September 30, 2002

KEITH STRANGE
VICE PRESIDENT, SUPPLY MANAGEMENT

HENRY A. PANKEY
VICE PRESIDENT, DELIVERY AND RETAIL

WILLIAM J. BROWN
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Delivery Vehicle Gasoline
(Report Number-TD-AR-02-005)

This report presents the results from our self-initiated audit of delivery vehicle gasoline (Project Number 01NG005DE000). The objective of our audit was to identify areas where the Postal Service could save money when purchasing gasoline for delivery vehicles.

The audit revealed that the Postal Service could recover about $4 million in taxes, and that the Southeast Area could reduce its letter carrier work hour budget by $6 million annually, or $12 million over the next 2 years, by capturing cost reductions anticipated as a result of outsourcing fuel delivery. We recommended management fully implement the centralized fuel management unit we recommended in our July 27, 2001, report on bulk fuel; recover allowable taxes; and issue the guidance necessary to cause Postal Service employees to obtain appropriate discounts. We also recommended management validate the decision to outsource fuel delivery, and reduce the letter carrier workhour budget by the amount no longer required to fuel delivery vehicles.

Management generally agreed with our recommendations. They stated they would establish a centralized fuel management team, and that they would pursue discounts and recoverable taxes. However, they stated that they believed the decision to outsource fuel delivery had already been validated by participating districts in the Southeast Area. We reviewed documents management provided concerning their decision to outsource fuel delivery and found no substantial analysis of the benefit of on-site fueling versus the use of letter carriers to fuel their own vehicles at retail gas stations. Nonetheless, management’s comments, taken as a whole, are responsive to our recommendations.

We believe the establishment of a headquarters centralized fuel management team, management's willingness to aggressively pursue available discounts, and management's willingness to recoup recoverable taxes, should meet the intent of our recommendations. Further, we believe that a fully staffed headquarters fuel management team will be able to routinely evaluate various approaches to gasoline acquisition, such as the on-site fuel service program used by the Southeast Area. Consequently, the actions management has taken or planned, are sufficient to address the issues we identified in our report. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector General (OIG) considers recommendations 1 through 4 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 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 during the review. If you have any questions or need additional information, please contact Joe Oliva director, Transportation and Delivery, at (703) 248-2100, or me at (703) 248-2300.

B. Wayne Goleski
Assistant Inspector General
for Core Operations

Attachment

cc: Patrick R. Donahoe
Richard J. Strasser, Jr.
J. Dwight Young
Michael F. Spates
Susan M. Duchek

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Introduction

The Postal Service owns over 180,000 delivery vehicles, which use more than 90 million gallons of gasoline annually. The Office of Inspector General initiated this audit to identify areas where the Postal Service could save money when purchasing gasoline for delivery vehicles.

Results in Brief

Our audit revealed that the Postal Service could recover about $4 million in taxes, and that the Southeast Area could reduce the letter carrier workhour budget by $6 million annually, or $12 million over the next 2 years, by capturing cost reductions anticipated as a result of outsourcing fuel delivery.

Our audit also revealed that the Postal Service paid too much for delivery vehicle gasoline, in large part, because they had not yet fully implemented the centralized fuel management unit we recommended in our July 27, 2001, report on bulk fuel. Consequently the Postal Service:

- Did not take full advantage of gasoline discounts from fuel suppliers.
- Has not recouped fuel taxes in some states.
- Did not reduce the letter carrier workhour budget to capture labor cost savings anticipated as a result of outsourcing fuel delivery.

Summary of Recommendations

We recommended Postal Service management fully implement the centralized fuel management unit we recommended in our July 27, 2001, report on bulk fuel; recover overpaid taxes; and issue the guidance necessary to cause Postal Service employees to obtain appropriate discounts. We also recommended management validate the decision to outsource fuel delivery, and reduce the letter carrier workhour budget by the amount no longer required to fuel delivery vehicles.

Summary of Management's Comments

Management generally agreed with our recommendations. They stated they were establishing a headquarters centralized fuel management team, and that they would pursue available discounts and recoverable taxes.

However, they stated that they believed the decision to outsource fuel delivery had already been validated by participating districts in the Southeast Area. Management's comments, in their entirety, are included in Appendix B of this report.

Overall Evaluation of Management's Comments

We reviewed documents management provided concerning their decision to outsource fuel delivery and found no substantial analysis of the benefit of on-site fueling versus the use of letter carriers to fuel their own vehicles at retail gas stations. Nonetheless, management's comments, taken as a whole, are responsive to our recommendations. We believe the establishment of a headquarters centralized fuel management team, management's willingness to aggressively pursue available discounts, and management's willingness to recoup recoverable taxes, meets the intent of our recommendations. Further, we believe that a fully staffed headquarters fuel management team will be able to routinely evaluate various approaches to gasoline acquisition, such as the on-site fuel service program used by the Southeast Area. Consequently, we believe the actions management has taken or planned, are sufficient to address the issues we identified in our report.

INTRODUCTION

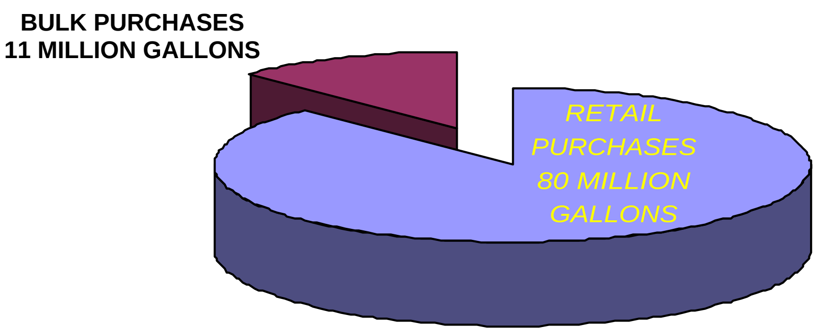
Background

The Postal Service owns over 180,000 delivery vehicles, which use more than 90 million gallons of gasoline annually. The Postal Service purchases gasoline for delivery vehicles

Postal Service Delivery Vehicles

in two ways—from retail gas stations or in bulk. During fiscal year (FY) 2001, retail purchases totaled 80 million gallons, while bulk purchases only totaled 11 million gallons.

In 2001, the Postal Service announced plans to cut transportation costs by 10 percent over 5 years. Vulnerability to fluctuating fuel prices significantly impacts that goal. For example, based on a total of 91 million gallons of fuel consumed in FY 2001, for every penny



**TOTAL FISCAL YEAR 2001
DELIVERY VEHICLE GASOLINE PURCHASES
91 MILLION GALLONS**

fuel prices rise, the Postal Service annual fuel cost rises by $910,000. Since the average gasoline prices rose 20 cents per gallon during FY 2001, fuel for delivery vehicles cost the Postal Service over $18 million more that year.

Objective, Scope, and Methodology

The objective of our audit was to identify areas where the Postal Service could save money when purchasing gasoline for delivery vehicles.

To accomplish our objective, we interviewed Postal Service officials at headquarters and in the field. In addition we interviewed Postal Service contractors, and analyzed contractor computer data. Although we did not comprehensively audit the reliability of contractor data, we did conduct limited tests to trace individual data elements to source documents. We also conducted a telephone survey with Postal Service fuel managers in all 85 Postal Service districts; benchmarked with Postal Service competitors; and visited the Southeast Area where we met with Postal Service managers and employees, examined Southeast Area records and other material related to gasoline acquisition.

Our audit was conducted from August 2001 through September 2002 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

Our report, Removal of Underground Storage Tanks (CA-AR-99-002), dated, September 30, 1999, concluded the Postal Service removed Postal Service owned fuel storage tanks without performing required cost benefit analyses; that the decision to remove tanks was made without considering the economic or operational impact; that tanks were unnecessarily removed; and that consequently, the Postal Service incurred excessive cost. The report noted that after tanks were removed, fueling at retail gasoline stations was used as an alternative fueling method. We made five recommendations to address issues we identified in our report. Management agreed with all of our recommendations.

Our report, Bulk Fuel Purchase Plan (TR-AR-01-004), dated July 27, 2001, concluded the Postal Service could save $15.9 million on fuel over 5 years, by using existing Postal Service fuel facilities; installing new fuel facilities at high volume locations; and centrally managing fuel acquisition at Postal Service Headquarters. The report made five recommendations, including the establishment of a centralized fuel management unit to negotiate more competitive fuel prices and obtain optimum fuel pricing. Management agreed with all of our recommendations and stated that they would establish a centralized fuel management unit after analyzing unit staffing and funding requirements. Management also stated they expected to complete their analysis by August 2001.

AUDIT RESULTS

Delivery Vehicle Gasoline

Our audit revealed that the Postal Service could recover about $4 million in costs for delivery vehicle gasoline, and that the Southeast Area could reduce its budget more than $6 million annually, or more than $12 million over the next 2 years. The Postal Service paid too much for delivery vehicle gasoline, in large part, because they had not yet fully centralized fuel management as we recommended in our July 27, 2001, report on bulk fuel. Consequently the Postal Service:

- Did not take full advantage of gasoline discounts from fuel suppliers.
- Has not recouped fuel taxes in some states.
- Did not reduce the letter carrier workhour budget to capture labor cost savings anticipated as a result of outsourcing fuel delivery.

Discounts not Taken

The Postal Service did not take full advantage of gasoline discounts available by using the Voyager Card at retail gasoline stations. The Voyager Card is a financial

instrument Postal Service employees use like a credit card. Voyager is administered under the General Services Administration SmartPay Program to simplify the payment process for fueling and maintaining government vehicles. The SmartPay contractor for the Postal Service is United States Bank Voyager Fleet Systems Incorporated, or simply Voyager. The Site Fleet Card Guide for the United States Postal Service (Site Fleet Card Guide), dated June 1, 2001, is published by Voyager. The guide promises that Voyager will deliver a comprehensive fuel discounting system including procedures for obtaining local discounts. The guide also states that the vice president, Purchasing and

Delivery Vehicle at Retail Gasoline Vendor

Materials (now Supply Management), is responsible for establishing Voyager policy and procedure. The Postal Service did not receive discounts to which it was entitled because:

- Postal Service management did not effectively provide policy or other guidance as specified by the Site Fleet Card Guide. Consequently, Postal Service employees did not always purchase gasoline from vendors offering national discounts.

- Local Postal Service managers did not always obtain local discounts in accordance with instructions published in the Voyager Site Fleet Card Guide.

Taxes	Our audit revealed that during the period May 2000 through December 2001, while using the Voyager Card, the Postal Service did not recoup approximately $4 million in state gasoline taxes. (See Appendix B.) Fuel tax laws vary in individual states. Currently, the Postal Service is exempt from state fuel taxes in 45 states and the District of Columbia. Only California, Illinois, Kentucky, Louisiana, and Mississippi tax Postal Service retail gasoline purchases. The Site Fleet Card Guide states that when authorized under individual state law, Voyager will invoice the Postal Service "net of all state excise fuel taxes." However, the contract between Voyager and the Postal Service, dated December 1, 1999, significantly limits Voyager's obligation. Specifically, Voyager is only required to process exemptions it can handle electronically. Consequently, Voyager does not process exemptions which must be handled manually. The Site Fleet Card Guide specifies that when manual intervention is required, recouping taxes is the responsibility of the vice president, Supply Management. The Postal Service is paying too much in taxes because the procedure for recouping taxes is not fully developed. As a result, as of January 2002, the Postal Service has recovered less than $1 million in taxes it could have recouped since the Voyager System was implemented in 1999. During our audit, we noted that prior to the Voyager System, the vice president, Supply Management, conducted a test to recover state fuel taxes. Specifically, in November 1997, the Purchasing and Materials Service Center in Memphis, Tennessee, tested a pilot program to recover state fuel taxes paid to Georgia—taxes from which the Postal Service was exempt. The test involved retail fuel purchases made with oil company credit cards. Postal Service officials stated that the pilot was a success, and in October 2001, expanded the pilot to a nationwide tax recovery effort. We did not audit the Postal Service pilot, tax recoveries under the pilot, or tax recovery forecasts under the expanded program; however, Postal Service officials we spoke to estimated tax recoveries could exceed $14 million.
Labor	The Southeast Area could reduce the letter carrier workhour

budget by $6 million annually, or $12 million over 2 years, by capturing labor cost savings anticipated as a result of outsourcing fuel delivery. Southeast Area letter carriers previously fueled their own delivery vehicles at retail gasoline stations. The Postal Service Fuel Management Business Plan, dated August 2001, estimated that it cost the Postal Service approximately 78 cents per gallon for letter carriers to fuel delivery vehicles. In order to reduce labor costs, the Southeast Area contracted with three bulk fuel vendors to deliver fuel on-site. During calendar year 2001, bulk fuel contractors pumped approximately 8 million gallons of gasoline into Southeast Area delivery vehicles. However, our audit revealed the Southeast Area did not

Bulk Fuel Vendor Pumping Gasoline at a Postal Service Facility

reduce budgeted labor costs to capture the anticipated reduction in required letter carrier labor. Consequently, using Postal Service published labor cost estimates, the Southeast Area budgeted more than $6 million for letter carrier labor that was no longer needed.

Recommendation

We recommend the vice president, Supply Management:

1. Fully implement the centralized fuel management unit we recommended in our July 27, 2001, report on bulk fuel, and include adequate staffing to ensure the Postal Service takes advantage of all fuel discounts,

effectively negotiates potential fuel discounts, recoups all recoverable fuel taxes, and monitors anticipated cost savings associated with outsourcing fuel delivery operations.

Management's Comments

Management agreed with our recommendation. They stated that in June 2002, they had centralized fuel management under a reorganized headquarters Supply Management organization. They also stated that staffing of the centralized fuel management unit should be completed not later than March 2003.

Recommendation

We recommend the vice president, Supply Management:

2. Recoup allowable state fuel taxes, and consider expanding the tax recovery program tested in 1997, to include recoveries necessitated by Voyager.

Management's Comments

Management agreed with the intent of the recommendation. However, they stated they had not been able to replicate our data and consequently did not necessarily concur with the $4 million we identified as recoverable. Nonetheless, they stated they would work to identify any excess taxes that may have been paid, and take the appropriate action to recover recoupable taxes.

Recommendation

We recommend the vice president, Supply Management, in coordination with the vice president, Delivery and Retail:

3. Develop and issue policies, training programs, and other guidance necessary to cause Postal Service employees to purchase gasoline from vendors offering national discounts, and to cause local Postal Service managers to negotiate local discounts in accordance with instructions published in the Voyager Site Fleet Card Guide.

Management's Comments

Management agreed with the recommendation. They stated that at least annually, the headquarters centralized fuel management team would issue a Postal Bulletin notice alerting personnel to suppliers offering national fuel discounts, and remind local managers that they are encouraged to negotiate local discounts. They also stated the first Postal Bulletin notice would be published not later than March, 2003. Finally, they stated that they would continue to work with local managers to reduce and manage fuel costs.

Recommendation

We recommend the vice president, Southeast Area Operations:

4. Validate the decision to outsource fuel delivery and reduce the letter carrier workhour budget by the amount no longer needed to fuel delivery vehicles.

Management's Comments

Management stated that they conducted an on-site fuel service pilot in 1994 to determine the economic value of on-site fueling including:

- Expected carrier workhour savings.
- Tax avoidance.
- Savings achieved by gaining control over fuel buying.

Management also stated that they began on-site fueling in part to protect against fuel supply disruptions at retail gas stations during hurricanes, and that they believe on-site fuel service has been validated by participating districts in the Southeast Area.

Evaluation of Management's Comments

We reviewed the documents management provided concerning their 1994 on-site fuel service pilot, as well as other documents provided by management. Our review found no substantial analysis evaluating the benefit of on-site fueling versus use of letter carriers fueling their own vehicles at retail gas stations. Nor did we find any conclusive analysis of bulk fuel outsourcing as a protection against hurricanes. Nonetheless, management comments, taken as a whole, are responsive to our recommendations. We believe the establishment of a headquarters centralized fuel management team, management's willingness to aggressively pursue available discounts, and management's willingness to recoup recoverable taxes, meets the intent of our recommendations. Further, we believe that a fully staffed headquarters fuel management team will be able to routinely evaluate various approaches to gasoline acquisition, such as the on-site fuel service program used by the Southeast Area. Consequently, we believe the actions management has taken or planned, should be sufficient to address the issues we identified in our report.

APPENDIX A. TAX EXEMPTION SHORTFALL

Table 1: FY 2000

State	Tax Exemption Entitled	Tax Exemption Received	Taxes To Be Recovered*
Alabama	$4,097	$0	$4,097
Arkansas	$559	$0	$559
Connecticut	$5,087	-$4,475	$612
Delaware	$40	-$40	$0
District of Columbia	$3	-$3	$0
Florida	$1,451	$0	$1,451
Maine	$751	-$725	$26
Maryland	$43,723	-$41,936	$1,787
Massachusetts	$4,214	$0	$4,214
Missouri	$2	-$2	$0
New Hampshire	$1,486	-$1,477	$9
New Jersey	$2,250	-$1,872	$378
Ohio	$676	-$673	$3
Pennsylvania	$2,421	-$699	$1,722
Rhode Island	$2,322	$0	$2,322
South Carolina	$239	-$236	$3
Tennessee	$26,527	$0	$26,527
Vermont	$96	$0	$96
Virginia	$38	-$38	$0
West Virginia	$4	$0	$4
TOTAL	**$95,947**	**-$52,136**	**$43,810**

*Source: Postal Service/Office of Inspector General (OIG) analysis of Voyager data. We used the tax rates for calendar years 2000 and 2001 from each state, Defense Energy Supply Center, and the Federal Tax Administration web sites. We used the tax rate for calendar year 2001 as a proxy for FY 2002.

Table 2: FY 2001

State	Tax Exemption Entitled	Tax Exemption Received	Taxes To Be Recovered*
Alabama	$118,245	$0	$118,245
Alaska	$13,661	$0	$13,661
Arizona	$212,776	$0	$212,776
Arkansas	$117,050	-$111,382	$5,668
Colorado	$206,179	-$204,465	$1,714
Connecticut	$288,356	-$286,267	$2,088
Delaware	$74,958	-$2,905	$72,053
District of Columbia	$16,053	-$15,648	$406
Florida	$92,207	-$5	$92,203
Hawaii	$15,808	-$2,390	$13,418
Idaho	$55,060	$0	$55,060
Indiana	$142,929	-$25,536	$117,393
Iowa	$98,482	$0	$98,482
Kansas	$91,882	-$89,879	$2,003
Maine	$45,534	-$43,516	$2,019
Maryland	$371,459	-$365,791	$5,669
Massachusetts	$348,949	$0	$348,949
Michigan	$449,019	-$6	$449,014
Minnesota	$156,831	$0	$156,831
Missouri	$183,096	-$176,600	$6,496
Montana	$46,354	$0	$46,354
Nevada	$29,671	$0	$29,671
New Hampshire	$49,419	-$49,214	$205
New Jersey	$430,204	-$416,709	$13,495
New Mexico	$58,471	-$49,354	$9,117
North Carolina	$484,924	-$484,093	$831
North Dakota	$18,973	-$15,312	$3,661
Ohio	$712,591	-$706,139	$6,452
Oregon	$189,329	$0	$189,329
Pennsylvania	$640,062	-$615,376	$24,686
Rhode Island	$85,741	$0	$85,741
South Dakota	$17,472	-$16,692	$780
Tennessee	$322,600	$0	$322,600
Texas	$1,154,580	-$1,141,981	$12,599
Utah	$107,440	$0	$107,440
Vermont	$12,874	$0	$12,874
Virginia	$290,664	-$289,870	$793
Washington	$269,283	$0	$269,283
West Virginia	$46,245	$0	$46,245
Wisconsin	$237,655	-$255,943	$0
Wyoming	$10,607	$0	$10,607
TOTAL	**$8,076,039**	**-$5,109,128**	**$2,966,911**

*Source: Postal Service/OIG analysis of Voyager data. We used the tax rates for calendar years 2000 and 2001 from each state, Defense Energy Supply Center, and the Federal Tax Administration web sites. We used the tax rate for calendar year 2001 as a proxy for FY 2002.

Table 3: FY 2002

State	Tax Exemption Entitled	Tax Exemption Received	Taxes To Be Recovered*
Alabama	$30,313	$0	$30,313
Alaska	$3,293	$0	$3,293
Arizona	$88,093	$0	$88,093
Arkansas	$43,055	-$41,763	$1,292
Colorado	$95,610	-$94,366	$1,244
Connecticut	$110,515	-$109,570	$944
Delaware	$24,054	-$23,346	$708
District of Columbia	$7,374	-$7,184	$190
Florida	$34,943	$0	$34,943
Idaho	$24,047	$0	$24,047
Indiana	$66,495	-$17,969	$48,526
Iowa	$39,527	$0	$39,527
Kansas	$43,526	-$42,709	$816
Maine	$14,575	-$13,459	$1,116
Maryland	$133,168	-$130,837	$2,331
Massachusetts	$125,243	$0	$125,243
Michigan	$212,660	-$186,985	$25,680
Minnesota	$73,896	$0	$73,896
Missouri	$86,132	-$84,166	$1,966
Montana	$19,354	$0	$19,354
Nebraska	$32,834	-$32,178	$656
Nevada	$13,038	$0	$13,038
New Hampshire	$16,199	-$16,117	$82
New Jersey	$143,135	-$140,382	$2,753
New Mexico	$27,814	-$23,488	$4,326
North Carolina	$162,491	-$162,242	$249
North Dakota	$9,454	-$7,636	$1,818
Ohio	$230,537	-$229,407	$1,130
Oregon	$83,848	$0	$83,848
Pennsylvania	$224,890	-$217,431	$7,458
Rhode Island	$27,178	$0	$27,178
South Carolina	$48,557	-$48,555	$1
South Dakota	$6,272	-$5,958	$313
Texas	$422,366	-$419,625	$2,741
Utah	$47,506	$0	$47,506
Vermont	$4,282	$0	$4,282
Virginia	$116,930	-$112,607	$4,323
Washington	$121,188	$0	$121,188
West Virginia	$17,739	$0	$17,739
Wyoming	$4,663	$0	$4,663
TOTAL	**$3,036,792**	**-$2,167,981**	**$868,817**

*Source: Postal Service/OIG analysis of Voyager data. We used the tax rates for calendar years 2000 and 2001 from each state, Defense Energy Supply Center, and the Federal Tax Administration web sites. We used the tax rate for calendar year 2001 as a proxy for FY 2002.

Table 4: FY 2000 thru 2002 Summary

Fiscal Year	Tax Exemption Entitled	Tax Exemption Received	Taxes To Be Recovered*
2000	$95,947	-$52,136	$43,810
2001	$8,076,039	-$5,109,128	$2,966,911
2002	$3,036,792	-$2,167,981	$868,817
Total	**$11,208,778**	**-$7,329,245**	**$3,879,538**

*Source: Postal Service/OIG analysis of Voyager data. We used the tax rates for calendar years 2000 and 2001 from each state, Defense Energy Supply Center, and the Federal Tax Administration web sites. We used the tax rate for calendar year 2001 as a proxy for FY 2002.

APPENDIX B. MANAGEMENT'S COMMENTS

SUPPLY MANAGEMENT

UNITED STATES POSTAL SERVICE

September 10, 2002

B. WAYNE GOLESKI

THRU: KEITH STRANGE KS 9/11/02

SUBJECT: Draft Audit Report – Delivery Vehicle Gasoline
(Report Number TD-AR-02-DRAFT)

We appreciate the opportunity to review and comment on the subject audit report. The attachments respond to the report's findings covering discounts and taxes, and those recommendations addressed to Supply Management. If any of the dollar amounts cited in this report will appear in the Office of Inspector General's Semi-Annual Report to Congress, please advise how they will be discussed or categorized. We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act (FOIA).

If you have any questions regarding this response please contact Donald Perrin at (202) 268-2110 or Marie Martinez at (202) 268-4117. The Transportation Asset Management Category Management Center is the assigned lead for Implementation of actions responding to applicable report recommendations.

for Marie R Martinez

Michael J. Harris
Acting Manager
Supply Management Infrastructure

Attachments

cc: Patrick R. Donahoe (all w/attachments)
Richard J. Strasser, Jr.
John A. Rapp
Henry A. Pankey
William J. Brown
Michael F. Spates
Susan M. Duchek
J. Dwight Young

475 L'Enfant Plaza SW
Washington DC 20260-[illegible]
Fax: 202 268-4027

Attachment 1
Supply Management Response
OIG Report TD-AR-02-DRAFT
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FINDINGS

Executive Summary

Issues with findings in the executive summary are covered within applicable sections below.

Taxes

The OIG states the Postal Service unnecessarily paid fuel taxes in some states while using the Voyager card, and could recover taxes totaling about $4 million. We have difficulty assessing the accuracy of this finding and many statements/findings throughout this section cannot be replicated with the data available from the eFleet Card System, and it appears to mix a variety of unrelated categories. The following highlights some of our major concerns.

The Postal Service initiated the Voyager program in April 2000, under the GSA SmartPay contract, in order to avoid paying unnecessary taxes. The states that allow a third party credit card provider (i.e., Voyager) to exempt state excise taxes have those taxes captured through use of the Voyager card at the time of each purchase. However, in varying situations, manual filings by the Postal Service are required in several states. Attachment 2 summarizes those situations and was provided to the OIG on two previous occasions and outlines the requirements for each state. Card deployment was completed by the end of calendar year 2000. Subsequently, in August 2001, when transaction detail information was available from the postal service's eFleet Card System, e filings commenced for reimbursement to the Postal Service from those states where such a filing was required. The OIG was advised during their in-brief that these activities were just commencing, and a detailed schedule of proposed filings was provided. At the same time OIG was briefed that each state had to be separately contacted to determine exactly what each state required, both as to data and filing format. At the exit briefing, the OIG was provided copies of all filings submitted to the states in accordance with Attachment 2 requirements.

Since implementation, Voyager card use has been increasing and our state tax reimbursements are now approximately $1 million per accounting period (recoupment and exemptions combined). At the exit conference of this audit, a complete schedule of state filings was provided to the OIG documenting over $2M in recoupment since program inception. The OIG was also briefed that the states have indicated it often takes them 8-10 months to respond to filings, thereby requiring a longer term view to assess the level of filing success indicated by this audit. While staffing has limited us to submitting the most cost effective filings, we plan to expand our efforts to cover all reimbursements in FY 2003 when our fuel management office is fully staffed.

RECOMMENDATIONS

We recommend the vice president, Supply Management:

1. Fully implement the centralized fuel management unit we recommended in our July 27, 2001, report on bulk fuel, and include adequate staffing to ensure the Postal Service takes advantage of all fuel discounts, effectively negotiates potential fuel discounts, recovers fuel taxes improperly paid, and monitors anticipated cost savings associated with outsourcing fuel delivery operations.

Attachment 1
Supply Management Response
OIG Report TD-AR-02-DRAFT
Page 2 of 2

Management agrees with this recommendation. With the June 2002 reorganization of Purchasing and Materials to the Supply Management organization, fuel management was centralized in Asset Management within the Transportation Portfolio. The components of this recommendation will be addressed by this team. Staffing should be completed by Quarter 2 of fiscal year 2003.

2. Recover recoupable paid state fuel taxes, and consider expanding the tax recovery program tested in 1997, to include recoveries necessitated by Voyager.

Management agrees with the intent of this recommendation. However, we have not been able to replicate the OIG's data, and consequently, do not necessarily concur with the $4 million in "Tax Exemption Shortfalls" specified by the OIG report. Nonetheless, we will work with the OIG to identify any excess taxes that may have been paid, and take appropriate action to recover. Regarding the 1997 pilot program tested in Memphis, the Memphis office will transition their files in FY 2003, and by the end of FY 2003, our recovery efforts will cover all state filings.

We recommend the vice president, Supply Management, in coordination with the vice president, Delivery and Retail:

3. Develop and issue, policies, training programs, and other guidance necessary to cause Postal Service employees to purchase gasoline from vendors offering national discounts, and to cause local Postal Service managers to negotiate local discounts in accordance with instructions published in the Voyager Site Fleet Card Guide.

Management agrees with the intent of this recommendation. At least annually, the fuel management team in Asset Management will issue a Postal Bulletin notice alerting personnel to suppliers offering national discounts on commercial fuel, and will remind local site managers that they are encouraged to negotiate local discounts in the Voyager Site Fleet Card Guide. The first Postal Bulletin notice will be published by quarter 2, fiscal year 2003. A listing of the discount suppliers and notice to negotiate local discounts is also posted at the Supply Management credit card web site following Postal Bulletin publication. In addition, we will continue to work with local managers to identify opportunities and implement business changes that will reduce and manage fuel costs.

Attachment 2
Supply Management Response
OIG Report TD-AR-02-DRAFT
Page 1 of 2

I. States where Government Agencies cannot exempt at the pump or file to recoup		
1	AL	Technically exempt, but agency cannot file, nor can credit card company. Only oil company can, and they have to know customer is tax exempt before they sell the gas. Priority state to target by GSA!!
2	KY	no exemption allowed, only bulk fuels delivered thru distributor
3	MS	only exempt if over 4,000 gals in one purchase
4	IL	Technically exempt, but procedures to file not revealed. Will try to file in QTR 1/02
5	WV	Exempt only if purchase over 500 gallons
6	WY	no exemption for Feds

II. States where Government Agencies cannot exempt gasoline but can file to recoup diesel		
7	CA	No exemption for gas, conflicting instructions concerning diesel. **Waiting to see if diesel exemptions were processed.** They are exempting sales tax for us thru Voyager card (one of seven states charging sales tax, one of two that are exempting) **UPDATED 7/22/02 – WILL NOT ACCEPT FILINGS NOR EXEMPT**
8	ID	no exemption for gas, **Feds can file for diesel**
9	LA	gas only exempt if over 6,000 gal, **Feds can file for diesel**
10	MT	no exemption for gasoline, **Feds can file for diesel**
11	NV	no exemption for gasoline, **Feds can file for diesel**
12	OR	no exemption for gasoline, **Feds can file for diesel**
13	VT	no exemption for Feds for gas, **can file for diesel**
14	WA	no exemption for gasoline, **Feds can file for diesel**

III. States that only allow Government Agencies to file for refund, will not allow 3rd party credit cards to be used. Generally, this represents "old technology" as state procedures placed in effect prior to GSA SmartPay/credit card usage and never updated.		
15	UT	Instructions confusing, but state confirms Feds can file for both
16	AK	Very slow response time
17	AZ	
18	FL	law says only exempt over 500 gals, but state says Feds can apply for refund, that intent was not to preclude filing
19	HI	One of only seven states that charges sales tax. State is in transition (2 of 3 vendors will exempt tax, 3rd will not). We will file for 3rd, and instruct sites to only use the 2 that do exempt
20	IA	Telephone filing with state provided ID number. Cool!!!
21	IN	also has sales tax, some of which, not all, is being exempted
22	MA	
23	MN	Unusually responsive and Fed oriented. Top marks!!
24	RI	

Attachment 2
Supply Management Response
OIG Report TD-AR-02-DRAFT
Page 2 of 2

IV. States allowing oil companies to exempt, smaller companies/independents not doing. Recommend going after other states first, hold for very last actions:		
25	NY	Some being exempted, some independent oil companies not allowed. Sales tax being exempted.
26	PA	Some being exempted, however, large numbers of independent oil companies make recoupment necessary. NOTE: only allows 1 filing per year
27	SD	Some being exempted, some independent oil companies not allowed. NOTE: No filing allowed for purchases where tax was not exempted.
28	TX	Some being exempted, some independent oil companies not allowed.

V. States with no problems; VOYAGER can get almost all taxes via oil companies. States are responsive and up to date:		
29	AR	
30	CO	
31	MD	Getting gas only, not getting all diesel so filing necessary. NOTE: filing must be within 240 days of last entry
32	TN	Can exempt, but requires registration with state before action can occur
33	DE	Can exempt, but requires registration with state before action can occur.
34	CT	
35	DC	
36	GA	some sales tax being exempted
37	KS	
38	ME	
39	MO	
40	NE	
41	NH	
42	NC	
43	ND	
44	NM	
45	NJ	
46	OH	
47	OK	
48	SC	
49	VA	
50	MI	New change, MI can now exempt at pump
51	WI	

HENRY A. PANKEY
VICE PRESIDENT, DELIVERY AND RETAIL

UNITED STATES
POSTAL SERVICE

September 12, 2002

B. WAYNE GOLESKI
ASSISTANT INSPECTOR GENERAL FOR CORE OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – Delivery Vehicle Gasoline
(Report Number TD AR 02 DRAFT)

The following comments are provided in response to the softcopy Transmittal of Draft Audit Report – Delivery Vehicle Gasoline (Report Number TD-AR-02-DRAFT).

Recommendation 4: The Vice President, Supply Management, in coordination with the Vice President, Delivery and Retail, develop and issue policies, training programs, and other guidance necessary to cause Postal Service employees to purchase gasoline from vendors offering national discounts, and to cause local Postal Service managers to negotiate local discounts in accordance with instructions published in the Voyager Site Fleet Card Guide.

Response: We have reviewed the response provided by the Vice President, Supply Management. We concur with Supply Management's plan to issue Postal Bulletins and website material identifying fuel suppliers that offer national discounts, and encouraging local site managers to negotiate local discounts. As noted in the Supply Management response, the centralized fuel management group will continue to work with local managers to reduce and manage fuel costs.

If you have questions, please contact Jackie Estes, manager, Delivery Vehicle Operations at 202-268-2861 or Sharon Greer at 202-268-3588.

Henry A. Pankey

cc: Mr. Donahoe
Mr. Rapp
Mr. Strange
Ms. Duchek

475 L'Enfant Plaza SW Rm [illegible]
Washington DC 20260-[illegible]
202 268 [illegible]
Fax 202 268 [illegible]
www.usps.com

Note: Please note that recommendation 4 in the draft report was renumbered as recommendation 3 in the final report.

WILLIAM J. BROWN
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA

UNITED STATES
POSTAL SERVICE

September 12, 2002

MEMORANDUM FOR: B. Wayne Goleski
Assistant Inspector General for Core Operations
U.S. Postal Service Headquarters

SUBJECT: Transmittal of Draft Audit Report – Delivery Vehicle Gasoline - (Report Number-TD-AR-02-DRAFT)

The following is submitted in response to your memo of August 19, 2002, requesting that the Southeast Area respond to item 5 of page 8, which states:

> *"Validate the decision to outsource fuel delivery and reduce the letter carrier work hour budget by the amount no longer needed to fuel delivery vehicles."*

The Southeast Area initially began investigating on-site fueling services in 1992 soon after the destruction caused by Hurricane Andrew. Four of our nine districts, which are located in Florida, were affected by the hurricane and experienced difficulty in accessing fuel. The underground storage tanks (UST) for both the USPS and retail sites were flooded thus contaminating all local fuel supplies. After the natural disaster, we needed to establish a method of accessing fuel in the event another similar natural disaster took place. We sought out those companies who had access to fuel and discovered that on-site fueling companies had no problem accessing fuel because they purchased their fuel from the Miami Port where fuel is stored in above ground facilities. After meeting with two of the companies in this industry we decided to explore the possibilities of contracting on-site fuel services.

Since 1992 the state of Florida has experienced a number of major hurricanes that have crippled entire communities and cut off sources of fuel, electricity, and water. These conditions can last from several days to weeks. Fuel shortages and long lines at gas stations are commonplace after a hurricane passes through. On-site fuel service provides the USPS excellent protection against such events. Our contractors have a supply guarantee with the fuel suppliers and our priority for receiving fuel is equal to that of the local power corporation.

The Central Florida District piloted the on-site fuel service in 1994. It provided fuel to all of the delivery fleet and a large portion of the non-mailhauling fleet. An extensive study was made to determine the economic value of on-site fueling. The study went beyond a simple comparison of pump, or retail, price to estimated contract price. It included other cost variables such as expected carrier work hours savings, tax avoidance, direct and indirect costs of maintaining UST, contingent liabilities for UST mishaps, plus the expected savings of gaining absolute control over fuel buying. Based on the pilot site, we decided to implement the on-site fuel program.

[illegible]
MEMPHIS TN 38166-[illegible]
[illegible]
FAX: 901-747-[illegible]

It is our position, either through full count and inspections and/or minor route adjustments since 1994, the time referenced in your memo is no longer in the base of the routes currently using on-site fueling. **Copies of the pilot and supporting documents from each district utilizing on-site fuel in the Southeast Area were provided to your audit team last year.**

As a result of our proactive approach to environmental, conservation, and operational issues, we believe those districts in the Southeast Area that are participating in the on-site fueling program have validated the decision to outsource fuel delivery and captured the actual letter carrier work hour savings related to them.

William J. Brown

cc: Keith Strange Vice-President, Supply Management
Henry A. Pankey, Vice-President, Delivery & Retail
Patrick Donahoe, COO & EVP

Note: Please note that recommendation 5 in the draft report was renumbered as recommendation 4 in the final report.