</i>, emphasizing security and purchasing procedure guidelines.</p>			
<i>Vehicle Warranty Claims Process</i>	DR-AR-09-004	1/30/2009	\$3,539,730
<p>Report Results: VMF units did not always identify vehicles under a manufacturer’s warranty and appropriately code the repair for reimbursement. VMF units did not always submit work and reconcile payments received for repairs made on warranty vehicles with Postal Service resources. Management agreed with our recommendations and planned to (1) issue a comprehensive vehicle warranty policy, (2) replace the VMAS with a new system that will maintain all vehicle warranty requirements, and (3) collaborate with the vehicle manufacturers to provide detailed warranty data to aid in reconciling warranty reimbursement payments.</p>			

Appendix B: Monetary and Other Impacts

Monetary Impacts

Recommendation	Impact Category	Amount
3	Revenue Loss ¹⁵	\$1,503,000
5	Revenue Loss	690,000
Total		\$2,193,000

Other Impacts

Recommendation	Impact Category	Amount
4	Assets at Risk ¹⁶	\$2,100,000

¹⁵ Amount the Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed.

¹⁶ Assets that are at risk of loss because of inadequate internal controls.

Appendix C: Management's Comments

GREGORY G. GRAVES
A/VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS



November 8, 2012

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Consigned Vehicle Parts
Report Number (FT-AR-13-DRAFT)

Thank you for providing the U.S. Postal Service (USPS) with the opportunity to review and comment on the draft report titled Draft Audit Report (Report Number FT-AR-13-Draft).

This report was initiated to review the inventory reconciliation process for supplier owned and consigned parts located in Vehicle Maintenance Facility (VMF) stockrooms.

This report and management's response does not contain information that may be exempt from disclosure under the Freedom of Information Act.

Consignment Inventory Adjustment Response

As part of the agreement with USPS consignment suppliers, the supplier is authorized to schedule and perform an inventory count of their parts for each VMF location on an annual basis. This process is voluntary for the supplier and does not impact the USPS guidelines for performing monthly mandatory inventories. Management does not believe a full understanding was gained of the reconciliation and adjustment process of the consignment inventory process. All part adjustments for both consigned and postal inventory must be made using the established postal guidelines for inventory adjustments.

Monetary Impact Response

Management does not concur with the monetary impacts stated in this audit. Significant flaws were identified in the analysis of the information supplied by the consignment suppliers. Data provided to the Delivery Program Support group by the audit team identified that costs associated with part purchases and warranty returns were not accurately associated to VMF locations. Although the OIG analyst stated that no outliers were identified for warranty reimbursement percentages, over 30 facilities were eliminated in the calculation for the monetary impact.

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WASHINGTON DC 20260-7017

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Nine of the facilities eliminated in the calculation showed a warranty reimbursement amount greater than the total parts purchased, clearly indicating a flaw in the analysis. The defective data was verified by the supplier who provided the information to the audit team originally.

The monetary value for core credits also does not appear to take into consideration loss reimbursements due to damaged cores.

Recommendation 1

Develop and implement nationwide policies and procedures for vehicle maintenance facility personnel to follow during consignment suppliers' consigned parts inventories.

Response

Disagree

Management does not concur with the recommendation to implement postal policies for the consignment suppliers' inventory process. Suppliers are allowed to create their own process for performing the inventory count of the parts they own. This audit failed to fully describe the process for making inventory corrections resulting from the consignment inventory count process. Inventory adjustments may not be made by the consignment supplier. Any adjustments identified through the consigner's inventory count must be adjusted following the postal process for mandatory or optional inventory adjustments.

With the implementation of SEAM, inventory levels for both consignment and postal owned parts will be tracked in SEAM. Procedures for performing inventory counts of consigned parts have been established. The USPS continues to work with all consignment suppliers to modify their inventory count process using SEAM inventory reporting.

Recommendation 2

Develop and implement nationwide procedures for identifying, returning, and obtaining reimbursements for parts under warranty.

Response

Agree in part

The process of identifying parts potentially under warranty has been significantly enhanced with the release of the SEAM application. Respective parts are now immediately identified as potentially under warranty at the time of issuance. Additionally, two reports have been created to allow management visibility of

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potentially warranted parts and reimbursement tracking. Navigation documents and training have been provided to each maintenance facility. This procedure is documented in the SEAM Training Manual for warranty claim procedures.

Management does not agree additional actions are required to comply with this recommendation.

Recommendation 3

Enhance Solutions for Enterprise Asset Management (SEAM) – Vehicle Maintenance reporting capabilities to include exception reports listing vehicle parts identified in SEAM – Vehicle Maintenance as being under warranty but are not listed on a Return Material Authorization Form.

Response

Agree in part

Management concurs in part to the recommendation of creating an exception report for identifying parts with potential warranty not listed on a Return Material Authorization Form. Management will research the best method to measure parts with potential warranty and warranty amounts received. It is not believed this recommendation is the best way to compare warranty reimbursement with existing opportunity. All SEAM enhancements must be justified with hard savings and approved by a Change Control Board.

Recommendation 4

Develop and implement nationwide procedures to capture all warranties during the Solution for Enterprise Asset Management – Vehicle Maintenance implementation phase.

Response

Disagree

Management does not concur with the recommendation to implement a nationwide procedure for identifying parts under warranty after conversion to SEAM. As previously identified, this audit's calculation of financial impact is not valid. Furthermore, the method to identify parts under warranty by looking up each part in the consigner's system would cost the USPS in excess of \$5M annually. SEAM was chosen as the replacement part management system to in part identify potential warranty without adding extra hours researching individual parts. The cost for complying with this recommendation would be significantly more than any potential savings. The auditors stated that no specific parts were identified in their research where warranty claims were not captured.

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Recommendation 5

Develop and implement nationwide procedures for returning cores and verifying core credits.

Response

Agree in part

The process for submitting and tracking core returns has been significantly enhanced with the release of the SEAM application. Two reports have been created to allow management visibility of parts issued with core values and reimbursement tracking. Navigation documents and training have been provided to each maintenance facility. This procedure is documented in the SEAM Training Manual for core return and documentation procedures.

Management does not agree additional actions are required to comply with this recommendation.

A handwritten signature in black ink, appearing to read 'GG Graves', is written over a horizontal line.

Gregory G. Graves