



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

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

Audit Report

Report Number
NL-AR-17-005

May 2, 2017





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Eastern TCMT did not effectively establish the contract baseline fuel ppg.

Background

The U.S. Postal Service uses supplier-operated highway contract (HCR) routes to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail. In fiscal year (FY) 2016, the Postal Service spent about \$524 million on fuel for HCR suppliers.

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.

We selected the Eastern TCMT in Largo, MD, because it manages about 3,000 of the 13,800 HCR contracts under the Fuel Price Index (FPI) program. We examined HCR contracts administered between October 2014 and September 2016. Our objective was to assess the effectiveness of the Postal Service's FPI program at the Eastern TCMT. This is the second project in a series.

What the OIG Found

We found that the Eastern TCMT did not effectively establish the contract baseline fuel ppg. Specifically, 163 of the 195 Eastern TCMT contracts we reviewed, or 84 percent, did not have documentation to support the contract baseline fuel ppg. We also found that 189 of the 195 contracts, or 97 percent, did not have sufficient justification and documentation for evaluating

and ensuring that contract baseline fuel ppg reflected local market conditions.

This occurred because management did not develop contract fuel baseline ppg policies and procedures for negotiating with HCR suppliers or evaluating the fuel baseline ppg.

We found that 62 of the 189 contracts, or 33 percent, that lacked sufficient justification and documentation had a fuel ppg that exceeded either the Department of Energy's (DOE) fuel price or the local market fuel price. We noted that the DOE's regional fuel index prices were comparable to local market fuel prices. Therefore, for Eastern TCMT HCR contracts administered between October 2014 and September 2016, the Postal Service could be overpaying HCR suppliers about \$3.97 million annually based on using a monthly contract fuel ppg that is higher than the DOE's regional fuel index.

We are not making policy recommendations related to establishing the contract baseline fuel ppg or ensuring the ppg reflects the lowest market price unless justified by the contracting officer as being the best value. A previous OIG report covering only the Southern TCMT still has open recommendations concerning these issues and management stated they would develop and implement interim guidance to cover these recommendations by March 2017.

What the OIG Recommended

We recommended management ensure the planned interim fuel guidance is implemented for all HCR contracts scheduled for March 2017.



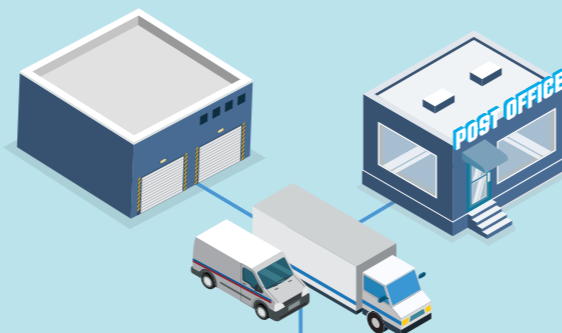
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FINDINGS

HCR Fuel Price Index Program Eastern Transportation Category Management Team

The Postal Service uses supplier-operated HCR to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail.



The Eastern TCMT did not ensure that established contract baseline fuel price per gallons reflected local market conditions and the baseline was largely unsupported.



We found that 163 of the 195 Eastern TCMT contracts reviewed, or 84 percent, did not have sufficient documentation to support the contract baseline fuel ppg.



We also found that 189 of the 195 contracts, or 97 percent, did not have sufficient justification and documentation for evaluating and ensuring that contract baseline fuel ppg reflected local market conditions.


Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 2, 2017

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

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop


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

SUBJECT: Audit Report – Highway Contract Route Fuel Price
Index Program – Eastern Transportation Category
Management Team (Report Number NL-AR-17-005)

This report presents the results of our audit of the U.S. Postal Service's Highway Contract Route Fuel Price Index Program – Eastern Transportation Category Management Team (Project Number 17XG002NL000).

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 and Audit Response Management

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Findings

The Eastern TCMT did not ensure that established contract baseline fuel ppgs reflected local market conditions and the baseline 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 17XG002NL000). Our objective was to assess the effectiveness of the Postal Service's FPI program as administered by the Eastern Transportation Category Management Team (TCMT). This is the second project in a series. 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 and Contract Delivery Service (CDS) routes, which make up the largest single group of transportation services in the Postal Service. In fiscal year (FY) 2016, the Postal Service spent about \$524 million on fuel for HCR suppliers.

TCMTs 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. We selected the Eastern TCMT in Largo, MD, because it manages about 3,000 of the 13,800 HCR contracts under the FPI program. We examined HCR contracts administered between October 2014 and September 2016.

Summary

We found that the Eastern TCMT did not effectively establish the contract baseline fuel ppg. Specifically, 163 of the 195 Eastern TCMT contracts we reviewed, or 84 percent, did not have sufficient documentation to support the contract baseline fuel ppg. We also found that 189 of the 195 contracts, or 97 percent, did not have sufficient justification and documentation for evaluating and establishing the contract baseline fuel ppg to reflect local market conditions.

This occurred because management did not develop contract fuel baseline ppg policies and procedures for negotiating with HCR suppliers or evaluating the fuel baseline ppg.

We found that 62 of the 189 contracts, or 33 percent, that lacked sufficient justification and documentation had a fuel ppg that exceeded the Department of Energy's (DOE) fuel price or the local market fuel price. We noted that the DOE's regional fuel index prices were comparable to local market fuel prices. Therefore, for Eastern TCMT HCR contracts administered between October 2014 and September 2016, we determined the Postal Service could be overpaying HCR suppliers about \$3.97 million annually based on using a monthly contract fuel ppg that is higher than the DOE's regional fuel index.

Contract Baseline Fuel Price per Gallon

The Eastern TCMT did not ensure that established contract baseline fuel ppgs¹ reflected local market conditions² and the baseline was largely unsupported. TCMTs are required to evaluate³, negotiate⁴, and document a contract's baseline fuel ppg that reflects local market conditions at the time of contract negotiations.

1 Initial fuel ppgs established for the contract.

2 Public retail fuel prices from local gas stations.

3 Fuel Management Program, Sections 3 and 4, Determining Contract Baseline Fuel Price per Gallon – Awards and Renewals, June 2013.

4 Voyager Decommission Plan training presentation dated February 20, 2015.

We found that 163 of the 195 Eastern TCMT contracts reviewed, or 84 percent, did not have sufficient documentation to support the contract baseline fuel ppg (see Table 1).

Table 1. Review of Supporting Documentation for Establishing Fuel PPG

HCR Contract Type	Sampled HCR Contracts	HCR Contracts With Sufficient Support ⁵	HCR Contracts With Insufficient Support ⁶	Percentage of HCR Contracts With Insufficient Support
Transportation	159	26	133	84%
CDS	36	6	30	83%
Total	195	32	163	84%

Source: U.S. Postal Service Office of Inspector General (OIG) review of Postal Service contract files.

We also found that 189 of the 195 contracts, or 97 percent, did not have sufficient justification and documentation for evaluating and ensuring that contract baseline fuel ppg reflected local market conditions (see Table 2). Of the 189 HCR contract files reviewed, we found that 121 did not contain supporting documentation for the local market ppg evaluation. The remaining 68 contract files contained some level of documentation, but either did not identify local market fuel ppg or justify why the higher fuel ppg was used as the contract baseline fuel ppg.

Table 2. Review of Supporting Documentation for Local Market Evaluation

HCR Contract Type	Sampled HCR Contracts	HCR Contracts With Sufficient Support ⁷	HCR Contracts With Insufficient Support	Percentage of HCR Contracts With Insufficient Support
Transportation	159	6	153	96%
CDS	36	0	36	100%
Total	195	6	189	97%

Source: OIG review of Postal Service contract files.

This occurred because Supply Management did not develop contract fuel baseline ppg policies and procedures for negotiating with HCR suppliers or evaluating the fuel baseline ppg.

- 5 We found some of the following supporting documentation in the HCR contract files: fuel certification form with receipts, local fuel prices printout from GasBuddy or other public sources, DOE regional index prices printout, and transactions for fuel purchased with a credit card. These documents are sufficient for establishing the baseline fuel ppg.
- 6 One hundred twenty-one of the 163 HCR contract files contained no supporting documentation for the established fuel ppg. The remaining 42 contract files contained some level of supporting documentation, but we were unable to validate the established fuel ppg; therefore, we considered the documentation insufficient for establishing the baseline fuel ppg.
- 7 We found local fuel prices printout from GasBuddy or other public sources as the supporting documentation in the HCR contract files. These documents are sufficient to support the local fuel market evaluation.

We found that 62 of the 189 contracts that lacked sufficient justification and documentation, or 33 percent, had a fuel ppg that exceeded either that of the DOE fuel price or the local market fuel price⁸. We noted that the DOE's regional fuel index prices were comparable to local market fuel prices; therefore, we used the DOE's regional fuel index as the benchmark fuel price for all Eastern TCMT HCR contracts administered between October 2014 and September 2016. We determined that the Postal Service is at risk of overpaying HCR suppliers about \$7.9 million for FYs 2015 and 2016 (or \$3.97 million annually), based on using a higher monthly contract fuel ppg than the DOE's regional fuel index.

We are not making policy recommendations related to establishing the contract baseline fuel ppg or ensuring that the baseline fuel ppg reflects the lowest market price unless the contracting officer (CO) justifies it as the best value. A previous OIG report (*Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team*, Project Number [NL-AR-17-002](#), dated December 9, 2016) still has open recommendations concerning these issues. Management stated they would develop interim guidance to implement these recommendations by March 2017. The guidance will require using a market fuel analysis that, at a minimum, includes DOE rate and local market prices to determine whether proposed fuel prices are fair and reasonable and COs will be required to document the rationale and negotiations.

⁸ We obtained city average fuel data from the Oil Price Information Service.

Recommendations

We recommend management ensure the planned interim fuel guidance scheduled for March 2017 is implemented for all HCR contracts.

We recommend the vice president, Supply Management:

1. Ensure the planned interim fuel guidance is implemented for all Highway Contract Route contracts as scheduled for March 2017.

Management's Comments

Management agreed with the finding, monetary impact, and recommendation. Management did state that the OIG report focused on obtaining the lowest fuel cost, whereas, HCR contracts are awarded based on "best value" with fuel cost as one aspect of the price.

Regarding the recommendation, management stated that they implemented guidance on fuel mileage and price determinations in March 2017, and would provide supporting documentation and request closure of the recommendation upon issuance of the final report.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

All recommendations require OIG concurrence before closure and written confirmation when corrective actions are completed. Management provided a March 13, 2017, presentation as interim guidance to support their closure request. The presentation requires a market analysis of local fuel prices and documentation of why the negotiated ppg is higher than the analysis determined. Therefore, the OIG considers the recommendation closed with the issuance of this report.

Appendices

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Appendix A: Additional Information

Background

Fuel prices are constantly fluctuating and have dramatically declined since 2014 and the Postal Service's overall transportation expenses have benefited from these lower fuel costs. In FY 2016, the Postal Service spent about \$524 million on fuel for HCR suppliers.

The Postal Service reorganized the five geographically based Category Management Centers into three centralized commodity-based offices:

- CDS are in Aurora, CO.
- Processing Network Transportation (long-haul trucking) is in Memphis, TN.
- Local Distribution Transportation (short-haul trucking) and Strategic Surface Procurement and Sourcing teams are in Largo, MD.

Objective, Scope, and Methodology

Our objective was to assess the effectiveness of the Postal Service's FPI program as administered by the Eastern TCMT. This is the second in a series of projects on the FPI program. Our audit focused on contract baseline fuel ppgs in FYs 2015 and 2016 (between October 2014 and September 2016).

To accomplish our objective, we:

- Reviewed and evaluated Postal Service policies and procedures relating to establishing a contract baseline fuel ppg.
- Obtained from Postal Service Headquarters a list of active HCR FPI contracts nationwide as of October 1, 2016. We selected the Eastern TCMT for review because it manages about 3,000 of the 13,800 HCR contracts under the FPI program.
- Selected a statistical sample of 195 contracts from the Eastern TCMT universe of 2,964 contracts within our scope using the OIG standard of a 95 percent confidence level. We reviewed available contract files maintained in the Transportation Contract Support System (TCSS) and at the Eastern TCMT office for supporting documentation (see [Table 3](#)).
- Obtained, compared, and evaluated contract fuel data from the Enterprise Data Warehouse (EDW) and DOE's monthly regional fuel index prices and for our scope period.
- Obtained, compared, and evaluated contract fuel ppg from EDW with the fuel index price from DOE and the local market fuel data from Oil Price Information Service for October 2016.
- Conducted an onsite review and evaluation of hard copy contract files at the Eastern TCMT in Largo, MD, and interviewed Postal Service Supply Management managers and Eastern TCMT personnel to discuss policies and procedures for establishing the contract baseline fuel ppg.

Table 3. HCR Contracts Universe and Sample Selection

HCR Contract Type	HCR Contract Universe	Sampling Method	HCR Contract Sample
Transportation	1,635	Statistical	159
CDS	1,329	Statistical	36
Total	2,964	--	195

Source: OIG analysis of Postal Service contract list as of October 1, 2016.

We conducted this performance audit from October 2016 through May 2017, 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 presented our observations and conclusions to Postal Service management on March 16, 2017, 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)
<i>Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team</i>	Assess the effectiveness of the Postal Service’s FPI program at the Southern TCMT in Memphis, TN.	NL-AR-17-002	12/9/2016	\$7.5
<i>Highway Contract Routes – Miles per Gallon Assessment</i>	Assess miles per gallon 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



April 25, 2017

LORI LAU DILLARD

SUBJECT: Highway Contract Route Fuel Price Index Program – Eastern 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 subject draft audit report, "Highway Contract Route Fuel Price Index Program – Eastern Transportation Category Management Team." Management agrees with the findings, monetary impact, and recommendation associated with the draft report.

As previously discussed in management's response to the "Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team" draft audit report, it is noted that the Postal Service 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 price that contracting officers consider in their analysis in negotiating the contract value. There may be times that contracting officers determine the overall price of a Highway Contract Route service to offer best value to the Postal Service even though the proposed fuel price is not lower than market or index prices.

We recommend the Vice President, Supply Management:

Recommendation 1: Ensure the planned interim fuel guidance is implemented for all Highway Contract Route contracts as scheduled for March 2017.

Management Response to Recommendation 1: Management agrees with this recommendation. Management has established and implemented procedural guidance on fuel mileage and fuel price determinations, and provided training on this guidance, for Surface Transportation Category Management Center personnel. This procedural guidance is consistent with the policy framework of the Supplying Principles and Practices, the Postal Service's purchasing guidelines. This was accomplished in March 2017 as planned.

Target Implementation Date: Completed. Closeout of this recommendation is requested upon issuance of the final report. Supporting documentation for this request will be provided separately.

A handwritten signature in cursive script that reads "Susan M. Brownell".

cc: Manager, Corporate Audit Response Management

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