Fleet Modernization: Disposal of Long-Life Vehicles

AUDIT REPORT

Report Number 24-092-R25 | February 26, 2025

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Highlights

Background

As part of its 10-year Delivering for America plan, the Postal Service plans to acquire 106,480 new delivery vehicles, including electric vehicles, between fiscal years 2023 and 2028. The investment in new vehicles will necessitate the replacement and disposal of many long-life vehicles (LLV), which may generate additional revenues. Thus, it is crucial for the Postal Service to establish and maintain internal controls over its evolving disposal processes to mitigate security and financial risks as the 10-Year Plan unfolds.

What We Did

Our objective was to (1) assess the Postal Service's controls over the disposal process of LLVs and (2) evaluate its disposal plans as it replaces its delivery fleet. For this audit, we statistically sampled 112 LLV disposals and reviewed supporting documentation for completeness, timeliness, and revenue capture.

What We Found

We found that the Postal Service had ineffective internal controls over the LLV disposal program to ensure that management followed established processes and had sufficient revenue recognition and reconciliation practices. These conditions occurred due to a lack of management oversight, existing controls not designed to confirm LLVs received disposal revenues and had been reconciled properly, and leadership prioritizing other strategic initiatives. Ineffective internal controls over the LLV disposal process leaves the Postal Service vulnerable to security and financial risks. As a result, we estimated a total of $452,506 in lost revenue for 11,257 disposals that occurred between October 2023 and April 2024 without associated scrappage payments and $3,828,136 in at-risk revenue for 95,320 LLV disposals that are planned. Lastly, in anticipation of the increase in LLV disposals, the Postal Service awarded a contract on January 23, 2025, for a supplier to manage this program. However, due to the timing, we were not able to opine on the sufficiency of controls with the contract and new disposal processes. Even so, strong internal controls are necessary to successfully transition the disposal function to a nationwide supplier.

Recommendations and Management's Comments

We made three recommendations to address the issues identified in the report, and Postal Service management agreed with all three. We consider management's comments responsive, as the corrective actions should resolve the issues. A summary of management's comments and our evaluation are at the end of each finding and recommendation. See Appendix B for management's comments in their entirety.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

February 26, 2025

MEMORANDUM FOR: RONNIE J. JARRIEL
CHIEF LOGISTICS AND INFRASTRUCTURE OFFICER AND EXECUTIVE VICE PRESIDENT

Amanda H. Stafford

FROM: Amanda Stafford
Deputy Assistant Inspector General
for Retail, Marketing & Supply Management

SUBJECT: Audit Report – Fleet Modernization: Disposal of Long-Life Vehicles (Report Number 24-092-R25)

This report presents the results of our audit of U.S. Postal Service's management of long-life vehicle disposals.

All recommendations require U.S. Postal Service Office of Inspector General (OIG) concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All recommendations should not be closed in the Postal Service's 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. If you have any questions or need additional information, please contact Shirian Holland, Director, Infrastructure & Supply Management, 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 management of long-life vehicle (LLV) disposals (Project Number 24-092). Our objective was to (1) assess the Postal Service's controls over the disposal process of LLVs and (2) evaluate its disposal plans as it replaces its delivery fleet. See Appendix A for additional information about this audit.

Background

The Postal Service's fleet of delivery and collection vehicles is an integral part of achieving the agency's mission to provide the nation with reliable, affordable, and universal mail service. Its fleet comprises over 250,000 vehicles of varying classes, including 110,000 right-hand-drive LLVs — accounting for approximately 44 percent of the Postal Service's vehicle fleet. The LLVs in their current condition are outdated, expensive to maintain, lack certain modern safety and operational features such as airbags, and have all exceeded the projected 24-year life span – LLVs were produced between 1987 and 1994.[1]

To modernize its aging fleet, while supporting financial and environmental sustainability strategies from its Delivering for America 10-year plan, the Postal Service is investing $9.6 billion[2] to modernize and electrify its delivery fleet. The Postal Service plans to acquire 106,480 new delivery vehicles between fiscal years (FYs) 2023 and 2028, which includes a mix of different engine types, driver-side configurations,[3] suppliers, and production methods.[4] Accordingly, the investment in new vehicles will necessitate the disposal of many existing LLVs, which may generate additional revenues. The Postal Service approximates recycling up to 105,573 vehicles between FYs 2025 and 2029, which includes 95,320 LLVs (see Figure 1).

The Postal Service is investing **$9.6 billion** to modernize and electrify its delivery fleet

The Postal Service plans to acquire **106,480** new delivery vehicles between FYs 2023 and 2028

The Postal Service approximates recycling up to **105,573** vehicles which include **95,320 LLVs**

1 The Postal Service is planning to conduct a trial, starting in January 2025, in which 100 LLVs will be repowered — replacing old engines and transmissions, and restoring body paint — and deployed to equipment maintenance allowance routes in Manchester, N.H. These delivery routes are reserved for carriers who use their privately owned vehicles, and in return, get reimbursed by the Postal Service for fuel and maintenance. The trial will be conducted for an undefined period to evaluate feasibility and hiring challenges associated with these routes.
2 This investment includes $3 billion in congressional funding from the Inflation Reduction Act of 2022 (Public Law 117-169).
3 According to Postal Service management, left-hand drive vehicles are best deployed on carrier routes with certain characteristics — for instance, routes that do not require curbside delivery. Alternatively, right-hand drive vehicles can be used on any postal route and are generally superior to left-hand drive vehicles in terms of efficiency, performance, and safety.
4 Over half the vehicles (66,230) will be battery electric vehicles and at least 60,000 will be purpose-built Next Generation Delivery Vehicles.

Figure 1. Postal Service Vehicle Recycling Projection, FY 2024-2031

Fiscal Year	FY 25	FY 26	FY 27	FY 28	FY 29	TOTAL
Minivans	39	76	75	73	108	371
Metris	404	94	581	665	747	2,491
ProMasters	227	260	292	324	355	1,458
2-Tons	269	225	186	149	116	945
Cargo Van	9	10	11	12	13	55
Tractor	7	8	9	10	11	45
Spotter	1	1	1	1	1	5
Trailer	100	0	0	0	0	100
Service Vehicles	18	20	23	25	27	113
Administrative Vehicles	34	37	42	46	50	209
LLV	9,897	21,258	21,874	25,119	17,172	95,320
Flex-Fuel Vehicles	746	806	855	894	922	4,223
Next Generation Delivery Vehicles	0	6	31	88	113	238
Total						**105,573**

Source: U.S. Postal Service Request for Proposals, Solicitation 4BW-24-A-0002.

Vehicle Disposal Process

While Headquarters Fleet Management is responsible for directing, evaluating, and monitoring the disposal of vehicles,[5] the disposal process is often initiated at a vehicle maintenance facility (VMF).[6] Specifically, to be eligible for disposal, a vehicle must be replaced, be uneconomical to repair, or no longer needed. If the manager of the VMF determines that a vehicle fits one or more of the criteria for disposal, they or a designee will complete a PS Form 4587, *Request to Repair, Replace, or Dispose of Postal Service-Owned Vehicle*. The PS Form 4587 or PS Form 4587M (for multiple vehicles) is used to initiate a request, provide a justification, and document the approval or disapproval to dispose of the vehicle(s) and should be retained for three years. Once the form is reviewed for accuracy and approved by the VMF manager, the VMF's territory manager and regional manager must also provide concurrence.

Once authorized for disposal, the VMF manager has 60 days to store and dispose of the vehicle. First, the manager identifies a local salvage yard to dispose of the vehicle and prepares the vehicle for scrap.[7] This includes the removal of any mail, mail-related equipment, Postal Service decals, markings, and license plates, and cannibalization[8] of high-dollar or high-needed parts from the vehicle before the vehicle is transported to the salvage yard. The VMF manager will then complete a disposal agreement[9] with the salvage yard for the purpose of permanent vehicle destruction, who will scrap the vehicle and may pay the VMF for any revenues and proceeds with a check, based on market value and tonnage.

Fleet Management Information System Implementation

As part of the disposal process, local VMF managers submitted all applicable documentation to the San Mateo Motor Vehicle Accounting Service, which

5 This responsibility includes directing the disposal of targeted groups of vehicles, developing and publishing Postal Service policy and procedures, and evaluating VMF disposal activities.
6 There are 307 VMFs throughout the country where vehicles are serviced and repaired to support the Postal Service's mission to deliver to 167 million addresses. VMFs are organized and managed by four areas: Westpac, Central, Southern, and Atlantic. Each regional manager oversees 8 VMF Territories (or a total of 32 Territories) that are responsible for local VMFs.
7 All surplus right-hand drive purpose-built vehicles, such as the LLVs, are designated for disposal and cannot be sold due to security concerns (for example, unauthorized users impersonating Postal Service employees using the LLVs).
8 Removal of a part so it can be used to maintain another asset.
9 In certain localities a Standard Form 97, *The United States Government Certificate of Release of a Motor Vehicle*, must be completed.

certified with a date that the vehicle had been disposed of in the Solution for Enterprise Asset Management (SEAM) system.[10] However, in November 2023, Headquarters Fleet Management initiated the transition from the current system (SEAM) to a system called Fleet Management Information System (FMIS). FMIS will provide key fleet information and dashboards, such as maintenance and work-order management, vehicle accident history, invoice payment and tracking, vehicle assignment and location information, and many other features.

The implementation of FMIS was completed in August 2024, and as a result, the vehicle disposal process (for example, completing forms, obtaining signatures, and submitting supporting documentation) is now captured electronically in FMIS rather than SEAM. Lastly, to recognize revenues and conclude the disposal process, the payment is forwarded to the Eagan Accounting Service Center, which processes and deposits the check and records the revenue in the corporate accounting system.[11]

10 A web-based application designed to improve inventory tracking and visibility and standardize asset tracking and maintenance/repair functions.

11 The revenue is recorded into account number 52955, Vehicle Supplies and Service. This account is used to record reimbursements from (a) the sale of unserviceable motor vehicle parts, batteries, cylinder oil, and similar items; (b) refunds for oil drums or other containers returned to suppliers; (c) damage to mail trucks or other vehicle equipment; (d) reimbursements for vehicle supplies and services as reported on Statements of Account from postmasters; and (e) other government agencies for the cost of services and supplies.

Finding: Ineffective Controls Related to Disposals

While the Postal Service has some internal controls in place governing the LLV disposal process, we found they were not always effective to ensure that VMFs followed established disposal processes and had sufficient revenue recognition and reconciliation practices. There were 11,257 LLV disposals that occurred from October 1, 2023, through April 30, 2024, in SEAM. We selected a statistical sample of 112 LLV disposals and reviewed supporting documentation provided by Headquarters Fleet Management, VMF management, and the Eagan Accounting Service Center for completeness, timeliness, and existence of revenues.

Adherence to Required Disposal Processes

Our analysis of 112 LLV disposals determined that the Postal Service did not:

- Have required[12] physical or electronic management approvals and signatures on the PS Form 4587 prior to disposal for 7 LLVs (6 percent).
- Have required[13] vehicle disposal agreements, which is to be completed by the VMF manager, for 25 disposals (22 percent).
- Cannibalize and dispose 21 vehicles (19 percent) within the 60-day requirement.[14] For example, one VMF took over 150 days and another VMF took over 280 days to dispose of the LLVs because they remained at the VMF for cannibalization.
- Remove or cover decals and markings for 31 LLVs (28 percent) as required.[15]

In addition, we found that management was not able to provide supporting documents to confirm that LLVs were physically disposed of for 11 LLVs (10 percent). For example, at one VMF, the scrap yard towed the vehicles from the VMF to the scrap yard; however, management was not able to provide documentation to confirm that the scrap yard did in fact destroy the vehicles.

These conditions occurred due to a lack of management oversight of the vehicle disposal process. Specifically, some VMF management was unaware of the vehicle disposal processes and requirements outlined in Handbook PO-701, *Fleet Management*. In addition, management stated that due to the number of disposals it had in such a short time frame and the number of new employees involved in the process, some requirements were not met. Lastly, while the Vehicle Disposal Agreement contains a clause requiring the vendor to furnish evidence of the vehicle's destruction upon request, it does not require the Postal Service to ask for the documentation. Moreover, Handbook PO-701, *Fleet Management* does not specify destruction evidence requirements.

Following established disposal processes prevents errors from occurring (for example, disposing of incorrect vehicles) and reduces security risks (for example, scrap yards or bad actors not disposing LLVs, which may lead to unauthorized users impersonating Postal Service employees to gain access to secured areas).

Recommendation #1

We recommend the **Chief Logistics and Infrastructure Officer and Executive Vice President** provide periodic refresher training and create accountability mechanisms to help ensure staff are processing vehicle disposals, and managers are providing related oversight, in accordance with policy.

Recommendation #2

We recommend the **Chief Logistics and Infrastructure Officer and Executive Vice President** establish policies to require supporting evidence to verify vehicle destruction and removal of Postal Service decals and markings.

12 Handbook PO-701, *Fleet Management*, Section 771.
13 Handbook PO-701, *Fleet Management*, Section 762.11. While this policy states that the vehicle disposal agreement is specifically for quarter-ton Postal Service jeeps, Headquarters Fleet Management confirmed that the vehicle disposal agreement is a required document for all LLV disposals.
14 Handbook PO-701, *Fleet Management*, Section 743.
15 Handbook PO-701, *Fleet Management*, Section 752.

Insufficient Revenue Recognition and Reconciliation Controls

In addition, through our analysis of 112 LLV disposals, we determined that:

- 25 LLVs (22 percent) did not have documents or evidence to support any associated disposal revenues. For example, one VMF stated it did not receive revenues because the scrap yard waived processing and environmental disposal fees; however, the manager was unable to provide the fee amounts so we could determine if any opportunity for profit existed. In another example, when requesting documentation in support of a vehicle disposal from our sample, one VMF provided four checks with corresponding disposal receipts that did not detail the vehicles they were attributed to, and management was unable to discern whether any were tied to our sample. Postal Service policy states that the Postal Service has a responsibility to ratepayers to ensure that it captures disposal revenues.[16]

- 33 disposals (29 percent) exceeded 30 days from the time of disposal to the check deposit. Postal Service policy states that field unit managers and supervisors must ensure that all revenues due the Postal Service are properly collected and accounted for in a timely manner with required supporting documentation. Any checks received at a field unit that will not be deposited and reported through a field unit's financial report must be immediately forwarded to the Disbursing Officer located in Eagan Accounting Service Center.[17]

- Nine disposals (8 percent) that received revenues for deposits were recorded to the wrong general ledger account.[18]

- Two disposals (2 percent) received cash for revenues, and the VMFs waited over 30 days to purchase money orders to remit them to the Eagan Accounting Service Center.

Lastly, during our review, we were informed that multiple checks from a scrap yard were stolen and never deposited. Specifically, an employee at the Milwaukee VMF stole 93 checks associated with LLV disposals totaling approximately $58,725 and cashed them for personal benefit beginning in the spring 2023.[19] In addition, we identified three other checks that were lost and never deposited, and because of our audit, corrective action was taken by VMF management. For example, one scrap yard issued a check, totaling $3,016.25, to the VMF in November 2023. After OIG inquiry in August 2024, VMF management determined that the check was lost, received a new check from the scrap yard, and provided it to Eagan to successfully deposit.

In another example, one scrap yard issued a check, totaling $8,262.40, to the VMF in December 2023. In February 2024, the scrap yard inquired with VMF management as it determined the check was never deposited. Subsequently, VMF management conducted research and stated that an employee forwarded the check for deposit. After OIG inquiry in August 2024, VMF management determined that the check was lost and received a new check from the scrap yard. We confirmed that, in September 2024, the check was successfully deposited.

While there are no policies or processes that prohibit scrap revenues to be provided in cash or require management to verify revenue was received from scrap yards and properly reconciled, Postal Service policy states field unit and headquarters unit managers are expected to maintain a strong internal control posture. This can include segregation of duties, authorization, and/or approval of transactions, accurate and timely financial reports, and timely and complete reconciliation of accounts, among others.[20]

16 Handbook PO-701, *Fleet Management*, Section 765.5.
17 Handbook F-1, *Accounting and Reporting Policy*, Sections 6 and 3-1.1.1.1.
18 For any deposits made on or after January 8, 2024. On this date, Headquarters Fleet Management issued a memo to regional, territory, and local VMF management, directing VMFs to remit any payment generated from vehicle recycling directly to Eagan Accounting Services using General Ledger Account Number 52955.
19 The Milwaukee VMF manager informed the OIG's Office of Investigations with evidence of missing checks. A subsequent OIG investigation found that the employee was responsible for delivering LLVs and scrap metal to the scrap yard, with compensation being paid in the form of a check, mailed to the Business Mail Entry Unit — an area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance. The employee admitted to stealing the mailed checks and additional checks handed to them by the scrap yard in lieu of mailing.
20 Handbook F-1, *Accounting and Reporting Policy*, Section 2-5.1.

These conditions occurred because:

- The current vehicle disposal policies, outlined in Handbook PO-701, *Fleet Management*, are outdated[21] and lack appropriate and sufficient guidance regarding documentation and accounting requirements for LLV disposal and revenue transactions.
- There are no control activities, such as tracking mechanisms or systems, to validate that each vehicle had associated disposal revenue and was reconciled properly.
- In addition, Postal Service leadership stated that they prioritized "Get It Right" strategic initiatives that would drive significant cost savings[22] over vehicle disposals that generated limited revenue.

FMIS requires electronic approvals and document retention related to vehicle disposals, which should correct some of the management oversight issues identified in the report. However, additional controls would support enhanced completeness, timeliness, and revenue collection of the LLV disposal process. This can include enhancing FMIS functionality to capture revenue and check information, requiring a substantiated reason from the VMFs on why revenues were not obtained, establishing a tripwire report to monitor and track the collection of revenues and delayed deposits, and maintaining a check log at the VMFs.

Otherwise, ineffective internal controls over disposal revenues leaves the Postal Service vulnerable to financial risks. Specifically, there is a potential for theft to occur associated with disposal payments[23] and loss of additional revenues for the Postal Service. Consequently, we estimated a total of $452,506 in lost revenues from LLVs that were disposed (between October 1, 2023, through April 30, 2024) without any documentation or evidence to support associated disposal revenues. Furthermore, we forecasted $3,828,136 in at-risk revenue based on 95,320 planned LLV disposal transactions from FYs 2025 - 2029.

Looking Forward

As the Postal Service advances its delivery fleet replacement strategy, it is essential to maximize revenue generation opportunities and contribute to its overall financial stability to achieve its universal service obligation. While the Postal Service has experience disposing of its own fleet, facilitating a fleet transition of this magnitude has not happened since 1987.

Accordingly, the Postal Service executed a strategy to address the increased volume of vehicle disposals due to the replacement of its current fleet. Following two requests for information (RFI)[24] in January 2023, in May 2024, the Postal Service issued a solicitation for a supplier to provide a turnkey program management solution for the surplus sale and/or recycling of Postal Service vehicles. The supplier is expected to provide the Postal Service with all management, supervision, labor, supplies, equipment and facilities necessary to ensure the effective performance of vehicle sales or recycling.

While the supplier will assume some of the Postal Service's current disposal practices, they will be expected to collaborate with management to improve upon existing practices and to streamline the disposition process. The Postal Service awarded a contract on January 23, 2025, which their management believes will remediate the issues and forecasted impacts identified in our report. However, due to the timing, we were not able to opine on the sufficiency of controls with the contract and new disposal processes.

Establishing strong internal controls and management processes will be critical as the Postal Service transitions the disposal function to a nationwide supplier. Integrating proper contract requirements and supplier compliance can help the

21 Dated March 1991 and updated with Postal Bulletin Revisions through October 2008. The Postal Service is currently revising and planning to issue an updated Handbook PO-701, *Fleet Management*, in Quarter 2 of FY 2025.
22 Postal Service leadership stated they saved $144 million from reductions in Fleet Management operational costs in FY 2024.
23 The OIG investigation determined that the Postal Service employee committed multiple violations of theft. Specifically, the employee stole and cashed checks from the scrap yard in exchange for Postal Service vehicles or scrap metal. At the time of the investigation there were 93 missing checks, totaling $58,725.36.
24 RFIs may be used when the government does not presently intend to award a contract, but wants to obtain price, delivery, other market information, or capabilities for planning purposes. Responses to these notices are not offers and cannot be accepted by the government to form a binding contract.

Postal Service manage and track vehicle disposals; realize disposal revenues that may offset contract costs; and allow more time for the VMFs to focus on deploying and repairing Postal Service's new fleet. Any resulting changes to policies and processes should also be reflected in the ongoing revisions to the Handbook PO-701, *Fleet Management*, planned for release in Quarter 2 of FY 2025.

Implementing these changes and recommendations may be significant as the Postal Service plans to dispose of 95,320 LLVs through FY 2029. The OIG will continue to focus on areas of strategic risk for the Postal Service related to the acquisition and deployment of vehicles and the associated charging infrastructure.

Recommendation #3

We recommend the **Chief Logistics and Infrastructure Officer and Executive Vice President** prioritize and evaluate internal and contracted vehicle disposal process to identify process improvements and update controls. In addition, update Handbook PO-701, *Fleet Management*, to reflect any changes to controls in the vehicle disposal process.

Postal Service Response

Management agreed with all three recommendations and stated in subsequent correspondence that it agreed with our finding but disagreed with our monetary and other impacts.

Regarding the finding, management clarified that the prior LLV disposal process was proactively recognized as an area for improvement, and thus, it contracted with a third-party supplier to handle the disposal process; however, this context and management's recognition of this risk was not reflected in the OIG's report. In addition, management stated that the 60-day disposal deadline was a target, and not a requirement, and that in some cases it made business sense to exceed the 60-day target when financial benefit could be gained through the reuse of high-value parts from the vehicle being disposed.

Regarding recommendation 1, management stated it will take action to develop training in alignment with the new supplier-based disposal process and will provide annual training to VMF managers and supervisors. The target implementation date is October 31, 2025.

Regarding recommendation 2, management stated it included a requirement in its vehicle recycling contract for the supplier to provide a certificate of destruction, which will effectively debrand the vehicle, per industry standard. The target implementation date is February 28, 2025.

Regarding recommendation 3, management stated it has already completed revisions to PO-701, *Fleet Management*, and plans to publish it by Quarter 3 of FY 2025. The target implementation date is June 30, 2025.

Regarding the monetary impact, management stated that the estimated revenue loss of $452,506 is not a realistic estimate, as not all instances of LLV disposals generate revenue, and amounts vary by location, date, market demand, and quality of metal. However, management recognizes the opportunity to better track the value received for each recycled asset and made this tracking a key requirement in the new LLV disposal contract.

Regarding the other impact, management did not agree that the OIG's estimate of $3.8 million in at-risk revenue was a risk because it recently awarded a vehicle disposal contract. Furthermore, management stated the Postal Service is testing repurposing some LLVs in lieu of disposal, which also lessens the risk.

OIG Evaluation

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

Regarding the finding, management indicated it was in the process of awarding a nationwide contract for LLV disposal prior to the initiation of the OIG's audit. However, the contract was not awarded until after the conclusion of audit fieldwork. Therefore, the OIG was unable to assess if the new controls will work as intended. In addition, as noted in the report, the 60-day disposal deadline is a requirement, outlined in PO-701, *Fleet Management*. Thus, any resulting changes to policies and processes should also be reflected in the ongoing revisions of the handbook.

Regarding the monetary impact, while management stated that not all instances of LLV disposals generate revenues, as noted in our report, VMF management was unable to provide any evidence that opportunities for disposal profit did not exist. Thus, the OIG believes our approach to identifying the monetary impact is accurate and represents lost revenues from LLVs that were disposed of without evidence to support associated disposal revenues.

Regarding the other impact, while management believes the new disposal contract will remediate the issues and forecasted impacts identified in our report, we were not able to opine on the sufficiency of controls for the contract and new disposal processes because it was awarded on January 23, 2025, well after our fieldwork was complete. As a result, we were not able to conclude that forecasted revenues are no longer at risk in the new disposal process.

Appendices

Appendix A: Additional Information

Scope and Methodology

Our scope included LLVs that were disposed of from October 2023 through April 2024 in SEAM. To perform this audit, we:

- Reviewed applicable laws, regulations, and Postal Service policies and procedures related to the disposal of LLVs.
- Interviewed Headquarters Fleet Management, Headquarters Facilities & Fleet Acquisition, VMF management, Accounting Service Centers, and other applicable officials to gain an understanding of roles and responsibilities; standard operating processes; internal controls and oversight; and any systems or tools used by Postal Service to track and manage the disposal of surplus vehicles.
- Selected a random sample of 112 LLV disposals from the population of 11,257 LLVs that were disposed of from October 2023 through April 2024 in SEAM. For our sample, the OIG used the lower bound of the 95 percent confidence interval to determine if proper policies and procedures were followed.
- Obtained documentation from VMF management, the Eagan Accounting Service Center, and Headquarters Fleet Management to determine whether the Postal Service had sufficient support, evidence of revenues, and appropriate approvals for each LLV disposal.
- Reviewed Postal Service's accounts receivables report from the corporate accounting system[25] to confirm deposits of checks issued by the scrap yard.
- Coordinated with the OIG Office of Investigations to determine if there were any active or closed cases related to the disposal of LLVs.
- Identified any long-term strategies for the increased volume of vehicle disposals and understand how the strategies support sustainability goals, such as fleet electrification.

We conducted this performance audit from April 2024 through February 2025 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 January 24, 2025, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the internal control structure of the Postal Service's LLV disposal process to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following five components were significant to our audit objective:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to Risk Assessment, Control Activities, Information and Communication, and Monitoring that were significant within the context of our objectives. Our

25 Provides a comprehensive solution in a web-enabled environment, improving reporting capability and efficiency, and automating data entry and collection.

recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of SEAM, FMIS, and corporate accounting system data by conducting logic tests and tracing data points related to the statistical sample to supporting source documents. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments

UNITED STATES
POSTAL SERVICE

February 13, 2025

BRIAN NEWMAN
DIRECTOR, AUDIT SERVICES (A)

SUBJECT: Management Response: Fleet Modernization – Disposal of Long-Life Vehicles (24-092)

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *Fleet Modernization – Disposal of Long-Life Vehicles (24-092)*.

At the outset of this audit, the Postal Service was upfront with the OIG that the LLV vehicle disposal process was interim and that a new solution would begin shortly when a new supplier was awarded a turnkey, nationwide contract for LLV vehicle disposals. This process was initiated prior to the OIG's audit, and a contract was awarded (and is now in effect) in January 2025. This new contract was being pursued because the Postal Service recognized that postal fleet professionals needed to maintain focus on efficient fleet operations while at the same time undertaking the organization's largest fleet turnover in more than 30 years. The prior LLV disposal process was proactively recognized as an area of opportunity for improvement by management, as was the need for focus on more impactful activities that present significant costs to the organization (deployment of new capital assets, reducing maintenance and repair expenses, etc). Thus, management pursued and contracted with a third-party supplier to handle the disposal process of these 30+ year old vehicles which have no remaining book value. However, this context for these efforts was not reflected in the OIG's report.

The report cites management's lack of prioritization of the disposal process as a root cause for $452,506 of "estimated" lost revenue from the sales of recycled LLVs. In doing so, the report downplays the fact that the LLV can only be recycled through crushing and selling as scrap metal, which does not always yield a positive revenue contribution for the Postal Service, as well as the other more significant operational and financial achievements that management did prioritize during this time period. In FY24, the Postal Service received over 25,000 new delivery vehicles - the largest annual quantity in at least 30 years - and Fleet Management achieved (and exceeded) its goal of $100 million in operational savings, while still ensuring over 97% vehicle availability so that mail and packages could be delivered and moved across the network. While accomplishing these achievements, the Postal Service simultaneously disposed of more LLVs than any year on record. The achievements in FY24 highlight management's proper prioritization and far exceeds the hypothetical, worst-case estimate of $452,506 of potentially missing scrap revenue.

During the course of the audit, the Postal Service also explained that the 60-day disposal deadline was a target, not a requirement, and that in some cases it made business sense to exceed the 60-day target. The target was established *over 30* *years ago* in PO-701, *Fleet Management*, when the Postal Service was operating under vastly different conditions. Management explained that it, therefore, allows VMFs to exceed this 60-day target when financial benefit can be gained through the reuse of high-value parts from the vehicle being disposed. Holding a vehicle beyond 60-days does not introduce physical or financial risk for the Postal Service; rather, in some instances it results in financial benefit. In fact, it did benefit the Postal Service, as seen in the FY24 reduction in parts expenses, a key contribution to Fleet Management's achievement of exceeding its $100 million savings goal.

Management agrees that there is risk in its current, interim disposal process which necessitates VMF employees collecting payments for any reimbursement for scrap recycling from the scrap yard. This is one of the reasons it began pursuing a third-party supplier to handle disposals. However, management's recognition of this risk and steps taken to ameliorate the risk is not reflected in the report.

In terms of monetary impact, the OIG found that the Postal Service experienced an "estimated" revenue loss of $452,506. The OIG based this on an average amount of revenue received per recycled (scrapped) LLV and applied it to the estimated percentage of LLVs disposed that had no clearly documented revenue received. This is not a realistic estimate, however, as not all instances of LLV disposals generate revenue. When disposals do generate revenue, the amounts vary by location, date, market demand, and quality of metal. However, the Postal Service recognizes the opportunity to better track the value received for each recycled asset and made this tracking a key requirement in the new LLV disposal contract.

Additionally, the report includes an estimate of $3.8 million in at-risk revenue based on 95,320 planned disposals in its audit report, but did not include it in its Monetary and Other Impact report. The Postal Service asserts that this sum is not a risk due to the recently awarded vehicle disposal contract which is already in effect. Furthermore, management shared with the OIG that it is testing repurposing some LLVs in lieu of disposal, and that this has the potential to greatly reduce the quantity of LLVs that would be recycled. However, the report did not reflect this reduction in risk.

The following are our comments on each of the three recommendations.

Recommendation 1:
We recommend the **Executive Vice President, Chief Logistics and Infrastructure Officer,** provide periodic refresher training and create accountability mechanisms to help ensure staff are processing vehicle disposals, and managers are providing related oversight, in accordance with policy.

Management Response/Action Plan:
Management agrees with this recommendation.
Management will develop training in alignment with the new supplier-based disposal process and will provide annual training to VMF managers and supervisors.

Target Implementation Date: October 31, 2025

Responsible Official: Director, Fleet Management

Recommendation 2:
We recommend the **Executive Vice President, Chief Logistics and Infrastructure Officer,** establish policies to require supporting evidence to verify vehicle destruction and removal of Postal Service decals and markings.

Management Response/Action Plan:
Management agrees with this recommendation.
Management has included the requirement for a certification of destruction to be provided by the supplier in its contract for vehicle recycling. Crushing a vehicle effectively debrands the vehicle, as per industry standard. The Postal Service may or may not remove or obscure decals before destruction

Target Implementation Date: February 28, 2025

Responsible Official: Director, Fleet Management

Recommendation 3:
We recommend the **Executive Vice President, Chief Logistics and Infrastructure Officer,** prioritize and evaluate internal and contracted vehicle disposal process to identify process improvements and update controls. In addition, update Handbook PO-701, *Fleet Management,* to reflect any changes to controls in the vehicle disposal process.

Management Response/Action Plan:
Management agrees with this recommendation.
As we have informed the OIG, management has already completed revisions to PO-701, *Fleet Management*. The organization plans to publish the updates by Quarter 3 FY25 as stated in the OIG's audit report.

Target Implementation Date: June 30, 2025

Responsible Official: Director, Fleet Management

E-SIGNED by ROBERT.J GLASS
on 2025-02-13 13:47:02 EST

For Ronnie J. Jarriel
Chief Logistics & Infrastructure Officer,
and Executive Vice President

cc: *Corporate Audit & Response Management*

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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