

December 15, 1999

A. KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS

SUBJECT: Acceptance of Delivery Vehicles
(Report Number DS-MA-00-001)

This management advisory report presents our observations regarding actions necessary to correct the problems we identified during our ongoing survey of delivery operations (Project Number 99PF007DS001). During the survey, we learned that the United States Postal Service plans to accept delivery vehicles, under contract with the Ford Motor Company (Ford), that do not meet specifications. We are providing this interim report so immediate action can be taken to correct the problems we identified.

Results in Brief

The Postal Service plans to accept delivery vehicles under a contract with Ford that do not meet contract specifications related to the Energy Policy and Conservation Act of 1992. Although the Postal Service has taken action to help ensure Postal Service interests are protected, we believe additional precautions are needed. We offered four suggestions identifying the actions Postal Service should take to make sure its interests are adequately protected. Management agreed with the suggestions and the planned actions are responsive to our suggestions.

**Delivery Vehicles
Contract
Specifications**

The Energy Policy and Conservation Act of 1992 (Act), established requirements for purchasing and using "alternative fueled vehicles" by the federal government and Postal Service. This Act requires that at least 75 percent of the vehicles acquired for a federal fleet in fiscal year 1999 and beyond be alternative fueled vehicles.

To comply with the Act, Postal Service awarded a contract in March 1999 to acquire 10,000 flexible fuel vehicles which operate on both gasoline and ethanol fuel. Postal Service

has modified the contract four times and changed the contract amount to \$206 million. On November 4, 1999, Postal Service exercised a contract option and issued a modification to acquire 11,275 additional vehicles. The contract will total \$441 million when Ford executes the modification. The cost to provide flexible fuel capability is not specified in the contract. However, Postal Service officials stated the additional cost was about \$300 per vehicle. Therefore, Postal Service will pay about \$6.4 million to equip 21,275 delivery vehicles with alternative fuel capability. The contract requires Ford to deliver 500 vehicles by January 14, 2000, and 1187 vehicles each month through June 2001.

**Acceptance of
Delivery Vehicles**

The Postal Service plans to accept delivery of the vehicles although they do not meet flexible fuel requirements of the contract. In a November 2, 1999 letter, Ford advised Postal Service that durability tests showed the fuel pump to be used could operate only on gasoline and not ethanol, as required. Postal Service officials stated the fuel pump failed in less than 100 hours of engine run time when used with ethanol fuel. In the letter, Ford stated a task force was working on the problem and identified alternatives that were being pursued to expedite development of an ethanol-capable fuel pump. Ford's letter also stated that vehicles placed in service would be retrofitted when the problem is solved. The letter stated "There will be no cost to Postal Service for the retrofit, and we will develop a retrofit plan that will minimize disruption to Postal Service operations."

On November 15, 1999, Postal Service officials responded to Ford's letter and indicated that the delivery vehicles would be accepted. Postal Service requested Ford to pay for ". . . travel as a result of the retrofit, all costs related to the retrofits, including but not limited to travel for warranty-related repairs." Postal Service also requested Ford to provide ". . . a plan explaining how Ford will supply vehicles conforming to the contract act as well as a plan to complete all retrofits to non-conforming vehicles." Finally, Postal Service stated that it wants to actively participate in Ford's retrofit plans and expects ". . . this issue to be resolved no later than March 31, 2000."

Since Postal Service urgently needs to replace aging delivery vehicles, we agree the new vehicles should be

accepted if doing so does not preclude Postal Service from complying with the Act. In addition, although the November 15, 1999 letter will help to ensure Postal Service interests are protected, we believe additional precautions are needed. Specifically, the contract should provide alternatives permitting Postal Service to either return the vehicles at no cost if a solution is not found, or keep the vehicles at a reduced price because of the vehicles' inability to operate on alternative fuels.

The November 15, 1999 letter also states Postal Service will not incur any cost to retrofit the vehicles. However, except for travel, the letter is not clear as to which expenses Ford will pay. We believe Postal Service should identify and recover all expenses, including salaries, fringe benefits, and incidental cost, incurred by Postal Service personnel to solve the problem and retrofit vehicles. In addition, Postal Service should require Ford to provide details showing how retrofit will be completed so as to impose only minimal disruption to Postal Service operations.

Suggestions

To help ensure the Postal Service interest is adequately protected, we suggest the vice president, purchasing and materials:

1. Consider the impact of accepting vehicles that do not comply with the Energy Policy and Conservation Act of 1992, and act accordingly.
2. Modify the contract with Ford to specify that Postal Service may return the vehicles if Ford cannot produce an ethanol capable fuel pump or keep the vehicles at a reduced price because of the vehicle's inability to operate on alternative fuels.
3. Identify and recover all costs including salaries, fringe benefits, and incidental costs incurred by Postal Service personnel to solve the problem and retrofit vehicles.
4. Obtain a written plan from Ford to show how retrofit work will be accomplished so as to impose only minimal disruption to Postal Service operations.

**Management's
Comments**

Management agreed with our suggestions and stated that the suggestions were appreciated. Management also stated that the Postal Service was in compliance with the Energy Policy and Conservation Act of 1992 by ordering flex fuel vehicles from Ford. Further, management stated that if Ford is unable to comply with the contract, they will enter negotiations to return the vehicles or obtain a price reduction, identify and recover all costs to retrofit vehicles, and obtain a written retrofit plan from Ford. Management's comments, in their entirety, are included in the appendix.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our suggestions. The planned actions will help ensure Postal Service interests are adequately protected if Ford is unable to comply with the contract.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact me at (703) 248-2300.

Richard F. Chambers
Assistant Inspector General
for Performance

cc: Clarence E. Lewis Jr.
John E. Potter
John A. Rapp
John R. Gunnels

APPENDIX. MANAGEMENT COMMENTS

OPERATIONAL EQUIPMENT PURCHASING



December 10, 1999

RICHARD F. CHAMBERS

THRU: KEITH STRANGE

*KS
12/10/99*

SUBJECT: Response to OIG draft report on Ford Carrier Route Vehicle (CRV) Contract Report No. DS-MA-00-DRAFT

The OIG draft report deals with the CRV fuel pump problems addressed in Ford's letter dated November 2, 1999 and the contracting officer's response dated November 15, 1999. Ford discovered that the CRV fuel pump fails after 100 hours of operation with ethanol fuel and so informed the contracting officer by telephone in October and more formally in its November 2, 1999 letter. The pump works fine with gasoline. During a meeting with OIG personnel about delivery vehicles operations in October, the contracting officer mentioned that Ford had just informed him of the problem, and followed up by faxing the OIG a copy of Ford's letter the same date it was received, November 2, 1999. The contract schedule calls for 500 production vehicles to be delivered by January 14, 2000, so Ford has a few more weeks to work on a solution before its contractual delivery obligation is affected. Ford has at least three fuel pump suppliers assisting it.

The contracting officer's November 15, 1999 letter asks Ford to provide a report on its progress by December 17, 1999. We will be pleased to provide the OIG a copy of Ford's report when we receive it. I have no objection to the OIG releasing of any of this information under the FOIA.

Your suggestions to help ensure the Postal Service's interests are adequately protected are appreciated. Each of them is addressed below:

1. Consider the impact of accepting vehicles that do not comply with the Energy Policy and Conservation Act of 1992, and act accordingly.

Postal Service acceptance of vehicles under this contract is not an EPACT issue, but one of contract administration. The Postal Service's environmental attorney has advised that the Postal Service is in compliance with EPACT by ordering flex fuel vehicles from Ford, the only company that responded to our solicitation for flex fuel CRVs. The CRV is in fact flex fuel even though the fuel pump will not exhibit acceptable durability when operated on ethanol. Because of this, it is in our interest to operate the vehicles only on gasoline until the problem is solved. Ford recognized its obligation to replace the defective part in delivered vehicles. Ford has an obligation and financial interest in correcting the fuel pump design prior to vehicle deployment. Ford is also employing its extensive resources to find a solution to its problem, and has delayed vehicle shipments in hopes of installing durable fuel pumps prior to shipping.

2. Modify the contract with Ford to specify that Postal Service may return the vehicles if Ford cannot produce an ethanol capable fuel pump or keep the vehicles at a reduced price because of the vehicle's inability to operate on alternative fuels.

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If Ford is unable to comply with the contract terms, the contracting officer will take appropriate action in accordance with the Purchasing Manual and the terms of the contract. The OIG's suggestion will be a negotiation objective should such discussions become necessary.

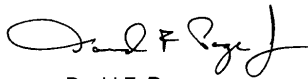
3. Identify and recover all costs including salaries, fringe benefits and incidental costs incurred by Postal Service personnel to solve the problem and retrofit vehicles.

If Ford is unable to comply with the contract terms, the contracting officer will make a best effort to recover appropriate costs as suggested by the OIG.

4. Obtain a written plan from Ford to show how retrofit work will be accomplished so as to impose only minimal disruption to Postal Service operations.

If Ford is unable to comply with the contract terms, the contracting officer will obtain such a plan from Ford.

Please let me know if you would like any further information.



David F. Page
Manager
Operational Equipment

**Major Contributors to
The Report**

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