Office of Inspector General | United States Postal Service

Audit Report

Highway Contract Route Fuel Price Index Program Effectiveness

Report Number NL-AR-18-008 | May 24, 2018

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Highlights

Objective

Our objective was to determine the effectiveness of the March 2017 Highway Contract Route (HCR) baseline fuel price per gallon (ppg) procedural guidance for all HCR contracts awarded or renewed between June 1 and October 1, 2017.

The U.S. Postal Service uses supplier-operated HCR to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail. In fiscal year (FY) 2017, the Postal Service spent about $597 million on fuel for HCR suppliers, which is about 16 percent of the total contract value of almost $3.7 billion for about 13,500 HCR contracts.

> *"We found the March 2017 procedural guidance for establishing the HCR contract baseline fuel price per gallon was not effective."*

This is our third and final report assessing the effectiveness of the Postal Service's fuel price index (FPI) program. In FY 2017, we issued two reports identifying that the Postal Service did not effectively establish the contract baseline fuel ppg for the Southern and Eastern Transportation Category Management Teams. We recommended management develop and implement national policy and procedures for establishing the contract baseline fuel ppg and document market analysis, including supplier documentation and written evaluations supporting best value for the contract baseline fuel ppg.

To address our recommendations, management implemented guidance for determining the contract baseline fuel ppg and in March 2017 trained Surface Transportation Category Management Center personnel. The guidance requires establishing the contract baseline fuel ppg based on a market analysis using Internet search engines and source documentation to support the local fuel price analysis. Setting an accurate baseline is critical to the effectiveness of this program. When the baseline fuel ppg is set at higher than the market analysis the contract specialists are to provide a written justification for the higher fuel rate.

The Postal Service uses the U.S. Department of Energy (DOE) regional fuel indexes to adjust the monthly fuel ppg when fuel index prices fluctuate by $0.05 or more in a month.

In this report, we reviewed 174 statistically sampled HCR contracts from the 1,094 HCR contracts awarded or renewed between June 1 and October 1, 2017.

What the OIG Found

We found the March 2017 HCR baseline fuel ppg guidance was not effective. Specifically, in the 174 statistically sampled contracts reviewed, we found:

- Forty (about 23 percent) had all of the required documentation, to include fuel price documentation.
- Seventy-one (about 41 percent) did not have the necessary documentation to meet any of the procedural guidance requirements.
- Forty-four (about 25 percent) did not have documentation supporting the market price analysis.
- Nineteen (about 11 percent) did not have justification documentation for establishing a ppg higher than the DOE's regional fuel index price or the local market fuel price.

During our review, we noted that 90 of the 174 reviewed contracts (about 52 percent) exceeded the DOE's regional fuel index price or the local market fuel price and did not have the required documentation.

This occurred because management did not establish processes to ensure compliance with the March 2017 guidance for the contract baseline fuel ppg.

Contract managers said the Postal Service awards contracts based on best value, which considers price and other factors in its award decisions. Additionally, they said that they trust their specialists to perform their work and do not have the resources to validate and ensure compliance with the requirements of the procedural guidance for about 14,000 HCR contracts.

Insufficient documentation could affect the contract award decision. Consequently, the Postal Service could have overpaid 707 of the 1,094 HCR suppliers by over $606,000 between June and December 2017. The fuel price differences ranged from $0.01 to $1.40 per gallon above the DOE's regional index price. We estimated that annually this could be over $1 million. This was based on the monthly contract fuel ppg being higher than the DOE's regional fuel index price.

What the OIG Recommended

We recommend management establish periodic review processes to ensure Surface Transportation Category Management Center personnel are following the March 2017 guidance for establishing the contract baseline fuel price per gallon.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 24, 2018

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 Effectiveness (Report Number NL-AR-18-008)

This report presents the results of our audit of the U.S Postal Service's Highway Contract Route Fuel Price Index Program Effectiveness (Project Number 18XG001NL000).

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: Postmaster General
Chief Operating Officer and Executive Vice President
Corporate Audit Response Management

Results

Introduction/Objective

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 Effectiveness (Project Number 18XG001NL000). Our objective was to determine the effectiveness of the March 2017 HCR baseline fuel price per gallon (ppg) procedural guidance for all HCR contracts awarded or renewed between June 1 and October 1, 2017. See Appendix A for additional information about this audit.

We reviewed 174 statistically sampled HCR contracts from a total of 1,094 HCR contracts the Postal Service awarded or renewed between June 1 and October 1, 2017.

Background

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. In fiscal year (FY) 2017, the Postal Service spent about $597 million on fuel for HCR suppliers, which is about 16 percent of the total contract value of almost $3.7 billion for about 13,500 HCR contracts.

This is the third and final report assessing the effectiveness of the Postal Service's FPI program. In FY 2017, we issued two reports that identified that the Postal Service did not effectively establish the contract baseline fuel ppg for the Southern and Eastern Transportation Category Management Teams (TCMT).[1] We recommended management develop and implement national policy and procedures for establishing the contract baseline fuel ppg and document market analysis to include supplier documentation and written evaluations supporting the best value for the contract baseline fuel ppg.

To address our recommendations, management implemented procedural guidance[2] for determining the contract baseline fuel ppg and provided Surface Transportation Category Management Center personnel with training in March 2017. The guidance requires establishing the contract baseline fuel ppg based on a market analysis using Internet search engines and included source documentation to support the local fuel price analysis. Supporting documentation included print outs from GasBuddy or other public sources, such as Love's,[3] and a print out of the U.S. Department of Energy's (DOE) regional index prices for establishing the contract baseline fuel ppg. Setting an accurate baseline is critical to the effectiveness of this program. When the baseline fuel ppg is set higher than the market analysis the contract specialists are to provide written justification for the higher fuel rate.

The Postal Service uses the DOE's regional fuel indexes to adjust the monthly fuel ppg when any of the DOE's nine regional fuel index prices fluctuates by $0.05 or more in a single month.

Finding #1: Procedural Guidance for the Contract Baseline Fuel Price

"We found 134 HCR contracts of the 174 sampled contracts (about 77 percent) did not have the supporting documentation required by the procedural guidance."

We found the procedural guidance for establishing the contract baseline fuel ppg was not effective. Specifically, we found 134 HCR contracts of the 174 sampled contracts (about 77 percent) did not have the supporting documentation required by the procedural guidance. This occurred because management did not establish processes to ensure compliance with the March 2017 procedural guidance. With insufficient documentation and fuel ppg baselines above the DOE's regional index price, we estimated the Postal Service could have overpaid 707 of the 1,094 HCR suppliers by over $606,000 between June and December 2017.

1 *HCR FPI Program – Southern TCMT* (Report Number NL-AR-17-002, dated December 9, 2016) and *HCR FPI Program – Eastern TCMT* (Report Number NL-AR-17-005, dated May 2, 2017).
2 March 2017 *Fuel Mileage and Fuel Price Determinations* guidance.
3 GasBuddy is a tech company that operates apps and websites based on finding the most accurate, real-time fuel prices at more than 140,000 gas stations. Love's Travel Stops & Country Stores (commonly referred to as Love's) is a North American family-owned chain of more than 450 truck stops and convenience stores in 41 states and offers the location and fuel price search feature on their website.

Procedural Guidance Not Effective

We found that a total of 134 of the 174 sampled HCR contracts (about 77 percent) did not have supporting documentation in the contract files to meet the requirements of the procedural guidance (see Table 1).

Table 1. Review of HCR Contracts and Supporting Documentation for Fuel PPG

Description	Number of HCR Contracts	Percentage of HCR Contracts
Contracts had all required documentation.	40	23%
Contracts did not have the necessary documentation to meet any of the procedural guidance requirements.	71	41%
Contracts did not have documentation to support a market price analysis.	44	25%
Contracts did not have justification documentation for establishing a higher ppg.	19	11%
Total HCR Sampled Contracts	**174**	**100%**

Source: U.S. Postal Service Office of Inspector General (OIG) review of Postal Service contract files in the Transportation Contract Support System (TCSS).

Specifically, for the market analysis, we found 115 of the 134 HCR contracts (about 86 percent) had no supporting source documentation, including print outs from GasBuddy or other public sources such as Love's, or a print out of the DOE's regional index prices. We found documented local market analyses on different forms[4] (see Figure 1 and Figure 2 for examples of the forms) in 29 contract files (about 25 percent). However, none of them had supporting documentation for the market analysis.

Figure 1. Example of Form Used for Market Analysis

Decision Point 3

Perform a market analysis to compare average industry fuel rates to the supplier's proposed fuel rate. Fill in the shaded areas below.
DOE Rate, Supplier Proposed Rate, and 1 Third Party Benchmark Rate is REQUIRED
*Reminder- Are there any fuel discounts reflected in the price per gallon?

FUEL REGION (DOE PADD)	SELECT FUEL REGION
CLICK TO CHECK CURRENT DOE FUEL RATE (Specialist: insert DOE rate in shaded box to the right.)	
SUPPLIER'S PROPOSED FUEL RATE PER GALLON (Fuel rate per gallon from Form 7468 Line 6)	[redacted]
CLICK TO CHECK THIRD PARTY BENCHMARK FUEL RATE (Gas Buddy) (Specialist: insert benchmark rate in shaded box to the right.)	
CLICK TO CHECK THIRD PARTY BENCHMARK FUEL RATE (Pilot Flying J) (Specialist: insert benchmark rate in shaded box to the right.)	
CLICK TO CHECK THIRD PARTY BENCHMARK FUEL RATE (Loves) (Specialist: insert benchmark rate in shaded box to the right.)	

SUMMARY

SPECIALIST'S STARTING POINT FOR NEGOTIATION
Fill in the shaded areas below.

Date Analysis Performed	Tuesday, June 06, 2017
Contract Number	[redacted]
Supplier Name	
Route Type	
Origin	
Destination	

Supplier's MPG vs Industry Average MPG	Supplier's Fuel Rate vs DOE Fuel Rate
SUPPLIER'S MPG	SUPPLIER'S FUEL RATE
11.00	$2.3401
INDUSTRY AVERAGE MPG	DOE FUEL RATE
9.3	$0.0000
MPG % OVER OR BELOW INDUSTRY AVERAGE	PROPOSED FUEL RATE (+/-) DOE
18.28%	$2.3401

Source: TCSS.

4 Forms in Figure 1 and 2 were used in some contracts as a tool for the fuel analysis in support of the baseline fuel ppg. However, these two forms are not required by the procedural guidance.

Figure 2. Example of Form Used for Market Analysis

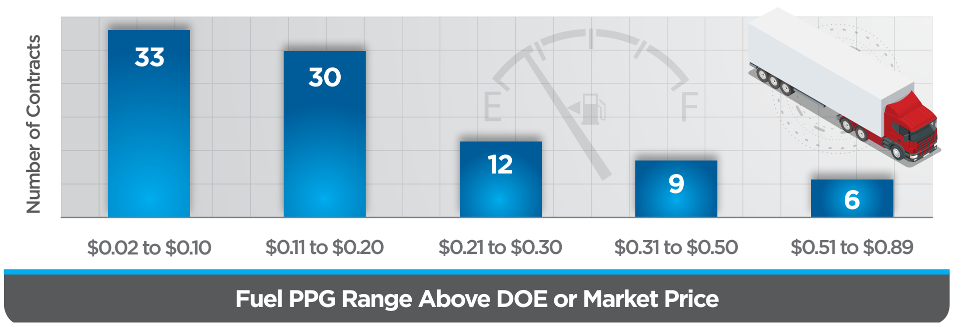
[redacted]

Source: TCSS.

During our review, we noted that 90 of the 174 reviewed contracts (about 52 percent) exceeded the DOE's regional fuel index price or the local market fuel price and did not have the required documentation. We identified that the 90 HCR contracts had a baseline fuel ppg that either exceeded the DOE's regional fuel index price or the local market fuel price by $0.02 to $0.89 per gallon (see Figure 3).

The contract specialists did not have documented justifications for a higher ppg than the local market price or the DOE regional fuel index. We also noted that the contract specialists were using the incorrect DOE region and fuel type for their local fuel market analyses in 26 HCR contracts that had supporting documentation for the market analysis. The procedural guidance requires contract specialists to negotiate and document the evaluation of and justification for the fuel ppg when the negotiated price is higher than the market analysis price.

Figure 3. Sampled Contracts with no Justification and Range of Fuel PPG Above DOE or Market Price



Source: Postal Service contract files in TCSS and DOE regional fuel index prices.

Compliance Not Ensured

This occurred because management did not establish processes to ensure compliance with the March 2017 procedural guidance. Transportation contract managers said the Postal Service awards contracts based on best value, which considers price and other factors, and the OIG only focused on the fuel cost, which is just one element of the total contract price used to determine price reasonableness. It should be noted that fuel was about 18 percent of the total value of our sampled contracts and 16 percent of the FY 2017 total HCR cost.

The fuel cost component of the HCR contracts could become greater when fuel prices increase. Our concern about the effect of increasing fuel prices on the Postal Service was discussed in *Fuel Consumption and Cost Risk Mitigation* (Report Number NL-AR-17-004, dated April 24, 2017) Additionally, these managers said they trust their specialists to perform their work and do not have the resources to validate and ensure they are meeting procedural guidance requirements for about 14,000 HCR contracts.

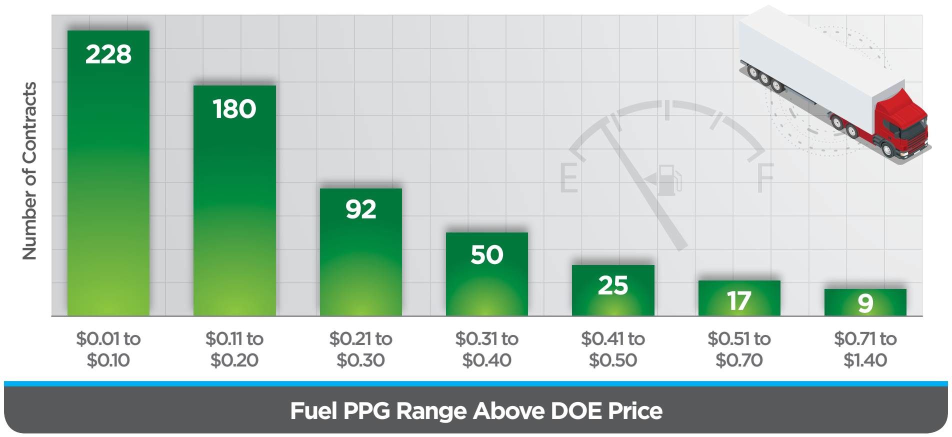
"We recommend management establish periodic review processes to ensure the March 2017 guidance for establishing the contract baseline fuel price per gallon is being followed."

Fuel Overpayments

Insufficient documentation for the contract baseline fuel ppg could affect the contract award decision and result in overpayment of fuel costs. We identified contracts with fuel ppgs that were higher than the DOE's regional fuel index price and calculated the difference between the monthly contract fuel ppg for each HCR contract and the applicable DOE regional index price to determine excess fuel costs.

We reviewed the 1,094 HCR contracts the Postal Service awarded or renewed between June 1 and October 1, 2017 and found that 707 contracts (about 65 percent) were above the DOE's regional fuel index price for June through December 2017. As a result, the Postal Service could be overpaying HCR suppliers over $606,000 in fuel costs. We estimated that annually this could be over $1 million. The fuel price differences ranged from $0.01 to $1.40 per gallon above the DOE's regional index price as of December 31, 2017, for 601 HCR contracts (see Figure 4).

Figure 4. Contracts and Range of Fuel PPG Above DOE as of December 31, 2017[5]



Source: OIG analysis of Enterprise Data Warehouse (EDW) fuel data and DOE regional fuel index prices.

Recommendation #1

Vice President, Supply Management, establish periodic review processes to ensure Surface Transportation Category Management Center personnel are following the March 2017 procedural guidance for establishing the contract baseline fuel price per gallon.

Management's Comments

Management agreed with the finding and recommendation and proposed an alternative action to address the recommendation. Management disagreed with the monetary impact.

Management commented that the OIG finding does not discuss the contracts with a fuel ppg that is lower than the DOE regional fuel index price and where the local market fuel price was used. As a result, management stated the OIG's finding does not present a complete representation of the situation.

5 Figure 4 represents the snapshot for the 601 of the 1,094 HCR contracts as of December 31, 2017.

Management disagreed with the monetary impact, stating that the OIG's interpretation of documentation requirements exceeded and differed from issued procedural guidance.

Regarding recommendation 1, management agreed with the intent; however, the Postal Service will transition from using existing procedural guidance and incorporate the DOE's Petroleum Acquisition Defense (PAD) District price for all surface transportation contracts. The contract fuel ppg will be set to the DOE PAD District price for the preceding month for the region from which the contract originates for all existing and new surface transportation contracts (excluding alternative fuel contracts). Management stated that this approach renders a periodic review unnecessary. Transition activities will be completed by September 2018.

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.

Regarding management's comment on the finding, we view the contracts with fuel ppg set at or below the DOE regional fuel index price or local market fuel price as compliant with the procedural guidance, therefore, we excluded them from the exceptions reported in the finding. Additionally, contracts with rates above those of the DOE and local market provide the greatest opportunity for cost savings.

Regarding the monetary impact, the OIG discussed the documentation requirements with management at the exit conference without disagreement. Additionally, the OIG's interpretation is consistent with Postal Service training provided to contracting specialists on the documentation requirements for establishing the fuel ppg rate.

The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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

Appendix A: Additional Information

Scope and Methodology

The scope of this audit focused on the HCR contract baseline fuel ppg for all HCR contracts the Postal Service awarded or renewed between June 1 and October 1, 2017. To accomplish our objective, we:

- Summarized the findings, recommendations, and management's corrective actions identified in two prior FPI program audits in the series to provide background information.
- Reviewed the March 2017 procedural guidance for determining the HCR contract baseline fuel ppg to gain an understanding of the requirements and the processes of the new procedural guidance.
- Interviewed Postal Service HCR contract managers on implementation of the procedural guidance for determining the baseline fuel prices, including training on the new guidance provided to the three commodity-based offices.
- Obtained from Postal Service Headquarters a list of active HCR FPI contracts nationwide as of October 1, 2017, to determine the universe of HCR contracts for our scope period. We determined a total of 1,094 HCR contracts awarded or renewed between June 1 and October 1, 2017.
- Selected a statistical sample of 174 HCR contracts from a total of 1,094 HCR contracts the Postal Service awarded or renewed between June 1 and October 1, 2017, using the OIG standard of a 95 percent confidence level. We reviewed available contract files maintained in the TCSS as supporting documentation for establishing the contract baseline fuel ppg.
- Obtained, compared, and evaluated contract fuel data from the EDW and the DOE's monthly regional fuel index prices between June and December 2017, to calculate potential fuel overpayments.

We conducted this performance audit from November 2017 through May 2018, 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 10, 2018, 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 Route Fuel Price Index Program – Eastern Transportation Category Management Team	Assess the effectiveness of the Postal Service's FPI program as administered by the Eastern TCMT in Largo, MD.	NL-AR-17-005	5/2/2017	$7.9
Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team	Assess the effectiveness of the Postal Service's FPI program as administered by the Southern TCMT in Memphis, TN.	NL-AR-17-002	12/9/2016	$7.5

Appendix B: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

UNITED STATES
POSTAL SERVICE

May 17, 2018

LORI LAU DILLARD

SUBJECT: Highway Contract Route Fuel Price Index Program Effectiveness
(Report Number NL-AR-18-DRAFT)

Thank you for providing the United States Postal Service with an opportunity to review and comment on the subject Office of the Inspector General (OIG) draft audit report, "Highway Contract Route Fuel Price Index Program Effectiveness." Management agrees with the report's findings. Management agrees with the intent of the report's recommendation, but proposes an alternative action to address the OIG's concerns. Management disagrees with the claimed monetary impact.

Management would like to comment that while the OIG includes under the findings that a higher fuel price per gallon was established in contracts without justification documentation, the report does not discuss that the OIG also found contracts with a lower fuel price per gallon than the U.S. Department of Energy (DOE) regional fuel index price and where the local market fuel price had been incorporated by Supply Management purchasing staff. Accordingly, the OIG's findings do not present a complete representation of the situation.

Management does not agree with the monetary impact. In some cases management views that the OIG's interpretation of the standard of the required documentation for the contracts reviewed exceeds and differs from that discussed in the procedural guidance issued.

Management's response to the recommendations included in the draft report may be found below.

We recommend the Vice President, Supply Management:

<u>Recommendation 1</u>: Establish periodic review processes to ensure Surface Transportation Category Management Center personnel are following the March 2017 procedural guidance for establishing the contract baseline fuel price per gallon.

<u>Management Response to Recommendation 1</u>: Management agrees with the intent of this recommendation. However, management has reconsidered the approach for establishing the fuel price baseline for process simplification reasons, and has determined to transition away from using the existing procedural guidance. In lieu thereof, and for all surface transportation contracts, contracts will incorporate the Department of Energy (DOE) Petroleum Acquisition Defense (PAD) District price. This approach reinforces the overall best value approach to contract award and renders unnecessary a periodic review of how the procedural guidance is being implemented.

Accordingly, for all existing and new surface transportation contracts (excluding alternative fuel contracts), the fuel price per gallon in the contract will be set to the DOE PAD District price for the preceding month for the region in which the contract originates. Transition activities are underway

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and will be completed by September. The OIG previously recommended incorporating the DOE price index as part of its audit NL-AR-17-002, "Highway Contract Route Fuel Price Index Program - Southern Transportation Category Management Team."

Target Implementation Date: September 2018

Responsible Official: Manager, Surface Transportation CMC

Susan M. Brownell

cc: Manager, Corporate Audit Response Management

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