June 14, 2006

WILLIAM P. GALLIGAN
SENIOR VICE PRESIDENT, OPERATIONS

EDWARD L. SMITH
ACTING VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Transmittal of Audit Report – Management of Delivery Vehicle Utilization (Report Number DR-AR-06-005)

This report presents the results of our self-initiated audit of the Management of Delivery Vehicle Utilization (Project Number 05YG025DR001). The overall objective of this audit was to assess the management and control of vehicles used to support delivery operations.

U.S. Postal Service officials have made significant strides in reducing costs associated with delivery vehicle expenditures over the past 3 years. However, delivery management officials could further improve the use of vehicles that support delivery operations. Postal Service officials maintained excess and underused delivery vehicles, and they leased delivery vehicles from employees and commercial vendors when Postal Service-owned vehicles were available. Additionally, delivery officials did not monitor the reasonableness of payments or the need for contracts with employees for use of their personal vehicles. These conditions existed primarily due to management not consistently following guidance and not having visibility and control of excess Postal Service-owned delivery vehicles within their areas. Additional controls over payments to employees could also reduce the potential for mismanagement or uneconomical payments. Further, improved use of vehicles and use of excess delivery vehicles could save the Postal Service more than $22 million in funds put to better use and unrecoverable costs over the next 2 years and will be reported as such in our *Semiannual Report to Congress*.

We recommended delivery officials make better use of delivery vehicles, use excess vehicles to offset planned purchases of delivery vehicles for rural routes, and reallocate vehicles between areas as necessary to eliminate shortages. We also recommended management terminate non-emergency employee and commercial leases where practicable and establish controls to reduce the potential for mismanagement or uneconomical expenditures.

Management agreed with our findings, recommendations, and monetary impact and has initiatives completed and planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General (OIG) cited all recommendations as significant and, therefore, requires OIG concurrence before closure. The OIG has reviewed the information provided in support of these recommendations and agrees that these items should be closed in the follow-up tracking system.

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.

E-Signed by Colleen McAnte
ERIFY authenticity with Approve

C McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: Patrick Donahoe
James Kiser
Wayne Corey
Steven R. Phelps

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EXECUTIVE SUMMARY

Introduction

This report presents the results of our self-initiated audit of delivery vehicle utilization. The overall objective of this audit was to assess the management and control of vehicles used to support delivery operations.

Results in Brief

U.S. Postal Service officials have made significant strides in reducing costs associated with delivery vehicle expenditures over the past 3 years. However, delivery management officials could further improve the use of vehicles that support delivery operations. Specifically, Postal Service officials maintained excess and underused delivery vehicles and leased delivery vehicles from employees and commercial vendors when Postal Service-owned vehicles were available. Additionally, delivery officials did not monitor the reasonableness of payments or the need for contracts with employees for use of their personal vehicles. These conditions existed primarily because management did not consistently follow guidance and did not have visibility and control of excess Postal Service-owned delivery vehicles within their areas. Additional controls over payments to employees could also reduce the potential for mismanagement or uneconomical payments. Further, improved use of vehicles and use of excess delivery vehicles could save the Postal Service over $22 million in funds put to better use and unrecoverable costs over the next 2 years and will be reported in our *Semiannual Report to Congress*. (See Appendix A.)

Summary of Recommendations

We recommended changes to help delivery officials make better use of delivery vehicles, use excess vehicles to reduce planned purchases of delivery vehicles for rural routes, and reallocate vehicles between areas as necessary to eliminate shortages. We also recommended management terminate employee and commercial leases where practicable and establish controls to reduce the potential for mismanagement or uneconomical expenditures.

Summary of Management's Comments

Management agreed with our findings and recommendations. Management provided support for actions already taken, such as recently conducting vehicle utilization reviews in Washington, D.C., Chicago, and Philadelphia. In addition, management has initiated action to develop an electronic Vehicle Use Plan and revise the Standard Operating Procedures for Leasing. Management acknowledges the reduction of vehicles as an opportunity to save $11.9 million in future vehicle purchases and will address this option in the mini-Van Purchase Decision Analysis Report in July 2006. Management also agreed in principle with the unrecoverable costs and the opportunity to save about $8 million through the elimination of non-emergency employee and commercial leases. In addition, management agreed to the one-time savings of $2 million for commercial leases.

Management's comments, in their entirety, are included in Appendix B.

Overall Evaluation of Management's Comments

Management's actions taken or planned are responsive to our findings and recommendations and should correct the issues identified in the findings.

We acknowledge a discussion with management concerning the use of excess vehicles and those no longer required due to Hurricane Katrina. We informed management during our audit that we would recommend they use at least 615 of the 2,000 excess vehicles and continue to redeploy no longer used vehicles, as appropriate, to reduce the planned purchase of vehicles for rural routes. Management agreed with our assessment and our planned recommendation and indicated that such action would be part of their redeployment strategy.

INTRODUCTION

Background

The U.S. Postal Service maintains a fleet of approximately 188,000 vehicles dedicated to delivering mail. The Postal Service can augment this fleet as necessary through lease or rental agreements with employees or commercial vendors. Guidance requires that managers fully use Postal Service-owned vehicles before they approve leasing.[1] As of July 2005, the Postal Service was paying approximately $5 million annually to employees and commercial vendors to supplement its delivery fleet.

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

In May 2005, headquarters Delivery Vehicle Operations conducted an analysis of Postal Service-owned delivery vehicles. This analysis compared the number of motorized routes to on-hand vehicle inventory based on a delivery policy of one vehicle per route.

In a 2000 - 2004, agreement with the National Rural Letter Carriers' Association, the Postal Service plans to provide 15,600 right-hand drive delivery vehicles over a period of 5 years for rural routes. As of December 2005, the Postal Service had provided 9,360 vehicles for rural routes, with another 6,240 vehicles to be acquired. The Postal Service is also conducting a review of city delivery routes that do not require right-hand drive vehicles. This review is intended to identify right-hand drive vehicles currently used on motorized city routes for possible reallocation to rural routes. The Postal Service has purchased minivans to replace the right-hand drive vehicles on city routes that they reallocate to rural routes.

[1] Memorandum from senior vice president, Operations, Vehicle Rental and Lease Requests – Mandatory Review and Approval Process, dated November 19, 2003.

Objective, Scope, and Methodology

The overall objective of this audit was to assess the management and control of vehicles used in support of delivery operations. We specifically determined whether the Postal Service used delivery vehicles efficiently to reduce the need for employees to use their personal vehicles and whether they could reduce or eliminate commercial leases. We also determined whether assigned vehicles met established utilization rates.

We reviewed controls over leased delivery vehicle inventories and payments. We discussed our observations and conclusions with management officials and included their comments where appropriate. We reviewed documentation, policies and procedures for management and control of delivery vehicles. We also interviewed managers and employees and obtained documentation from various Postal Service area, district, and vehicle maintenance facility (VMF) offices.

We reviewed the methods Postal Service officials used to forecast Postal Service-owned and leased vehicle requirements. We examined reports to determine rates of vehicle use and how the Postal Service used vehicles, along with other material necessary to accomplish our audit objective. Although we did not test the reliability of computer-generated data, we verified individual data elements with source documents. We conducted this audit from August 2005 through June 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) has issued two audit reports directly related to our objectives.

Lakeland District Leased Vehicles (Report Number FF-MA-04-001, dated July 2, 2004). The report stated the Great Lakes Area and Lakeland District were not certain as to their total vehicle needs and could avoid up to $475,000 of vehicle leasing costs. Specifically, the Lakeland District submitted and received approval to lease 100 new vehicles upon the expiration of the 1998 lease, at the same time the Great Lakes Area was preparing to deploy 50 delivery vehicles to the New York Metro Area. Management agreed with our recommendation to complete and submit a vehicle needs analysis to determine overall needs in the area.

Delivery Vehicle Utilization - General Services Administration Leased Vehicles (Report Number DR-AR-05-018, dated September 29, 2005). The report stated that unit officials leased a total of 715 General Services Administration (GSA) vehicles for delivery, although Postal Service Headquarters identified a nationwide overage of 787 Postal Service-owned vehicles. We recommended the Postal Service discontinue GSA leases, saving about $1.7 million annually. Postal Service management agreed with our recommendations to eliminate the use of GSA-leased vehicles for delivery and meet their delivery needs by using existing Postal Service-owned vehicles and reallocating vehicles between areas.

AUDIT RESULTS

Delivery Vehicle Utilization

Over the past 3 years, Postal Service officials have made significant strides in reducing costs associated with delivery vehicle expenditures. However, delivery management officials could further improve the use of vehicles that support delivery operations. Specifically, Postal Service officials maintained excess and underused delivery vehicles, and they leased delivery vehicles from employees and commercial vendors when Postal Service-owned vehicles were available. Additionally, delivery officials did not monitor the reasonableness of payments or the need for contracts with employees for the use of their personal vehicles. These conditions existed primarily due to management not consistently following guidance and not having visibility and control of excess Postal Service-owned delivery vehicles within their areas. Additional controls over payments to employees could also reduce the potential for mismanagement or uneconomical payments. Further, improved use of vehicles and use of excess delivery vehicles could save the Postal Service over $22 million in funds put to better use and unrecoverable costs over the next 2 years and will be reported in our *Semiannual Report to Congress*. (See Appendix A.)

Excess and Underused Delivery Vehicles

The Postal Service has over 2,000 vehicles more than necessary to meet delivery route requirements. Several factors contributed to this excess. Specifically:

- Postal Service management did not include all vehicles assigned to delivery routes in their analysis of delivery vehicle requirements.
- Hurricane Katrina eliminated, on a long-term basis, about 250 delivery routes in the New Orleans area and the need for the associated vehicles.
- Employees did not always use assigned delivery vehicles efficiently.

The Postal Service could reallocate excess delivery vehicles to reduce the planned purchase of vehicles for rural routes, saving over $12 million.

Analysis of Delivery Vehicle Requirements

In May 2005, the Postal Service analyzed requirements for motorized city delivery vehicles. Headquarters Delivery Vehicle Operations based the analysis on the policy of one vehicle per delivery route, with added factors for maintenance reserve and growth potential. Although the analysis revealed a shortage in three Postal Service areas, it identified a Postal Service-wide overage of 615 delivery vehicles. The overages consisted of long-life vehicles (LLVs) and flexible fuel vehicles (FFVs). These are right-hand drive vehicles primarily used for curbside and some park and loop routes.[2]

Typical FFV and LLV Delivery Vehicles


FFV


LLV

However, the headquarters analysis did not include one- and two-ton vehicles, which employees use on motorized city delivery routes. For example, in large cities such as Atlanta, Dallas, and San Diego, management often assigns one- and two-ton vehicles to deliver mail to high-rise buildings. These vehicles allow carriers to deliver most or all of the mail for a specific motorized city route, eliminating the need for multiple trips using LLVs or FFVs.[3] Our analysis showed that management used over 1,300 one- and two-ton vehicles for motorized city delivery routes, but the vehicles were not considered in the analysis.

[2] Park and loop routes are routes where a mail carrier drives to a location, parks the vehicle, and delivers mail for a specified area. The carrier then returns to the vehicle and drives to a new location and begins the process again.
[3] Flexible-fuel vehicle has a single tank that is powered by any mixture of gasoline and alcohol fuels.

The Postal Service has over 8,000 one- and two-ton vehicles.

This is a one-ton delivery truck making a delivery in downtown Dallas.

When one- and two-ton vehicles are added to the headquarters analysis, the Postal Service has an overage of almost 2,000 delivery vehicles, and only one of the nine Postal Service areas (Northeast) has a shortage. (See Table 1.)

Table 1: Delivery Vehicles Overages/Shortages by Area

Area	NY	NE	EA	WE	PA	SW	SE	GL	CM	Total
HQ Analysis	(118)	(81)	147	61	(210)	343	330	18	149	615[4]
Delivery vehicles not considered in HQ Analysis[5]	163	33	43	36	335	243	178	220	75	1,326
Total Delivery Vehicles	45	(48)	190	97	125	586	508	238	224	1,965

Source: Postal Service Vehicle Records

Vehicle Excesses Caused by Hurricane Katrina

In addition to vehicle overages noted above, Hurricane Katrina eliminated 250 routes in the New Orleans Area on a long-term basis. These vehicles were not destroyed in the storm. Postal Service management stated they will reassign vehicles already assigned to these routes and use them as necessary to reduce shortages or accommodate rural route requirements.

Rate of Delivery Vehicle Utilization

Delivery vehicles did not meet the established rate for efficient utilization, as shown in the Table 2. Our review of delivery vehicle utilization rates for a 1-year period (July 2004 through June 2005) found that the Postal Service underused delivery vehicles. The goal for delivery and mixed delivery and collections (MDC) vehicle utilization is

[4] These numbers do not total to 615 because of Postal Service Headquarters averaging and rounding factors. The actual total of the numbers represented is 639. The difference between the two totals does not impact the outcome of this report.
[5] These are one- and two-ton vehicles delivery units use to deliver mail that were not considered in the headquarters (HQ) analysis of delivery vehicles. Including these vehicles in the analysis further confirms that the Postal Service has a minimum of 615 more delivery vehicles than required.

95 percent. This is a factor of the number of days the vehicle is available and the number of days the vehicle is used. The Postal Service uses a 95 percent rate instead of 100 percent to allow for maintenance and unplanned events that may affect utilization. (See Table 2.)

Table 2: Delivery Vehicle Utilization Rate

Area	NY	NE	EA	WE	PA	SW	SE	GL	CM	AVG %	% Under Goal
Average Utilization Rate of Delivery	**93.2**	**93.6**	**91.3**	**92.5**	**90.7**	**90.2**	**89.2**	**90.3**	**92.4**	**91.5**	**3.5**
Average Utilization Rate of MDC	**82.1**	**86.2**	**78.5**	**76.3**	**76.5**	**77.4**	**74.7**	**78.1**	**76.5**	**78.5**	**16.5**

Source: Postal Service Vehicle Records

The average utilization rate of delivery vehicles is below the goal by 3.5 percent and vehicles assigned to MDC were 16.5 percent below the goal, therefore, neither met utilization standards. Employees did not use the MDC vehicles efficiently, in part, because of excess Postal Service-owned and leased delivery vehicles available in the delivery vehicle inventory. Additionally, unit officials either did not have or use Postal Service (PS) Form 4569, Vehicle Use Plan. These plans identify for every unit how employees use each vehicle throughout the day and the vehicle's route(s).

Since the Postal Service now has at its disposal at least 2,100 excess delivery vehicles, the opportunity exists to reduce the planned purchase of right-hand drive vehicles required for rural routes or to replace those given to rural routes from city route inventories. We concluded that the Postal Service can, at a minimum, use the 615 vehicles they identified as excess in the May 2005 analysis. Using these vehicles would reduce the planned purchase of rural route vehicles from 6,240 vehicles to 5,625, saving approximately $12 million.

Recommendation

We recommend the acting vice president, Delivery and Retail, direct the headquarters manager, Delivery Vehicle Operations, to:

1. Review delivery vehicle inventories and reallocate delivery vehicles to eliminate Postal Service area-wide shortages, coordinate the results with the current headquarters review of right-hand drive vehicles

assigned to park and loop routes, and assign or reassign as necessary.

Management's Comments	Management agreed with the intent of the recommendation and stated vehicle utilization and the analysis of carrier route vehicles requirements is a recently implemented program within Vehicle Operations. Management further stated they are working with area and district personnel. Finally, management stated they recently conducted reviews in Washington, D.C.; Chicago; and Philadelphia and will conduct similar reviews through 2006 and 2007.
Recommendation	We recommend the acting vice president, Delivery and Retail, direct the headquarters manager, Delivery Vehicle Operations, to: 2. Reduce the number of vehicles needed to meet the rural route requirements by a minimum of 615, based on vehicles identified by headquarters as excess.
Management's Comments	Management agreed with the recommendation and acknowledged the reduction of 615 vehicles as an opportunity to save $11.9 million in future purchases and will address the option in the July 2006 mini-van purchase Decision Analysis Report.
Recommendation	3. Monitor the redeployment of vehicles no longer required for New Orleans routes, as necessary, to include assignment to rural routes.
Management's Comments	Management agreed with the recommendation and stated it is part of their strategy in dealing with the aftermath of this major disaster. Management further stated that, to date, they have assigned 23 vehicles to Dallas, Texas, and 15 to Santa Fe, New Mexico. Management also stated that Vehicle Operations would continue to work with district and area personnel to coordinate reallocations, which will be completed by July 2006. Management also stated our report cites the route reduction and redeployment of delivery vehicles from New Orleans to rural routes as recommendations when Vehicle Operations already identified the initiatives as part of its redeployment strategy.

Recommendation	We recommend the acting vice president, Delivery and Retail, in coordination with the senior vice president, Operations, work with area vice presidents to: 4. Monitor delivery vehicle inventories and reallocate vehicle inventories as needed to meet any shortages within the area.
Management's Comments	Management agreed with the recommendation and stated they will monitor delivery vehicle inventories and reallocate them to meet shortages. Management also stated Vehicle Operations recently completed a review of vehicles in Washington, D.C.; Chicago; and Philadelphia and will perform similar reviews throughout 2006 and 2007.
Recommendation	5. Prepare a PS Form 4569, Vehicle Use Plan, for every vehicle assigned to each delivery unit.
Management's Comments	Management agreed with the intent of this recommendation but had concerns about implementation because of manual summarization of the forms. Management stated they will explore an acceptable electronic alternative to preparing PS Forms 4569 by December 2006.
Evaluation of Management's Comments	Management's comments are responsive to our finding and recommendations 1 through 5. Management's actions taken and planned should correct the issues identified in the finding.

Delivery Vehicle Leasing

Postal Service officials made significant strides in reducing commercial vehicle leasing expenditures over the last 3 years. Specifically, since the 2003 leasing memorandum was distributed, managing officials have reduced commercial leasing from about $10 million in 2002 to about $2 million in 2005. Further, during the course of the audit, some areas were working diligently to further reduce commercial leases. Except for emergency requirements, we did not identify any long-term leases for five of the nine Postal Service areas.

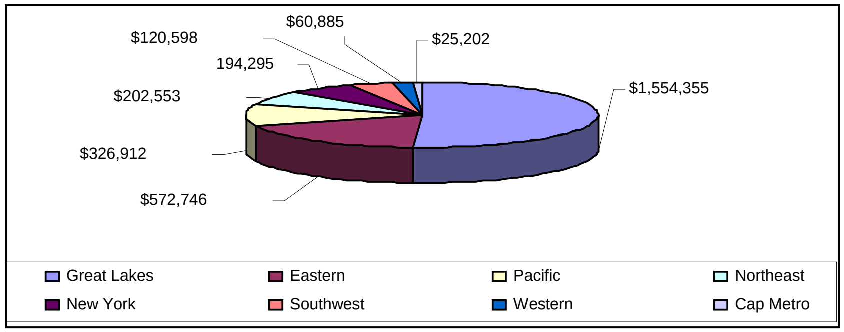
Although Postal Service officials made improvements in reducing delivery leasing expenditures in recent years, our analysis showed increased improvements could save additional Postal Service funds. Specifically, Postal Service officials currently spend approximately $3 million on employee leases and about $2 million on commercial leases per annum, although there is a nationwide excess of Postal Service-owned delivery vehicles. Eliminating these leases would save the Postal Service $8 million over the next 2 years.[6]

Employee Leases

Our analysis showed that Postal Service unit officials maintained over 700 active rental agreements with employees to use their personal vehicles for mail delivery. These agreements were established for, on average, between 4 and 10 years, with expenditures approximating $3 million annually. Although eight of the nine areas used employee leases, the majority of the leases were in the Great Lakes, Eastern, Northeast, Pacific, and New York Metro Areas. (See Chart 1.)

[6] The $8 million total is based on eliminating employee leases for $6 million ($3 million annually for 2 years) and a one time savings of $2 million for the commercial leases. We did not project commercial lease savings because of the Postal Service strives to reduce unnecessary commercial leases.

Chart 1. Employee Leases by Area



Source: Postal Service Vehicle Records

Commercial Leases

Postal Service unit officials still pay about $2 million annually to commercial vendors when Postal Service-owned vehicles are available. There were two specific problems. First, officials in three of the nine Postal Service areas (Southeast, Eastern, and Great Lakes) authorized commercial delivery vehicle leases, although the areas had a surplus of Postal Service-owned delivery vehicles. For example, the Chicago District had a shortage of 147 delivery vehicles. To help meet this need, area officials authorized leases with commercial vendors for 143 vehicles. However, based on the headquarters analysis of delivery vehicle inventory, the Great Lakes Area had an overage of 18 vehicles, and significantly more if one- and two-ton vehicles were considered. Second, the Northeast Area, with a deficit of 48 delivery vehicles, authorized the leasing of 230 employee and commercially leased vehicles, significantly more vehicles than needed to meet the deficit.

These conditions existed because management did not consistently follow Postal Service guidance requiring that Postal Service-owned vehicles be used prior to leasing non-owned vehicles. There was also generally inadequate visibility and control of excess Postal Service-owned delivery vehicles within the areas. Specifically:

- Area management did not have adequate control over the number of vehicles available and could not reallocate vehicles within their areas as necessary to meet district delivery requirements.

- Leases were frequently obtained at the unit or VMF level without area- or headquarters-level approval or knowledge. Employees did not complete PS Forms 4515, Vehicle Request, Review, and Approval as required, thereby omitting area and headquarters from the justification and approval process.

- Procedures for identifying and monitoring vehicle leases were not available at the area level, and management did not conduct periodic reviews to ensure that current leases were justified.

- Management did not periodically monitor leases for delivery operations to ensure that lease expenditures were necessary.

Recommendation

We recommend the acting vice president, Delivery and Retail, in coordination with the senior vice president, Operations, work with area vice presidents to:

6. Eliminate all unnecessary non-emergency employee leases and monitor efforts to eliminate unnecessary commercial leases used for delivery in areas where overages in Postal Service-owned delivery vehicles exist.

Management's Comments

Management agreed with the intent of the recommendation and agreed in principle that $8 million in savings in non-emergency employee leases and commercial leases is a realistic opportunity. Management also stated that eliminating all employee leases is unrealistic and may not be in the best interest of the Postal Service.

Evaluation of Management's Comments

The OIG also recognizes that in some instances — such as when there is inadequate parking available — eliminating all employee leases may not be feasible. The OIG attempted to quantify the issue of inadequate parking in some districts during the audit, but management did not provide actual numbers. Management's comments are responsive to our finding and recommendation. Management's actions taken and planned should correct the issues identified in the finding.

Recommendation

7. Maintain adequate management controls and reallocate delivery vehicles within each area as necessary to reduce the need for leasing.

Management's Comments	Management agreed with the recommendation and stated Vehicle Operations is currently working with area and district representatives to develop revised operating procedures to access employee and commercial leasing needs. Management also stated that Vehicle Operations revised its policy on identifying excess vehicles to require each area to manage these resources.
Recommendation	We recommend the acting vice president, Delivery and Retail, in coordination with the senior vice president, Operations, work with area vice presidents to: 8. Reemphasize Postal Service policy requiring employees to complete PS Forms 4515, Vehicle Request, Review, and Approval, and obtain management approval prior to leasing.
Management's Comments	Management agreed with the recommendation and stated that Vehicle Operations — in conjunction with Philadelphia Vehicle Category Management Center and St. Louis Accounting Center personnel — is in the process of reissuing the vehicle leasing procedure. Management also stated the revised vehicles leasing procedures will include mandatory use of PS Form 4515. The estimated completion date is July 2006.
Recommendation	9. Direct area vehicle maintenance program analysts to establish a mechanism to periodically monitor employee and commercial lease expenditures, revalidate justifications for continued leasing, and submit them to Postal Service Headquarters Delivery Vehicle Operations.
Management's Comments	Management agreed with the recommendation and stated the revised vehicles leasing procedures will require oversight of leasing activities by area personnel.
Evaluation of Management's Comments	Management's comments are responsive to our finding and recommendations 7 through 9. Management's actions taken and planned should correct the issues identified in the findings.

Controls Over Lease Payments

Controls over payments to employees for the use of their personal vehicles required additional management attention. Analysis of employee lease payments for the 12-month period from July 2004 through June 2005 revealed:

- Numerous instances of excessive payments. Specifically, there were 243 payments of $400 or more per month to employees for use of their personal vehicles. Eighteen payments were made for at least $600 each – more than twice the monthly rate of a commercial or GSA lease.

- Management paid two employees at one unit for twice as many hours to deliver the mail than documentation shows they used. We notified management of the overpayment and management corrected the problem during our visit.

- Contracts existed for employees who were no longer with the unit. For example, at one unit we visited, seven of the 11 unit employees with active employee lease agreements were no longer there. However, we did not identify any payments to individuals no longer assigned to this unit.

Overall, controls in this area were inadequate. Neither unit nor area officials monitored the reasonableness of payments or the need for contracts. Additionally, unit officials did not review payment data for accuracy or cost benefit. Further, they did not understand procedures to terminate contracts no longer required. Improved controls and review of payment data could eliminate inaccuracies, excessive payment amounts, and the likelihood of mismanagement.

Recommendation

We recommend the acting vice president, Delivery and Retail, in coordination with the senior vice president, Operations, work with area vice presidents to:

10. Review data on employee vehicle lease payments for accuracy and cost benefits.

Management's Comments	Management agreed with the recommendation and stated they will instruct field management on their responsibilities regarding reviewing lease payment data for accuracy. The estimated completion date is end of July 2006.
Recommendation	11. Terminate active contracts that are no longer required.
Management's Comments	Management agreed with the recommendation. Management also stated they will instruct field management on their responsibilities regarding terminating active contracts that are no longer required. The estimated completion date is the end of July 2006.
Evaluation of Management's Comments	Management's comments are responsive to our finding and recommendations 10 and 11. Management's actions taken and planned should correct the issues identified in the finding.

APPENDIX A

COST SAVINGS METHODOLOGY: NATIONWIDE MONETARY IMPACT OF REDUCING VEHICLE ACQUISITIONS AND ELIMINATING EMPLOYEE AND COMMERCIAL DELIVERY VEHICLE LEASES

Cost Savings Methodology

Employee Lease Costs	Annual	Two Years	Total Savings
Unrecoverable Costs (12 APs)			$3,057,546
Eliminating Employee Leases	$3,057,546	$6,115,092	$6,115,092
Commercial Lease Costs			
Unrecoverable Costs (AP1-9)			$1,663,329
Reducing Vehicle Acquisitions			
615 vehicles at $19,448 each			$11,960,520
Total Savings			$22,796,487

APPENDIX B. MANAGEMENT'S COMMENTS

E. LYNN SMITH
ACTING VICE PRESIDENT, DELIVERY AND RETAIL

UNITED STATES
POSTAL SERVICE

May 8, 2006

COLLEEN A. MCANTEE
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR CORE OPERATIONS
OFFICE OF INSPECTOR GENERAL

ATTN: KIM H. STROUD

SUBJECT: Draft Audit Report Response – Management of Delivery Vehicle Utilization
(Report Number DR-AR-06-DRAFT)

The following comments are provided in response to the subject draft audit report ("the report"). These comments are a revision of the management response dated 4/20/2006.

Overall, the Delivery and Retail Group agrees that delivery vehicle utilization remains an area of opportunity for improved oversight and the potential for some cost savings through vehicle reassignments.

However, we recommend the Office of Inspector General (OIG) consider changing their approach from assessing vehicle utilization by vehicle groups and ownership to the postal delivery fleet as a whole. For instance, the OIG has completed separate utilization reviews of General Service Administration (GSA) vehicles and delivery vehicles. In addition, the OIG has scheduled a review of Postal Service administrative vehicles for fiscal year. In our opinion, this approach creates redundancy in audit reporting and management responses, and the unnecessary re-issuance of field policy and procedures.

Vehicle Operations is reviewing all vehicle utilization as a whole, not by individual categories of vehicle groups. In general, Vehicle Operations is taking a more unified approach on utilization and is working with area personnel on identifying excess vehicles and managing these resources. Whether vehicles are declared excess due to a Vehicle Operations initiative, route inspections, or by other means, areas are directed to find suitable vehicle assignments within their area including placing them on a rural route. For example, Vehicle Operations personnel recently visited the Chicago District and performed an in-depth analysis of all city delivery vehicle usage, including commercial and employee leased vehicles. Vehicle Operations has only recently taken over management of administrative (non-mail hauling vehicles) and has not yet completed a comprehensive review.

The Delivery and Retail Group agrees with the intent of the report citing of $11.9 million in savings on the 615 vehicles identified as excess in the May 2005 analysis. However, Management views this as an option, to be included in a future Decision Analysis Report (DAR) for the procurement of mini-vans to satisfy the rural route vehicle contractual requirement. If this option is determined to be the best business case in the DAR then it will be incorporated in the strategy for this procurement. The report also cites the route reduction and redeployment of delivery vehicles from New Orleans to rural route assignments. These two initiatives, cited as recommendations in this report, are important elements in the next vehicle procurement DAR and were action items previously identified by vehicle operations management to the OIG as part of our redeployment strategy.

475 L'ENFANT PLAZA SW ROOM 7017
WASHINGTON DC 20260-1600
202-268-6500
FAX: 202-268-3331
www.usps.com

The Delivery and Retail group agrees in principle with the report citing $8 million in savings based on eliminating employee leases for $6 million ($3 million annually for two years) and a one-time savings of $2 million for commercial leases. While management recognizes that some of this leasing could be eliminated, we also recognize that eliminating all leases is unrealistic and may not necessarily be in the best interest of the Postal Service.

The report cites great improvement in the area of leased vehicle reductions. Since 2003, management has reduced commercial leasing from about $10 million to about $2 million in 2005.

The draft report's recommendations and management responses are as follows:

We recommend that the Vice President, Delivery and Retail, direct the headquarters manager, Vehicle Operations, to:

1. *Review delivery vehicle inventories and reallocate delivery vehicles to eliminate any Postal Service area-wide shortages and coordinate the results with the current Headquarters review of right-hand drive vehicles assigned to park and loop routes and assign or reassign as necessary.*

   Vehicle Operations agrees with the intent of this recommendation. Vehicle utilization and the analysis of carrier route vehicle requirements is a recently implemented program within Vehicle Operations. Working with area and district personnel, reviews and analyses were recently conducted in Washington DC, Chicago, and Philadelphia; similar reviews will occur through 2006 and 2007.

2. *Reduce the number of vehicles needed to meet the rural route requirements by a minimum of 615, based on vehicles Headquarters identified as excess.*

   Vehicle Operations agrees with this recommendation. Management acknowledges the reduction of 615 vehicles as an opportunity to save $11.9 million in future vehicle purchases. This item will be addressed as an option in the mini-van purchase decision analysis report in July 2006. If this option is determined to be the best business case in the DAR then it will be incorporated in the strategy for this procurement.

   Vehicle Operations has changed its policy in the handling of excess vehicle resources. Past efforts to coordinate inter-area vehicle transfers resulted in inefficiencies such as costly transportation costs and the "cherry picking" of vehicles requiring relatively large amounts of parts and labor to the receiving district. Vehicle Operation's revised policy on identified excess vehicles is for each area to manage these resources. Whether these vehicles were declared excess due to a Vehicle Operations initiative, route inspections, or by other means, areas are directed to find suitable vehicle assignments within their area including placing them on a rural route.

3. *Continue the redeployment of vehicles no longer required for New Orleans routes, as necessary, to include assignment to rural routes.*

   Vehicle Operations agrees with this recommendation. This recommendation is part of management's strategy in dealing with the aftermath of this major natural disaster and was identified as an action item during past discussions with the OIG. To date, 23 vehicles have been reassigned to Dallas, Texas and 15 vehicles were transferred to Santa Fe, New Mexico. This project is in progress; Vehicle Operations will continue to work with district and area personnel to coordinate reallocations. It is expected to be completed by the end of July 2006.

We recommend the Vice President, Delivery & Retail, in coordination with the Senior Vice President, Operations; work with area vice presidents, to:

4. *Monitor delivery vehicle inventories and reallocate vehicle inventories as needed to meet any shortages within the area.*

Vehicle Operations agrees with this recommendation; please refer to the narrative response in item number one.

5. *Prepare a Vehicle Use Plan (PS Form 4569) for every vehicle assigned to each delivery unit.*

Vehicle Operations agrees with the intent of this recommendation but has concerns on implementation. The latest edition date of this form is April 1987 and requires the use of colored markers to define vehicle functions. As a result, management is then required to compile and summarize all submitted forms manually. Vehicle Operations will explore an acceptable electronic alternative to this form. Completion of this item is slated for December 2006.

6. *Eliminate all non-emergency employee leases and continue efforts to eliminate commercial leases used for delivery in areas where overages in Postal Service-owned delivery vehicles exist.*

Vehicle Operations agrees with the intent of this recommendation. Management agrees in principle that savings in non-emergency employee and commercial leases is a realistic opportunity. Vehicle Operations is working closely with vehicle area representatives to assess employee and commercial leasing issues and adjust as necessary.

Management also recognizes that eliminating all leases is unrealistic and may not necessarily be in the best interest of the Postal Service. For example, several city stations in the Chicago District lack adequate parking space for postal-provided vehicles to cover all delivery routes. In this instance, employee vehicle leases are justified and effectively utilized.

7. *Ensure management adequately controls and reallocates delivery vehicles within each area as necessary to reduce the need for leasing.*

Vehicle Operations agrees with this recommendation; please refer to the narrative response in item numbers one and two.

8. *Reemphasize USPS policy requiring employees to complete Postal Service Forms 4515, Vehicle Request, Review, and Approval and obtain management approval prior to leasing.*

Vehicle Operations agrees with this recommendation. Vehicle Operations personnel in conjunction with Philadelphia Vehicle Category Management Center personnel and St. Louis Accounting Service Center personnel are in the process of revising and reissuing the vehicle leasing procedure. Included in this procedure is the mandatory use of PS Form 4515, district and area involvement in the process, and Vehicle Operations review and approval for all leased vehicle requests. The estimated completion date is the end of July 2006.

9. *Direct area vehicle maintenance program analysts to establish a mechanism to periodically monitor employee and commercial lease expenditures, revalidate justifications for continued leasing, and submit them to Postal Service Headquarters Delivery Vehicle Operations.*

Vehicle Operations agrees with this recommendation. The revised vehicle leasing SOP cited in number eight above, will also include language stating that leased vehicle reports from GSA and commercial sources will be disseminated to or extracted by area personnel on a scheduled basis (quarterly or monthly) to ensure area oversight of vehicle leasing activity is an ongoing process. The estimated completion date is the end of July 2006.

10. *Review employee vehicle lease payment data for accuracy and cost benefits.*

Vehicle Operations agrees with this recommendation. It is a management responsibility at the local unit level to ensure leased vehicle invoicing and subsequent payments are proper. Operations management will instruct field management of their responsibilities regarding these issues. The estimated completion date is the end of July 2006.

11. *Terminate active contracts that are no longer required.*

Vehicle Operations agrees with this recommendation. It is a management responsibility at the local unit level to terminate all active contracts that are no longer used, regardless of type. Operations management will instruct field management of their responsibilities regarding these issues. The estimated completion date is the end of July 2006.

This material may be disclosed in accordance with the Freedom of Information Act. If you have questions or need additional information, please contact Wayne Corey, Manager, Vehicle Operations at (202) 268-4104.

E. Lynn Smith

E. Lynn Smith

cc: Mr. Galligan
Mr. Knoll
Mr. Conrad
Mr. Phelps