Vehicle Parts Purchasing and Inventory Management Process

Audit Report
Report Number
DR-AR-17-001
October 7, 2016
The U.S. Postal Service has 311 Vehicle Maintenance Facilities (VMFs), or repair garages, nationwide, to maintain its fleet of over 214,000 vehicles. The Postal Service spent more than $428 million in fiscal year (FY) 2015 on vehicle repair parts to maintain these vehicles. VMFs have access to 31,972 different parts for vehicle repairs. The delivery vehicle fleet, which mainly consists of Long Life Vehicles (LLVs), have surpassed 23 years of age, and vehicle parts purchases have increased.

The Postal Service established its vehicle parts purchasing program in 1997 to use consignment suppliers to acquire repair parts from two national suppliers. Through the consignment process, selected vehicle repair parts are ordered, received, and stocked at the VMFs and remain the property of the consignor until they are used to repair a vehicle and then the Postal Service is charged for the part. These consignors stock VMFs with parts ranging from motors and transmissions to nuts and bolts. VMFs can also purchase repair parts locally when national suppliers cannot deliver in a timely manner.

In May 2015, the Postal Service realigned its fleet management structure to place VMF managers directly under the control of field managers at Postal Service Headquarters as opposed to district managers. The Postal Service assigned each of its seven Areas to a Fleet Operations manager and the territories within each Area to a Vehicle Operations manager. VMF managers report directly to their respective vehicle operations manager.
The Postal Service uses its Solution for Enterprise Asset Management (SEAM) system to manage the vehicle parts required to maintain the vehicle fleet. To manage parts at VMFs, the Postal Service established policies and guidelines to monitor price variances, use outside vendors, and physically limit access to stockrooms. Our objective was to evaluate the vehicle parts purchasing and inventory management processes.

**What The OIG Found**

The vehicle parts purchasing and inventory management processes were not always effective. The two consignment suppliers delivered requested parts to the VMFs, however, personnel did not always select and purchase repair parts priced and aligned with the best-valued product guidelines. Finally, eight of 14 (57 percent) selected VMFs did not have adequate physical security and access controls.

These conditions occurred because personnel could not evaluate and compare part price differences between the two consignors in SEAM. Further, managers could not always distinguish or compare similar but different parts with the same part numbers and price offered by both consignors, in SEAM. Finally, VMF managers were either unaware of requirements to limit access to stockrooms or had not considered the potential risk.

Availability of part price information would provide VMFs with options to purchase repair parts for the best-valued products and potentially reduce costs. We estimated the varying prices cost the Postal Service approximately $8.5 million in FY 2015. Furthermore, purchasing value added parts and consistent monitoring would allow a future cost avoidance of approximately $9.1 million annually.

**What The OIG Recommended**

We recommended management develop a SEAM Business Intelligence report showing a comparison of vehicle part numbers and prices offered by both consignors. Reinforce procedures with VMF managers to ensure physical access control and safeguard of vehicle parts in facilities.
October 7, 2016

MEMORANDUM FOR:

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

KEVIN L. MCADAMS
VICE PRESIDENT, DELIVERY OPERATIONS

FROM:

Janet M. Sorensen
Deputy Assistant Inspector General
for Retail, Delivery, & Marketing

SUBJECT:

Audit Report – Vehicle Parts Purchasing and Inventory Management Process (Report Number DR-AR-17-001)

This report presents the results of our audit of the Vehicle Parts Consignment Program (Project Number 16XG018DR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita F. Oliver, director, Delivery, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management
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Findings

Introduction

This report presents the results of our audit of the vehicle parts consignment program (Project Number 16XG018DR000). This is a follow-up to our self-initiated Vehicle Parts Program audit (Report Number DR-AR-10-008, dated September 24, 2010). The objective of this audit was to evaluate the vehicle parts purchasing and inventory management process. See Appendix A for additional information about this audit.

The U.S. Postal Service established its vehicle parts purchasing process in 1997 and uses consignment suppliers acquire repair parts from two national suppliers. These consignment suppliers stock the 311 vehicle maintenance facilities (VMF) with parts ranging from motors and transmissions to nuts and bolts. Each VMF has selected a primary consignor to replenish the stockrooms weekly. VMFs can also order parts from either of the consignors as needed. When the national suppliers are out of stock or have back ordered parts, the VMFs have the flexibility to purchase parts locally. The Postal Service manages and maintains 31,972 repair parts through its Solution for Enterprise Asset Management (SEAM) system.

In May 2015, the Postal Service realigned its fleet management structure to place VMF management directly under the control of field managers at Postal Service Headquarters as opposed to district managers. Management assigns each of the seven Postal Service regions to a Fleet Operations manager and assigned the territories within each region to a Vehicle Operations manager. VMF managers report directly to their respective Vehicle Operations manager. This realignment allows for a direct line of accountability where fleet managers can focus on providing operational support and have sole responsibility for fleet management and services.

Summary

The vehicle parts purchasing and inventory management processes were not always effective. The two consignment suppliers delivered requested parts to the VMFs, however, personnel did not always select and purchase repair parts priced and aligned with the best-valued product guidelines. Finally, eight of 14 (57 percent) selected VMFs did not have adequate physical security and access controls.

These conditions occurred because personnel could not evaluate and compare part price differences between the two consignors in SEAM. Further, managers could not always distinguish or compare similar but different parts with the same part numbers and price, offered by both consignors, in SEAM. Finally, VMF managers were either unaware of requirements to limit access to stockrooms or had not considered the potential risk.

Availability of part prices and variance analysis information would provide VMFs with options to purchase repair parts for the best valued products from consignment suppliers and potentially reduce costs. We estimated the varying prices cost the Postal Service approximately $8.5 million in fiscal year (FY) 2015. Furthermore, purchasing value added parts and consistent monitoring would allow a future cost avoidance of approximately $9.1 million annually.

1 April 2006 policy states that by maximizing the purchasing of best-valued products, buying in volume will lead to reduced pricing of consigned inventory replacement parts.
Our review of the top 100 vehicle parts used at each VMF disclosed that the Postal Service’s two main consignors had price differences for parts with the same stock number and description. Our analysis showed that VMFs paid more for parts than necessary.

Vehicle Parts Purchasing

The vehicle parts purchasing process was not always effective. The two consignment suppliers delivered requested parts to the VMFs, however, personnel did not always select and purchase repair parts priced and aligned with the best-valued product guidelines. According to policy dated April 2011, VMF managers must evaluate the value of the repair parts. In addition, February 2010 policy states the Postal Service must identify purchase price differences as a means of identifying opportunities when conducting cost analysis.

Our review of the top 100 vehicle parts used at each VMF disclosed that the Postal Service’s two main consignors had price differences for parts with the same stock number and description. Our analysis showed that VMFs paid more for parts than necessary. For example, a comparison of the top five purchased parts showed a price difference between the two consignors -- Supplier A’s parts ranged from a low $2.31 to a high of $81.90, while Supplier B’s prices for the same parts ranged from $5.22 to $119.62 (see Table 1).

Table 1. Comparison of Consignors’ Prices for Top Five Purchased Parts

<table>
<thead>
<tr>
<th>Parts Description</th>
<th>Supplier A Cost/Unit</th>
<th>Supplier A Quantity</th>
<th>Supplier A Total Cost</th>
<th>Supplier B Cost/Unit</th>
<th>Supplier B Quantity</th>
<th>Supplier B Total Cost</th>
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Source: U.S. Postal Service Office of Inspector General (OIG) analysis of FY 2015 SEAM 100 top parts purchases.

Further analysis of the unit cost for the top five parts purchased showed that Supplier B had the higher price for the parts. VMFs paid higher prices ranging from 30 – 56 percent higher, a difference in cost of $4,579,089 (see Table 2).

2 VMB-03-11, National Ordering Agreement Parts Purchases, Section D, dated April 15, 2011.
3 Postal Service Supplying Principles and Practices, Section 2-8-7, dated February 2010.
Managers could not always distinguish or compare similar but different parts offered by both consignors with the same part number and price in SEAM.

Physical safeguards over vehicle parts at eight of 14 (57 percent) selected VMFs were not always adequate.

This occurred because:

- Personnel could not always evaluate and compare part price differences between the two consignors in SEAM.

- Managers could not always distinguish or compare similar but different parts offered by both consignors with the same part number and price in SEAM. For example, the 87-94 LLV seat is offered by both Supplier A and Supplier B using the same part number. Supplier A sells the 1-section seat for $ , and Supplier B offers a similar 3-section seat for $ . For a sample comparison of part numbers and prices see Appendix B.

The Category Management Center did perform limited reviews to ensure parts price increases did not surpass the annual consumer price index, and performed spot checks on price increases that appeared to be excessive. Supply Management officials stated that the main strategy is for personnel to obtain repair parts that are available and timely to the VMFs at the best value.

Availability of part prices and variance analysis information would provide VMFs with options to purchase repair parts for the best valued products from consignment suppliers and potentially reduce costs. We estimated the varying prices cost the Postal Service approximately $16.7 million in FY 2015. Furthermore, purchasing value added parts and consistent monitoring would allow a future cost avoidance of approximately $18.2 million.

### Physical Access Control and Safeguards

Physical safeguards over vehicle parts at eight of 14 (57 percent) selected VMFs were not always adequate. At one location, every entry point into the facility was open, including the two entrance gates, bay doors and all other doors leading to the stockroom. The VMF manager stated that there have been several occasions where people wandered into the building looking for a post office (see pictures 1-4). Furthermore, 13 of 14 (93 percent) VMFs did not have adequate separation of duties when purchasing.

### Table 2.OIG Analysis of Top Five Cost Per Unit Part Price Differences

<table>
<thead>
<tr>
<th>Parts Description</th>
<th>Supplier A Cost/Unit</th>
<th>Supplier B Cost/Unit</th>
<th>Cost/Unit Difference</th>
<th>Supplier with Higher Price</th>
<th>Percentage Cost per Unit Difference</th>
<th>Total Cost Exceeding Lower Consignor</th>
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Source: OIG analysis of FY 2015 SEAM 100 top parts purchased.
This occurred because VMF managers were either unaware of stockroom restriction requirements or had not considered the potential risk.

Postal Service policy states that access to the stockroom must be physically limited to personnel specifically designated to issue parts or tools.

Limiting access to the stockroom can prevent vehicle parts from becoming damaged, destroyed or stolen. As a result, assets valued at $1.6 million were at risk.

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Recommendations

We recommend management develop a Solution Enterprise Asset Management Business Intelligence report showing a comparison of vehicle part numbers and prices offered by both consignors.

We recommend the vice president, Supply Management, in coordination with the vice president, Delivery Operations:

1. Develop a Solution Enterprise Asset Management Business Intelligence report showing a comparison of vehicle part numbers and prices offered by both consignors.

We recommend the vice president, Delivery Operations:

2. Reinforce procedures with Vehicle Maintenance Facility managers to ensure physical access control and safeguard of vehicle parts in facilities.

Management’s Comments

Management agreed in principle with the findings and recommendations. Management also agreed with the other impact associated with physical access and storage of the vehicle parts. Management stated there is a potential to reduce the price paid by selecting lower priced vehicle parts and concurred there are differences in part prices. However, management disagreed with the monetary impact related to the parts.

Regarding the monetary impact, management stated they disagreed with the impact amount and the general conclusion that VMF managers should always select the lowest priced parts. Management stated that there are design and functional differences between similar parts offered by the two suppliers and selecting the lower price does not always consider the importance of the contractual relationship with the suppliers. Management further stated that the price of the parts includes part procurement, central stocking, fulfillment, transportation, planning obsolescence management and associated carrying costs of inventory. The application of these costs vary significantly by each supplier resulting in different prices.

In response to recommendation 1, management agreed to create an efficient reporting tool to allow VMFs to view a price specific comparison for the parts stocked at individual VMF locations. Supply Management, Asset Management group will work in coordination with Delivery Operations, Fleet Management group to develop the report and provide notification of its availability to all VMF management. Management’s target implementation date is March 31, 2017.

In response to recommendation 2, management agreed to reinforce procedures with VMF managers to ensure physical access control and safeguard of vehicle parts in facilities. Furthermore, Fleet Management will prepare documentation on the policies and procedures for stockroom security to be reviewed by every VMF manager. Management’s target implementation date is May 31, 2017.

See Appendix C for management’s comments in their entirety.
Evaluation of Management’s Comments

The OIG considers management’s comments responsive to the recommendations in the report. In regards to management’s statement that design and functional differences between similar parts account for the price difference, our analysis was based on comparing the exact same part numbers and descriptions offered between the two suppliers. In addition, both suppliers provide parts to VMFs that meet Postal Service’s form, fit and function criteria.

Regarding management’s statement that selecting the lower price does not consider the importance of the total value provided, the OIG did not find any indication during the course of the audit, confirmed by managers, that a value analysis was completed by managers to determine the best value by purchasing parts from either of the suppliers. As such, using the information available, exact same part numbers, prices, and descriptions, our comparative analysis showed the varying differences in price and costs to the Postal Service.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 1 and 2 should not be closed in the Postal Service’s follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.
Appendices

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Background
The Postal Service has 311 VMFs, or repair garages, nationwide to maintain its fleet of over 214,000 vehicles. The Postal Service spent more than $428 million on vehicle parts to repair these vehicles in FY 2015. VMFs have access to 31,972 different parts for vehicle repairs. The delivery vehicle fleet has reached its useful life and, as a result, parts purchases have increased. On average, the fleet is over 20 years old, with Long Life Vehicle’s, mainly used for mail delivery, have surpassed 23 years of age with a life expectancy of 24 years. In 1997, the Postal Service standardized its strategy for purchasing vehicle parts with a consignment program to acquire repair parts.

The Postal Service acquires most vehicle parts via consignment from two national suppliers. This consignment program, established in 1997 is a feature of the National Ordering Agreements and contracts. Through the consignment process, selected vehicle repair parts are ordered, received, and stocked at the VMFs. The vehicle parts remain the property of the consignor until they are used to repair a vehicle, at which time the Postal Service is charged. In contrast, invoices for non-consigned parts are processed upon receipt by accounts payables, resulting in inventory costs to the Postal Service. When national suppliers are out of stock or have back ordered parts, the VMFs have the flexibility to purchase parts locally. The Postal Service manages and maintains 31,972 repair parts through the SEAM system.

In May 2015, the Postal Service realigned its fleet management structure to place VMFs directly under the control of field managers at Postal Service Headquarters as opposed to district managers. The Postal Service assigned each of the seven regions a Fleet Operations manager and the territories within each region a Vehicle Operations manager. VMF managers report directly to their respective Vehicle Operations manager. The Postal Service has policies and procedures in place to ensure officials detect purchase price variances as a means of identifying opportunities when conducting cost analysis. In addition, policy states that the Postal Service can use outside vendors as a backup source for purchasing parts to prevent delays when the consignment suppliers are out of stock or have parts on back order, but should not do so regularly.

Objective, Scope, and Methodology
Our objective was to evaluate the vehicle parts purchasing and inventory management process. Specifically, we determined whether the program was efficient in FYs 2014 and 2015 in terms of pricing, timeliness of consignors providing parts to VMFs, availability of parts from consignors, local purchases by the Postal Service, and management controls for the proper physical safeguarding of vehicle parts.

Specifically, we:

■ Obtained the top 100 vehicle parts used for each of the 311 VMFs purchased through consignment suppliers recorded in SEAM.

■ Performed cost comparisons of the prices for the top 100 vehicle parts with the same part numbers from both consignment suppliers.

■ Performed cost comparison of prices for FY15 parts purchased from local vendors to purchase price available through secondary suppliers.
■ Visited 14 judgmentally selected VMFs nationwide and observed physical access control. We selected the VMFs based on three main criteria — number of transactions, frequency of parts purchased, and the average parts value.

■ Interviewed Supply Management, Delivery, and VMF managers and stockroom personnel to discuss the consignment program process and determine the adherence to separation of duties while purchasing.

We conducted this performance audit from March through October 2016, in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 19, 2016, and included their comments where appropriate.

We assessed the reliability of SEAM by verifying randomly selected purchase price of parts (top 100 Parts) in SEAM to the price list provided by the consignors to determine accuracy. We also interviewed agency officials knowledgeable about the data and SEAM database during our review. Our analysis and discussions concluded that the purchase prices for vehicle parts are accurate in SEAM for the purposes of our audit.
Report Title Report Number Final Report Date (in millions)


Report Results: Our report found inaccurate and untimely vehicle maintenance data in SEAM from FY 2012 through Quarter I, FY 2015. Analysis showed that work orders were awaiting review for an average of 145 days because staff and management were unable to correct errors in the system on commercial work orders, there was inadequate management oversight and training of staff, and there were limited edit checks and exception reports for “complete status” work orders in the system. VMF personnel are now able to correct commercial work orders as necessary; therefore, we are not making recommendations on this issue. Our report also determined that maintenance records and Business Intelligence reports showing maintenance costs and delinquent scheduled maintenance were not always accurate, and that incorrect dollar amounts were not paid in SEAM, but the incorrect data remained in the Business Intelligence reports. We recommended management update SEAM, provide SEAM training for VMF staff, and improve VMF maintenance facility repair operations and policies to ensure work orders are reviewed and closed timely. Management agreed with the findings, recommendations and other impact.

Vehicle Parts Inventory Management – Capping  DR-AR-14-005  3/26/2014  $49,211,277

Report Results: Our report found that managers at selected VMFs generally purchased and maintained parts inventories at appropriate levels. At these selected VMFs, about 16 percent of on-hand parts balances were below the recommended levels because parts were either due in or on back order. Maintaining adequate supplies of parts is critical to ensuring vehicle repairs are conducted timely and economically. Physical safeguards and inventory management controls over vehicle parts were not always adequate at selected VMFs and managers at these sites were not always aware of security risks and policies regarding safeguarding assets and conducting physical inventories. Inadequate controls placed vehicle parts valued at over $49 million at risk. We recommended management re-emphasize physical security and inventory management policies and procedures, implement training for stockroom personnel, and re-emphasize purchasing and receiving policies and procedures. Management generally agreed with the findings, recommendations, and other impact.
### Appendix B: Fiscal Year 2015 Top 25 Purchased Parts Nationwide

#### Comparison of Consignors’ Prices

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<th>Supplier A Part #</th>
<th>Supplier A Description</th>
<th>Supplier A Cost/Unit</th>
<th>Supplier A Quantity</th>
<th>Supplier A Total Cost</th>
<th>Supplier B Part #</th>
<th>Supplier B Description</th>
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5 Obtained FY 2015 purchased repair parts data from SEAM. Counted all parts with the same part number and description obtained through Suppliers A and B to determine the top 25 purchased parts from the consignors.
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<th>Supplier A Part #</th>
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<th>Supplier A Cost/Unit</th>
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Appendix C: Management’s Comments

LORI LAU DILLARD


Thank you for providing the Postal Service with the opportunity to review and comment on the recommendations and monetary impacts contained in the draft audit report, Vehicle Parts Purchasing and Inventory Management Process. We have reviewed the report and agree in principle with the findings and recommendations. However, we disagree with the stated monetary impact.

Regarding the monetary impact, management concurs that there are differences in prices for parts between the two suppliers and there is some potential to reduce the price paid by selecting some lower priced parts. However, management does not agree with the impact amount and the general conclusion that Vehicle Maintenance Facility (VMF) managers should always select the lowest priced part. There is design and functional differences between similar parts offered by the two suppliers, and VMF managers will also consider those differences when selecting parts that are better suited for the operational conditions in specific geographic areas.

The OIG contention that we should always drive to the lower price does not consider the importance of the total value provided by the contractual relationship with the two national ordering agreement parts suppliers. Further, it does not consider the value of pricing offered across all parts, including parts that are only supplied by one or the other supplier. In addition to prices that are competitive, and fair and reasonable, within the overall market, the agreements provide the bulk of all parts used by the VMFs. Included in the cost of the parts under this program are the procurement, central stocking, fulfillment, transportation, planning, obsolescence management, and associated carrying costs of inventory. These costs are applied to the parts as overhead by the suppliers. The application of overhead included in the parts costs will vary significantly by supplier, resulting in different prices on individual parts.

Regarding the other impact associated with physical access to local storage areas for spare parts, the Postal Service agrees with the OIG’s conclusions.

The following is our response to the recommendations contained in the report.

We recommend the vice president, Supply Management, in coordination with the vice president, Delivery Operations:

Recommendation 1: Develop a Solution for Enterprise Asset Management Business Intelligence report showing a comparison of vehicle part numbers and prices offered by both consignors.
Management Response Recommendation 1: The Postal Service agrees in principle with this recommendation. The Postal Service’s Solution for Enterprise Asset Management (SEAM) system currently provides the ability for VMF management to review pricing from National Ordering Agreement (NOA) suppliers. However, the current reports list all parts provided by each consignment supplier to the Postal Service as a whole. This list is not tailored to the parts stocked by the individual VMFs. Management will work to create an efficient reporting tool to allow the VMFs to view a price specific comparison for the parts stocked in individual VMF locations. The Supply Management, Asset Management group will work in coordination with the Delivery Operations, Fleet Management group to develop the report and provide notification of its availability to all VMF management.

Target Implementation Date: March 2017

We recommend the vice president, Delivery Operations:

Recommendation 2: Reinforce procedures with Vehicle Maintenance Facility managers to ensure physical access control and safeguard of vehicle parts in facilities.

Management Response Recommendation 2: The Postal Service agrees with this recommendation to reinforce procedures with VMF managers to ensure physical access control and safeguard of vehicle parts in facilities. Fleet Management will prepare documentation on the policies and procedures for stockroom security to be reviewed by every VMF manager.

Target Implementation Date: May 2017

If you have any questions about this response, please contact Kirby Cothren at (202) 268-3591 or Lori D. Savage at (202) 268-3655.

Susan M. Brownell
Vice President
Supply Management

cc: Manager, Corporate Audit Response Management
Vehicle Parts Purchasing and Inventory Management Process

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