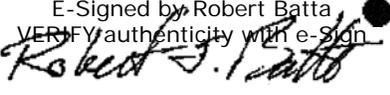




October 30, 2013

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

JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE
PRESIDENT

E-Signed by Robert Batta
VERIFY authenticity with e-Sign


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

SUBJECT: Management Alert – Voyager Card Program for Highway
Contract Routes – Unidentified and Unrecovered Fuel
Overpayments (Report Number NO-MA-14-001)

This management alert presents our review of unidentified and unrecovered fuel overpayments under the Voyager Card Program for Highway Contract Routes for the July 1, 2009 through June 30, 2010 (2009-2010) fuel year. This issue came to our attention during our ongoing Assessment of the Operational Effectiveness of the Voyager Card Program for Highway Contractor Route audit (Project Number 13XG012NO002).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact James L. Ballard, director, Network Processing and Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Introduction

The purpose of this alert¹ is to bring to your attention the need for the U.S. Postal Service to immediately reconduct the highway contract routes (HCR) Voyager reconciliation for the 2009-2010 fuel year and recover an estimated \$9.9 million in overpayments due from suppliers. We are issuing this alert due to the urgency and time sensitivity associated with recovering any overpayments. The Postal Service's ability to recover² any overpayments for expired and non-renewed contracts becomes increasingly difficult as time passes. The U.S. Postal Service Office of Inspector General (OIG) has expressed continued concern³ with the Postal Service's control environment and related control weaknesses over the HCR Voyager Card Program.

Since 2005, the Postal Service has been providing HCR suppliers with Voyager fleet transaction cards from U.S. Bank Voyager Fleet Systems, Inc. to purchase fuel for their vehicles (also known as the Voyager Card Program). The Postal Service's Fuel Management Program (FMP) policy provides guidance to suppliers and the Postal Service regarding the Voyager Card Program. Under the policy, the Postal Service must reconcile Voyager card transactions to determine whether supplier purchases exceed the annual allotted fuel gallons. The Postal Service's Supply Management, Fuel Management Category Management Center (CMC) group performs this function. Accurate reconciliations are vital to the Postal Service so it can recover funds from suppliers that exceed their allotted fuel gallons.

Conclusion

We estimate that the Postal Service did not properly identify and recover about \$9.9 million in fuel overpayments to HCR suppliers for fuel year 2009-2010. It failed to collect these overpayments because the HCR Voyager Card Program reconciliation process was not reasonably conducted and documented. Specifically, the process lacked:

- Detailed documentation to support fuel pooling by suppliers and the gallons that suppliers used over their allotted amount to determine the fuel overpayments. For example, for large suppliers, the Postal Service listed only the supplier name, over/under gallon amounts,⁴ and the amount due, if applicable. The Postal Service

¹ We identified the concerns while following up with prior recommendations in conjunction with our ongoing *Assessment of the Operational Effectiveness of the Voyager Card Program for Highway Contract Routes* (NO-MA-13-003, dated March 22, 2013).

² The applicable statute of limitations for breach of a contract with the Postal Service is 6 years pursuant to the Contract Disputes Act, federal statute - 41 U.S.C. §7103(a)(4)(A).

³ *High Risk Voyager Policy and Procedure Changes for Highway Contractor Routes* (NO-MA-13-003, dated March 22, 2013); *Management of the Highway Contract Route Voyager Card Program* (NL-AR-11-003, dated June 7, 2011).

⁴ Gallons allowed are contracted gallons for that period, usually July 1 to June 30 of the subsequent calendar year, and the addition of any extra trips recorded.

should have included documentation for each of the approved pools by listing every contract identified in a pool and the respective contract gallons, extra trip gallons, and actual gallons purchased.

- Summarized calculations showing that all gallons and contracts were reconciled and accounted for. Specifically, there was no complete list and count of all supplier contracts and their annual contract gallon allowances and purchases, or documentation on the negotiations and disposition on overpayments and collection.

To test the Postal Service’s methodology, we used the same transaction data from the Fuel Asset Management System to validate its calculations for selected HCR suppliers. However, we could not achieve the same results that supported its conclusions on over- or underpayments for those suppliers.

We determined that the Postal Service improved the reconciliation process after the 2009-2010 fuel year. The Fuel Management CMC group developed a process using a logical methodology for performing the 2010-2011 fuel year reconciliations and reconciliations for subsequent years. Although we have not fully audited the process,⁵ we performed an initial analysis of it and determined that it more effectively identified all suppliers in a pool and the respective contract gallons, extra trip gallons, and actual gallons purchased to be used for the reconciliation process. These reconciliations identified overpayments of \$20.4 million and \$18.6 million over two fuel periods – 2010-2011 and 2011-2012. We found the overpayments identified in the Postal Service’s 2009-2010 reconciliations, at \$12.6 million, were significantly lower than the 2 subsequent years, as shown in Table 1. This difference further supports the position to reconduct the prior reconciliation.

Table 1. Overpayments Identified per Fuel Period

Organization	Fuel Period	Amount (in millions)
Surface Transportation CMC ⁶	2009-2010	\$12.6
Fuel Management CMC	2010-2011	\$20.4
Fuel Management CMC	2011-2012	\$18.6

⁵ We plan to perform follow-up audit work on HCR Voyager Card Program reconciliations to fully assess the methodology the Postal Service currently uses.

⁶ Both Surface Transportation CMC and Fuel Management CMC are transportation portfolios that report to the vice president, Supply Management.

The OIG previously reported⁷ that the estimated value of excess fuel gallons purchased for the 2009-2010 fuel year was \$22.5 million. Comparing the OIG's estimate to the \$12.6 million identified resulted in a difference of \$9.9 million. We believe additional refunds of overpayments in that amount are due to the Postal Service from suppliers (see [Appendix A](#) for monetary impact).

Recommendations

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

1. Immediately reconduct the 2009-2010 fuel year Voyager Card Program reconciliation under the pooling and reconciliation requirements of the Fuel Management Program and the current reconciliation methodology.
2. Validate and document the results of additional 2009-2010 fuel overpayment determinations and collect these overpayments.

Management's Comments

Management generally agreed with the finding and recommendations, but disagreed with the associated monetary impact.

In response to recommendation 1, management stated that its Fuel Management CMC within Supply Management will evaluate the 2009-2010 reconciliation and compare it against data from the Fuel Management System. It will identify and evaluate any anomalies and determine whether there are additional suppliers to whom collection efforts apply. Management disagreed with the monetary impact, noting that the OIG used estimates and did not factor in fuel price volatility. It expects to complete the process by November 2013.

In response to recommendation 2, management stated that the Fuel Management CMC will initiate a recovery process for any additional suppliers with excess fuel gallons based on the results of evaluating the 2009-2010 fuel year reconciliation. It also pointed out that any recovery action must be under clause B-9, "Claims and Disputes Clause," within the contracts and the Contracts Dispute Act. See [Appendix B](#) for management's comments, in their entirety.

⁷ *Management of the Highway Contract Route Voyager Card Program* (Report Number NL-AR-11-003, dated June 7, 2011).

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report.

Regarding the monetary impact, the \$9.9 million was an estimate derived by taking the estimated value of excess fuel gallons purchased for the 2009-2010 fuel year (\$22.5 million, as determined by the OIG) and subtracting the \$12.6 million already identified by the Postal Service as overpayments. The OIG estimated the \$22.5 million in 2011 since there was a lack of documentation and a firm methodology regarding overpayments. We acknowledge that fuel price volatility is a factor in determining the reconciliation amount. Further, other variables, such as the appropriate application of pooling of fuel gallons for contractors, will also affect the amount. We are aware that the actual amount will likely differ when the reconciliation is performed using the Postal Service's established and documented reconciliation methodology. We will resolve any differences in monetary savings from those identified by the OIG and the Postal Service during the closeout process.

The OIG considers all of the 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.

Appendix A: Monetary Impact

Recommendation	Impact Category	Amount (in millions)
1	Questioned Costs ⁸	\$9,904,500

Monetary Impact – 2009-2010 Reconciliation

The OIG based its estimate of questioned costs totaling \$9.9 million in overpayments for the 2009-2010 fuel period on the best information available at that time and the control weaknesses the OIG previously reported. The questioned costs represent the difference in what the OIG previously reported and what the Postal Service calculated as overpayments for the fuel period 2009-2010, as shown in Table 2.

Table 2. 2009-2010 Reconciliation

Organization	Amount (in millions)
OIG	\$22,535,826
Postal Service	\$12,631,326
Difference	\$ 9,904,500

Source: OIG analysis.

⁸ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, and so forth.

Appendix B: Management's Comments



September 27, 2013

JUDITH LEONHARDT

SUBJECT: Response to Draft Management Alert – Voyager Card Program for Highway Contract Routes -- Unidentified and Unrecovered Fuel Overpayments (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. The Postal Service does not agree with the estimated \$9.9 million gap in unrecovered fuel payments for fuel year 2009-2010. Management's response is provided in full below.

Office of Inspector General (OIG) Management Alert Recommendations:

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

1. Immediately reconduct the 2009-2010 fuel year Voyager Card reconciliation in accordance with the pooling and reconciliation requirements of the Fuel Management Program and the current reconciliation methodology.

Management Response: Management agrees in part with this OIG recommendation. The Fuel Management Category Management Center (CMC) within Supply Management will evaluate the 2009-2010 reconciliation. A review of the 2009-2010 reconciliation computation will be performed and compared against data, for the same period, from the Fuel Asset Management System (FAMS). Any anomalies will be evaluated and a determination made whether there are additional suppliers for which collection efforts are applicable. This process will be completed by the end of November 2013.

Supply Management disagrees that the figures within Table 1 of the OIG's report are overpayments identified after the reconciliation process was completed. These figures look to be the initial estimates from which further evaluation was required to identify actual overages for initiating the recovery process. The below table provides a summary analysis of the actual overage gallons and the value of the overage gallons compiled from fuel year reconciliations for 2009-2010, 2010-2011, and 2011-2012. These calculations account for fuel price volatility within the individual fuel years. The Postal Service fuel reconciliation process compiles the actual cost for all gallons exceeding a supplier's annual allocation and seeks to recover the actual expense paid by the Postal Service for the overages. The table also shows a percent to total allowable gallons ranging from 2.1 to 2.5 indicating a consistency in the number of gallons over a three-year period that was subject to reconciliation.

- 2 -

Table 1. Actual Overage and Value of Gallons

Fuel Year	Overage Gallons	% to Total Allowable Gallons	Actual Value of Overage Gallons	Average PPG of Overage Gallons ¹
2009-2010	4,429,316	2.1%	\$ 12,637,584	\$2.85
2010-2011	4,440,527	2.2%	\$ 14,016,015	\$3.16
2011-2012	4,687,032	2.5%	\$ 16,733,320	\$3.57

Source: FAMS.

Target Implementation Date: November 2013 – Complete review and evaluation of the information for the 2009-2010 reconciliation.

Responsible Manager: Manager, Transportation Portfolio

2. Validate and document the results of additional 2009-2010 fuel overpayment determinations and collect these overpayments.

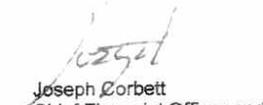
Management Response: Based upon the results of the evaluation of the 2009-2010 fuel year the Fuel Management CMC will initiate a recovery process for any additional suppliers with overages, if applicable². Once complete, the 2009-2010 evaluation will be provided to the OIG. It will provide a summary of the calculations and detailed documentation.

Target Implementation Date: January 2014 – Initiate recovery process, if applicable

Responsible Manager: Manager, Transportation Portfolio

This report and management's response do not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.


Megan J. Brennan
Chief Operating Officer and
Executive Vice President


Joseph Corbett
Chief Financial Officer and
Executive Vice President

cc: Susan M. Brownell
David E. Williams, Jr
Susan A. Witt
Karen A. Pompanella
James P. Leonard
Mary T. Taylor
Corporate Audit and Response Management

¹ The column provides an average of fuel prices to show the volatility of fuel for each year. Actual costs of the gallons exceeding a supplier's annual allocation were used to determine the actual value of overage gallons.
² Claims based upon the fuel reconciliations results are subject to clause B-9 "Claims and Disputes Clause" within the contracts and the Contracts Dispute Act in which the contracting officer's final decision is binding on both parties. See 41 U.S.C. § 7103(g) ("Finality of decision unless appealed.—The contracting officer's decision on a claim is final and conclusive and is not subject to review by any forum, tribunal, or Federal Government agency, unless an appeal or action is timely commenced as authorized by this chapter."). Final decision letters were issued to suppliers for the 2009/2010 fuel year reconciliation. The Postal Service's Board of Contract Appeals and the Court of Federal Claims have generally held that an unappealed decision by a contracting officer is binding on the government – even if it is later determined to be erroneous. See, e.g., Southern Mail Serv., Inc., PSBCA No. 75124, 09-2 BCA ¶ 3244 (Aug. 26, 2009) (ruling that a CO could not unilaterally revoke prior adjustments granted by a duly authorized COR); Honeywell Fed. Sys., Inc., ASBCA No. 39974, 92-2 BCA ¶ 24, 966 (Mar. 26, 1992) (ruling that an agency could not retract a binding decision subsequently deemed to be based on poor judgment); see also Liberty Coat Co., ASBCA No. 4138 et al., 57-2 BCA ¶ 1576 (Dec. 31, 1957) (precluding the government from unilaterally revising equitable adjustments previously agreed to by an authorized representative).