



September 29, 2005

ELLIS A. BURGOYNE
VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Audit Report – Delivery Vehicle Utilization – General Services
Administration Leased Vehicles (Report Number DR-AR-05-018)

This report presents the results of our self-initiated audit of the Postal Service's delivery vehicle utilization, specifically leased General Services Administration (GSA) vehicles (Project Number 05YG025DR000). Our objective was to assess the management and control of vehicles in support of delivery operations. We evaluated whether management used Postal Service-owned delivery vehicles prior to leasing GSA vehicles for delivery operations. This is the first in a series of audit reports addressing delivery and administrative vehicle utilization.

Management needs to more effectively use Postal Service-owned delivery vehicles before leasing GSA vehicles for delivery operations. Seven of the nine Postal Service areas leased a total of 715 GSA vehicles for delivery, even though Postal Service Headquarters identified a nationwide overage of 787 Postal Service-owned vehicles. Leasing excess GSA vehicles occurred primarily because management did not always enforce procedures for lease approvals and justifications. Management also did not evaluate existing leases to determine current vehicles' requirements. Eliminating these GSA leases would save the Postal Service over \$1.7 million annually or over \$5.3 million during the next 3 years. We will report the \$5.3 million as funds put to better use in our Semiannual Report to Congress.

We recommended the Postal Service eliminate the use of GSA-leased vehicles for delivery and meet their delivery needs by using existing Postal Service-owned vehicle inventories and inter-area reallocations. The Postal Service should also require managers to enforce policy for leasing justifications and approvals. In addition, we recommended management establish procedures to periodically review and evaluate GSA leases for continued use.

Management agreed with our recommendations, but had concerns regarding our projection of savings data used in our analysis. We addressed management's concerns in our evaluations of management's comments. Management's comments and our evaluation of these comments are included in this report. Management's actions taken

or planned are responsive to our findings and recommendations and should correct the issues identified in our findings.

The Office of Inspector General (OIG) considers recommendations 1, 2, and 4 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information please contact Rita Oliver, Director, Delivery and Retail, or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
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Attachments

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INTRODUCTION

Background

The Postal Service will spend approximately \$10 million in fiscal year (FY) 2005 to lease about 2,800 General Services Administration (GSA) vehicles nationwide for delivery and administrative support operations. Over 25 percent (715) of these vehicles are being used to deliver mail. Seven of the nine areas have leased GSA vehicles for mail delivery; however, the majority of these leases occurred in the New York Metro, Northeast, and Eastern Areas.

In FY 2002, headquarters' Delivery Vehicle Operations reviewed the allocation of delivery vehicles in each Postal Service area. In May 2002, headquarters directed a national effort to reallocate vehicles to ensure that they were available where necessary for delivery purposes and that the Postal Service use funds wisely.

Headquarters' Delivery Vehicle Operations conducted an analysis of Postal Service-owned delivery vehicles in March 2005. This analysis compared the number of motorized routes to the vehicle inventory available to meet the needs of the routes. They did not factor the use of leased vehicles into this analysis. Although the analysis showed a shortage of Postal Service-owned delivery vehicles in three of the nine areas, it also showed a nationwide overage of 787 vehicles.

Typical Delivery Vehicles



Postal Service-owned delivery vehicle



GSA-leased delivery vehicle

Postal Service guidance requires full use of Postal Service-owned delivery vehicles before management approves leased vehicles. The Postal Service emphasized this policy in a November 2003 memo from the senior vice president, Operations. The policy requires all requests for rental or lease delivery vehicles to be accompanied by a Postal Service (PS) Form 4515, Vehicle Request, Review, and Approval, showing that no Postal Service-owned or other leased

vehicles are available for use in the district, area, or nationwide. This form requires approval from the vehicle maintenance facility (VMF), area, and headquarters before a lease is approved.

**Objective, Scope,
and Methodology**

The objective of our audit was to assess the management and control of vehicles used in support of delivery operations. Specifically, we evaluated whether management effectively used Postal Service-owned delivery vehicles before leasing GSA vehicles for delivery operations.

To accomplish our objective, we reviewed documentation and applicable policies and procedures with regard to delivery vehicle management and control. We also reviewed methodologies used by Postal Service officials to forecast delivery vehicle requirements. In addition, we interviewed managers and employees and obtained documentation from various Postal Service areas, districts, and VMFs.

We reviewed controls over GSA-leased delivery vehicle inventories, inventoried selected GSA vehicles at one location, reviewed data from the GSA Fleet Drive-Thru application, and examined applicable reports to determine vehicle inventory and use of vehicles.

We conducted this audit from May through September 2005, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We tested the reliability of computer-generated data through discussions with GSA representatives and Postal Service officials responsible for managing GSA leased vehicles and review of supporting documentation. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

Prior Audit Coverage

The Office of Inspector General (OIG) identified one audit related to our objective.

Vehicle Management-Delivery Vehicles - Buy versus Lease (Report Number NL-AR-04-005, dated September 30, 2004). The report stated that from FYs 1991 through 2003, the Postal Service may have missed an opportunity to save about \$43 million by replacing commercially leased vehicles with Postal Service-owned long-life vehicles. We noted that the

cost of a long-life vehicle was substantially less than the cost of a commercially leased vehicle and that the Postal Service could realize significant savings for every leased vehicle it replaced with a long-life vehicle and substantially reduce the inventory of leased vehicles.

AUDIT RESULTS

GSA Vehicles Leased for Delivery Operations

Management needs to more effectively use Postal Service-owned delivery vehicles before leasing GSA vehicles for delivery operations. Seven of the nine Postal Service areas leased a total of 715 GSA vehicles for delivery, even though Postal Service Headquarters had identified a nationwide overage of 787 Postal Service-owned vehicles. Leasing excess GSA vehicles occurred primarily because management did not always enforce procedures for lease approvals and justifications. Also, management did not monitor, review, and evaluate existing leases to determine current vehicle requirements. Eliminating these GSA leases would save the Postal Service over \$1.7 million annually or over \$5.3 million during the next 3 years. (See Appendix A.)

Several locations leased vehicles even though the area had an overage in Postal Service-owned vehicles, while others with shortages leased vehicles in excess of the identified shortage. As shown in Table 1, we identified the Eastern Area as having an overage of 135 Postal Service-owned delivery vehicles; however, they leased 227 GSA vehicles for delivery purposes. The New York Metro Area, with a shortage of 98 vehicles, leased 333 vehicles or 235 more than the identified shortage.

Also, as shown in Table 1, Postal Service area officials can eliminate 575 of the 715 existing GSA leases by using existing resources. In addition, since policy authorizes Postal Service Headquarters to reallocate vehicles as necessary to meet shortfalls through inter-area transfers, they can also eliminate the remaining 140 GSA-leased vehicles.

Table 1. Analysis of Postal Service-owned Delivery Vehicles versus GSA Vehicles Leased for Delivery Operations.										
Area ¹	NY	NE	EA	WE	PA	SW	SE	GL	CM	Total
Overage/Shortage	(98)	(42)	135	78	(140)	398	332	17	133	787
Postal Service-owned GSA Vehicles Leased for Delivery	333	117	227	2	0	8	16	12	0	715
GSA Leases to be Eliminated by Areas	235	75	227	2	0	8	16	12	0	575
Leases Requiring Headquarters Reallocation of Postal Service- owned Vehicles	98	42	0	0	0	0	0	0	0	140

¹The full names of the areas in the table in order of appearance are: New York Metro, Northeast, Eastern, Western, Pacific, Southwest, Southeast, Great Lakes, and Capital Metro.

Leasing GSA vehicles in excess of requirements occurred primarily because management did not always enforce procedures for lease approvals and justifications. Also, management did not review documentation to monitor and assess the need of GSA-leased delivery vehicles. Management did not always approve GSA leases or periodically evaluate leases to determine whether they were still necessary or whether Postal Service-owned vehicles were available to replace existing leases.

The Postal Service often obtained GSA leases at the unit or VMF level without area or headquarters-level approval or knowledge. Specifically, the requestor did not always complete PS Form 4515, Vehicle Request, Review, and Approval, as required; therefore, area and headquarters officials were not involved in the justification and approval decisions.

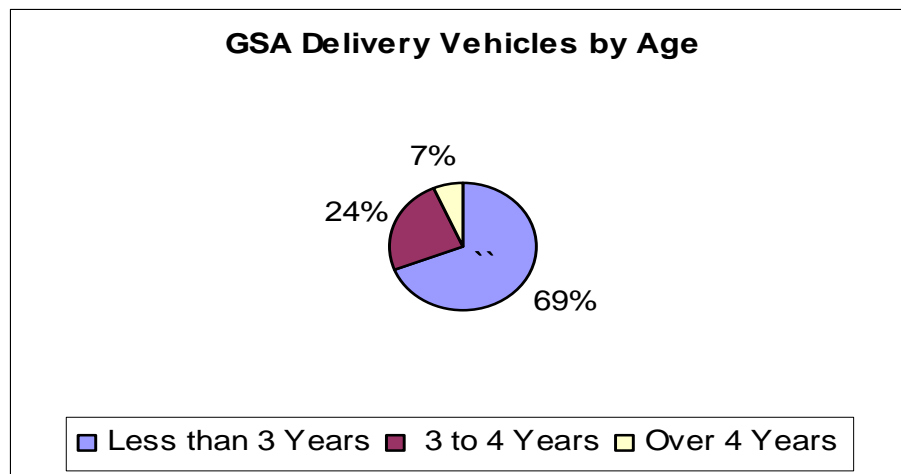
Also, the area Vehicle Maintenance program analysts we interviewed stated that they did not always receive requests and documentation from units to justify leasing GSA vehicles. If management followed the process for approving leases, an analysis by the area would lead to a headquarters' inter-area transfer of Postal Service-owned vehicles.

Further, the Postal Service did not periodically evaluate or revalidate existing leases to determine whether there was a continued requirement for leasing. For example, officials at one VMF informed us that, for the last 10 years, they customarily replaced GSA vehicles within a 3- to 6-year time frame. They do not consider replacement vehicles "new" leases; therefore, they do not require approval or re-justification.

Unit officials usually accepted GSA-leased vehicles without determining the availability of Postal Service-owned vehicles. Area Vehicle Maintenance program analysts stated they did not have access to GSA lease inventory data in their area and did not know which GSA-leased vehicles management used for delivery operations.

As shown in Figure 1, within the last 3 years, 69 percent of the delivery vehicles currently available were either new or the lease was extended without revalidation.

Figure 1: GSA Delivery Vehicles by Age



Source: Postal Service Vehicle Records

By following leasing procedures, reallocating delivery vehicles as needed, and periodically reviewing existing leases, the Postal Service can eliminate unnecessary leasing costs.

Recommendation

We recommend the vice president, Delivery and Retail, coordinate with the area vice presidents to:

1. Eliminate leased General Services Administration (GSA) vehicles used for delivery in locations where there are overages of Postal Service-owned delivery vehicles and reduce GSA leases in locations where they exceed the shortage of Postal Service-owned vehicles.

**Management's
Comments**

Management agreed with the recommendation and plans to eliminate all unnecessary GSA vehicles leased for delivery operations by using available Postal Service-owned delivery vehicles. Management disagrees with the quantity of GSA-leased vehicles to be eliminated because they feel management improperly coded some vehicles identified as used for delivery operations. Management plans to initiate action with the area offices and the St. Louis Support Service Center to identify and correct miscoded vehicles. Management's comments, in their entirety, are included in Appendix B of this report.

Recommendation	2. Reallocate Postal Service-owned vehicles from areas with overages to areas with shortages to eliminate the remainder of the General Services Administration leases.
Management's Comments	Management agreed with the recommendation and will continue its practice of reallocating excess resources to meet area delivery route requirements and will reduce or eliminate unnecessary GSA-leased delivery vehicles.
Recommendation	3. Enforce the policy requiring Postal Service Form 4515, Vehicle Request, Review, and Approval, to be completed and approved before leasing.
Management's Comments	Management agreed with the recommendation and plans to revise and reissue the vehicle-leasing memorandum originally issued by John A. Rapp, former Senior Vice President, Operations. The memorandum, titled <i>Vehicle Rental and Lease Requests – Mandatory Review and Approval Processes</i> , dated November 19, 2003, addresses the policy governing PS Form 4515.
Evaluation of Management's Comments	Management's comments were responsive to our finding and recommendations 1, 2, and 3. Management's actions taken or planned are responsive to our finding and recommendations and should correct the issues identified in our finding.
Recommendation	4. Direct area Operations program analysts to establish a process to monitor and periodically review General Services Administration lease expenditures, revalidate justifications for continued leasing, and submit the justification to Postal Service Headquarters manager, Delivery Vehicle Operations.
Management's Comments	Management agreed with the recommendation and stated Vehicle Operations and the Philadelphia Category Management Center will contact GSA to discuss instituting a more restrictive leasing policy. Management also stated they will obtain an accurate vehicle inventory listing regularly and will disseminate the listing to area managers, Delivery Programs Support, for review and action as warranted.

**Evaluation of
Management's
Comments**

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

**Additional
Management's
Comments**

Although management agreed with the recommendations in this report, they had concerns regarding our projection of funds put to better use and the data used in our analysis. Specifically, management indicated that including the \$5.3 million savings, projected over 3 years, in the Semiannual Report to Congress does not recognize or take into account any of management's initiatives that will lessen the amount or, more importantly, address some of the inaccurate data used to calculate the amount.

**Evaluation of
Additional
Management's
Comments**

Although we agree that management's initiatives can and should correct the situation in less than 3 years, audit policy requires us to project savings over the number of years the situation could have continued had the OIG not identified it by an audit. We conservatively used 3 years for our projection because GSA customarily replaced these vehicles every 3 years. Further, our audit showed that management had not intervened for 10 years.

APPENDIX A

OIG CALCULATION OF FUNDS PUT TO BETTER USE

As shown in the table below, the Office of Inspector General (OIG) identified \$5,374,077 in funds put to better use. The OIG calculated the average lease costs by area and then used that figure to establish an annual lease cost. The annual lease cost was then projected over 3 years.

Area	CM	EA	GL	SE	SW	PA	NE	NY	WE	Nationwide Total
Shortage/Excess (Postal Service)	133	135	17	332	398	-140	-42	-98	78	787 ²
Current GSA Leases	0	227	12	16	8	0	117	333	2	715
Vehicles Areas can Eliminate	0	227	12	16	8	0	75	235	2	575
GSA Leases to be eliminated through Postal Service Reallocation	0	0	0	0	0	0	42	98	0	140
Annual GSA Lease Cost	0	\$561,852	\$32,100	\$38,340	\$20,160	0	\$289,680	\$842,117	\$7,104	\$1,791,353
Projected 3-Year Cost Savings	N/A	\$1,685,556	\$96,300	\$115,020	\$60,480	N/A	\$869,040	\$2,526,351	\$21,312	\$5,374,077

²These numbers do not total to 787 because of averaging factors and rounding used by Postal Service Headquarters. The actual total of the numbers represented is 813. The difference in the two totals will not impact the outcome of this report.

APPENDIX B. MANAGEMENT'S COMMENTS

ELLIS A. BURGOYNE
VICE PRESIDENT, DELIVERY AND RETAIL



September 28, 2005

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

SUBJECT: Draft Audit Report – Vehicle Management – Delivery Vehicle Utilization – General Services Administration Leased Vehicles (Report Number DR-AR-05-DRAFT)

This is in response to the Office of Inspector General's audit report dated August 2005 concerning Vehicle Management, Delivery Vehicle Utilization and General Services Administration Leased Vehicles. The following are comments regarding this report.

Delivery and Retail agrees General Services Administration (GSA) leased vehicle utilization remains an area of opportunity for improved controls and cost reductions. The report includes a concern I understand is a standard Office of Inspector General (OIG) reporting procedure identifying the projected \$5.3 million over the next three years as funds put to better use. Including this amount in the Semiannual Report to Congress does not recognize or take into account any of management's initiatives that will lessen the amount. Delivery and Retail urges the Inspector General to reconsider using an amount, since the figure will be subjective at best.

The Vehicle Operations group performed a separate review and analysis of the GSA leasing data collected and provided by OIG. Their analysis revealed a considerable number of discrepancies in the original data. Many vehicles identified as being used for mail delivery purposes are miscoded and are actually used for administrative non-mail delivery purposes.

Delivery operations and the corresponding fleet size constantly changes. Several factors that contribute to fluctuations are delivery routes added, eliminated, and adjusted on a continuing basis due to growth, delivery method changes, and automation. Vehicles are disposed of due to high maintenance costs or serious accidents and deemed uneconomical to repair. Vehicle leasing (GSA or commercial), is the normal buffer used to offset these occurrences. Based on the presented data, GSA leasing represents less than one-half of one percent (0.004 percent) of the total city delivery route operations. Vehicle Operations recognizes that the difference is very small, but the scope becomes significant when put into a financial context. Our delivery vehicle reconciliation efforts (postal owned and leased versus the number of motorized routes) will continue through the area offices to coincide with requirements and available resources. Where identified, excess resources will be reallocated or eliminated, based on resource type (owned or leased).

The following are OIG audit report recommendations on page 6 and management responses.

Recommendation 1:

Eliminate all leased GSA vehicles used for delivery in locations where there are overages of postal-owned delivery vehicles exit, and reduce GSA leases in locations where the number of leases exceeds the shortage of postal-owned vehicles.

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Response

Delivery and Retail agrees with the recommendation. The number of GSA leased vehicles used for carrier route delivery can be reduced, but not completely eliminated. We will eliminate all unnecessary GSA vehicles leased for delivery operations by using available postal-owned delivery vehicles. The reported vehicle quantity will determine the number of GSA leases eliminated. This quantity includes many miscoded vehicles identified as used for delivery, but in fact were used for other purposes. Vehicle Operations will initiate action with the area offices and the St. Louis Support Service Center to identify and correct miscoded vehicles. The response time to this recommendation is on an ongoing basis.

Recommendation 2:

Reallocate postal-owned vehicles from areas with overages to areas with shortages to eliminate the remainder of the GSA leases.

Response

Delivery and Retail agrees with the recommendation and will continue its practice of reallocating excess resources to meet area delivery route requirements and will reduce or eliminate unnecessary leased GSA delivery vehicles. The response time to this recommendation is on an ongoing basis.

Recommendation 3:

Enforce the policy requiring Postal Service Form 4515, Vehicle Request, Review, and Approval, to be completed and approved before leasing.

Response

Delivery and Retail agrees with this recommendation. Vehicle Operations will revise and reissue the vehicle-leasing memorandum issued November 19, 2003, by John A. Rapp, former Senior Vice President, Operations. This memorandum titled *Vehicle Rental and Lease Requests – Mandatory Review and Approval Processes*, addresses the policy requiring PS Form 4515 and will be revised and reissued by October 9, 2005.

Recommendation 4:

Direct area Vehicle Maintenance Programs Analysts to establish a process to monitor and periodically review GSA lease expenditures, revalidate justifications for continued leasing, and submit the requirement to Postal Service Headquarters Vehicle Operations.

Response

Delivery and Retail agrees with this recommendation. Vehicle Operations and Philadelphia Vehicles Category Management Center will contact GSA to discuss instituting a more restrictive leasing policy. We will also ensure an accurate vehicle inventory listing is obtained regularly and disseminate the report to the area Managers, Delivery Programs Support for review and action as warranted. The response time to this recommendation is on an ongoing basis.

If you have questions or need additional information, please contact Wayne Corey, Acting Manager, Vehicle Operations at (202) 268-4104.



Ellis A. Burgoyne