



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Vehicle Parts Inventory  
Management — Pacific Area**

**Audit Report**

April 12, 2013

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Report Number DR-AR-13-003



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# HIGHLIGHTS

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## **BACKGROUND:**

The U.S. Postal Service has 321 vehicle maintenance facilities, or repair garages, nationwide to maintain its vehicle fleet, 37 of which are in the Pacific Area. Officials acquire vehicle parts from two primary national suppliers. These suppliers provide parts to maintain and repair vehicles, ranging from motors, transmissions, tires, and batteries to nuts, bolts, and screws. Facilities can also purchase repair parts locally. In fiscal year 2012, Pacific Area personnel purchased nearly \$29 million in vehicle parts.

To maintain vehicle parts, the Postal Service has established stockrooms at every vehicle maintenance facility. Postal Service policies require vehicle maintenance facility personnel to perform regular inventories of its vehicle parts to ensure the inventories are sufficient and accurate. Additionally, personnel must safeguard all assets.

Our objectives were to determine whether vehicle maintenance facility personnel were purchasing and maintaining vehicle parts at appropriate levels and management controls were adequate to safeguard inventory.

## **WHAT THE OIG FOUND:**

Managers at selected Pacific Area vehicle maintenance facilities generally purchased and maintained inventory for

parts at appropriate levels. We found that inventory balances for 79 percent of the parts were sufficient and within established levels, with 21 percent below recommended levels. Parts were not at required levels because they were either due in or on back order. Not maintaining established inventory levels could potentially impact vehicle repairs being timely and economical.

Furthermore, managers at some vehicle maintenance facilities did not always safeguard parts and perform mandatory physical inventories because they were not always aware of security risks and policies regarding safeguarding assets and physical inventory. As a result of inadequate controls, vehicle parts valued at \$23,125,255 were at risk.

## **WHAT THE OIG RECOMMENDED:**

We recommended the vice president, Pacific Area Operations, require district managers to ensure that vehicle maintenance facility managers maintain established parts inventory levels, re-emphasize the safeguarding of vehicle parts and the proper management of inventories including conducting mandatory inventories, and implement training for stockroom personnel.

[Link to review the entire report](#)



April 12, 2013

**MEMORANDUM FOR:** DEAN J. GRANHOLM  
VICE PRESIDENT, PACIFIC AREA OPERATIONS

E-Signed by Robert Batta  
VERIFY authenticity with e-Sign  
*Robert J. Batta*

**FROM:** Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

**SUBJECT:** Audit Report – Vehicle Parts Inventory  
Management – Pacific Area  
(Report Number DR-AR-13-003)

This report presents the results of our audit of Vehicle Parts Inventory Management – Pacific Area (Project Number 13XG003DR000).

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

Attachments

cc: Edward F. Phelan, Jr.  
Deborah M. Giannoni-Jackson  
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## Introduction

This report presents the results of our audit of Vehicle Parts Inventory Management — Pacific Area (Project Number 13XG003DR000). The objectives of this self-initiated audit were to determine whether vehicle parts were purchased and maintained at the appropriate levels and whether management controls were adequate to safeguard inventory. This audit addresses operational risk and is the second in a series conducted by the U.S. Postal Service Office of Inspector General (OIG). We also plan to conduct a nationwide audit and issue a capping report. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service has 321 vehicle maintenance facilities (VMFs) nationwide to maintain a fleet of more than 212,000<sup>1</sup> vehicles. Thirty-seven of these VMFs are in the Pacific Area, which maintains more than 28,000 vehicles. VMF officials acquire parts via the parts consignment program<sup>2</sup> from two primary national ordering agreement (NOA) suppliers: Wheeler Brothers, Incorporated and Jasper Innovative Solutions, Incorporated. Suppliers establish order point<sup>3</sup> inventory levels for NOA parts, usually based on 12 months of average usage. VMF personnel and NOA suppliers manage order points conjointly. Repair parts can also be purchased locally. To maintain vehicle parts, there must be stockrooms at every VMF. Postal Service policies require personnel to perform regular inventories of vehicle parts to ensure that purchases are entered correctly, quantities on-hand are recorded correctly, and discrepancies are investigated and corrected. Additionally, personnel must safeguard all assets.<sup>4</sup>

## Conclusion

Managers at selected Pacific Area VMFs generally purchased and maintained inventory for NOA and nonNOA parts at the appropriate levels. We found that inventory balances for 79 percent of the parts were sufficient and within established levels, with 21 percent below recommended levels. Parts were not at required levels because they were either due in or on back order. Not maintaining established inventory levels could potentially impact vehicle repairs being timely and economical. This occurred because managers were not always aware of security risks and policies regarding safeguarding of assets and physical inventory. Furthermore, managers at some VMFs did not always safeguard parts. As a result of inadequate controls, vehicle parts valued at \$23,125,255 were at risk.

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<sup>1</sup> *United States Postal Service Fiscal Year 2012 Annual Report to Congress.*

<sup>2</sup> Mandatory use of the Consignment of Vehicle Repair Parts Inventory Program for VMFs began in 1997.

<sup>3</sup> The order point level is the on-hand quantity that triggers replenishment of parts to avoid adversely impacting maintenance and repair services. With implementation of the Solutions for Enterprise Asset Management (SEAM) application, maximum levels are no longer established for NOA parts.

<sup>4</sup> *Vehicle Maintenance Bulletin (VMB) 02-11, Review of Stockroom Policy and Procedures*, April 15, 2011.

## Vehicle Parts Purchases

Managers at Pacific Area VMFs generally purchased NOA parts from NOA suppliers and non-NOA parts from local vendors as needed. NOA suppliers were the primary source for purchasing repair parts. In fiscal year (FY) 2012, Pacific Area officials purchased \$28,846,615 in vehicle parts, \$24,907,040 of which represented NOA purchases. NOA purchases represented 86 percent of the total cost for all parts purchased and non-NOA parts accounted for 14 percent. According to officials, they purchased non-NOA parts to prevent repair delays when NOA parts were out of stock or when the parts were not available for purchase from the NOA supplier (see Table 1).

**Table 1. FY 2012 Vehicle Parts Purchases<sup>5</sup>**

| Pacific Area District | Total Purchases     | NOA Purchases       | Percentage of NOA Purchases | Non-NOA Purchases  | Percentage of Non-NOA Purchases |
|-----------------------|---------------------|---------------------|-----------------------------|--------------------|---------------------------------|
| Bay-Valley            | \$3,646,188         | \$3,200,246         | 88%                         | \$445,943          | 12%                             |
| Honolulu              | 1,005,835           | 846,370             | 84%                         | 159,465            | 16%                             |
| Los Angeles           | 2,267,084           | 2,134,738           | 94%                         | 132,346            | 6%                              |
| Sacramento            | 4,424,480           | 3,571,717           | 81%                         | 852,763            | 19%                             |
| San Diego             | 5,474,919           | 4,777,366           | 87%                         | 697,553            | 13%                             |
| San Francisco         | 2,392,188           | 2,202,089           | 92%                         | 190,099            | 8%                              |
| Santa Ana             | 5,216,315           | 4,296,414           | 82%                         | 919,901            | 18%                             |
| Sierra Coastal        | 4,419,607           | 3,878,101           | 88%                         | 541,505            | 12%                             |
| <b>Total</b>          | <b>\$28,846,615</b> | <b>\$24,907,040</b> | <b>86%</b>                  | <b>\$3,939,574</b> | <b>14%</b>                      |

Source: Enterprise Data Warehouse (EDW).

## Vehicle Parts Inventory Levels

Vehicle parts inventory levels were generally sufficient and appropriate to perform vehicle maintenance and repairs. NOA suppliers establish an order point for each part supplied to each VMF. The order point is the minimum level reached that triggers replenishment of the part at the next scheduled shipment for each VMF and is the quantity maintained to avoid potentially impacting maintenance and repair services.

The OIG's analysis of inventory reports for the 12 selected Pacific Area VMFs showed that:

- VMFs maintained inventory for 10,463 parts.<sup>6</sup>
- Seventy-nine percent of parts (8,294 of 10,463) were maintained within the established order point.

<sup>5</sup> Numbers may differ due to rounding.

<sup>6</sup> The inventory reports listed 14,266 total parts available for purchase. However, the VMFs only maintained inventory for 10,463 parts. The remaining 3,803 parts were not stocked or did not have enough usage data to establish an order point.

- Twenty-one percent of parts (2,169 of 10,463) were below the established order point (see Table 2).

**Table 2. NOA Parts Inventory Levels<sup>7</sup>**

| VMFs                                    | Total Number of Parts <sup>8</sup> Reviewed | Parts on Hand at or Above Minimum Level | Percentage of Parts on Hand at or Above Minimum Level | Parts on Hand Below Minimum Level | Percentage of Parts on Hand Below Minimum Level |
|---|---|---|---|-----------------------------------|---|
| San Jose                                | 888   | 717                                     | 81%   | 171                               | 19%   |
| Los Angeles                             | 1,118                                       | 911                                     | 81%   | 207                               | 19%   |
| Fresno                                  | 236   | 177                                     | 75%   | 59                                | 25%   |
| Stockton                                | 736   | 522                                     | 71%   | 214                               | 29%   |
| San Bernardino                          | 1,740                                       | 1,539                                   | 88%   | 201                               | 12%   |
| San Diego                               | 1,168                                       | 949                                     | 81%   | 219                               | 19%   |
| North Bay (in San Rafael)               | 737   | 617                                     | 84%   | 120                               | 16%   |
| La Puente                               | 1,183                                       | 705                                     | 60%   | 478                               | 40%   |
| Torrance                                | 755   | 639                                     | 85%   | 116                               | 15%   |
| Long Beach                              | 791   | 692                                     | 87%   | 99                                | 13%   |
| Anaheim - Auxiliary of Huntington Beach | 432   | 286                                     | 66%   | 146                               | 34%   |
| Van Nuys - Auxiliary of Santa Clarita   | 679   | 540                                     | 80%   | 139                               | 20%   |
| <b>Total</b>                            | <b>10,463</b>                               | <b>8,294</b>                            | <b>79%</b>  | <b>2,169</b>                      | <b>21%</b>                                      |

Source: OIG analysis.

According to VMF officials, they established NOA supplier inventory levels based on 12 months of average parts usage. Officials stated that some parts were below the order point level either because they were due in and not included in the on-hand quantity or were on back order. Although vehicle repairs could potentially be impacted as a result of not maintaining established inventory levels, VMF personnel at these locations stated that they generally did not experience repair delays due to inadequate part quantity levels. Parts below the order point are not necessarily out of stock but are in the process of being replenished. However, if a part is out of stock, a VMF can acquire it from local purchases or another nearby VMF.

<sup>7</sup> Inventory data for on-hand quantities are as of the date of the OIG visit. On-hand quantities fluctuate daily.

<sup>8</sup> We reviewed the inventory listing of part numbers to determine inventory levels.

## Vehicle Parts Inventory Safeguards

Physical safeguards and inventory management controls were not adequate over vehicle parts at some VMFs.

### Physical Security and Access Control

Managers did not always secure vehicle part storage locations in accordance with Postal Service policies pertaining to stockroom access and security<sup>9</sup> at the following six VMFs:

- Anaheim – Auxiliary of Huntington Beach VMF: The stockroom was not physically limited to designated personnel responsible for issuing parts and tools because technicians are allowed access to the stockroom to obtain other supplies and tools as needed.
- Long Beach VMF: The stockroom back door, which was not visible to stockroom personnel, was left open during operating hours. In addition, a garage bay opening to the stockroom was open for several hours and we observed a mechanic entering the stockroom to look for a part he needed until the storekeeper intercepted him. We also observed that the door to the battery room was open throughout the length of our site visit<sup>10</sup> (see [Figure 1](#)).

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<sup>9</sup> VMB 02-11 states, in part, that stockroom access should be physically limited to personnel designated to issue parts and tools.

<sup>10</sup> VMB 02-11 requires doors not continuously visible by stockroom personnel to be closed and locked.

**Figure 1: Long Beach VMF Battery Room**



Source: OIG photograph taken January 9, 2013.

- San Bernardino VMF: Access to the stockroom was not restricted to authorized personnel with stockroom assigned duties. We observed technicians entering the stockroom without authorized personnel to obtain parts.
- San Diego VMF: Stockroom doors that were not continuously visible were not closed and locked. Specifically, the lock on the door was not functioning and the receiving area bay door was left open throughout the day even though no additional deliveries were expected (see [Figure 2](#)). Since our visit, the VMF manager stated that he took corrective action and repaired the stockroom door lock. According to the manager, the stockroom is now secured.

**Figure 2: San Diego VMF Stockroom Bay Door**



Source: OIG photograph taken November 6, 2012.

- Stockton VMF: On the day of our visit, the stockroom receiving bay door was open throughout the day, although no deliveries were expected.
- Torrance VMF: While the doors to the main stockroom at the Torrance VMF that were not continuously visible to stockroom personnel were closed and locked throughout the day, we observed that a garage bay door in the tire storage area (separate from the main stockroom) was left open and unattended in the afternoon. In addition, a mezzanine area above the stockroom used to store tires and body parts for vehicles was also left unsecured the entire day.

### [Inventory and Purchasing Procedures](#)

Our analysis of inventory records showed that management did not always ensure mandatory inventories were conducted as required and in accordance with established policies and procedures for mandatory or interim monthly inventories.<sup>11</sup> Specifically:

- Four of 12 VMFs reviewed did not consistently conduct monthly mandatory inventories.
- Five of the eight VMFs that conducted the monthly inventories did not consistently use two people to conduct the inventories. Of the three VMFs that did use two people, only one routinely used non-stockroom personnel to assist in the counts to ensure separation of duties.

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<sup>11</sup> VMB 02-11 requires mandatory or interim inventories be performed each month, with specific part numbers identified to be counted. The inventory team must consist of two people, including a person not assigned to the stockroom.

The main factors that contributed to inadequate physical safeguards and inventory management controls were:

- Managers not being aware of physical security or access control weaknesses.
- Managers not being aware of or not enforcing appropriate procedures required to maintain a separation of duties for monthly inventory accounting.

Not consistently conducting mandatory inventories and a lack of separation of duties increases the likelihood of loss or theft of vehicle parts. As a result of inadequate inventory controls, assets valued at \$23,125,255 were potentially at risk. During our exit conference, management stated that they are already taking actions to ensure inventory management controls are adequate to safeguard assets.

### Recommendations

We recommend the vice president, Pacific Area Operations, direct district managers to:

1. Ensure that vehicle maintenance facility managers maintain established order point inventory levels to prevent repair delays.
2. Re-emphasize stockroom management policies and procedures on physical security and inventory management including conducting mandatory inventories at vehicle maintenance facilities.
3. Implement training for stockroom personnel on security and inventory procedures and processes.

### Management's Comments

Management agreed with the findings and recommendations. Management acknowledged the need to maintain order point inventory levels to prevent repair delays, improve security, and training for stock room personnel. Management disagreed with the dollar value of the assets at risk.

Management agreed with recommendation 1, as they conducted a review of the expected ordering processes with VMF managers. Further, management stated as the ordering process is integrated into SEAM, area and district staff will continue to monitor the process quarterly. Management implemented action on March 19, 2013.

Management also agreed with recommendation 2, stating they created a monthly checklist that includes mandatory monthly inventory updates. Management provided training to all Pacific Area VMF managers regarding security, inventory processes, and the monthly checklist requirements. The checklist will be on the Pacific Area website and monitored monthly by area staff. Management implemented action on March 19, 2013.

Management also agreed with recommendation 3, stating they provided training to all VMF managers regarding security expectations in the VMF, asset inventory, and ordering procedures. Management stated they distinctly covered the required separation of duties. Management also stated all responsible VMF personnel must complete the training and certify completion to the Pacific Area by March 26, 2013. Management implemented action on March 19, 2013.

Management stated the current value of inventory parts for the Pacific Area was \$2,965,976.90. See [Appendix C](#) for management's comments in their entirety.

### **Evaluation of Management's Comments**

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding recommendations 1, 2, and 3, OIG reviewed management's documentation and concurs that the actions taken sufficiently addressed the recommendations. The OIG considers these recommendations closed with the issuance of this report.

Regarding the assets at risk, management stated their current VMF inventory stock was valued at more than \$2.9 million. OIG projected assets at risk of \$23,125,255 based on the dollar value of the FY 2012 part purchases of \$12,606,209 for all VMFs in the Pacific Area, excluding the Honolulu District. We believe the systemic weaknesses identified put these assets at risk for the duration of time that the assets were managed with inadequate safeguards.

## Appendix A: Additional Information

### Background

The Postal Service operates one of the largest vehicle fleets in the U.S. During FY 2012, the Postal Service owned more than 212,000 vehicles, using more than 190,000 to deliver and collect mail. The Postal Service has 321 VMFs nationwide to maintain its vehicle fleet. Economical maintenance of the vehicle fleet requires parts and materials needed for maintenance to be readily available. To maintain parts, management must establish stockrooms at every VMF. In FY 2012, the Postal Service spent more than \$260 million in purchased and transferred vehicle parts. The Pacific Area accounted for nearly \$29 million (11 percent) of the costs.

Vehicle parts are managed by VMF personnel who are responsible for procuring, storing, and issuing parts as needed for repairs and maintenance. Vehicle parts can be purchased locally or through local or national purchasing agreements, including parts received on consignment. The repair parts consignment program is a value-added feature of NOAs and contracts. The Postal Service has consignment agreements with several suppliers who provide parts to maintain and repair vehicles, ranging from motors, transmissions, tires, and batteries to nuts, bolts, and screws.

SEAM is a web-based application designed to improve inventory tracking and visibility, implement forecasting and automatic replenishment capabilities, and standardize asset tracking maintenance repair functions. The Postal Service began to phase-in SEAM during FY 2012 to replace the Vehicle Management Accounting System. The Pacific Area was the second area to make the transition.<sup>12</sup>

VMF personnel are required to perform regular physical inventories of its vehicle parts. Suppliers establish order point inventory levels for NOA parts, usually based on 12 months of average usage. VMF personnel and NOA suppliers manage the order points conjointly. NOA parts are entered into SEAM as part of the NOA supplier on-hand inventory at the VMF. Once a part is issued to a work order for vehicle maintenance the Postal Service pays for it through SEAM and updates the NOA supplier information. Unlike the Vehicle Management Accounting System, SEAM allows NOA suppliers to view all VMF inventory usage and levels, which helps them replenish inventory at the VMFs. NOA suppliers are authorized to inventory and pull back their own stock at VMFs once a year, or more frequently if their accountants or other circumstances require it.

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<sup>12</sup> The Pacific Area transitioned to SEAM in June 2012. As of November 2012, all areas are using SEAM.

## Objectives, Scope, and Methodology

Our objectives were to determine whether vehicle parts were purchased and maintained at the appropriate levels and management controls were adequate to safeguard inventory.

Our audit scope included assessing vehicle parts inventory data and processes and procedures used to maintain inventory stock levels and safeguard vehicle parts at selected VMFs. Specifically, we:

- Obtained data from the EDW to determine national, area, and district costs for vehicle parts and supplies.
- Reviewed EDW cost data and judgmentally selected the Pacific Area for our review, based on the total vehicle parts cost during FY 2012.
- Randomly select 12 VMFs in the Pacific Area for review and conducted physical site visits of selected units.<sup>13</sup>
- Obtained and reviewed vehicle part costs from the EDW for each vehicle Post Office assigned to the selected VMFs.
- Obtained NOA supplier inventory data from SEAM and compared the established levels to vehicle parts quantities on-hand.
- Observed physical security and access controls at selected VMFs.
- Conducted interviews with applicable personnel and obtained documentary evidence regarding parts purchases, inventory levels, and controls.
- Reviewed applicable documentation, policies, and procedures.<sup>14</sup>

We conducted this performance audit from November 2012 through April 2013 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on March 14, 2013, and included their comments where appropriate.

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<sup>13</sup> For our random selection we used a statistical two strata sample, excluding the Honolulu District.

<sup>14</sup> Documentation, policies, and procedures reviewed include Handbook PO-701, *Fleet Management*; VMB 02-97, *Vehicle Maintenance Standard Operating Procedures*; VMB 04-03, *Mandatory (Interim) Physical Inventories*; and VMB 02-11.

We assessed the reliability of vehicle parts data from EDW, SEAM, and supplier information networks by reviewing various data elements and interviewing personnel knowledgeable about the data and the parts purchased. To verify NOA suppliers' parts data, we compared NOA suppliers' parts inventory reports to parts stored at the selected facilities. We determined that the data were sufficiently reliable for the purposes of this audit.

Prior Audit Coverage

| Report Title  | Report Number                | Final Report Date | Monetary Impact (in millions) |
|---|------------------------------|-------------------|-------------------------------|
| <i>Vehicle Parts Inventory Management – Northeast Area</i>  | <a href="#">DR-AR-12-007</a> | 9/24/2012         | None                          |
| <p><b>Report Results:</b> Overall, managers at selected Northeast Area VMFs generally purchased and maintained inventory levels for NOA and nonNOA parts. We found, however, that management did not always safeguard parts inventory. This occurred because managers were not aware of security risks and policies regarding safeguarding assets. As a result of inadequate controls, vehicle parts valued at \$8,331,963 were at risk. Management agreed with the findings and recommendations but, while acknowledging the security issues, disagreed with the dollar value of the assets at risk.</p> |                              |                   |                               |
| <i>Vehicle Parts Program</i>  | <a href="#">DR-AR-10-008</a> | 9/24/2010         | \$17,488,469                  |
| <p><b>Report Results:</b> Although the vehicle parts purchasing process significantly reduced Postal Service costs for vehicle parts, the Postal Service did not always pay the lowest price for the parts. Also, vehicle part assets were at risk at some VMFs. Management agreed with the findings, recommendations, and monetary impact.</p>   |                              |                   |                               |

**Appendix B: Other Impacts**

| Recommendation | Impact Category              | Amount       |
|----------------|------------------------------|--------------|
| 2              | Assets at Risk <sup>15</sup> | \$23,125,255 |

The OIG reviewed inventory controls at 12 randomly selected VMFs in the Pacific Area. At 11 locations, we identified physical security weaknesses or inadequate controls over inventory management processes. The assets at risk for each of the VMFs that had one or both of the risk factors identified totaled \$12,606,209 (see Table 3). We projected assets at risk of \$23,125,255<sup>16</sup> for the Pacific Area VMFs<sup>17</sup> based on inadequate inventory controls at the facilities in our sample.

**Table 3. Vehicle Parts Inventory Controls**

| District       | VMF                                     | Assets at Risk Category                 | FY 2012 Assets at Risk |
|----------------|---|---|------------------------|
| Bay-Valley     | San Jose                                | Separation of Duties                    | \$1,292,290            |
| Los Angeles    | Los Angeles                             | None                                    | 0                      |
| Sacramento     | Fresno                                  | Separation of Duties                    | 769,760                |
|                | Stockton                                | Physical Security, Separation of Duties | 1,120,183              |
| San Diego      | San Bernardino                          | Physical Security, Separation of Duties | 2,299,310              |
|                | San Diego                               | Physical Security, Separation of Duties | 2,631,757              |
| San Francisco  | North Bay (in San Rafael)               | Separation of Duties                    | 1,035,218              |
| Santa Ana      | La Puente                               | Separation of Duties                    | 817,713                |
|                | Torrance                                | Physical Security, Separation of Duties | 390,048                |
|                | Long Beach                              | Physical Security, Separation of Duties | 880,959                |
|                | Anaheim - Auxiliary of Huntington Beach | Physical Security, Separation of Duties | 634,556                |
| Sierra Coastal | Van Nuys - Auxiliary of Santa Clarita   | Separation of Duties                    | 734,415                |
| <b>Total</b>   |   |   | <b>\$12,606,209</b>    |

Source: OIG analysis.

<sup>15</sup> Assets or accountable items at risk include assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

<sup>16</sup> Based on a 95 percent confidence level for a stratified variable projection for 2 years.

<sup>17</sup> This projection excludes the Honolulu District because this district was excluded from our sample universe.

## Appendix C: Management's Comments

VICE PRESIDENT AREA OPERATIONS  
PACIFIC AREA



March 27, 2013

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Vehicle Parts Inventory Management – Pacific Area  
Report Number DR-AR-13

The Pacific Area agrees with the overall findings of the Audit:

- The need to maintain established order point inventory levels based on vehicles per VMF to prevent repair delays. However, we would like to note that there were zero delays noted or observed during this audit.
- The need to improve the security of the inventory of parts through following policies and procedures on physical security and inventory management including conducting mandatory inventories at VMF's.
- The need to implement training for stockroom personnel on security and inventory procedures and processes.

Management does not agree with the amount of Assets at Risk Dollar Assessment. We currently have the following in stock at our VMF's:

| District | CITY              | TTL Dist       |
|----------|-------------------|----------------|
| 900      | LOS ANGELES, CA   | \$387,264.93   |
| 913      | SANTA CLARITA, CA | \$633,010.31   |
| 920      | SAN DIEGO, CA     | \$418,529.24   |
| 926      | Santa Ana         | \$469,396.83   |
| 940      | SAN FRANCISCO, CA | \$258,526.39   |
| 945      | Bay Valley        | \$298,057.89   |
| 956      | SACRAMENTO, CA    | \$352,293.31   |
| 967      | HONOLULU, HI      | \$148,898.00   |
|          | Pacific Area OH   | \$2,965,976.90 |

**Recommendation 1:** Ensure that the Vehicle Maintenance Facility Managers maintain established order point inventory levels to prevent repair delays.

**Management Response/Action Taken:**

Management agrees with the process of ordering to point inventory levels. The Pacific Area notes that there were zero cited delays on vehicle repairs due to this issue.

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**Action Taken:**

A review of the expected ordering processes was conducted with the VMF Managers on March 19, 2013. As the process is built into the SEAM's system, the ordering will be monitored by the Area and District staffs on a quarterly basis.

**Target Implementation Date:**

First action was taken on March 19, 2013. Continual updates will be made through the SEAM's system when it is completed by both the Area and District Staff's

**Recommendation 2:** Re-emphasize stockroom management policies and procedures on physical security and inventory management, including conducting mandatory inventories at Vehicle Maintenance Facilities.

The Pacific Area agrees that stockroom policies and procedures on physical security and inventory management must be followed.

**Management Response/Action Taken:**

Pacific Area has created a monthly checklist from the old VMAS model unit review. This checklist, which includes the mandatory monthly inventory update, will be logged on the PA website each month.

The compliance of completion will be monitored by the PA DPS staff each month. The first checklist is due to the Area no later than March 26, 2013.

Pacific Area held training via a webinar on March 19, 2013, which outlined the security, inventory processes, checklist requirements and certification sheet with all PA VMF Managers.

**Recommendation 3:** Implement training for stockroom personnel on security and inventory procedures and processes.

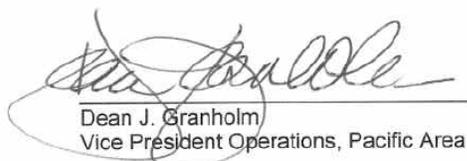
The Pacific Area agrees that stockroom training for security and inventory procedures and processes is needed.

**Management Response/Action Taken:**

On March 19, 2013, training was provided to all VMF Managers in the Pacific Area concerning Security expectations in the VMF's and Asset Inventory or Ordering processes distinctly covering the required Separation of Duties.

Certification that this training was provided to the VMF employees responsible for securing the facility, ordering parts and inventorying parts is due to the Area no later than March 26, 2013.

The Pacific Area has no issues with FOIA release once the potential savings have been addressed. If you have any questions, please contact Cynthia Larson at (858) 674-3110.



Dean J. Granholm  
Vice President Operations, Pacific Area