OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team

Audit Report

Report Number
NL-AR-17-002

December 9, 2016

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

The contract baseline fuel price per gallon was not effectively established. However, the FPI program automated fuel adjustment process was generally effective.

Background

The U.S. Postal Service uses supplier-operated highway contract routes (HCR) to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail. HCRs include Transportation and Contract Delivery Service (CDS) routes, which make up the largest single group of transportation services that the Postal Service uses.

In fiscal year (FY) 2015, the Postal Service spent about $713 million on fuel for HCR suppliers. In FY 2016, the projected fuel cost is about $513 million.

The Postal Service Transportation Category Management Teams (TCMT) are required to negotiate and evaluate in writing with the HCR suppliers to establish the contract's baseline fuel price per gallon (ppg). The negotiations and evaluations are intended to establish the HCR supplier's market cost of fuel at the time of contract negotiations.

The Postal Service subsequently uses the U.S. Department of Energy (DOE) regional fuel indexes to adjust the monthly fuel ppg when any of the DOE's nine regional fuel index prices fluctuates by $.05 or more in a single month.

The TCMT oversees the HCR contracts. They are located in Largo, MD; Windsor, CT; Denver, CO; Memphis, TN; and Tacoma, WA; with a satellite office in San Juan, Puerto Rico. We selected the Southern TCMT because they manage over 3,000 HCR contracts and administer the Postal Service's automated fuel adjustments using the DOE regional fuel index.

The Southern TCMT manually enters the DOE's monthly-published fuel index prices in the Transportation Contract Support System (TCSS), which automatically calculates monthly adjustments for HCR contracts nationwide.

Our objective was to assess the effectiveness of the Postal Service's FPI program at the Southern TCMT in Memphis.

What The OIG Found

We found that the Postal Service did not effectively establish the contract baseline fuel ppg; however, the FPI automated fuel adjustment process was generally effective.

The Southern TCMT did not ensure the established contract baseline fuel ppg reflected local market conditions and the baseline was largely unsupported. Specifically, we found 176, or 86 percent, of the 204 contracts we reviewed did not have documentation to support the negotiated contract baseline fuel ppg. We also found the 204 sampled contracts did not have the proper justification and documentation for evaluating and modifying the contract baseline fuel ppg. This occurred because management did not develop contract fuel baseline ppg policies and procedures for negotiating with the HCR supplier. Additionally, because management oversight was insufficient,

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the Southern TCMT was not following the fuel certification process for evaluating contract baseline fuel ppg and determining if it reflected local market conditions. Consequently, the Postal Service is at risk of overpaying HCR suppliers based on unsupported baseline fuel ppg.

We used the DOE's regional fuel index as a benchmark price for all HCR contracts administered by the Southern TCMT between April 2014 and March 2016. Our comparison determined that the Postal Service incurred annual excess fuel costs of about $3.8 million.

In addition, we conducted a separate analysis to understand fuel price market conditions and because Postal Service management identified that retail prices could be lower than the DOE rate. We used a national online fuel pricing service to compare 12 of the higher priced contract baselines to local fuel prices. We found that the Postal Service on average was paying about $1.08 more per gallon compared to local fuel prices and the published DOE regional indexes for the reviewed contracts. We made a referral to OIG's Office of Investigations concerning this issue.

We found that the FPI automated fuel adjustment process w as generally effective. We reviewed and analyzed about 73,000 automated monthly FPI adjustments made between April 2014 and March 2016 and determined that about 67,200, or 92 percent, were timely and accurate.

The remaining 5,800 fuel adjustments, or 8 percent, were incorrect. The majority of incorrect adjustments were due to manual input errors of the monthly DOE regional fuel index prices in January 2015. The errors were corrected in February 2015 without monetary impact to the Postal Service. Additionally, the Southern TCMT instituted a double-check verification process for inputting rates to avoid future errors. Accordingly, we are not making a recommendation in this area.

What The OIG Recommended

We recommended management develop and implement as soon as practical a national policy and procedures for establishing the contract baseline fuel price per gallon to ensure adequate oversight and documentation for current and future contracts. In addition, we recommended management develop and document market analysis to determine the lowest fuel price per gallon for each highway contract route that incorporates at a minimum the U.S. Department of Energy regional fuel index as well as local market fuel pricing. If the negotiated price is greater than the market analysis, the contracting officer must provide supplier documentation and written evaluation substantiating that this is the best value.

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UNITED STATES POSTAL SERVICE

Highway Contract Route Fuel Price Index Program
Southern Transportation Category Management Team

Findings

CLICK ON THE ▼'S TO SHOW OUR FINDINGS

The U.S. Postal Service uses supplier-operated highway contract routes (HCR) to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail.

SHOW ALL

RESET

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 9, 2016

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Michael Thompson
ERIFY authenticity with eSign Deskt

FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team (Report Number NL-AR-17-002)

This report presents the results of our audit of the U.S. Postal Service's Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team (Project Number 16XG030NL000).

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

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Findings

The established contract baseline fuel price per gallon did not reflect local market conditions and was largely unsupported.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's highway contract route (HCR) Fuel Price Index (FPI) program (Project Number 16XG030NL000). Our objective was to assess the effectiveness of the Postal Service's FPI program by the Southern Transportation Category Management Team (TCMT) in Memphis, TN. See Appendix A for additional information about this audit.

The Postal Service uses supplier-operated HCRs to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail. HCRs include Transportation[1] and Contract Delivery Service (CDS)[2] routes, which make up the largest single group of transportation services the Postal Service uses.

In fiscal year (FY) 2015, the Postal Service spent about $713 million on fuel for HCR suppliers. In FY 2016, the projected fuel cost is about $513 million.

The Postal Service Transportation Category Management Teams (TCMT) are required to negotiate and evaluate in writing with HCR suppliers to establish the contract's baseline fuel price per gallon (ppg). The negotiations and evaluations are intended to establish the HCR supplier's market cost of fuel at the time of contract negotiations.

The Postal Service subsequently uses the U.S. Department of Energy's (DOE) regional fuel indexes to adjust the monthly fuel ppg when any of the DOE's nine regional fuel index prices fluctuates by $.05 or more in a single month.

The TCMT oversees the HCR contracts. They are located in Largo, MD; Windsor, CT; Denver, CO; Memphis, TN; and Tacoma, WA; with a satellite office in San Juan, Puerto Rico. We selected the Southern TCMT because they manage over 3,000 HCR contracts and administer the Postal Service's automated fuel adjustments based on the DOE regional fuel index.

The Southern TCMT manually enters the DOE's monthly-published fuel index prices in the Transportation Contract Support System (TCSS), which automatically calculates monthly adjustments for HCR contracts nationwide.

Summary

We found that the Postal Service did not effectively establish the contract baseline fuel ppg; however, the FPI automated fuel adjustment process was generally effective.

The Southern TCMT did not ensure the established contract baseline fuel ppg reflected local market conditions and the baseline was largely unsupported. Specifically, we found 176, or 86 percent, of the 204 contracts we reviewed did not have documentation to support the negotiated contract baseline fuel ppg. We also found the 204 sampled contracts did not have the proper justification and documentation for evaluating and modifying the contract baseline fuel ppg.

This occurred because Postal Service management did not develop contract fuel baseline ppg policies and procedures for negotiating with HCR suppliers. Additionally, due to insufficient management oversight, the Southern TCMT did not follow

1 HCR Transportation is a highway route of travel served by a contractor to carry mail in bulk between designated points. The HCRs generally do not deliver mail to individual customer addresses.
2 CDS is a contract with an individual or company for the delivery and collection of mail to individual customers. It is one of the three available carrier delivery types (city, rural, contract). CDS employees are independent contractors required to provide the services provided on city or rural routes.

fuel certification processes for evaluating and determining if the contract baseline fuel ppg reflected local market conditions. Consequently, the Postal Service is at risk of overpaying HCR suppliers based on unsupported baseline fuel ppg.

We used the DOE's regional fuel index as a benchmark price for all HCR contracts administered by the Southern TCMT between April 2014 and March 2016. Our comparison determined that the Postal Service incurred annual excess fuel costs of about $3.8 million.

In addition, we conducted a separate analysis to understand fuel price market conditions and because Postal Service management determined that retail prices could be lower than the DOE rate. We used a national online fuel pricing service to compare 12 of the higher priced contract baselines to local fuel prices. We found that the Postal Service was paying, on average, about $1.08 more per gallon than local fuel prices and the published DOE regional indexes for the reviewed contracts. We made a referral to OIG's Office of Investigations concerning this issue.

We found that the FPI automated fuel adjustment process was generally effective. We reviewed and analyzed about 73,000 automated monthly FPI adjustments made between April 2014 and March 2016 and determined that about 67,200, or 92 percent, were timely and accurate.

The remaining 5,800 fuel adjustments, or 8 percent, were incorrect. The majority of incorrect adjustments were due to manual input errors of the monthly DOE regional fuel index prices in January 2015. The errors were corrected in February 2015 without monetary impact to the Postal Service. Additionally, the Southern TCMT instituted a double check verification process for inputting rates to avoid future errors. Accordingly, we are not making a recommendation in this area.

Contract Baseline Fuel Price per Gallon

The Southern TCMT did not effectively establish the contract baseline fuel ppg.[3] Specifically, the team did not ensure that the established contract baseline fuel ppg reflected local market conditions[4] and the baseline was largely unsupported. We reviewed HCR contracts on a sample basis that were in existence under the FPI program and contracts transitioned from a discontinued fuel program. New contracts or contracts transitioning into the FPI required negotiation of the baseline fuel ppg to ensure that it reflected local market conditions. When renewing existing FPI contracts, Southern TCMT personnel were required to evaluate supplier provided fuel receipts and certification of actual usage for the month prior to renewal and modify the contract baseline fuel ppg to ensure it reflects local market conditions.[5]

We reviewed 204 HCR contracts from a total universe of 3,086[6] (see Table 1).

Table 1. HCR Contracts Universe and Sample Selection

HCR Contract Type	Universe of HCR Contracts	Sampling Method[7]	Sample HCR Contracts
Transportation	1,256	Statistical	81
CDS	1,830	Judgmental	123
Total	**3,086**	**-**	**204**

Source: U.S. Postal Service Office of Inspector General (OIG) analysis of Postal Service contract list as of April 1, 2016.

3 Contract baseline fuel ppg is the initial price per gallon of fuel established for the contract.
4 Local market conditions are the public retail fuel prices from local gas stations.
5 Fuel Management Program for HCRs, dated June 2013, Sections 3.1, 4.1 and 4.2.
6 The active contract list administered by the Southern TCMT as of April 1, 2016, was provided by the Postal Service.
7 We selected 81 Transportation contracts using the OIG standard of a 95 percent confidence level. We selected 123 CDS contracts based on the highest differences between DOE regional index prices and Postal Service contract baseline fuel ppg.

The Southern TCMT electronically maintained all contract files in TCSS.[8] Of the 204 sampled contracts reviewed, we found that 176[9], or 86 percent, of the contracts did not have supporting documentation for the established contract baseline fuel ppg. The remaining 28, or 14 percent, of HCR contract files contained some level of supporting documentation[10] (see Table 2).

Table 2. Review of Supporting Documentation for Fuel PPG of Sampled HCR Contract Files

HCR Contract Type	Sampled HCR Contracts	HCR Contracts With Fuel Receipts for PPG	HCR Contracts With No Fuel Receipts for PPG	Percentage of HCR Contracts With No Fuel Receipts for PPG
Transportation	81	22	59	73%
CDS	123	6	117	95%
Total	**204**	**28**	**176**	**86%**

Source: OIG review Postal Service contract files in TCSS.

Additionally, the 204 sampled contract files we reviewed did not contain the proper justification and documentation to evaluate and modify the contract fuel baseline ppg.

This occurred because Postal Service Headquarters Supply Management did not develop contract fuel baseline ppg policies and procedures for negotiating with HCR suppliers.[11] Instead, in February 2015, they provided training to the TCMTs on managing the upcoming transition of the HCR contracts under the Voyager Card Program to FPI. Additionally, because of insufficient management oversight, the Southern TCMT was not following the fuel certification process for evaluating contract baseline fuel ppg and determining that it reflected local market conditions. Consequently, the Postal Service is at risk of overpaying HCR suppliers based on unsupported baseline fuel ppg.

We used the DOE's regional fuel index as a benchmark price for all HCR contracts administered by the Southern TCMT between April 2014 and March 2016. Our comparison determined that the Postal Service incurred excess fuel costs of about $7.5 million during this period.

In addition, we conducted a separate analysis to understand fuel price market conditions and because the Manager, Surface Transportation — Category Management Center stated that retail prices could be lower than the DOE regional rate. We compared 12 judgmentally selected HCR supplier contracts[12] with high priced fuel baseline ppg to local fuel prices. We used a national online fuel pricing service, GasBuddy, to develop this comparison. We identified the physical location of facilities served by HCR suppliers and used the GasBuddy website to collect local market fuel prices for a period of 1 week[13] based on city, state, and fuel type. We calculated an average of the local fuel price from the daily fuel price data and compared it to the DOE's regional fuel index rate and the Postal Service's contract fuel ppg.[14]

8 The Southern TCMT contracting officer stated that all HCR supplier contract files are electronically maintained, including all related documents.
9 Ten of the 176 HCR contract files contained only the HCR suppliers' fuel information spreadsheet. These spreadsheets are not sufficient for establishing the baseline fuel ppg.
10 We found some of the following supporting documentation in the HCR contract files: fuel certification form with receipts for 1 month prior to contract renewal, local fuel prices printout from GasBuddy or other public sources, DOE regional index prices printout, and fuel purchased card transactions.
11 After July 1, 2015, the contract baseline fuel ppg was supposed to be a negotiated price. The Southern TCMT contracting officer postponed implementation of negotiations and instructed staff to continue using the Fuel Management Program for renewals and new solicitations.
12 The 12 contracts within our scope period included six HCR transportation contracts and six CDS contracts where the contract fuel ppg were significantly different from the DOE's regional fuel indexes.
13 August 15-19, 2016.
14 DOE regional fuel index prices were based on published rates for August 15, 2016. The Postal Service contract fuel ppg was based on August 2016 rates.

We found that, on average, the Postal Service was paying about $1.08 more per gallon compared to local fuel prices for these contracts. Further, we noted the DOE's regional index prices were comparable to local market prices on the GasBuddy website (see Table 3 for examples of fuel price comparison). We made a referral to the OIG's Office of Investigations concerning this issue.

Table 3. Postal Service Fuel PPG vs. Local Market and DOE Rates

HCR Contracts[15]	State	Fuel Type	Average Local Market Fuel PPG	DOE Regional Index Fuel PPG	Postal Service Fuel PPG	Average Difference In Fuel PPG[16]
7	GA	Unleaded	$1.96	$2.02	[redacted]	[redacted]
6	SC	Unleaded	1.86	2.02	[redacted]	[redacted]
1	LA	Unleaded	1.94	1.94	[redacted]	[redacted]
12	AR	Unleaded	1.94	1.94	[redacted]	[redacted]
8	FL	Unleaded	2.06	2.02	[redacted]	[redacted]
10	LA	Unleaded	1.98	1.94	[redacted]	[redacted]
3	NJ	Diesel	2.01	2.41	[redacted]	[redacted]
4	NY	Diesel	2.38	2.41	[redacted]	[redacted]
9B	FL	Diesel	2.30	2.23	[redacted]	[redacted]
9C	FL	Diesel	2.33	2.23	[redacted]	[redacted]
9A	FL	Diesel	2.31	2.23	[redacted]	[redacted]
2	NJ	Diesel	2.33	2.41	[redacted]	[redacted]
9D	FL	Diesel	2.37	2.23	[redacted]	[redacted]
11	AR	Diesel	2.22	2.18	[redacted]	[redacted]
5	NY	Diesel	2.53	2.41	[redacted]	[redacted]
Total Average	-	-	**$2.17**	**$2.17**	[redacted]	[redacted]

Source: GasBuddy website, Energy Information Administration, and Postal Service TCSS.

Fuel Price Index Adjustments

We found that the FPI automated fuel adjustment process was generally effective. We reviewed and analyzed about 73,000 automated monthly FPI adjustments[17] made between April 2014 and March 2016 and determined that about 67,200, or 92 percent, were timely and accurate.

About 5,100 fuel adjustments, or 7 percent of the monthly DOE regional fuel index prices in January 2015, were incorrect due to manual input errors. The specialist from the Western TCMT notified the Southern TCMT of the errors. Subsequently, the Postal Service corrected the errors in February 2015 without monetary impact. Additionally, the Southern TCMT instituted a double-check verification process for inputting rates to avoid future errors. On a monthly basis, a TCMT specialist manually inputs the 15 possible DOE regional indexes for the fuel ppg and these are reviewed by another TCMT specialist and an Information Technology TCSS specialist for accuracy before the adjustment is activated. Therefore, we are not making a recommendation.

15 Contract 9 includes four cost segments – A, B, C, and D. Each cost segment has a separate fuel ppg.
16 We calculated the average difference in fuel ppg based on the difference between the Postal Service's fuel ppg and the average local market fuel ppg.
17 We reviewed and analyzed all automated monthly FPI adjustments for our scope period based on active contracts as of April 1, 2016.

We did not validate the remaining 700 fuel adjustments, or 1 percent, which were not made correctly due to pending service change requests that resulted in delayed fuel index adjustments. See Table 4 for the summary of our analysis on the FPI adjustments.

Table 4. FPI Adjustments Analysis

Category	FPI Adjustments	Percent
Correct Adjustments	67,187	92%
Incorrect Adjustments (Fixed by Postal Service)	5,071	7%
Incorrect Adjustments (Not Validated by OIG)	727	1%
Total	**72,985**	**100%**

Source: OIG analysis of Enterprise Data Warehouse (EDW), TCSS, and DOE data for FPI adjustments.

Recommendations

We recommend management develop and implement national policy and procedures for establishing the contract baseline fuel price per gallon and document market analysis to include supplier documentation and written evaluations supporting the best value.

We recommend the vice president, Supply Management:

1. Develop and implement as soon as practical a national policy and procedures for establishing the highway contract route contract baseline fuel price per gallon to ensure adequate oversight and documentation for current and future contracts.

2. Develop and document market analysis to determine the lowest fuel price per gallon for each highway contract route that incorporates at a minimum the U.S. Department of Energy regional fuel index as well as local market fuel pricing. If the negotiated price is greater than the market analysis, the contracting officer must provide supplier documentation and written evaluation substantiating that this is the best value.

Management's Comments

Management agreed with the findings and monetary impact and agreed in part with the recommendations. Management identified that they award contracts based on "best value" and the OIG report focuses on obtaining the lowest fuel cost. Management stated that fuel cost is only one aspect of the contract price used to determine price reasonableness.

As a result, we requested management provide clarification concerning their response. The OIG had a meeting with management on December 1, 2016, to discuss and fully understand management's proposed actions for implementing the recommendations.

Regarding recommendation 1, management stated they will ensure that policies and procedures provide guidance for negotiating and documenting the HCR contract baseline fuel ppg for new contract actions and that this cost is evaluated as part of best value. Management will also issue a communication to reinforce the need to consistently document contract files. Management subsequently provided clarification that the new policy would apply to renewals and new contracts. Policy changes will not affect ongoing contracts until the updated policy is incorporated into the contracts. The target implementation date is November 2017.

Regarding recommendation 2, management stated they would reinforce the requirement that contracting officers document the analysis of proposed fuel costs and include appropriate documentation in the contract file for the award decision. Management stated that their objective is to obtain a fair and reasonable price for the entire service, of which fuel cost is one component.
As stated in their response to recommendation 1, management will ensure their policies and procedures provide guidance for negotiating and documenting the HCR contract baseline fuel ppg. Management further clarified that they are considering a new overall strategy for HCRs, such as using a rate per mile option. In addition, management is reviewing their current requirement for HCR suppliers to submit a breakout of price components. Management plans to reach a decision by November 2017.

In the interim, management said that they are developing guidance for a market fuel analysis that will include local market prices as well as the DOE rate. After issuing the guidance, COs will be required to use this analysis to determine if proposed fuel prices are fair and reasonable and provide the best overall value to the Postal Service. As part of the best value determination, COs will be required to document the rationale and negotiations with HCR suppliers.

Management plans to provide this guidance to Surface CMC specialists in February 2017. This guidance could become permanent in November 2017 if another option is not approved.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's written comments and their subsequent December 2016 meeting with the OIG to be responsive to the recommendations in the report and the corrective actions should resolve the issues identified in the report.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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.

Appendices

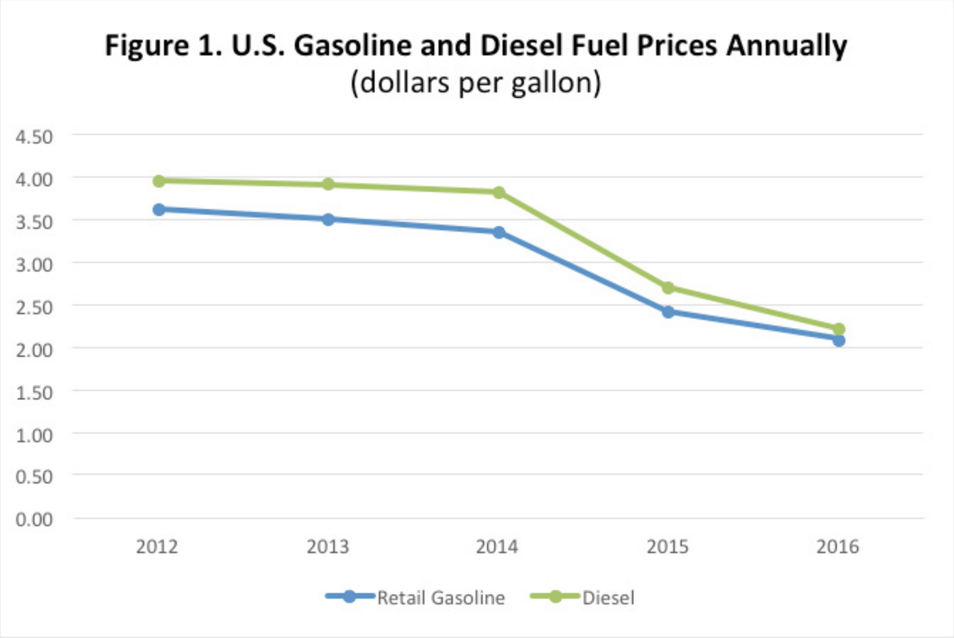
Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Background

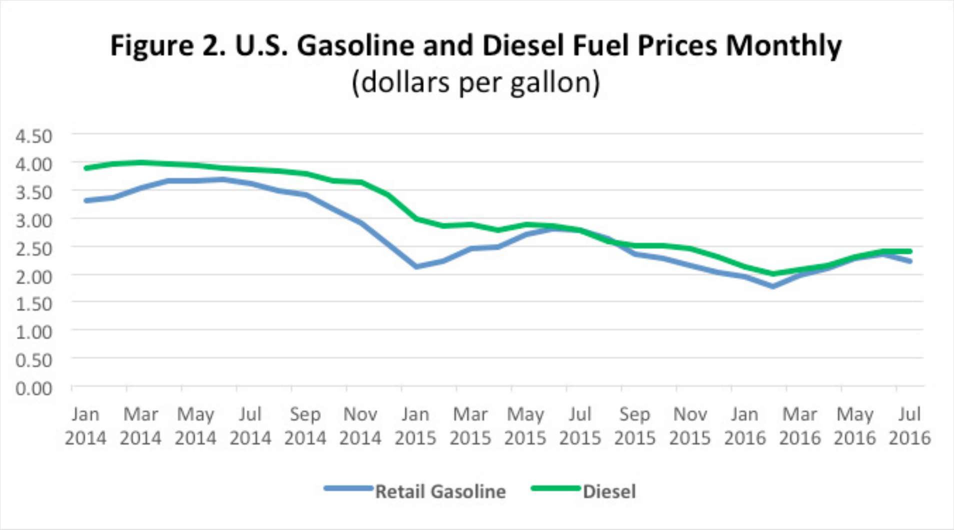
Fuel prices are constantly fluctuating and have dramatically declined since 2014. The Postal Service's overall transportation expenses also benefited from lower fuel costs. In FY 2015, the Postal Service spent about $713 million on fuel for HCR suppliers. In FY 2016, the projected fuel cost is about $513 million.

The Energy Information Administration tracked national average retail gasoline and diesel fuel prices annually from 2012 to July 2016, and Figure 1 shows the decline in prices started in 2014, going from around $3.80 to $2.20 per gallon for diesel fuel.



Source: Data obtained from Energy Information Administration.

Figure 2 shows the national average retail gasoline and diesel fuel prices monthly from January 2014 to July 2016. This graph shows the decline in gasoline fuel prices from around $3.70 to $1.80 per gallon and for diesel fuel prices from around $4.00 to $2.00 per gallon.



Source: Data obtained from Energy Information Administration.

Objective, Scope, and Methodology

Our objective was to assess the effectiveness of the Postal Service's FPI program at the Southern TCMT in Memphis, TN. This is one in a series of projects on the FPI program.

Our audit focused on the FPI adjustments and contract baseline fuel ppg between April 2014 and March 2016. To accomplish our objective, we:

- Reviewed Postal Service policies and procedures relating to FPI adjustments and contract baseline fuel ppg.
- Selected the Southern TCMT for review, as the team is responsible for manually entering the DOE's monthly fuel index prices in the TCSS for FPI adjustments.
- Obtained a list of active HCR FPI contracts that the Southern TCMT had administered as of April 1, 2016, from Postal Service Headquarters.
- Obtained the DOE's regional fuel index prices and calculated monthly FPI adjustments based on Postal Service policy for our scope period.
- Obtained and analyzed FPI adjustment data from the EDW for our scope period and determined whether adjustments were being made timely and accurately.
- Interviewed Postal Service Headquarters Supply Management managers and Postal Service personnel at the Southern TCMT to discuss policies and procedures related to FPI adjustments and establishing contract baseline fuel ppg.
- Selected a statistical sample of contracts of transportation routes and a judgmental sample of CDS routes for review.
- Reviewed selected contract files maintained in TCSS to determine whether the contract baseline fuel ppg was effectively set.
- Conducted a limited fuel price comparison using a national online fuel pricing service (GasBuddy).

We conducted this performance audit from May through December 2016, 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 October 12, 2016, and included their comments where appropriate.

We assessed the reliability of EDW data on contract fuel ppg used in this report by validating the data to TCSS and source documents. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
Highway Contract Routes – Miles per Gallon Assessment	To assess MPG used in the HCR program.	NO-AR-14-008	5/27/2014	$287

Appendix B: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

UNITED STATES POSTAL SERVICE

November 8, 2016

LORI LAU DILLARD

SUBJECT: Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team (Report Number NL-AR-17-DRAFT)

Thank you for providing the United States Postal Service (USPS) with an opportunity to review and comment on the draft audit report, Highway Contract Route Fuel Price Index Program for the Southern Transportation Category Management Team. Management is in agreement with the findings and monetary impact and agrees in part with the recommendations associated with the draft report. The following is our response to the recommendations contained in the report.

The USPS awards contracts on the basis of "best value," which considers price and other factors in our award decisions. The OIG's report focuses on obtaining the lowest fuel price. The fuel price is only one element of the total contract price that contracting officers consider in their analysis to determine if the price is realistic and reasonable. Through the contracting officers' best value analysis, there may be times when the overall price is fair and reasonable even though the contract fuel price is not lower than market or index prices.

We recommend the Vice President, Supply Management:

Recommendation 1: Develop and implement as soon as practical a national policy and procedures for establishing the highway contract route contract baseline fuel price per gallon to ensure adequate oversight and documentation for current and future contracts.

Management Response to Recommendation 1: Management agrees in part with this recommendation. We will ensure our policies and procedures establish guidance for negotiating and documenting the highway contract route (HCR) contract baseline fuel price per gallon. Any policy changes implemented will apply to new contract actions. The USPS negotiates the number of gallons and the price per gallon baseline for fuel, and these costs are evaluated as a part of the best value award process. The report found some supporting documentation in contract files, though this documentation was not consistent. Management will issue a communication to reinforce the need to consistently document contract files.

Target Implementation Date: November 2017

Responsible Official: Manager, Supply Management Infrastructure and Manager, Surface Transportation.

Recommendation 2: Develop and document market analysis to determine the lowest fuel price per gallon for each highway contract route that incorporates at a minimum the U.S. Department of Energy regional fuel index as well as local market fuel pricing. If the negotiated price is greater than the market analysis, the contracting officer must provide supplier documentation and written evaluation substantiating that this is the best value.

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Management Response to Recommendation 2: Management agrees with this recommendation in part. We will reinforce that contracting officers document the analysis of the proposed fuel cost and include appropriate documentation in the contract file. Our procurement price objective is to obtain a fair and reasonable price for the total service awarded. The USPS evaluates the cost of fuel as a component of the total price when we negotiate HCR contracts. The award decision may be to an offeror that proposes other than the lowest fuel price. As stated in our response to Recommendation 1, the USPS will ensure our policies and procedures establish guidance for negotiating and documenting the contract baseline fuel price per gallon.

Target Implementation Date: November 2017

Responsible Official: Manager, Supply Management Infrastructure and Manager, Surface Transportation.

Susan M. Brownell

cc: Manager, Corporate Audit Response Management

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