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SUBJECT: Audit Report – Management of the Highway Contract Route Voyager Card Program (Report Number NL-AR-11-003)

This report presents the results of our self-initiated audit focusing on management of the Highway Contract Route (HCR) Voyager Card Program (Project Number 10XG030NL000). The objective was to assess the effectiveness¹ of the U.S. Postal Service's HCR Voyager Card Program. This audit addresses financial, strategic, and operational risks. See [Appendix A](#) for additional information about this audit.

Under the U.S. General Services Administration's (GSA) SmartPay®2 Card Program, federal agencies enter into agreements with approved financial institutions to obtain purchase, travel, and fleet transaction cards.² The Postal Service has been using the fleet transaction card from U.S. Bank Voyager Fleet Systems, Inc. to purchase fuel for its vehicle fleet since around 2000 (known as the Voyager Card Program).

In 2005, the Postal Service expanded its Voyager Card Program to include HCR suppliers (known as the HCR Voyager Card Program). In fiscal year (FY) 2010, the Postal Service spent almost \$720 million on fuel for its highway contract transportation, over \$590³ million of which was purchased using HCR Voyager cards. HCR suppliers are authorized an annual fuel allowance limit for use in the performance of Postal Service HCR contracts and should not use fuel transaction cards to purchase fuel in excess of the allowed quantities or to purchase unauthorized grades of fuel.

¹ We assessed the overall management and controls over the Voyager Card Program.

² Federal agency purchase card programs operate under a government-wide GSA SmartPay2 master contract. Agency purchase card programs must comply with the terms of the contract and task orders under which the agency placed its request for purchase card services.

³ Approximately \$131 million of the \$590 million in Voyager Card transactions for HCR suppliers covered fuel obtained at sites under the Postal Service's HCR "bulk fuel" program.

The Postal Service could more effectively manage and control its HCR Voyager Card Program. We found the Postal Service did not always ensure that HCR suppliers purchased only authorized grades of fuel or remained within the contract limitations on number of fuel gallons purchased. These conditions occurred because the Postal Service did not always follow Fuel Management Program (FMP) requirements.⁴

As a result, we estimate the Postal Service:

- Incurred \$25.8 million and \$22.5 million for the 2008/2009 and 2009/2010 fuel periods, respectively, in questioned costs⁶ for purchases of excess gallons over contract limits. Additionally, they incurred \$2.6 million and \$2.8 million for FYs 2008 and 2009, respectively, for the purchases of unauthorized grades of fuel.⁷
- Has \$29.4 million in financial assets at risk⁸ for fuel purchased over the contract limits for the 2007/2008 fuel period.⁹

Further, if the Postal Service improves its management and control of the HCR Voyager Card Program, it could potentially avoid about \$24.2 million annually in unnecessary costs over the next two fuel periods for excess gallons purchased over contract limits. Additionally, they could save \$2.6 million annually for purchases of unauthorized grades of fuel and payments for FYs 2010 and 2011. This would result in total estimated savings of \$53.7 million. See [Appendix C](#) and [Appendix D](#) for additional information about our monetary impact and assets at risk calculations, respectively.

⁴ The FMP guidelines document is updated annually and is part of the HCR contract by reference in the contract's terms and conditions.

⁵ Management stated that by making HCR suppliers liable for any identified unauthorized transactions, they were able to shift responsibility for control, risks, and security of the HCR Voyager Card to the suppliers, thereby avoiding significant administrative costs.

⁶ The \$25.8 million and \$22.5 million are estimates of questioned costs covering 2 periods based on the best available information and the control weaknesses identified herein. The Postal Service provided an estimate of \$16 million for excess gallons covering the 2008/2009 contract fuel period. We have not validated the Postal Service's estimate and the actual amount of excess gallons cannot be determined until reconciliations are fully completed, documented, and validated in accordance with all FMP requirements.

7 For purposes of this audit, we used the cut-off from July 1 to June 30, representing the periods 2008/2009 and 2009/2010 for the excess gallons and FYs 2008 and 2009 for the unauthorized grades of fuel.

⁸ We were unable to determine the extent to which reconciliations for 2007/2008 were completed in accordance with all FMP requirements without reviewing 100 percent of all contract files, which number in the thousands.

⁹ In accordance with U.S. Postal Service Office of Inspector General (OIG) policy, questioned costs for the purchase of unauthorized grades of fuel and payment for excess gallons over contract allowances are limited to a 2-year period, which covered the 2008/2009 and 2009/2010 contract fuel periods.

Further compounding the matter, we found the Postal Service did not have a reliable system infrastructure and accurate data to support and provide for more effective management and oversight of the HCR Voyager Card Program. Additionally, while the Postal Service has continued to assess options for its FMP, it has not conducted a comprehensive evaluation of the HCR Voyager Card Program to determine its performance, risks, and feasibility.

Limited Monitoring of Purchases and Reconciliation of Authorized Gallons

The Postal Service did not always ensure that HCR suppliers purchased only authorized grades of fuel and did not exceed contractually allowed fuel gallon purchases. The Postal Service also did not effectively monitor HCR Voyager Card transactions to ensure they were for authorized purchases and would pay invoices without reviewing the transactions.¹⁰ This occurred because the Postal Service included stipulations in HCR contracts for suppliers to assume risks for unauthorized transactions and did not establish its own comprehensive control environment.

Additionally, we found that the Postal Service has not established effective controls to ensure that management properly conducted annual reconciliations¹¹ of all HCR Voyager Card transactions to ensure HCR suppliers did not exceed the contractually allowed fuel gallons. The reconciliations were not uniform, timely, appropriately tracked, monitored, or documented by management. In this regard, the Postal Service has not adequately documented the reconciliation of fuel gallons since contract period 2006/2007.¹² Further, the reconciliation process includes a review of contractor pooling,¹³ but the Postal Service was generally unable to provide documentation of approved contract pools. As a result, it could not support the accuracy and consistency of pooling based on its policy, including assessing operational benefits and ensuring formal written requests and approvals. Consequently, highway suppliers often exceeded their annual allotted fuel limits and these overages may not be collected timely or may remain uncollected, putting the Postal Service's financial assets at risk of loss. See [Appendix B](#) for our detailed analysis of this topic.

¹⁰ This is known as "pay and chase" method. Under this method, the Postal Service pays Voyager invoices without adequately monitoring and reviewing transactions first (pay). If inappropriate or questionable transactions are subsequently identified, the Postal Service must initiate review and recovery of inappropriate payments (chase).

¹¹ Reconciliation is the comparison of the actual gallons of fuel purchased to the contractually allowed gallons annually. It is a primary control for the Postal Service in managing the HCR Voyager Card Program and safeguarding its financial assets as detailed in the FMP.

¹² The transportation contracting function has undergone a major reorganization since September 2009, which involved moving the transportation contracting officers and staff from area oversight to headquarters oversight. The reorganization centralized the duties and responsibilities of transportation contracting officers under headquarters and formed five primary Transportation Contract Management Teams (TCMTs) nationally, each headed by a transportation contracting officer. Further, headquarters recently assumed all responsibilities for reconciliations nationally.

¹³ Pooling is the process that allows suppliers with multiple contracts that utilize the same vehicles across the contracts to use the collective contract fuel allocation as the basis against which the collective gallon usage is measured.

Management informed us of their plan to develop a stronger HCR Voyager Card Program internal policy and procedures document outside of the FMP. The policy will address and strengthen controls for the reconciliation and pooling processes and ensure they are adequately documented. Management is in the planning process for these corrective actions and has not established a firm timeline or target date.

We recommend the vice president, Supply Management:

1. Further develop, update, and reinforce requirements for the Postal Service and highway contract route suppliers to enhance systems infrastructure, including incorporating systems edits and automation tools where possible, and monitor fuel transactions as necessary to avoid unauthorized purchases and ensure adherence to contract gallon limits.
2. Ensure that contracting officers apply pooling in accordance with established requirements and ensure pools are appropriately documented and approved.
3. Perform and document all outstanding reconciliations for prior periods to determine excess purchased fuel gallons and collect resultant overpayments.

Management's Comments

Management generally agreed with our finding and recommendations 1 through 3. Overall, management stated in their response that they would implement corrective by July 2011.

With regard to recommendation 3, management stated that the area Distribution Network Offices' (DNOs) contracting officers advised that fuel reconciliations for periods prior to the reorganization of the contracting officer teams in 2009 were completed at the area DNO level. As such, management will conduct reconciliations for the 2009/2010 fuel year and subsequent periods. See [Appendix G](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 2, and 3 and management's corrective actions should resolve the issues identified in the finding.

Regarding recommendation 3, we understand the issues relating to reconciliations for years prior to the contracting officer consolidation and reorganization in 2009 and the related issues with locating documents from prior years. As the Postal Service implements these recommendations, they should complete the reconciliations after that reorganization (starting with the 2009/2010 contract fuel year) as soon as possible and in accordance with the pooling and reconciliation requirements of the Fuel Management

Plan. Further, management should ensure they document all identified overpayments and validate them with HCR suppliers as well as track and recover them timely.

Limited Safeguards and Security of HCR Voyager Cards

We found that HCR suppliers have not always effectively safeguarded and secured HCR Voyager Cards in accordance with internal control best practices. [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

These control deficiencies occurred because management elected to shift its risks by contractually making HCR suppliers responsible for all unauthorized charges and did not elect to implement key internal controls when it initiated the HCR Voyager Card Program. Consequently, the lack of comprehensive and uniform key internal controls increases the Postal Service's exposure of risk¹⁴ for fraud, waste, and abuse. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Supply Management:

4. Implement controls over the contractors that include:
 - Strengthening procedures for safeguarding and securing highway contract route Voyager Cards, [REDACTED]
 - Coordinating with the U. S. Bank to limit the number of highway contract route (HCR) Voyager Cards issued to highway suppliers; [REDACTED]

¹⁴ The OIG is aware of incidences in Dallas, TX, and Chicago, IL, involving significant Voyager Card control weaknesses.

Management's Comments

Management generally agreed with the finding and recommendation. They stated the current process is appropriately designed and positioned and they rely on HCR suppliers observing all contract terms and conditions that require the supplier to use the HCR Voyager Cards for the purposes provided. They also outlined what they consider to be existing controls and processes, including contract language, Voyager tools such as Fleet Commander, and U. S. Bank processes. Management stated they will include appropriate language on maintaining card inventories in the fuel management program (FMP) policy scheduled for revision in June 2012. See [Appendix G](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 4 and management's corrective actions should resolve the issues identified in the finding. We acknowledge the various contract terms and conditions relating to use and management of the HCR Voyager Cards. As management implements our recommendation, they need to focus on monitoring compliance with all contract provisions to reduce unauthorized transactions and excess gallons purchased.

Limited Systems Infrastructure and Data

The Postal Service has not implemented a comprehensive systems infrastructure and automated processes to manage and control the eFuel Program, including the ability to track approved pooling structures, document completed and outstanding reconciliations, effectively determine excess gallons, and recover overpayments. We found that Fuel Asset Management System (FAMS) and Enterprise Data Warehouse (EDW) eFuel reports contained errors in identifying gallons purchased, determining gallons authorized, and calculating excess gallons. This was due to the limited functionality of the systems and interface issues between the FAMS and EDW eFuel modules, as well as the accuracy of authorized gallons in the Transportation Contract Support System (TCSS). As such, we could not always rely on management information reports.

Further, as observed during the audit, the Postal Service continues to employ a cumbersome manual process to determine and reconcile approved pools and stated that the process requires a review of thousands of HCR contract files to determine the status of reconciliations and previously approved pooling structures. As a result, the Postal Service may be unable to efficiently and effectively identify excess fuel gallons purchased and initiate timely recoveries. Management informed us they are aware of these weaknesses with the FAMS and EDW eFuel modules and stated that funding for enhancements was unavailable. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Supply Management:

5. Continue to pursue funding when feasible for enhancing the functionality of the Fuel Asset Management System and Enterprise Data Warehouse eFuel modules and to ensure the systems are user-friendly and enable management to more efficiently and effectively monitor authorized gallons, identify excess gallons, and recover any related excess payments.

Management's Comments

Management agreed with recommendation 5. They noted they will continue to pursue funding for enhancements to the related automated systems. In a meeting on May 12, 2011, management said they will focus on enhancing the FAMS eFuel module rather than the EDW eFuel module, which is unreliable and not useful. They also noted that, given the Postal Service's current financial condition and freeze on system changes, they will not be able to ensure a specific implementation date for this recommendation. As such, they requested that the OIG consider recommendation 5 closed. See [Appendix G](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 5 on the system enhancements to FAMS and management's corrective actions should resolve the issues identified in the finding. As the Postal Service implements this recommendation, they should place high priority on their request for funding to enhance and automate systems functionality and reporting capability. We will work with management through the recommendation resolution process to establish an appropriate target implementation date and close-out this recommendation.

Program Feasibility Assessment

The Postal Service stated that the HCR Voyager Card Program was the best FMP option at the time of implementation. While the Postal Service continues to assess and evaluate strategies for its FMP, it has not conducted a comprehensive evaluation of the HCR Voyager Card Program to determine its performance, risks, and feasibility. Further, the Postal Service did not define performance measures at the inception of the HCR Voyager Card Program to assess it and the agency currently lacks sufficient, current, and accurate data to facilitate such an assessment. Consequently, the Postal Service is not able to readily demonstrate whether the HCR Voyager Card Program is the best fuel management acquisition practice for its contracted highway transportation even though the program does provide added benefits.¹⁵ See [Appendix B](#) for our detailed analysis of this topic.

¹⁵ Management stated that there are a number of benefits of the HCR Voyager Card Program, including reduced administrative costs by contractually shifting responsibility for program risks, unauthorized transactions, as well as card security and control of the cards to the HCR suppliers; paying only for fuel gallons purchased resulting in

We recommend the vice president, Supply Management, with the support of the vice president, Network Operations Management:

6. Periodically assess the financial and operational viability of the Highway Contract Route Voyager Card Program, including performing a formal cost-benefit analysis based on complete and recent data, considering the costs of implementing controls to address deficiencies identified in this report as appropriate.
7. Continue to identify and evaluate other fuel management program best practices used in the transportation industry and perform a comparative analysis against the existing Highway Contract Route Voyager Card Program where possible.

Management's Comments

Management agreed to the finding and recommendations 6 and 7. Regarding recommendation 6, management stated that they will assess the operational and financial viability of the Voyager Card Program periodically consistent with their Commodity Strategy Sourcing Plan. They expect to complete the plan by September 2011.

Regarding recommendation 7, management stated that, although they consider the HCR Voyager Card Program to represent best-in-class, they continue to review the current fuel card process. They also noted that they plan to evaluate alternative fuel card options as the task order with the current card provider expires in FY 2012. Management also added that they have evaluated other industry best practices as part of their ongoing fuel management activities. As such, they requested that the OIG consider this recommendation closed based on their ongoing reviews and prior OIG audits.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 6 and 7 and management's corrective actions should resolve the issues identified in the finding.

Regarding recommendation 7, we will work with management through the recommendation resolution process to establish an appropriate target implementation date and close out the recommendation. Further, as the Postal Service continuously assesses fuel management best practices, they should maintain detailed documentation on all comparative analysis performed on industry best practices evaluated, planned or implemented for its fuel management program options, including the Voyager Card Program.

savings from potentially underutilized contractual gallons; bulk vs. retail savings gleaned from transaction card activities; and rebates received from the U.S. Bank associated with the combined Voyager spend.

Additional Management's Comments

Management did not agree with the questioned costs and funds put to better use monetary impacts associated with this report. They assert that the OIG's calculations are based on the assumption that without completion of the reconciliation process, gallons related to purchases in excess of contractual limits and premium fuels should not have been paid.

Regarding the purchase of gallons in excess of authorized limits, management points out the dynamic nature of transportation operations, including the need for route detours, extra trips, and other adjustments that could impact the amount of fuel a HCR suppliers consumes and the authorized gallon limit. Further, management states that the reconciliation process provides them with a control to ensure that when a supplier has exceeded the estimated gallons, they can determine the validity of that associated cost and recover any costs that are not justified. Management states the OIG cannot determine the nature of purchases in excess of authorized gallon limits and is inaccurate in asserting these are recoverable costs.

Regarding the purchase of unauthorized grades of fuel, management addresses the miscoding of fuel purchases at retail fueling stations. They also note that there are certain HCRs that require the use of premium fuels. Management states that it is unclear as to whether the OIG report has fully considered the impact of the product miscoding that occurs in the fuel industry.

Evaluation of Management's Additional Comments

The primary issue and focus of our audit as discussed with Postal Service staff and management over the past year is that without an adequate internal control environment the actual amount of excess gallons and resulting potential overpayments are unknown. Further, we fully understand that the dynamic nature of operations will result in changes to authorized gallons and the Postal Service needs to validate any identified excess gallons with HCR suppliers. In the absence of completed and validated reconciliations, the OIG estimated excess gallons and the resulting overpayments, applying the comprehensive, sound, and supportable methodology described in [Appendix C](#).

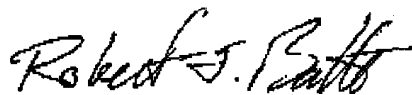
Regarding the purchase of unauthorized grades of fuel, we had numerous discussions with Postal Service staff and management regarding our methodology, calculations, and assumptions relating to the unauthorized grades of fuel, and those are specifically addressed in the report and in [Appendix C](#). We tested a sample of premium fuel transactions and factored product miscoding into our calculations. Again, the primary point is that without a formal process to ensure monitoring of and follow-up of questionable HCR Voyager Card transactions, the Postal Service and HCR suppliers have no way of knowing the extent of purchases involving unauthorized grades of fuel.

Overall, management did not provide documentation for the amounts on which they disagreed or offer supportable and final alternate amounts based on completed and validated reconciliations. We based our calculations of the impacts on the best available

data given the many control and data weaknesses and lack of finalized and validated reconciliations. We will continue working with management to reach agreement on impacts in the process of closing the significant recommendations.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations 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 appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Jody Troxclair, director, Transportation, or me at 703-248-2100.

A handwritten signature in black ink, reading "Robert J. Batta". The signature is written in a cursive, flowing style.

Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Megan J. Brennan
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service uses two fuel management payment options for HCR suppliers:

- Voyager Cards issued under the GSA's SmartPay2 Program are used by about 39 percent of all HCRs and account for about 81 percent of HCR fuel expenditures. During FY 2010, there were over 15,000 Voyager Cards being used by highway contract suppliers on almost 7,000 HCRs, composed mainly of large transportation routes.
- Fuel price indexing is used by about 61 percent of the HCRs, composed mainly of small transportation routes, box delivery routes, or HCRs not able to administer the HCR Voyager Card.¹⁶

The Postal Service intended to better manage the fuel component of HCRs by issuing Voyager Cards and only paying for fuel that is used, obtaining more accurate fuel acquisition and consumption data, and reducing fuel costs by leveraging volume purchasing.



HCR driver fueling his vehicle at a retail fuel station in CA.

Fuel Asset Management System (FAMS). The Postal Service system designed to capture fuel transaction information. The FAMS model contains two separate and distinct modules covering HCR Voyager Card transactions, including eFuel, which tracks fuel purchases for approved HCR suppliers. The FAMS eFuel data flows into EDW, the official repository of data for the Postal Service that was established to facilitate queries and report and analyze the Postal Service's numerous data assets.

FMP Guidelines. The FMP document is part of the HCR contract, is referenced in the contract's terms and conditions, and provides guidance to suppliers and the Postal Service regarding the HCR Voyager Card Program, including authorized uses of the card, pooling of gallons by suppliers, and reconciliation of card transactions.

¹⁶ This includes the small component of "manual" indexing.

Unauthorized uses of the HCR Voyager Card include purchasing fuel in excess of the contractually allowed gallons, improper grades of fuel, items other than fuel, and fuel for vehicles other than those used for HCR contract performance. The management, effectiveness, and efficiency of the HCR Voyager Card Program depend on the application of and consistent and timely compliance with FMP processes for two critical and related functions — pooling and reconciliation.

Pooling. The Postal Service established the pooling process to allow for those instances where fuel purchased on one contract might be used on another contract based upon maintenance operations, line of travel, or method of operation. Under the pooling guidelines, suppliers with multiple contracts may request written approval from the Postal Service to pool contractual allotted gallons against actual gallons purchased for the purposes of performing annual reconciliations and determining excess gallons and payments. The Postal Service is required to issue written approval to the supplier specifically identifying which HCRs will be permitted to pool and in which pool, if multiple pools are established.¹⁷ Pooling is part of the overall reconciliation process.

Reconciliation. The reconciliation process takes place after pooling and involves the determination as to whether the “net” pool gallons are in excess of the allowed pool gallons. When net pool gallons are in excess, the Postal Service is required to document usage to the supplier and initiate action to recover costs associated with the excess gallons. The FMP provides that if a supplier exceeds the pooled fuel allocation for that year, the recoupment will be at the end of the pool year regardless of the contract term.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to assess the effectiveness over the Postal Service’s HCR Voyager Card Program. We evaluated effectiveness by examining the management and controls over the program.

To accomplish our objective, we interviewed Postal Service officials and staff within Supply Management, Information Technology, and the St. Louis Accounting Service Center. We also interviewed contracting officers and HCR suppliers in select areas to obtain an understanding of the HCR Voyager card processes and controls in place, as well as U.S. Bank Voyager Fleet Systems, Inc. staff. Further, we reviewed HCR Voyager Card transactions to determine if current controls are functioning as intended, including purchase of unauthorized fuel grades and excess gallons.

We assessed the reliability of the computer-generated eFuel data used in our analyses by interviewing Postal Service users and officials, reviewing existing information about the data, and evaluating other pertinent fuel program information. Based on our limited testing, we determined that the management information reports the FAMS and EDW eFuel modules generated were inaccurate and contained errors in identifying the gallons purchased, determining gallons authorized, and calculating excess gallons.

¹⁷ A supplier could have more than one pool depending on its HCR operations.

Therefore, these initial reports were not sufficiently reliable for the purposes of our audit work and this report. However, we worked extensively with the Postal Service to obtain the best information available and establish a framework for using these reports, including applying manual processes and using back-end data. We also applied other alternate audit procedures including examination of source documents, comparison with other information and data, evaluation of unit costs, and discussions with responsible officials.

We conducted this performance audit from February 2010 through June 2011 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 that 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 February 3, 2011, and included their comments where appropriate. Management provided its comments to the draft audit report on April 22, 2011 – these comments are in their entirety at [Appendix G](#). Subsequently, we met with the vice president, Supply Management, and management staff on May 12, 2011, to discuss management's written response, our evaluation of their comments, and our determination as to whether their comments were responsive to all of the recommendations and whether any stated actions would resolve the issues identified in this report. We included management's subsequent comments in our evaluation of their written response where appropriate.

PRIOR AUDIT COVERAGE

The OIG has issued six reports related to Voyager Cards that are used internally for Postal Service-owned vehicles under the eFleet Program. The eFleet control weaknesses identified were considered in the planning of this audit and are summarized below. Additionally, the Government Accountability Office (GAO) issued a report on February 16, 2007, addressing changes in the Postal Service's fuel costs and its impact on financial and operating conditions and actions to control and track fuel costs.

Report Title	Report Number	Final Report Date	Report Results
<i>Voyager Card Program</i>	CA-AR-08-006 ¹⁸	3/21/2008	The OIG identified eFleet internal control weaknesses at nine of 10 facilities audited, covering training, card security, PIN security, reconciliations, recordkeeping, and segregation of duties. Management agreed with the findings and recommendations.
<i>USPS Vulnerability to Fluctuating Fuel Prices Requires Improved Tracking And Monitoring Of Consumption Information</i>	GAO-07-244	2/16/2007	The GAO reviewed the Postal Service's actions to control fuel costs and recommended that the Postal Service take action to improve its tracking and monitoring of transportation and facility-related fuel consumption data.

¹⁸ The Voyager Card eFleet reports included five reports covering 10 facilities and a capping report. Only the eFleet capping report is listed above and the capping report identifies the individual eFleet reports and facilities audited.

APPENDIX B: DETAILED ANALYSIS

We concluded that the Postal Service could more effectively manage and control its HCR Voyager Card Program. Specifically, we determined that the Postal Service did not always ensure that HCR suppliers purchased only authorized grades of fuel and that HCR suppliers did not exceed contractually allowed fuel gallons. These conditions occurred because the Postal Service has not always followed its FMP requirements.

[REDACTED]
[REDACTED]
[REDACTED] Instead, it elected to manage its risks by including stipulations in the HCR contracts with the expectation of requiring the suppliers to assume the risks for unauthorized transactions. However, GSA Voyager Card Program requirements provide that the Postal Service ensures appropriate controls and that it assumes full responsibility for all charges, including unauthorized charges.

We also found the Postal Service did not have a reliable system infrastructure and accurate data to support and provide for more effective management and oversight of the HCR Voyager Card Program. Additionally, while the Postal Service has continued to assess options for its FMP, it has not conducted a comprehensive evaluation of the HCR Voyager Card Program to determine its performance, risks, and feasibility.

Limited Monitoring of Purchases and Reconciliation of Authorized Gallons

We determined that the Postal Service did not always ensure that HCR suppliers purchased only authorized grades of fuel and did not exceed contractually allowed fuel gallons. The Postal Service has not established effective processes for monitoring transactions and has not followed its FMP requirements for reconciliation. This occurred because the Postal Service included stipulations in the HCR contracts for suppliers to assume risks for unauthorized transactions and did not establish its own comprehensive control environment.

Transaction Monitoring. We noted that the Postal Service's Surface Transportation Category Management Center (CMC) did not always review and monitor fuel transactions and monitoring varied among Postal Service area operations and Transportation Contract Management Teams (TCMTs). Local (area) monitoring often depended on the availability of resources and other priorities. Further, we found that the Postal Service remits funds for Voyager weekly billing statement balances by employing a "pay and chase" approach for the HCR Voyager Card Program whereby it does not review or validate invoiced transactions prior to payment. The Postal Service relies on an automated system review limited to validation of contract numbers and identification of duplicate transactions. There are no edit mechanisms in place to identify purchases of unauthorized grades of fuel and the U.S. Bank cannot presently restrict transactions by fuel grade.¹⁹

¹⁹ In our discussions with the U.S. Bank, they advised us of planned systems enhancements and functionality for implementation in 2011, which will cover fuel grade.

According to the FMP, suppliers should only use HCR Voyager Cards to purchase authorized grades of fuel within approved, contractually negotiated limits. The FMP further provides that fuel for highway use reimbursed by the Postal Service should be for either unleaded gasoline (87 Octane) or diesel number 2 grade. Using HCR Voyager Cards to purchase higher grades of fuel is generally not permissible unless specifically required by the contract based on the equipment requirements. It is the responsibility of the Surface Transportation CMC to conduct a review and follow up with any improper transactions and Postal Service Headquarters relies on the contracting officers to provide oversight and monitor fuel transactions. Further, the Postal Service elected to manage risks of the HCR Voyager Card Program by contractually shifting responsibility for unauthorized transactions to HCR suppliers. However, we determined that Postal Service Headquarters did not provide sufficient guidance, resources, and tools to its contracting officers, nor did they ensure consistency in the administrative application of the established requirements in accordance with the FMP.

As a result, we estimate the Postal Service incurred \$5.4 million in questioned costs (\$2.6 million and \$2.8 million in FYs 2008 and 2009, respectively) for the purchase of unauthorized grades of fuel, including super unleaded and unleaded plus gasoline. It should be noted that the Postal Service believes that most transactions for premium fuel are miscoded since the majority of HCR vehicles use diesel fuel.²⁰ However, we reviewed a judgmentally selected sample of miscoded transactions and found that between 54 and 77 percent appeared to be valid transactions for unauthorized grades of fuel given the cost per gallon at the retail station.²¹

Transaction Reconciliation. The Postal Service established reconciliation as the primary process and control point to effectively manage and protect the HCR Voyager Card Program. The stated goals for reconciliation are:

- Managing and reviewing actual gallon usage versus contract gallons.
- Approving purchases within the limits of the contract.
- Addressing purchases that are questionable and otherwise put the Postal Service at risk for financial loss.

A primary purpose of the reconciliation process is the determination of excess gallons through the comparison of fuel gallons actually purchased against authorized fuel gallons established in the contract. As outlined in the FMP, the Postal Service is required to perform reconciliations annually; however, we found that annual reconciliations are not always adequate, uniform, timely, or appropriately tracked or monitored. The Postal Service stated it completed the reconciliation process for all

²⁰ For those transactions where premium grades of gasoline are purchased for a vehicle that should be using diesel fuel, there is an increased possibility of fraud or abuse occurring.

²¹ We compared the price per gallon (PPG) of regular unleaded fuel in the same time period and location against the reported super unleaded or unleaded plus transaction PPG. The range of valid transactions is attributable to different results for super unleaded and unleaded plus fuel types as well as for the FYs 2008 and 2009.

HCRs covering the 2005/2006 and 2006/2007 contract fuel periods – the initial periods of the HCR Voyager Card Program. However, with the limited data and support provided, in addition to the FAMS and EDW weaknesses, we could not determine how complete the initial reconciliations were. Our review disclosed that the Postal Service has not adequately documented the reconciliation of fuel gallons for the subsequent 2007/2008 contract fuel period. Additionally, in our discussions with Postal Service Headquarters, management stated they were beginning to perform the preponderance of reconciliations of the 2008/2009 contract fuel period in September 2010. Overall, we were unable to obtain details on the Postal Service's plans to complete the reconciliation process covering the 2007/2008 and 2009/2010 contract fuel periods.

Because management did not perform these reconciliations, purchased fuel gallons exceeded the contract limits, resulting in significant unnecessary costs and requiring additional reconciliation and recoupment efforts with limited resources and time. We also identified an estimated \$29.4 million in financial assets at risk for fuel purchased over the contract limits for the 2007/2008 fuel period.²² We were unable to determine the status on any actual recoupment of excess fuel purchases.

Pooling Requirements. The Postal Service established the pooling concept (pooling of gallons) to allow HCR suppliers to leverage their assets to reduce their operational costs through centralized maintenance, reduced equipment costs, and maximized operating efficiencies. Under pooling, HCR suppliers with multiple contracts that use the same vehicles in various forms across the contracts may receive approval from the Postal Service to use the collective contract fuel allocation. The collective gallons purchased under all approved contracts are compared against the authorized number of gallons in the contract pool collectively for a given time period. Pooling structures are vital steps in the fuel reconciliation process. Consideration for pooling is predominantly based upon the supplier's explanation of fuel use across contracts through daily operations.

The FMP document outlines the procedures for the application of the pooling methodology. These procedures include the treatment of contracts added or removed from the pools, varying contract years, and calculation of partial years. The FMP²³ further states contracts that do not traverse²⁴ should not generally be considered for pooling. An approved pool requires both a written request and justification from the supplier and a written approval from the Postal Service. Specifically, the approval will identify which highway contract transportation routes are permitted to pool and in which pool, where multiple pools are established.

However, we found that each Postal Service Area/TCMT had established their own process for allowing suppliers to pool, which ranged from requiring an operational need

²² In accordance with OIG policy, questioned costs for the purchase of unauthorized grades of fuel and payment for excess gallons over contract allowances are limited to a 2-year period, which covered the 2008/2009 and 2009/2010 contract fuel periods.

²³ The FMP dated February 13, 2007, and annual revisions specifically stated that contracts that do not traverse should not generally be approved for pooling.

²⁴ To be considered for pooling, contract vehicles must cross over on routes and intersect geographic service areas.

to pool to automatically pooling suppliers with multiple contracts to geographically based pooling, and occasionally establishing inter-area pools outside the national pooling authority created by headquarters. Further, the Postal Service was generally unable to provide documentation of approved contract pools that supported the accuracy and consistency of pooling based on its policy, including assessing operational benefits and ensuring formal written requests and approvals. This occurred because of ineffective oversight of compliance with FMP requirements. An overly flexible pooling process promotes the additional risk of abusing the program's spirit and intent to serve suppliers that have an operational need to share vehicles among their HCRs.

We concluded that the Postal Service has not adequately reconciled excess fuel transactions to include gallons under pooled contracts. As a result, it is vulnerable to improper, unnecessary, or excessive purchases and incurred questionable costs for \$48.3 million covering periods between 2008 and 2010. In addition, we identified \$48.4 million of funds that could be put to better use over the next 2 periods if action is taken.

To complicate matters, we noted that the September 2009 reorganization of the contracting officers and teams from the areas to Surface Transportation CMC resulted in a major transition in contracting staff and a number of vacancies. This transition affected institutional knowledge within the Surface Transportation CMC and the availability of documentation covering prior contract fuel periods, including 2007/2008. This made reconciliations and recovery of overpayments more difficult and increased the risk of loss to the Postal Service since fraud, waste, and abuse may go undetected. Overall, if the Postal Service improves its management and control of the HCR Voyager Card Program through effective monitoring and reconciliation, it could ensure a more effective, efficient, and economical fuel purchase program for its highway suppliers and potentially avoid costs of \$53.7 million over the next 2 periods.

Management Action. In August 2010, headquarters management informed us that the Surface Transportation CMC would assume all responsibilities for reconciliation duties. The Surface Transportation CMC is presently engaged in reconciling the pooling of transactions for the 2008/2009 contract period. They are also developing a stronger internal policy and procedures document outside of the FMP to further address controls for the reconciliation and pooling processes and ensure they are adequately documented.

Limited Safeguards and Security of HCR Voyager Cards

We found that management did not establish key controls for safeguarding and securing HCR Voyager Cards²⁵ that were in line with internal control best practices.

[REDACTED] These control deficiencies occurred because management elected to shift its risks by contractually making HCR suppliers responsible for all charges and management did not elect to implement key internal controls when they initiated the HCR Voyager Card Program. Consequently, the lack of comprehensive and uniform key internal controls increases the Postal Service's risk for fraud, waste, and abuse.

[REDACTED]



**HCR Voyager Card and card holder visibly displayed on the windshield and dashboard of two HCR supplier vehicles.
Pictures taken May 2010 in CA.**

[REDACTED] As such, this creates risk in the event of the card being intercepted, possibly leading to misuse and fraud.

[REDACTED]

²⁵ According to the GAO's Standards for Internal Control in the Federal Government, internal controls should provide reasonable assurance that operations are effective and efficient. The standards clearly state internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

[REDACTED]

[REDACTED]

[REDACTED]

Limited Systems Infrastructure

The Postal Service has not implemented a comprehensive system infrastructure and automated processes to manage and control the eFuel Program, including the ability to track approved pooling structures, document completed and outstanding reconciliations, effectively determine excess gallons, and recover overpayments. We found that reports generated by both the FAMS and EDW eFuel modules contained errors in the identification of gallons purchased, the determination of gallons authorized, and the calculation of excess gallons.

In its August 2002 Business Case Analysis for FAMS, the Postal Service stated that the eFuel module will provide an accurate accounting of fuel transactions and expenses, resulting in the Postal Service's greater visibility to better manage fuel costs and related risk management issues. Additionally, they noted that accurate fuel utilization reports in lieu of estimates would provide actual and valuable information about the performance of fuel purchases by highway suppliers, will support corrective measures, and facilitate effective negotiations by headquarters and area purchasing personnel. Another stated benefit of the FAMS eFuel module is the system-generated reports, which enhances and strengthens internal controls for HCR suppliers and eliminates inappropriate fuel purchases.

The Postal Service implemented the FAMS eFuel module in Q2, 2005, and asserted it will help the Postal Service improve its fuel processes for HCR suppliers over an extended period of time. For example, in its response to the GAO's audit report dated May 2004 (*Postal Service Progress in Implementing Supply Chain Management Initiatives*), the Postal Service stated they placed a high priority on implementing FAMS (the eFuel module) to ensure the availability of accurate and timely HCR fuel information. In 2005, the Postal Service further asserted through its dissemination of

[REDACTED]

information to HCR suppliers that it will use FAMS (the eFuel module) to manage and review actual gallon usage versus contract gallons. The Postal Service continued its assertion that it would use FAMS to approve purchases within the limits of the contract and address questionable purchases and expenditures that otherwise put the Postal Service at risk for financial loss.

To assist in monitoring the HCR Voyager Card Program and help compensate for limited functionality in the FAMS eFuel module, the Postal Service developed the eFuel module within EDW in 2008. The EDW eFuel module focused on the creation of reports, which were designed to assist the Postal Service to maintain and analyze HCR Voyager Card transaction data for HCR suppliers and improve the tracking and monitoring of HCR Voyager performance.

The eFuel modules lack the necessary functionality for the adequate management of a program of this scope and size. For example, neither FAMS nor EDW presently have the functionality for tracking the approved pooling structures in congruence with the FMP requirement. They further lack the functionality to track completed reconciliations and track recoveries. In addition, Postal Service officials stated the modules are not user-friendly and require back-end and manual processes to generate usable information. Finally, the authorized gallons in TCSS are not always updated and accurate to reflect changes in routes or service. As a result, reports generated by both the FAMS and EDW eFuel modules contained errors in the identification of gallons purchased and authorized and determination of excess gallons.

As observed during the audit, the Postal Service continues to employ a cumbersome, manual process to determine and reconcile approved pools and stated that the current process requires a review of thousands of HCR contract files to determine the status of reconciliations and previously approved pooling structures. As a result, the Postal Service may be unable to efficiently and effectively identify the excess fuel gallons and initiate timely recoveries. Management acknowledged the systems' shortcomings and informed us they are fully aware of the weaknesses within the FAMS and EDW eFuel modules.

The Postal Service did not effectively assess all system needs during its risk assessment for HCR Voyager Card Program deployment and FAMS development to ensure it had the necessary functionality to support the program and ensure adequate controls. This condition is impacted by a lack of funding to update the current systems and affects management's ability to monitor performance over time and ensure that controls are functioning as intended to mitigate misuse, abuse, and waste of financial resources.

Program Feasibility Assessment

The Postal Service stated that the HCR Voyager Card Program was the best FMP option at the time of implementation. While the Postal Service continues to assess and evaluate strategies for its FMP, it has not conducted a comprehensive evaluation of the

HCR Voyager Card Program to determine its performance, risks, and feasibility. Further, the Postal Service did not define performance measures²⁷ at the inception of the HCR Voyager Card Program in order to assess its effectiveness and it currently lacks sufficient, current, and accurate data to facilitate such an assessment. Consequently, the Postal Service is not able to readily demonstrate whether the HCR Voyager Card Program is the best fuel management acquisition practice for its contracted highway transportation.

The Postal Service stated that the HCR Voyager Card Program offers benefits and opportunities over other FMP options. They further stated that the HCR Voyager Card Program provides the Postal Service with detailed transaction-level fuel data that enables it to explore opportunities to expand its use of bulk fuel suppliers and establish a “preferred fueling network” to reduce HCR fuel costs and save money. While these program attributes are beneficial, the weaknesses identified in this report preclude the Postal Service from determining overall program feasibility over other fuel purchase options. For example, the contracts that have not been adequately reconciled for the past several periods need to have reconciliations completed to determine the quantity of highway supplier gallons in excess of contractually allowed gallons before actual program costs can be assessed. In another example, management cannot allocate HCR Voyager Card Program administrative costs until the contracting officer reorganization is complete and eFuel-FAMS has the necessary functionality to support program goals that provide an effective control environment. Consequently, the Postal Service currently lacks complete and accurate data to readily determine if the HCR Voyager Card Program is the best FMP option for the Postal Service’s contracted highway transportation.

A performance analysis and risk assessment will allow the Postal Service to weigh performance against industry best practices and alternate FMP options, such as automated fuel price indexing. Further, any such analyses would also need to consider the unique challenges related to managing transportation contracts in the context of the Postal Service’s environment when compared to other transportation companies in the private industry.

²⁷ Actual performance data that is continually compared against expected/planned goals and differences are analyzed. For example, the performance data could include cost per mile, miles per gallon, or dollars saved under the HCR Voyager Card Program when compared to the prior FMP option.

APPENDIX C: MONETARY IMPACTS

Table 1. Monetary Impacts Summary

Finding	Impact Category	Amount
Limited Monitoring of Purchases and Reconciliation of Authorized Gallons – 2008/2009 and 2009/2010 eFuel Transactions- Excess Gallons (see Table 2)	Questioned Costs ²⁸	\$48,329,167
Limited Monitoring of Purchases and Reconciliation of Authorized Gallons - 2010/2011 and 2011/2012 eFuel Transactions- Excess Gallons (see Table 2)	Funds Put to Better Use ²⁹	48,413,964
Limited Monitoring of Purchases and Reconciliation of Authorized Gallons – FYs 2008 and 2009 eFuel Transactions – Premium Fuel (see Table 3)	Recoverable Questioned Costs	5,390,570
Limited Monitoring of Purchases and Reconciliation of Authorized Gallons – FYs 2010 and 2011 eFuel Transactions – Premium Fuel (see Table 3)	Funds Put to Better Use	5,238,640
Total Recoverable Questioned Costs		\$53,719,737
Total Funds Put to Better Use		\$53,652,604

Table 2. Monitoring and Reconciliation of eFuel Transactions – Excess Gallons Calculation Summary³⁰

12 Month Period Ending June 30	Excess Fuel Purchased (gallons)	PPG (\$)	Excess Purchases
	(a)	(b)	(c) = (a) * (b)
2008/2009	8,724,125	Various	\$25,793,341 ³¹
2009/2010	7,976,104	Various	22,535,826 ³²
Questioned Costs			\$48,329,167
2010/2011	8,350,115	\$2.90	\$24,206,982 ³³
2011/2012	8,350,115	\$2.90	24,206,982
Funds Put to Better Use			\$48,413,964

²⁸ Recoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations.

²⁹ Funds that could be used more efficiently by implementing recommended actions.

³⁰ The Postal Service should attain the actual results of the true reconciliations in accordance with the established protocols of the FMP, and ensure full recovery of all overpayments.

³¹ This is an estimate of questioned costs for the 2008/2009 fuel period based on the best information available and given the control weaknesses identified herein. The Postal Service provided an estimate of \$16 million for excess gallons covering the 2008/2009 fuel period. We have not validated the Postal Service's estimate and the actual amount of excess gallons cannot be determined until reconciliations are fully completed and documented in accordance with all FMP requirements.

³² These are estimates of questioned costs covering two periods based on the best available information and the control weaknesses identified herein.

³³ The estimated potential savings do not cross-foot due to the rounding of the price per gallon for fuel.

We calculated the recoverable questioned costs and funds put to better use relating to suppliers' purchase of excess fuel gallons based on the following methodology and assumptions:

- The Postal Service generally did not document the completion of reconciliations for the period covering the 2007/2008 contract fuel period forward. Given the reliability issues with the systems used to manage the eFuel program, we worked with the Postal Service to develop a methodology to estimate the number of excess gallons using the best information available to the Postal Service at this time, which involved time-consuming back-end and manual processes.
- We used the results of the Postal Service's reconciliation of 20 large inter-area suppliers for the 2008/2009 contract fuel period even though their application of pooling and the related reconciliation results are subject to change.
- We identified the excess gallons as calculated by EDW for fuel periods 2008/2009 and 2009/2010 and augmented this with FAMS back-end data supplied by the Postal Service (when available).
- We calculated the PPG by the weighted cost over gallons as represented in EDW.
- 2010/2011 and 2011/2012 excess gallons — these figures are based on the average results for 2008/2009 and 2009/2010 excess gallons. We applied the average for 2010/2011 and 2011/2012 estimates of excess gallons.
- 2011 and 2012 fuel PPG — we used the U.S. Department of Energy (DOE), Energy Information Administration (EIA) retail diesel, average national prices for the week ending July 19, 2010. Diesel is over 95 percent of total fuel purchased in fuel period 2008/2009 for HCRs.
- 2010/2011 and 2011/2012 excess gallons purchased amount — cost was calculated by multiplying excess gallons by fuel prices.
- We did not adjust the cost of excess gallons with any recoveries (collections) from highway suppliers because most contracts had not been reconciled and we were unable to validate the accuracy of any collections for contracts that had been reconciled. Further, we were not able to obtain reliable data regarding collected and outstanding balances for the excess gallons.

Table 3. Monitoring and Reconciliation of eFuel Transactions – Premium Fuel Calculation Summary

	Super Unleaded	Unleaded Plus	
Questioned Costs – FYs 2008 and 2009			
FY 2008			
Premium Gallons	387,784	788,426	
Cost (\$)	\$1,472,402	\$2,879,212	
Adjustment	69%	54%	
Subtotal – FY 2008	\$1,015,957	\$1,554,774	\$2,570,731
FY 2009			
Premium Gallons	828,802	891,119	
Cost (\$)	\$2,106,031	\$2,218,879	
Adjustment	77%	54%	
Subtotal – FY 2009	\$1,621,644	\$1,198,195	\$2,819,839
Total – FYs 2008 and 2009	\$2,637,601	\$2,752,969	\$5,390,570
Funds Put to Better Use – FYs 2010 and 2011			
2008 Adjusted Gallons	267,571	425,750	
2009 Adjusted Gallons	638,178	481,204	
Average Gallons	452,874	453,477	
Average DOE-EIA FY 2010 PPG	\$2.95	\$ 2.83	
Subtotal – FY 2010	\$1,335,979³⁴	\$1,283,340	\$2,619,320
Subtotal – FY 2011	\$1,335,979	\$1,283,340	\$2,619,320
Total – FYs 2010 and 2011			\$5,238,640

³⁴ There is a \$1.00 difference in the super unleaded estimates for FYs 2010 and 2011 due to rounding.

We calculated the recoverable questioned costs relating to the purchase of premium fuel types based on the following methodology and assumptions:

- Gallons and Cost — we identified the cost and the number of super unleaded and unleaded plus gallons consumed and paid in FYs 2008 and 2009 using EDW.
- Adjustment — we determined the percentage of non-miscoded premium fuel transactions for FYs 2008 and 2009. For each of the periods, we judgmentally selected 13 super unleaded transactions and 13 unleaded plus transactions. We took the average PPG of regular unleaded grade of fuel that was transacted within 4 days of the date that the super unleaded or unleaded plus transaction. We proceeded to calculate the PPG difference between super unleaded/unleaded plus and the average regular unleaded price to determine if it appears to be correctly coded and summarized the results by dividing total properly coded premium fuel transactions to total transactions.
- Projections — we totaled super unleaded and unleaded plus gallons for FYs 2008 and 2009 after applying the adjustment factor. We used a calculated average PPG using the Department of Energy – Energy Information Agency’s weekly national benchmark retail prices covering a period over FY 2010. We multiplied the average gallons by PPG to estimate the average yearly impact by fuel type of unauthorized purchases.
- We used data from EDW reports for our calculations; however, there are data limitations involved that inhibit a high level of accuracy, as fuel products could be miscoded. The Postal Service was not able to provide information on the number or percentage of transactions that are miscoded. When comparing the PPGs of premium fuel and unleaded fuel, we are assuming that the unleaded fuel transaction is accurate and is not a result of miscoding.
- We attempted to obtain transaction data at the station level for more precise PPG comparison. While the station-to-station data was available from the card services vendor, there are product miscoding issues with this data as well that would inhibit making positive assertions regarding the true nature of the transactions in question.

APPENDIX D: OTHER IMPACTS

Table 4. Assets at Risk

Finding	Impact Category	Amount
Limited Monitoring of Purchases and Reconciliation of Authorized Gallons – 2007/2008 eFuel Transactions- Excess Gallons (See Table 5)	Assets at Risk ³⁵	\$29,392,405

Table 5. Other Impacts – Monitoring and Reconciliation of eFuel Transactions – Excess Gallons Calculation Summary for 2007/2008

Description	Results
Average overage	8,350,115
Average PPG	\$3.52
Assets at Risk	\$29,392,405

- We were unable to determine the extent to which reconciliations for the 2007/2008 contract fuel period were completed in accordance with all FMP requirements without reviewing 100 percent of all contract files, which number in the thousands.
- Reconciliations and recovery of overpayments will be more difficult because any subsequent reconciliation of the 2007/2008 contract fuel period will be untimely and, combined with staff changes and limited documentation, will place these financial assets at risk of loss.
- We used the average overage gallon estimations made for the 2008/2009 and the 2009/2010 contract fuel periods and applied it to the 2007/2008 period. We used summarized 2007/2008 EDW data for this period to calculate an average PPG and multiplied these figures to arrive at assets at risk amount for the 2007/2008 contract fuel period.

³⁵ Assets that are at risk of loss because of inadequate internal controls.

APPENDIX E: OVERVIEW OF THE HCR VOYAGER CARD PROGRAM

Highway transportation is the largest component of the Postal Service's transportation network, and includes over 16,000 commercially contracted HCRs covering about 10,300 HCR suppliers. The Postal Service's Voyager Card Program for HCR suppliers is large and complex covering many different processes. Below is an overview of the key steps within the HCR Voyager Card Program.

Overview of the HCR Voyager Card Program

- The HCR supplier estimates the contracted fuel gallons necessary to meet miles covered by the HCR.
- The Postal Service designates one or more of a supplier's HCRs as falling under the HCR Voyager Card Program for reimbursement of fuel.
- The Postal Service reviews and approves the supplier's Annual Contract Allowance form (HC-131), representing the maximum payable number of fuel gallons per year for the contract. This document establishes the contractually allowed limit of fuel gallons by HCR.
- The actual gallons purchased with the HCR Voyager Card are compared against the contractually allowed gallons to determine "excess gallons" by HCR.
- The Postal Service verifies the excess gallon information to ensure it has not missed contract adjustments and exceptional service (extra trips) and that the contractually allowed limit is accurate.
- Should the Postal Service or HCR supplier identify any unauthorized purchases, the HCR supplier is liable for all charges resulting from loss, theft, or unauthorized use of the HCR Voyager Card (up to the time the HCR supplier has properly notified the U.S. Bank of the loss or theft of a Voyager Card).
- The Postal Service "pools" supplier contracts to determine the number of excess gallons by supplier pools. Note that "pools" must be requested in writing and contain an operational need for the pooling and the Postal Service will review each request to pool and make a determination in writing.
- The Postal Service determines the number of excess gallons for the supplier's pool and converts the excess gallons to an overage (overpayment) dollar amount.
- The Postal Service should initiate recovery (recoupment or payment) upon concluding the reconciliation process.

APPENDIX F: BEST PRACTICES

In the absence of a Postal Service documented policy or procedure, we applied general best practices for internal controls.³⁶ We did not list specific practices because of their quantity. Instead, we list their general categories and applications to our work below.

Standard of Internal Control ³⁷	Sources ³⁸
Control Environment	
Recent GAO purchase card audit reports have identified the following six elements as significantly affecting the control environment surrounding a purchase card program: management's philosophy (tone at the top), span of control, financial exposure, training, discipline, and purchasing and reviewing authorities.	Auditing and Investigating the Internal Control of Government Purchase Card Programs <i>Purchase Card Audit Guide</i> (page 21) GAO-04-87G.
Risk Assessment	
Management has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.	Internal Control Management and Evaluation Tool, August 2001 (page 23) GAO-01-1008G.
Control Activities	
Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure that actions are taken to address risks. Control activities in a government purchase card program should include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, reviews, and creation and maintenance of related records that provide evidence of execution of these activities.	Internal Control Management and Evaluation Tool, (August 2001 (pages 34-43) GAO-01-1008G See also - <i>Federal Information System Controls Audit Manual</i> GAO-09-232G February 2, 2009.
Information and Communications	
Information should be recorded and communicated to government purchase card program managers and others within the program that need it in a form and within a time frame that enables them to carry out their internal control and other responsibilities.	Internal Control Management and Evaluation Tool, August 2001 (pages 51-56) GAO-01-1008G.
Monitoring	
Ongoing monitoring — regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties — should be performed continually and be ingrained in the normal operations of a government purchase card program (e.g., review and analysis of bank service provider reports, periodic reviews for adherence to program policies and procedures, review and follow-up of audit findings).	Auditing and Investigating the Internal Control of Government Purchase Card Programs <i>Purchase Card Audit Guide</i> (page 20) GAO-04-87G.

³⁶ In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

³⁷ According to the GAO's Standards for Internal Control in the Federal Government, there are five standards for internal control.

³⁸ This list shows key sources, but we used several reports, guides, and regulations.

APPENDIX G: MANAGEMENT'S COMMENTS



April 22, 2011

LUCINE M. WILLIS

SUBJECT: Draft Audit Report – Management of the Highway Contract Route Voyager Card Program (Report Number NL-AR-11-DRAFT)

Thank you for the opportunity to review and comment on the subject draft report. Use of the Voyager card within our operations and the valuable information it provides has been a major benefit to the Postal Service for managing the fluidity of our operations and associated costs with transporting the mail. Over the past few years, we have implemented several strategies that are consistent with leading practices to gain visibility into contracted fleet fuel spending and drive down costs. The following methods are used to manage contractor fuel purchases: Highway Contract Route (HCR) Bulk fuel purchasing, HCR Fuel Indexing and the use of the Voyager eFuel Card.

We have restructured the network distribution and contracting functions to enhance the management of over 16,000 HCRs and fuel related operations. The Fuel Management Category Management Center (CMC) has responsibility for the development and management of our fuel strategies. The Voyager card, along with our fuel strategies has enabled the Postal Service to make significant improvements and leverage our spend. The Voyager program's ability to gather, track, and monitor data has resulted in direct fuel cost savings for the Postal Service. The card provides significant amounts of transactional data such as cost, location, fuel type, timing, and quantity that is fed into two information systems. For example when combined with fuel purchases for the postal owned internal vehicle fleet, the use of the Voyager card resulted in \$14.5 million in rebates in 2010. In the aggregate, the Voyager eFuel program has significantly reduced fuel expenses associated with the HCRs. The use of the card has resulted in over 72.3M gallons not being used that were contracted for during fiscal years (FY) 2005-2010. Under the card program, unused gallons are not reimbursed or paid. Under other fuel purchasing programs all contracted for gallons are paid to the supplier. The card program has resulted in approximately \$212.9M in savings or 15% (402,869,514 gallons) of the contracted for gallons not purchased. These numbers include contracts that had excess gallons but do not take into consideration recoupment of monies for those in excess of the contracted for gallons. While we recognize that certain improvements can be made to enhance the program, use of the Voyager card for HCRs provides substantial benefits.

Management does not agree with the recoverable questioned costs and funds put to better use categorizations of the monetary impact associated with this report. The OIG has based their calculations on the assumption that without completion of the reconciliation process the gallons used in excess of the suppliers' contractual limit and the use of premium fuel constitutes costs that should not have occurred and, therefore, recoverable or should not have been paid. The logistics of moving the mail is extremely dynamic. Operational service changes occur frequently with the need for extra trips, route detours, or other adjustments that could increase the amount of fuel a supplier consumes in the performance of the contract. Overall, the gallon usage

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associated with a HCR is based on a specific route without anticipation of any route variances that may occur. Through the reconciliation process, we have a control to ensure that when a supplier has exceeded the estimated gallons, we can determine the validity of that associated cost or recover any costs that are not justified.

There are issues with miscoding of product data in the fuel industry that provides inaccurate data. It is widely recognized that miscoding of the fuel data is a common occurrence due to the fuel industry systems (external of credit card processors such as Voyager) that primarily capture data on a dollar basis versus product code (fuel may be miscoded as premium versus regular). Also the Postal Service has certain contracts that require the use of premium fuels. It is not clear that the OIG report has fully considered the impact of the miscodings of product data that occur in the fuel industry. The OIG report states "there are product miscoding issues with this data as well that would inhibit making positive assertions regarding the true nature of the transactions in question." We also question the OIG's methodology of calculating the impact at full price per gallon rather than using the variance between unleaded and unleaded plus or unleaded super.

Therefore, we do not agree with the monetary impact associated with premium fuels. Also, the conclusion in the audit report indicating that these costs are absolute recoverable costs, without the results of final reconciliations, is not accurate. Therefore, we request the OIG reconsider the use of their monetary impact categories in Appendix C and recalculate their premium fuel impact.

AUDIT RECOMMENDATIONS

We recommend the vice president, Supply Management:

Recommendation 1. Further develop, update, and reinforce requirements for the Postal Service and Highway Contract Route suppliers to enhance system infrastructure, including incorporating systems, edits and automation tools where possible, and monitor fuel transactions as necessary to avoid unauthorized purchases and ensure adherence to contract gallon limits.

Management Response/Action Plan: We agree with this recommendation. We will explore possible systems enhancements to address the concerns raised in this recommendation. Any enhancements would be subject to the technology capabilities and the availability of funding.

The Surface Transportation and Fuel Management CMC's will establish proactive efforts to enhance monitoring fuel transactions to avoid unauthorized purchases with PIN management and quarterly reviews. Supplier purchase patterns will be reviewed to identify those suppliers that have habitually exceeded their annual allocations. The framework for both is currently being implemented and should be fully in place with the 2011/2012 fuel year (July 1, 2011).

Target Implementation Date: July 2011

Responsible Official: Manager, Surface Transportation CMC; Manager, Fuel Management CMC

Recommendation 2. Ensure that contracting officers apply pooling in accordance with established requirements and ensure pools are appropriately documented and approved.

Management Response/Action Plan: Management agrees with this recommendation. Again, as part of centralized management of HCR contracting, the Surface Transportation CMC is presently engaged in an effort that will validate that supplier pools are properly documented in accordance with Postal Service policy. As part of the Supply Management restructuring the fuel pooling and reconciliation responsibilities will be transferred to the Fuel Management CMC. This transfer will be supported by additional training for all team leads and staff involved in fuel management. The combination training and singular focus on fuel related activities will greatly enhance the efficiency and effectiveness of fuel management activities. This process should be completed with the start of the 2011/2012 fuel year (July 1, 2011).

Target Implementation Date: July 2011

Responsible Official: Manager, Surface Transportation CMC; Manager, Fuel Management CMC

Recommendation 3. Perform and document all outstanding reconciliations for prior years to determine excess purchased fuel gallons and collect resultant overpayments.

Management Response/Action Plan: Management agrees in part with this recommendation. The implementation of the centralized management of HCR contracting allows for the direct management of all transportation contracting and associated activities with an overall goal of creating synergy throughout the function. In further support of this goal, in September 2009, the Surface Transportation CMC assumed responsibility for overall management of the Fuel Management Program fuel reconciliation. As described above efforts are being made to establish guidance and procedures that would be applicable throughout the CMC to ensure consistency in performing the reconciliations. There are approximately 7,000 contracts in the fuel management program. Prior to the restructuring, with the exception of Inter-area poolers, fuel reconciliation was the responsibility of each Distribution Network Area office. Those Contracting Officers have confirmed that previous year fuel reconciliations were completed for their perspective offices prior to the restructuring. Therefore, we will begin with the 2009/2010 fuel year reconciliations and perform all future reconciliations.

Target Implementation Date: Reconciliation of fuel year 2009/2010 will be completed July 2011.

Responsible Official: Manager, Surface Transportation CMC; Manager, Fuel Management CMC

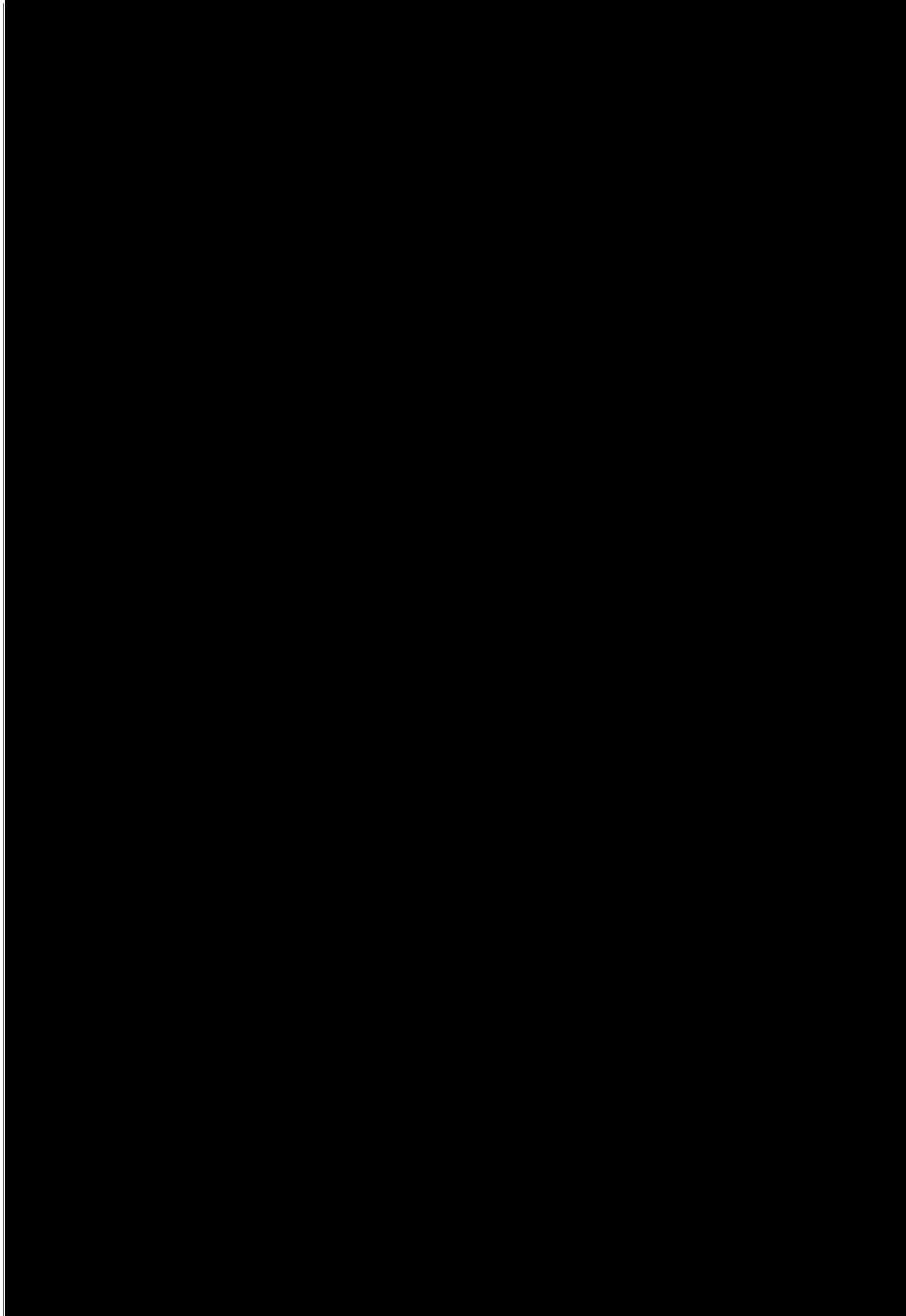
Recommendation 4. Implement controls over the contractors that include:

a) Strengthening procedures for safeguarding and securing highway contract route (HCR) Voyager cards: [REDACTED]

b) Coordinating with U.S. Bank to limit the number of HCR Voyager cards issued to highway suppliers: [REDACTED]

Management Response/Action Plan: Management agrees in part with this recommendation. We have determined that the current process is appropriately designed and positioned. The Postal Service has established contracts with our HCR suppliers and these contracts contain several terms and conditions that require the supplier to use the cards for the purposes provided. The Voyager program provides tools (Fleet Commander) for the HCR supplier to manage their use of the card under the contract. These contracts also provide that any unauthorized purchases may be deducted from the HCR supplier's compensation. Fraudulent use of the card may subject the person(s) responsible for the fraudulent use to criminal penalties and to liability for damages of up to three times the amount of the fraudulent transactions and civil penalties pursuant to the False Claims Act. Cards are issued to HCR suppliers for the sole purpose of enabling HCR suppliers to obtain fuel needed for the performance of certain Postal Service HCR contracts at Postal Service expense. Authorized use of Fuel Transaction Cards is limited to obtaining quantities of authorized grades of fuel within approved contract allowance limits for use in the performance of Postal Service HCR contracts. Any other use of the Fuel Transaction Card is unauthorized. All of these terms and conditions have been deliberately crafted in coordination with legal counsel to ensure the best interests of the Postal Service have been fully considered.

Below we have provided information on our existing controls and processes to separately address the individual elements of recommendation 4.



Target Implementation Date: Based on the above discussion we will include appropriate language within our next update of the fuel management policy scheduled for June 2012.

Responsible Official: Manager, Surface Transportation CMC and Manager, Fuel Management CMC

Recommendation 5. Continue to pursue funding when feasible for enhancing the functionality of Fuel Asset Management System and Enterprise Data Warehouse eFuel modules and to ensure the systems are user-friendly and enable management to more efficiently and effectively monitor authorized gallons, identify excess gallons, and recover any related excess payment.

Management Response/Action Plan: Management agrees. We will continue to pursue funding for our outstanding system enhancements. However, with the current financial condition of the Postal Service, and freeze on system changes, we would not be able to ensure a specific implementation date for this recommendation.

Target Implementation Date: We request that the OIG consider this recommendation closed.

Responsible Official: Manager, Fuel Management CMC

We recommend the vice president, Supply Management, with the support of the vice president Network Operations:

Recommendation 6. Periodically assess the financial and operational viability of the HCR Voyager card program, including performing a formal cost-benefit analysis based on complete and recent data, considering the costs of implementing controls to address deficiencies identified in this report as appropriate.

Management Response/Action Plan: We agree with this recommendation. Consistent with our final audit response of July 23, 2009 concerning the potential monetary impact of the Fuel Purchasing Strategies cited in Report NL-MA-09-001, we have and will continue to evaluate the operational cost and feasibility of our national fuel purchasing strategies. The viability and analysis of the HCR Voyager eFuel program will be performed periodically consistent with our Commodity Strategy Sourcing Plan process. Network Operations will support initiatives that are initiated by Supply Management to implement process controls to enhance fuel management for the Postal Service.

Target Implementation Date: Based on the above discussion we will complete the Commodity Strategy Sourcing Plan by September 2011.

Responsible Official: Manager, Fuel Management CMC

Recommendation 7. Continue to identify and evaluate other fuel management program best practices used in the transportation industry and perform a comparative analysis against the existing HCR Voyager card program where possible.

Management Response/Action Plan: Management agrees. Although we think the current card program represents the best in class partnering with a group of suppliers, as addressed within our final audit response of July 23, 2009 concerning the potential monetary impact of the Fuel Purchasing Strategies cited in Report NL-MA-09-001, we are continuing our review of our current fuel card process and we are planning to evaluate alternative fuel card options as the task order with the current card provider will expire in FY 2012. In addition to the above approach, we

normally evaluate other industry best practices as part of our ongoing fuel management activities. A detailed description of these processes over the past 10 years has already been provided to the OIG as part of this and previous audit responses. Network Operations will also participate in this activity to lend support required to evaluate industry best practices and provide insight on operational feasibility of any proposed modification to the current program.

Target Implementation Date: Based on the closeout of the previous audits' recommendations, and the above discussion, we request that the OIG also consider this recommendation closed.

Responsible Official: Manager, Fuel Management CMC

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at 202 268-4833.



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