OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 22, 2013

MEMORANDUM FOR: MEGAN J. BRENNAN
CHIEF OPERATING OFFICER AND EXECUTIVE VICE PRESIDENT

JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE PRESIDENT

FROM: Mark W. Duda
Assistant Inspector General for Audit

SUBJECT: Management Alert – High-Risk Voyager Policy and Procedure Changes for Highway Contract Routes (Report Number NO-MA-13-003)

This management alert presents concerns with policy changes, that came to our attention during our ongoing audit of the Voyager Card Program for highway contract routes (Project Number 13XG012NO000), which was requested by the postmaster general. We were asked to look into controls over the Voyager Card Program for highway contract routes.

If you have any questions or need additional information, please contact Robert J. Batta, Deputy Assistant Inspector General for Mission Operations or me at 703-248-2100.

Attachments

cc: Patrick R. Donahoe
Susan M. Brownell
David E. Williams, Jr.
Corporate Audit and Response Management

Introduction

While conducting an audit of the Voyager Card Program[1] for highway contract routes (HCR),[2] we became aware of recent and proposed changes to the Fuel Management Program (FMP) policy,[3] which governs the U.S. Postal Service's fuel program for HCR suppliers. We wanted to immediately bring to your attention our concerns and the associated risks of the policy changes. Specifically, the recent and proposed policy changes significantly weaken the controls of the Voyager Card Program and can increase the risk for a greater number of instances of fraud and abuse in the program. Previously, the U.S. Postal Service Office of Inspector General (OIG) has expressed concerns with the Postal Service's inadequate control environment and the related control weaknesses over the HCR Voyager Card Program.[4] There have been a large number of fraud investigations and convictions within the program, which often indicates a need to increase rather than loosen vigilance.

Most other procurers of transportation services either share responsibility for fuel to incentivize economies or assign it to transportation providers. They also include a mechanism to accommodate the need for price adjustments due to fuel price volatility. The Postal Service pays for all the fuel used by its HCR contractors. The Postal Service's fuel program creates disincentives to conserve and indifference to costs. It is complex for providers and is vulnerable to fraud and inadequate controls.

The annual FMP policy provides guidance to HCR suppliers and the Postal Service regarding the HCR Voyager Card Program, including authorized uses of the Voyager card and pooling of gallons by suppliers. In 2012, the pooling policy was changed, and the policy now allows a contractor with multiple Postal Service HCRs, each with individual fuel usage requirements, to be treated as one large contract. This allows a contractor to offset fuel overages in one particular contract route with underuse of fuel on another contract route under his or her control, allowing the avoidance of reimbursing the Postal Service for any fuel usage above an individual contract limit. Before the pooling change in 2012, contractors were required to submit a request and justify any pooling and fuel usage above the contract limits. The Postal Service would require reimbursement of fuel usage in excess of the contracted gallons for each individual contract route unless pooling was expressly approved for the benefit of the Postal Service.[5]

---

[1] The Postal Service's HCR Voyager Card Program is a unique program whereby it gives thousands of fuel cards to its more than 2,000 unique suppliers and directly pays for the charged transactions.
[2] The OIG issued the audit announcement letter dated November 20, 2012.
[3] The FMP defines policies and procedures covering the various methods of reimbursement for fuel for HCR suppliers, including the HCR Voyager Card Program, fuel index adjustments, and one-line fuel certifications.
[4] Management of the Highway Contract Route Voyager Card Program, NL-AR-11-003, dated June 7, 2011.
[5] Before the 2012 policy change, pooling was only allowed for those instances in which fuel purchased on one contract might be used on another contract based upon maintenance operations, line-of-travel, or method of operation.

Presently, the Postal Service provides for an annual allotment of fuel gallons per contract based on miles per gallon for each contract route. They do not provide any allowance for fuel usage for non-Postal Service purposes.

In fiscal year (FY) 2012, the Postal Service paid more than $724 million for fuel transactions covering the purchase of more than 185 million gallons by HCR suppliers using Voyager cards, traveling more than 1.2 billion miles.

Conclusion

We identified recent and proposed policy changes that could result in increased risk of fraud, waste, and abuse. Specifically, these policy changes include:

- The 2012 change that allowed the expansion of pooling of gallons across the suppliers' HCRs without regard to postal operational needs or benefit to the Postal Service.

- The 2013 proposed policy change that removes the restriction of fuel usage for non-postal services.

The Postal Service stated it made or proposed these changes to reduce the administrative burden associated with HCR contract negotiations, as well as management of the Voyager Card Program. The combination of the 2012 policy changes, as well as the 2013 proposed policy changes shows a pattern of the weakening of internal controls[6] over the Voyager Card Program.

We estimate that the policy change in FY 2012 regarding pooling put up to 15.4 million gallons[7] of fuel overage at a cost of more than $60.4 million at risk of not being recovered by the Postal Service for the period July 1, 2011 through June 30, 2012. In addition, the initial proposed changes to the 2013 FMP policy could further erode the controls over the Voyager Card Program.

During our review, and based on OIG discussions, management withdrew their proposed FY 2013 changes so that fuel use for non-Postal Service purposes is still prohibited. However, the changes are not yet final, and opportunity still exists for additional changes before finalization. The purpose of this management alert is to ensure that the restrictions on fuel use for non-Postal Service purposes is reflected in the final version of the 2013 FMP policy and to recommend the Postal Service reverse the 2012 change that expands pooling of fuel over multiple contract routes.

[6] The OIG identified in the prior FMPs changes that eliminated the monthly review of transactions and the requirement of timely reconciliations.
[7] The estimated fuel overage gallons were obtained from the Postal Service's Enterprise Data Warehouse (reports for the period July 1, 2011 to June 30, 2012. We used all active contracts for the period July 1, 2011 to June 30, 2012. The gallons over the annual contract allotment were multiplied by the fuel cost average for that contract for the fuel period.

Voyager Policy Changes

Fuel Management Program Implemented Policy (April 2012)

The April 2012 FMP policy change eliminated the need for HCR suppliers to show an operational requirement and benefit to the Postal Service for fuel pooling.[8] We believe this policy change further weakens controls because it would further facilitate fuel purchases and usage for operations outside a specific HCR contract. The requirement that pooling only be allowed when it had a specific operational benefit to the Postal Service had been in the 2011 policy, and we believe it is a valid control to protect the Postal Service against unauthorized use of the Voyager card.

Specifically, Section 8.1, Pooling was completely revised to read:

> Suppliers purchasing fuel using the Fuel Transaction Card will have all gallons for all participating contracts aggregated into one utilization pool…

Fuel Management Program Proposed Policy Changes (January 2013)

The proposed changes to the FMP policy dated January 2013[9] include the elimination of the requirements for HCR suppliers to use the fuel transaction cards to purchase fuel for HCR services only. The proposed changes would have:

- Deleted the requirement that the HCR supplier must use the fuel transaction cards to purchase fuel for its Postal Service HCR contract performance only.[10]
- Deleted examples that define unauthorized use of the cards including using the cards for contracts other than the authorized contract and using the cards to purchase fuel for vehicles other than those used to perform HCR contracts.[11]
- Added language that allows the HCR suppliers to use the card to purchase fuel for <u>non-Postal</u> purposes as long as the contractor does not exceed the pooled contracted annual gallons.[12]

Further, we understand that at some point officials considered removing from policy the requirement to notify the OIGI of suspicious or fraudulent transactions. We would be interested to know the basis and circumstances surrounding such consideration.

---

[8] In the OIG report NL-AR-11-003, we recommended the vice president, Supply Management, ensure that contracting officers apply pooling in accordance with established requirements and ensure pools are appropriately documented and approved.
[9] The Postal Service has proposed to remove these 2013 changes in its more recent FMP draft based on the concerns raised by the OIG and meeting with Postal Service officials.
[10] Contained in Section 5.1, Fuel Payment Processing – Automated Systems: Fuel Transaction Cards – General.
[11] Contained in Section 5.2, Authorized Use of Fuel Transaction Card.
[12] Contained in Section 5.2, Authorized Use of Fuel Transaction Card.

Removing safeguards and processes to report fraud should be alarming to program managers and oversight groups.

Potential Effects

These 2012 and 2013 policy changes increase the risk of fraud, waste, and abuse.

The 2013 policy change would:

- Facilitate the improper use of fuel for non-Postal Service purposes. The proposed policy change would allow HCR suppliers to use the Voyager Card to purchase fuel for their own operations. Further, the proposed change would hinder and complicate the legal remedy (ability to potentially use the FMP and the restrictions of fuel use for administrative and legal sanctions against a supplier) that would normally be afforded to the Postal Service for unauthorized uses of fuel.

The 2012 policy change that was implemented could:

- Lead to the potential for non-collection of fuel overages. We estimate that up to 15.4 million gallons of fuel were used in excess of the gallons authorized resulting in a potential loss to the Postal Service of more than $60.4 million in overcharges for the period July 1, 2011 through June 30, 2012. Expansion of the pooling allowance will make recovering these amounts even more difficult, and possibly result in non-recovery of these overcharges.

- Hinder the ability of the Postal Service to determine actual fuel usage per contract. The policy change allowed the aggregation of fuel across HCR contracts for a vendor, rather than an individual HCR contract. As a result, the ability to make fuel adjustments for contracts based on actual use is significantly diminished.

- Provide an Unfair Competitive Advantage to Some Contractors. Contractors that have multiple contracts with the Postal Service may now have an unfair advantage when bidding on new available routes as a result of the leverage provided by pooling. For example, pooling may allow the contractor to offset one particular HCR contract's gallon shortage with another contract's overage. This can allow a contractor to underbid a contract to secure more contracts and reduce competition.

In addition, the lack of an appropriate control environment could place the entire program at risk as it may violate the Postal Service's agreement with, and requirements under, the U.S. General Services Administration's (GSA) SmartPay®2 Card Program. Specifically, the GSA authorized the Postal Service in FY 2000 to issue fuel transaction cards to HCR suppliers provided the Postal Service instituted and ensured appropriate controls were in place and assumed full responsibility for all charges, including unauthorized charges.

Recommendations

We recommend the chief operating officer and executive vice president, the chief financial officer and executive vice president, instruct the vice president, Supply Management to:

1. Reverse the 2012 policy change or provide justification for the operational need and identify the costs and benefits for pooling across all contracts.

2. Not allow the proposed 2013 policy change and ensure the policy continues to restrict the use of fuel purchased under the Voyager Card Program for non-Postal Service (non-highway contract route) purposes.

3. Provide explanation as to the basis and circumstances surrounding the consideration to remove from policy the requirement to notify the U.S. Postal Service Office of Inspector General of suspicious or fraudulent circumstances involving highway contract route suppliers.

Management's Comments

Management agreed with our findings and related recommendations 1 and 2. They acknowledge the OIG concerns with the 2012 implemented pooling policy change. They will revert back to the policy that was in effect in the 2011 FMP guidelines, and this will be reflected in its 2013 FMP guidelines. Additionally, management stated its commitment not to implement the proposed 2013 policy change and to continue to restrict the use of the fuel purchase card under the Voyager Card Program for non-Postal Service use (non-HCR purposes).

Regarding recommendation 3, Postal Service management provided an explanation as to the basis and circumstances surrounding its consideration in 2012 to remove from the FMP policy the requirement to notify the OIG of suspicious or fraudulent circumstances involving HCR suppliers. Management explained that its actions stemmed from discussions with the OIG in December 2011 and several months; thereafter, relating to an allegation of potential fraud by a non-Postal Service entity. The Postal Service believed the OIG would not investigate potential fraud by non-postal entities unless it receives a request to do so from the Postal Service. Management stated they were unable to confirm their understanding as to the OIG position and proceeded to draft a FMP policy change that would require suppliers to directly notify the fuel card provider of potential fraud instead of the OIG. According to Postal Service management, the intent of the proposed FMP change was in response to an OIG policy change on what the OIG will investigate relative to non-postal entities. Management concluded the Postal Service did not pursue the 2012 change to the FMP because it had not received confirmation from the OIG as to what it investigates relative to non-postal entities.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations 1 and 2, and actions taken by management should resolve the issues identified in the report. Regarding recommendation 3, we disagree with the Postal Service's summary of the facts surrounding its proposed FMP change to remove from policy the requirement to notify the OIG of suspicious or fraudulent circumstances involving HCR suppliers.

The OIG has made clear over the years its broad scope to investigate and audit Postal Service activities, including non-postal entities. The Postal Service's response is referencing a discussion that occurred in December 2011 between Postal Service and OIG attorneys. The Postal Service's subsequent e-mail synopsis of this conversation (dated February 1, 2012) contained a number of errors, including that the OIG does not investigate non-postal entities unless specifically requested by the Postal Service. The OIG's written response of March 2, 2012 corrected the Postal Service's interpretive errors and stressed that the OIG may investigate all Voyager fraud, regardless of Postal Service employee involvement or not.

The OIG considers all recommendations to be 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.

Appendix A. Management's Comments

UNITED STATES POSTAL SERVICE

March 7, 2013

JUDITH LEONHARDT

SUBJECT: Response to Draft Management Alert – High-Risk Voyager Policy and Procedure Changes for Highway Contract Routes (Report Number NO-MA-13-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. We appreciate the Office of Inspector General (OIG) bringing these items to our attention and have the appropriate managers addressing these concerns. Below is our response to the subject report.

OIG Audit Recommendations:

We recommend the chief operating officer and executive vice president and the chief financial officer and executive vice president instruct the vice president, Supply Management to:

1. Reverse the 2012 policy change or provide justification for the operational need and identify the costs and benefits for pooling across all contracts.

Management Response: We acknowledge the OIG's concerns and will reverse the 2012 pooling policy change in the Fuel Management Program (FMP) guidelines. The 2013 FMP guidelines will reflect the approach to pooling that was in affect in the 2011 FMP guidelines. Per the OIG's report, the "2011 FMP policy provided valid controls to protect the Postal Service against unauthorized use of the Voyager card." The final version of the 2013 FMP guidelines will be provided to the OIG for review prior to issuance.

Target Implementation Date: March 2013.

Responsible Manager: Manager, Transportation Portfolio, Supply Management.

2. Not allow the proposed 2013 policy change and ensure the policy continues to restrict the use of fuel purchased under the Voyager Card Program for non-postal (non-HCR) purposes.

Management Response: Management agrees with this recommendation and the draft FMP guidelines submitted to the OIG on January 11, reflect this agreement. The final version of the 2013 FMP guidelines will be provided for the OIG's review prior to issuance.

Target Implementation Date: March 2013.

Responsible Manager: Manager, Transportation Portfolio, Supply Management.

3. Provide explanation as to the basis and circumstances surrounding the consideration to remove from policy the requirement to notify the Office of Inspector General of suspicious or fraudulent circumstances involving HCR suppliers.

475 L'Enfant Plaza SW
Washington DC 20260

2

Management Response: To the best of our knowledge, the circumstances surrounding this situation was based upon a December 19, 2011 discussion between OIG and Postal Service legal counsels regarding an allegation of potential fraud by a non-USPS entity. During that conversation, OIG legal counsel advised that the OIG does not investigate potential fraud by non-USPS entities unless it receives a request to do so from USPS. After several attempts over a period of several months, USPS was unsuccessful in obtaining written confirmation of this position from the OIG. In the meantime, because of this apparent change in direction and the potential of USPS' continued exposure to fraudulent actions and associated costs; Supply Management staff drafted a proposed change to the active 2012 FMP that would require our suppliers to directly notify the fuel card provider versus the OIG in the event of fraud or misuse so that the fuel card provider would be able to investigate the suspected charges and turn off the card, if necessary, to limit exposure. There was never any intent to remove this valuable control from the guidelines but to instead respond to an apparent OIG policy change. Without the above circumstances, the USPS would not have considered it.

The USPS did not receive confirmation regarding this suggested policy change, so the USPS did not pursue the corresponding change in the FMP. A review of all approved FMP guidelines issued and published from 2008 to the present revealed that each includes the policy to notify the OIG of suspected fraud and misuse. The January 11 draft version of the 2013 FMP guidelines also includes the requirements for the supplier to notify all stakeholders, which includes the Designated Card Provider, the supplier's Contracting Officer, and the OIG. No final version that has been published contains any wording suggesting or instructing any removal of the OIG from this notification structure.

Target Implementation Date: This response should address the recommendation and ask that the OIG consider our request for closeout with issuance of the final report.

Responsible Manager: Manager, Transportation Portfolio, Supply Management.

This report and management's response does contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. These will be addressed in a separate communication. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

for Megan J. Brennan
Chief Operating Officer
Executive Vice President

Joseph Corbett
Chief Financial Officer
Executive Vice President

cc: Patrick Donahoe
Susan Brownell
David Williams, Jr.
Corporate Audit and Response Management