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FEDERAL VEHICLE FLEETS

Leading Practices for Managing Fleet Operations

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Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee:

I'm pleased to be here today to discuss our work on federal fleet management practices. In fiscal year 2013, federal agencies spent over $4.4 billion to acquire, operate, and maintain about 635,000 nontactical vehicles to help carry out agencies' varied missions.[1] The United States Postal Service (Postal Service), which operates the single largest civilian fleet, accounted for over 200,000 of those vehicles and $1.6 billion of those costs. In recent years, Congress, the Office of Management and Budget (OMB) and the President have raised questions about the size and cost of federal agencies' fleets. For example, in May 2011, the President issued a memorandum that directed agencies to, among other things, determine their optimal fleet inventories and set targets for achieving these inventories by the end of 2015.

My statement today discusses (1) leading practices for effective fleet management and (2) challenges faced by the Postal Service in replacing its aging delivery vehicles. This testimony is based on reports issued in July 2013, May 2014, and May 2011.[2] Each of these reports contains a detailed overview of our objectives, scope, and methodology. We identified leading management practices by interviewing fleet management experts and representatives of fleet management associations. We determined the challenges faced by the Postal Service by analyzing vehicle cost data from the Postal Service's accounting system, conducting site visits, and reviewing prior studies on the Postal Service's financial challenges. All of the work for these reports was performed in accordance with generally accepted government auditing standards. 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.

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[1]*Fiscal Year 2013 Federal Fleet Report,* General Services Administration. April 2015. These data are the most currently available.

[2]*Federal Vehicle Fleets: Adopting Leading Practices Could Improve Management,* GAO-13-659. (Washington, D.C.: July 31, 2013); *Federal Vehicle Fleets: GSA Has Opportunities to Further Encourage Cost Savings for Leased Vehicles*, GAO-14-443, (Washington, D.C.: May 7, 2014); and *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet,* GAO-11-386, (Washington, D.C.: May 5, 2011).

In summary, effective fleet management relies on a complete and integrated fleet management information system (FMIS), the use of life-cycle cost analysis, and appropriate decisions about fleet size and composition. When these practices are done well, agencies can make sound decisions about their fleets and provide assurance that the fleets are meeting missions in the most cost-efficient manner possible. The Postal Service has faced challenges replacing its aging delivery fleet, and it has recently issued a request for information from potential suppliers to develop a next-generation delivery vehicle.

Leading Practices For Effective Fleet Management

Given the large financial investment in the federal fleet and the increased focus on cost reduction, agencies need to provide assurance that they are managing their fleets in the most cost-effective way possible. In our 2013 report, we identified three leading practices that facilitate effective fleet management. These practices were based on views provided by fleet management experts from the private sector, local government, nonprofit entities and fleet management associations. Because the General Services Administration (GSA) purchases vehicles for agencies, leases vehicles to them, and provides guidance to agencies on managing their fleets, we compared these practices against GSA guidance and discussed these practices with GSA officials. According to GSA officials and experts we interviewed, these practices, as discussed below, provide a foundation for agencies to manage fleet costs while meeting their missions.

Maintain a Well-Designed Fleet Management Information System

As discussed in our 2013 report, a well-designed and comprehensive FMIS allows managers to monitor fleet performance and conduct the analysis needed for management decision making. To be comprehensive, an FMIS should include data on critical aspects of fleet management, such as costs, utilization, and repair and service history. Costs include direct costs such as fuel, repairs, and vehicle depreciation, as well as indirect costs such as personnel costs, office supplies, building rental, and utility costs.[3] Utilization information would include mileage or other metrics to justify owning or leasing the vehicle. According to GSA,

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[3]In our 2013 report, we recommended that GSA develop and publish guidance for agencies on estimating indirect costs attributable to fleet management. In February 2014, GSA published guidance to help agencies better estimate indirect costs. See GAO-13-659.

agencies should also integrate their FMIS with their financial and property management systems to improve data accuracy and completeness and reduce duplication of data entry.

Analyze Life-Cycle Costs to Inform Procurement Decisions

As we found in 2013, life-cycle cost analysis—which captures vehicle costs from the beginning to the end of the vehicle ownership—can help agencies make cost-effective fleet investment decisions, such as when to replace a vehicle, and whether to purchase or lease that vehicle. When agencies consider life-cycle cost information along with information on costs and benefits of alternatives, they can better evaluate investment options and make choices that cost-effectively meet their mission. For example, an agency could use life-cycle analysis to show whether vehicle lives can be extended without reducing mission effectiveness; an agency could also use life-cycle analysis to identify when vehicle replacement is warranted. Fleet management experts and GSA have recommended that agencies base decisions about whether to purchase or lease vehicles on a comparison of the direct and indirect costs projected for the life-cycle of the owned vehicles to the total lease costs over an identical life cycle.

Optimize Fleet Size and Composition

Reducing fleet size to the optimal amount of vehicles needed to meet the agency's mission can reduce costs. As discussed earlier, in May 2011 the President issued a memorandum directing each federal agency to determine its optimal fleet inventory and set targets for achieving these inventories by the end of 2015. The memorandum specified that agencies should use a methodology that emphasized eliminating unnecessary vehicles and ensuring that vehicle composition met the agency's mission. GSA's implementing guidance called for agencies to:

1. establish specific vehicle utilization criteria,

2. conduct an assessment of vehicle utilization to determine how and the extent to which vehicles are used and apply the criteria to each vehicle,

3. identify underutilized vehicles and determine the optimal number and type of vehicles needed in the fleet inventory by considering utilization, mission needs, and other alternatives; and

4. review and update this study annually or sooner as mission needs change.[4]

To help achieve the optimal fleet size and composition, some agencies have adopted telematics. "Telematics" are devices that, when installed in a vehicle, can monitor vehicle location, idle time, and miles traveled, among other things.[5] According to experts we consulted for our 2014 report, telematics can help inform agencies' decisions on fleet size.[6] Specifically, with information gained from these devices, fleet managers can identify—and potentially eliminate—vehicles that may be underutilized or not used efficiently.

Postal Service Fleet Replacement Challenges

The Postal Service's delivery vehicle fleet is essential to accomplishing its mission of delivering mail to a network of over 150 million delivery points. We found in 2011 that many of the Postal Service's custom-built delivery vehicles were approaching the end of their 24-year expected operational lives. However, the Postal Service's deteriorating financial condition posed a significant barrier to replacing or refurbishing those vehicles.[7]

Given the Postal Service's continued reported losses and billions of dollars in unfunded liabilities, we found in 2011 that the Postal Service elected to not replace its delivery fleet—about 175,000 vehicles at that time—largely because it would cost about $5 billion. The Postal Service said that planning and executing the necessary custom-built vehicle acquisition would take 5-6 years from initially identifying the vehicles' specifications and negotiating with manufacturers through testing and deploying the vehicles. The Postal Service also chose to not refurbish the vehicles, which would have cost about $3.5 billion.[8] According to a Postal

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[4]In our 2013 report, we recommended that GSA request supporting documentation from agencies when agencies submit their annual updates on fleet optimization targets. GSA has asked that agencies provide it with information and supporting documentation on the methods they used to produce their fleet inventory targets. See GAO-13-659.

[5]These telematic devices may use GPS navigation, in-vehicle video recording, or data recorders integrated with the vehicles' internal systems, among other technologies.

[6]GAO-14-443.

[7]GAO-11-386.

[8]Refurbishing would entail replacing nearly all vehicle parts subject to the effects of wear and aging.

Service contractor, refurbishing the vehicles could have allowed the Postal Service to extend the vehicle life by 15 years. Rather, according to Postal Service officials, the agency chose to sustain its delivery fleet though maintenance while planning how to address its longer-term delivery fleet needs.

While the Postal Service's approach was reasonable given its serious financial situation, we found that it was not without financial and operational tradeoffs. For example, there were high maintenance costs, including unscheduled maintenance costs, for some vehicles—resulting in about $750 million a year for maintenance at the time of our report.[9] This also led to operational impacts, such as increased overtime costs when vehicles broke down and needed to be repaired.

We recommended that the Postal Service develop a strategy that addressed its delivery fleet needs and considered the effect of any operational changes, legislative requirements and other factors. In response, the Postal Service stated that it was developing a strategy to address immediate and long-term needs of their delivery fleet. In 2015, the Postal Service issued a request for information from potential suppliers to develop a next-generation delivery vehicle to meet future capacity needs and delivery operation requirements, such as enhanced package volume. For a potential purchase of 180,000 vehicles, the Postal Service estimates it may need to spend between $4.5 and $6.3 billion.

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions.

GAO Contact and Staff Acknowledgments

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[9]These costs have increased since our report was issued in 2011.