Office of Inspector General | United States Postal Service

Audit Report

Review of Extended Capacity Left-Hand Drive Delivery Vehicle Acquisition

Report Number MI-AR-18-002 | May 18, 2018

Table of Contents

Highlights

Objective

Our objective was to determine whether the U.S. Postal Service's Extended Capacity Left-Hand Drive (LHD) delivery vehicles acquisition achieved performance metrics, costs, and savings.

The Postal Service has experienced package volume growth that has created the need for increased vehicle cargo-handling capacity. Additionally, the existing fleet of LHD vehicles in service have exceeded their end-of-life projections and have ongoing operating costs that are higher than their value.

To address these issues, the Postal Service made investments to replace 12,472 vehicles. As part of the investment review process, in 2014 and 2015, the Postal Service approved two Vehicle Acquisition Extended Capacity LHD Delivery Decision Analysis Reports (DAR) — referred to as DAR 1 and DAR 2 throughout this report — totaling [redacted] million.

The deployment of DAR 1 and DAR 2 were completed in September 2016 and February 2017, respectively. Each DAR contained four performance metrics to measure the success of the program.

The Postal Service deployed the LHD vehicles as planned; however, it retained 7,688 vehicles originally slated for replacement to sustain delivery service due to continued growth in package volume and an increase in delivery points beyond projections.

"The Postal Service did not fully achieve the expected net savings and performance metrics for the investment."

What the OIG found

We found the Postal Service spent [redacted] million less than the original projected [redacted] million to acquire the new vehicles. Management obtained a lower price for the vehicles during contract negotiations and did not use contingency funding.

We found the Postal Service did not fully achieve the expected net savings for DAR 1. The Postal Service realized [redacted] of [redacted] million for DAR 1 in fiscal years (FY) 2016 and 2017; however, it realized full net savings of [redacted] million for DAR 2 in FY 2017. This occurred because the DAR program manager did not coordinate with Finance and Planning to reduce the savings from annual field budgets to accurately reflect the total savings stated in the DAR. As a result, management did not realize [redacted] million savings for DAR 1.

Management retained 7,688 vehicles originally slated for replacement to sustain delivery service due to continued growth in package volume and an increase in delivery points beyond projections. As a result, the actual operating cost of [redacted] million for FYs 2016 and 2017 continued to exist for the retained vehicles.

The Postal Service did not update both DARs' cash flow throughout the investment to account for costs and savings realized. This occurred because there was no established process or oversight to instruct the program manager to update cash flow data. When cash flows are not updated, management does not have information to evaluate achieved results.

The Postal Service did not track and report the performance metrics for DAR 1. This occurred due to ineffective management oversight. Our analysis of performance metrics determined that the Postal Service did not achieve three of the four (75 percent) performance metrics for each DAR. This occurred because management did not always accurately project FY 2016 and 2017 operating costs of the new vehicles during development of the DARs.

Without oversight management cannot evaluate achieved benefits and savings and stakeholders may lose confidence in the value of the program when goals are not met.

What the OIG Recommended

We recommended management:

- Reduce annual field budget net savings moving forward in future DARs;
- Establish a review process for program managers to update cash flows and report on operating changes that will impact the investment; and
- Develop and implement a review process to ensure the performance metrics are tracked and reported throughout the progress of the investment and implement corrective action when performance goals are not met.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 18, 2018

MEMORANDUM FOR: KEVIN L. MCADAMS
VICE PRESIDENT, DELIVERY OPERATIONS

LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING

E-Signed by Kimberly Benoit
VERIFY authenticity with eSign Desktop

FROM: Kimberly F. Benoit
Deputy Assistant Inspector General
for Technology and Major Investments

SUBJECT: Audit Report – Review of Extended Capacity Left-Hand Drive Delivery Vehicle Acquisition
(Report Number MI-AR-18-002)

This report presents the results of our audit of Extended Capacity Left-Hand Drive Delivery Vehicle Acquisition (Project Number 18TG003MI000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lori Lau Dillard, Acting Director, Major Investments, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the Extended Capacity Left-Hand Drive (LHD) Delivery Vehicles Acquisition (Project Number 18TG003MI000). Our objective was to determine whether the U.S. Postal Service's Extended Capacity LHD delivery vehicles acquisition achieved performance metrics, costs, and savings.

Background

The Postal Service has experienced package volume growth that has created the need for increased vehicle cargo-handling capacity. Increased ecommerce has resulted in volume growth of 589 million mailpieces in fiscal year (FY) 2017, which is an 11.4 percent increase from FY 2016. Additionally, the existing fleet of vehicles in service have exceeded their end of life projections and have ongoing operating costs higher than their value. Due to the age of the vehicles, preventative maintenance and frequent mechanical issues are extremely costly to address.

To address these ongoing issues, the Postal Service made investments to purchase 12,472 new vehicles.[1] As part of the investment review process, in 2014 and 2015, the Postal Service approved two Vehicle Acquisition Extended Capacity LHD Delivery Vehicles Decision Analysis Reports (DAR)[2] totaling [redacted] million. The DARs outlined a plan to replace 2006 model year vehicles with off-the-shelf, commercially available Extended Capacity LHD delivery vehicles. The new LHD vehicles have 400 cubic feet of cargo capacity, compared to the old vehicles 140 cubic feet. The DARs provided sufficient detail, including back-up documentation, to enable the approving authorities to make an informed decision regarding the use of postal funds. The DARs also included expected results of the investment as performance metrics. The performance metrics were developed using historical data.

The Postmaster General approved a total of [redacted] million for 12,472 new vehicles for this program, as shown in Table 1.

Table 1. Investments Summary (in millions)

DAR	Capital Investment	Expense Investment	Total
2015 – 9,133 Vehicles	[redacted]	[redacted]	[redacted]
2016 – 3,339 Vehicles	[redacted]	[redacted]	[redacted]
Total – 12,472 Vehicles	[redacted]	[redacted]	[redacted]

Source: Postal Service Extended Capacity LHD Delivery Vehicles Acquisition DARs, dated December 22, 2014, and December 22, 2015.

The Postal Service deployed all of the new vehicles as planned; however, management retained 7,688 vehicles originally slated for replacement to sustain delivery service due to continued growth in package volume and an increase in delivery points beyond projections.

The Postal Service spent [redacted] million less than the originally expected costs to acquire the new vehicles. Specifically, management approved a projected

1 The DAR states that the existing vehicles have been in active service for 11 to 16 years. At the time of their acquisition, the vehicles useful life was expected to be 10 years. Due to the vehicles having been in service beyond end-of-life projections, frequent repairs result in maintenance costs disproportionately higher than the value of the vehicles.
2 DAR 1: Vehicle Acquisition (9,133 Extended Capacity LHD Delivery Vehicles), dated December 22, 2014, and DAR 2: Vehicle Acquisition (3,339 Extended Capacity LHD Delivery Vehicles), dated December 22, 2015.
3 The amount was approved on January 21, 2015.
4 The amount was approved on February 10, 2016.

total of [redacted] million for 12,472 new vehicles in this program[5] and only incurred expenditures totaling [redacted] million for all these vehicles. Management obtained a lower cost for the new vehicles during contract negotiations.

> ***"The Postal Service did not fully achieve the expected net savings for DAR 1."***

Finding #1: Total Savings

The Postal Service did not achieve net operating savings[6] (labor, parts and materials, and fuel) by [redacted] million in FYs 2016 and 2017. Specifically, the DARs stated a net operating savings of [redacted] million,[7] but realized [redacted] million, as shown in Figure 1. Additionally, actual operating costs of [redacted] million[8] for FYs 2016 and 2017 continued to exist for old vehicles that management originally planned to replace, but did not, due to operational needs.

Figure 1. DARs 1 and 2 Savings Summary (in millions)

Source: Postal Service Extended Capacity LHD Delivery Vehicles Acquisition DARs, dated December 22, 2014, and December 22, 2015; Postal Service FY 2016 and 2017 Area Revenue and Expense Budgets reports.

According to Postal Service policy,[9] Finance and Planning should reduce total savings[10] identified in the DAR from the budget. Management did not coordinate with Finance and Planning to remove the savings from field budgets as stated in the DARs. By not reducing the savings to accurately reflect the expected savings in the DARs, the Postal Service did not fully realize the savings. For FY 2017 DAR 1, the net saving of [redacted] are not recoverable due to deployment was completed in FY 2016.

The Postal Service did not update the DARs' cash flow throughout the investment to account for costs and savings realized. According to Postal Service policy,[11] the sponsor must track both the initial and ongoing cash outflows of a project exactly as they are listed in the DAR. This occurred because there was no established process or oversight to instruct the program manager to update cash flow data. When cash flows are not updated, management does not have the information to evaluate achieved benefits that could prove useful in planning future investments.

Recommendation #1

Vice President, Finance and Planning, reduce annual field budget net savings moving forward in future Decision Analysis Reports.

Recommendation #2

Vice President, Delivery Operations, establish a review process to ensure program managers update cash flows and report on any significant operating changes that will impact the investment.

5 Postal Service approved 9,133 extended capacity LHD delivery vehicles for purchase in DAR 1, dated December 2014, at the cost $[redacted] million. Additional 3,339 of same vehicles were approved for purchase for DAR 2, dated December 2015, at the cost [redacted] million.
6 This represents the net operating variance, which is the difference between total operating cost and the total savings.
7 DAR 1 net operating savings for FYs 2016 and 2017 totaled [redacted] million and DAR 2 net operating savings for FY 2017 totaled [redacted] million.
8 DAR 1 old vehicle operating costs for FYs 2016 and 2017 totaled [redacted] million and DAR 2 old vehicle operating costs for FY 2017 totaled [redacted] million
9 *Budget Cookbook Reports*, Chapter 1: Budget Development Flow Chart, dated November 29, 2013.
10 Incremental workhours savings must be addressed in the DAR according to the Postal Service memo, *Incremental Workhour Savings in Decision Analysis Reports*, dated December 15, 2010.
11 Handbook F-66, *General Investment Policies and Procedures*, updated through October 2007.

Finding #2: Performance Metrics

Postal Service management identified four key performance metrics[12] for evaluating the success of the acquisition. We found that management did not track and report the metrics for DAR 1 throughout the investment, as the metrics results are marked “N/A” on the Postal Service’s quarterly compliance reports.[13]

Our analysis determined management achieved one performance metric (fuel) in both DARs. However, management did not achieve three of the four (75 percent) metrics identified in each DAR, as shown in Table 2 and Table 3. The net impact for the three metrics not met was $6.9 million.[14]

Table 2. DAR 1 Performance Metrics (in millions)

	Metric	FY 2016, 2017 Baseline Operating Cost[15]	FY 2016, 2017 DAR Goal[14]	FY 2016, 2017 Projected New Vehicle Operating Cost	FY 2016, 2017 Actual NewVehicle Operating Cost	FY 2016, 2017 Actual Savings[15]	Net Impact[16]	Goals Met (Yes/No)
1	VMF Labor	$17.74	$13.08	$4.66	$6.98	$10.76	$2.32	No
2	Contract Labor	9.29	8.34	0.95	2.11	7.18	1.16	No
3	Parts and Materials	15.15	14.07	1.08	3.00	12.16	1.91	No
4	Fuel	18.79	1.41	17.38	10.90	7.89	(6.48)	Yes
Total		$60.97[17]	$36.90[18]	$24.07[19]	$22.99[20]	$37.99[21]	$(1.09)[22]	
		Net Impact						$(1.09)
		Total Net Impact for Performance Metrics Not Met						$5.39

Source: Postal Service 2015 Extended Capacity LHD Delivery Vehicles DARs, dated December 22, 2014, and December 22, 2015; Postal Service 2017 Make/Model Cost Report; and OIG analysis.

12 Vehicle Maintenance Facility (VMF) labor, contract labor, parts and materials, and fuel.
13 The investment status compliance report provided to the Board of Governors is identified as the *Investment Highlights*.
14 $5.4 million for DAR 1 and $1.5 million for DAR 2.
15 Baseline is the operating savings for retiring the old vehicles.
16 Annual net savings equal or greater than the DAR goal amount.
17 Escalated baseline cost subtracted by actual new vehicle operating cost.
18 DAR Goal subtracted by actual savings.
19 $19.62 million for FY 2016 and $41.35 million for FY 2017.
20 $12.39 million for FY 2016 and $24.51 million for FY 2017.
21 $7.23 million for FY 2016 and $16.84 million for FY 2017.
22 $4.98 million for FY 2016 and $17.99 million for FY 2017.
23 $14.63 million for FY 2016 and $23.35 million for FY 2017.
24 $(2.25) million for FY 2016 and $1.16 million for FY 2017.

Table 3. DAR 2 Performance Metrics (in millions)

	Metric	FY 2017 Baseline Operating Cost	FY 2017 DAR Goal[23]	FY 2017 Projected New Vehicle Operating Cost	FY 2017 Actual New Vehicle Operating Cost	FY 2017 Actual Savings	Net Impact	Goals Met (Yes or No)
1	VMF Labor	$3.97	$3.30	$0.67	$1.55	$2.42	$0.89	No
2	Contract Labor	2.15	2.04	0.11	0.37	1.78	0.26	No
3	Parts and Materials	3.89	3.76	0.13	0.46	3.44	0.33	No
4	Fuel	4.33	0.72[24]	3.61	1.96	2.38	(1.66)	Yes
Total		$14.34	$9.82	$4.52	$4.34	$10.02	$(0.18)	
		Net Impact						$(0.18)
		Total Net Impact for Performance Metrics Not Met						$1.48

Source: Postal Service 2016 Extended Capacity LHD Delivery Vehicles DAR, dated December 22, 2015; Postal Service 2017 Make/Model Cost Report.

Postal Service policy[27] states that sponsors are responsible for ensuring their projects are tracked and reported throughout the progress of the investment using Compliance Reports. These reports are prepared quarterly from project approval until 18 months after final deployment/completion of the program. The sponsor must document actual program performance versus DAR projections (see Table 4).

Table 4. Compliance and Program Status Reporting Responsibilities

Investment Funding Level	Reported By	Reviewed By	Reported To
$25 million+	Sponsor[26]	Capital & Program Evaluation	Board of Governors[27]

Source: Handbook F-66.

25 The new DAR goal includes the retained 2017 operating cost.
26 The total cost for the 262,000 gallons at $2.75 per gallon.
27 Handbook F-66.
28 The sponsor may delegate compliance reporting responsibility to a designated staff member. The program manager is frequently assigned this responsibility; however, the sponsor retains accountability for ensuring complete, accurate, and timely compliance reporting.
29 The investment status compliance report provided to the board is identified as the *Investment Highlights*.

This occurred because sufficient procedures and oversight were not in place to ensure that guidance on the recording, validation and control of the DAR performance metrics was properly disseminated and followed. In addition, management did not accurately project FYs 2016 and 2017 operating cost[30] of new vehicles during development of both DARs.

As a result, the new vehicles actual operating cost for the three metrics (VMF labor, contractor labor, and parts and materials) not achieved was $[redacted] million,[31] which is almost double the expected cost of [redacted] million.[32] Per management, external factors, such as labor rate and cost of steel, can impact the actual operating cost.

> *"We recommended management develop and implement a review process to ensure the performance metrics are tracked and reported."*

Regarding the achieved metric (fuel), both DARs new vehicle actual operating cost was $[redacted] million,[33] which was significantly lower than the projected cost of $[redacted] million.[34]

By not tracking and reporting the performance metrics, the Postal Service cannot evaluate achieved benefits and savings or make appropriate business decisions and future planning. In addition, when performance metrics are not met, DAR stakeholders may lose confidence in the value of the program.

Recommendation #3

Vice President, Delivery Operations, develop and implement a review process to ensure the performance metrics are tracked and reported throughout the progress of the investment and implement corrective action when performance goals are not met.

Management's Comments

Management agreed with the monetary impact, the majority of the findings, and recommendations 1 and 3. Management disagreed with recommendation 2.

Management stated the actual cost for retaining the 7,688 old vehicles to support additional vehicle needs was $[redacted] million for FYs 2016 and 2017, instead of the $[redacted] million noted in the report. Management believed the recommendations in this report have nominal financial value and noted the overall project cost is less than the stated projection. However, management stated the report represented an opportunity to improve post-acquisition tracking and potentially improve the business case development process.

Regarding recommendation 1, management implemented polices to ensure field budgets are properly adjusted for net savings in future DARs. The implementation date was April 23, 2018. Regarding recommendations 2, management stated the DAR tollgate process provides program updates to management on operating changes and program performance, which includes updated net present value (NPV) and returns on investment (ROI) at the conclusion of the program. The DAR tollgate is managed by Finance and Planning's Capital Investment Group.

Regarding recommendations 3, management has updated their process to track costs identified in the cash flow and stated that Fleet Management will also work more closely with Finance to ensure the metrics used to track performance are relative and accessible. Subsequent communication from management stated the implementation date was February 28, 2018.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1 and 3 and corrective actions should resolve the issues identified in the report.

30 This is for the three operating costs (VMF Labor, Contract Labor, and Parts and Materials) not meeting the metrics.
31 $[redacted] million for DAR 1 and [redacted] million for DAR 2.
32 [redacted] million for DAR 1 and $[redacted] million for DAR 2.
33 $[redacted] million for DAR 1 and $[redacted] million for DAR 2.
34 [redacted] million for DAR 1 and $[redacted] million for DAR 2.

Regarding recommendation 2, we understand that the Postal Service's DAR tollgate process provides program updates to management and includes reporting updated NPVs and ROIs at the conclusion of the program. However, during our audit, we identified that DAR cash flows were not updated throughout the investment in accordance with Handbook F-66. We do not plan to pursue recommendation 2 through the formal audit resolution process at this time; however we will be evaluating the timeliness of updates to cash flows in subsequent investment audits.

Regarding the actual cost of retaining the 7,688 vehicles originally slated for replacement, management did not provide support for the $19.6 million cost cited in their response, therefore we are unable to verify this amount. During the audit, management provided FY 2017 data for DAR 1 and DAR 2 and the Make/Model codes of the retained vehicles for DAR 1 and DAR 2. We extracted FY 2016 data for DAR 1 using the same parameters as the FY 2017 data. As a result, we believe the [redacted] million cited in the report is accurate. During the audit, we coordinated our analysis and results with management.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 3 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed. We consider recommendation 2 closed, but not implemented by the Postal Service, with the issuance of this report.

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information

Scope and Methodology

The scope of this audit was the 2015 and 2016 Extended Capacity LHD Delivery Vehicles program.

To accomplish our objective, we:

- Reviewed and evaluated the Extended Capacity LHD delivery vehicle DARs and Postal Service policies and procedures related to vehicle acquisition.
- Interviewed key Postal Service personnel to understand the systems used to manage the program, yearly program budget plan formulation, and impact of deviating from the budget plan.
- Compared actual expenses to budget to identify cost overrun.
- Analyzed new and retained old vehicle operating costs and the annual field budget impact on the program.

We conducted this performance audit from October 2017 through May 2018, 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 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 April 3, 2018, and included their comments where appropriate.

We assessed the reliability of Extended Capacity LHD delivery vehicles program data by evaluating program expenditures in the Enterprise Data Warehouse[35] and evaluating performance metrics in the Solution of Enterprise Asset Management.[36] We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

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

35 A repository for all data and the central source for information on retail, financial, and operational performance.
36 An Oracle web-based application designed to improve inventory tracking and visibility; implement forecasting and automatic replenishment capabilities; and standardize asset tracking and maintenance/repair functions.

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

May 8, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Audit Report – Review of Extended Capacity Left Hand Drive Delivery Vehicle Acquisition (Report Number MI-AR-18-DRAFT)

The following is provided in response to your audit of "Review of Extended Capacity Left Hand Drive Delivery Vehicle Acquisition".

The audit objective was to determine whether the U.S. Postal Service's Extended Capacity Left-Hand Drive (LHD) delivery vehicles acquisition achieved performance metrics, costs, and savings.

While this report identifies differences between actual costs and the projected costs in the original business case, it should be noted that the overall project cost is less than the stated projection. The amounts identified in the cash flow are based on validated projections using actual historical costs and information solicited, from industry experts. The recommendations identified in this report have nominal financial value, however they do represent an opportunity to improve post acquisition tracking to potentially improve the business case development process.

We agree with the monetary impact of $12,120,000 and the majority of the findings with one exception. This report states that 7,688 vehicles originally slated for replacement were retained to support additional vehicle needs at a cost of $24.2 million. The actual cost for retaining these vehicles through fiscal years 2016 and 2017 was $19.6 million.

Recommendation 1

Vice President, Finance and Planning, reduce annual field budget net savings moving forward in future Decision Analysis Reports.

Response

We agree with this recommendation, and have policies in place to ensure field budgets are properly adjusted for net savings in future Decision Analysis Reports.

Target Implementation Date:

April 23, 2018

Responsible Official:

Manager, Budget

Recommendation 2

Vice President, Delivery Operations, establish a review process to ensure program managers update cash flows and report on any significant operating changes that will impact the investment.

Response

Disagree. The DAR tollgate process provides tollgate reporting on DAR operating changes and program performance. This process provides program updates to management and includes the reporting of an updated net present value (NPV) and return on investment (ROI) at the conclusion of the program. The DAR tollgate process is managed by Finance and Planning's Capital Investments group.

Target Implementation Date:

N/A

Responsible Manager:

N/A

Recommendation 3

Vice President, Delivery Operations, develop and implement a review process to ensure the performance metrics are tracked and reported throughout the progress of the investment and implement corrective action when performance goals are not met.

Response

Agree. Fleet Management has updated their process to track costs identified in the cash flow. Fleet Management will also work closer with finance to ensure the metrics used to track performance are relative and accessible. Fleet Management currently reviews the cause of costs that are inconsistent with the projections in the business case and addresses these costs as necessary.

Target Implementation Date:

Done

Responsible Official:

Manager, Fleet Management

Kevin L. McAdams
Vice President
Delivery Operations

Luke T. Grossmann
Vice President
Finance and Planning

cc: David E. Williams
Anthony Mazzei
CARM

OFFICE OF
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