OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Voyager Card Program for Highway Contract Routes—Pooling Policy Concerns and Related Overpayments

Management Advisory Report

Report Number
NO-MA-14-006

September 29, 2014

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

The Postal Service has not effectively managed fuel pooling for HCR suppliers under the HCR Voyager Card Program. Consequently, the Postal Service incurred about $42.5 million annually in more fuel costs than necessary.

Background

Since 2005, the U.S. Postal Service has been providing Highway Contract Route (HCR) suppliers with Voyager fleet transaction cards from U.S. Bank Voyager Fleet Systems, Inc. to purchase fuel (known as the HCR Voyager Card Program). In fuel year July 1, 2012–June 30, 2013, the Postal Service paid over $665 million for close to 170 million gallons of fuel under the program.

The Postal Service's Fuel Management Program document provides policy to suppliers and the Postal Service on the HCR Voyager Card Program. It also includes guidance on pooling authorized fuel. It allows HCR suppliers to combine or "pool" authorized gallons for contracts in rare cases where there is an operational need to do so. Otherwise, suppliers are required to reimburse the Postal Service for all fuel used in excess of the contracted gallons by individual contract route.

Our objective was to assess the Postal Service's fuel pooling practices.

What The OIG Found

The Postal Service has not effectively implemented and managed fuel pooling for HCR suppliers under the HCR Voyager Card Program. It intentionally allowed all HCR suppliers with multiple HCRs to pool their authorized fuel gallons (called aggregate pooling) without regard for supplier operational needs (such as the use of the same equipment on multiple routes) or cost benefits for the Postal Service.

This widespread pooling occurred because the policy was relaxed over time and is now inadequate. Also, aggregate pooling became common practice because agreements that would not have allowed it were either missing or lacked consistency.

Consequently, the Postal Service may be paying more in fuel costs than necessary. We estimate the risk of unrecoverable fuel overpayments at $42.5 million annually. Without corrective actions, financial assets of about $42.5 million are also at risk for the July 1, 2014–June 30, 2015, fuel year.

What The OIG Recommended

We recommended management ensure that pooling agreements clearly demonstrate an operational need and that pooling is consistently applied. We also recommended that management eliminate the practice of aggregate pooling. Finally, management should ensure timely identification and recovery of overpayments for the July 1, 2014– June 30, 2015, fuel year and any subsequent periods.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 29, 2014

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

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

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

SUBJECT: Management Advisory Report – Voyager Card Program for Highway Contract Routes – Pooling Policy Concerns and Related Overpayments
(Report Number NO-MA-14-006)

This management advisory report presents the results of our review of the Postal Service's Voyager Card Program for Highway Contract Routes – Pooling Policy Concerns and Related Overpayments (Project Number 14XG024NO001). Pooling policy concerns came to our attention during our ongoing review, *Voyager Card Program – Capping Report* (Project Number 14XG024NO000).

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

Table of Contents

Findings

The Postal Service intentionally allowed all HCR suppliers with multiple HCRs to pool all their authorized fuel gallons (called aggregate pooling) without regard to supplier operational needs or cost benefits for the Postal Service.

Introduction

This management advisory report presents the results of our review of the Voyager Card Program for Highway Contract Routes (HCR) – Pooling Policy Concerns and Related Overpayments (Project Number 14XG024NO001). Our objective was to assess the U.S. Postal Service's fuel pooling policy and practices. This pooling policy issue came to our attention during our ongoing review, Voyager Card Program - Capping Report (Project Number 14XG024NO000). See Appendix A for additional information about this review.

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 (known as the HCR Voyager Card Program). In fuel year 2012–2013, the Postal Service paid over $665 million for fuel transactions covering the purchase of close to 170 million gallons under the program.

The Postal Service's Fuel Management Program (FMP) document provides policy to suppliers and the Postal Service on the HCR Voyager Card Program. Under this policy, the Postal Service must perform timely, annual reconciliations[1] of Voyager card transactions to determine whether suppliers exceeded their annual allotted fuel gallons. The FMP document also includes guidance on pooling authorized fuel gallons and requires HCR suppliers to submit written justification for pooling for review and approval.

Pooling allows an HCR supplier to combine, or "pool," authorized gallons for contracts when there is an operational need to do so. This typically occurs in rare cases when a supplier uses the same equipment on multiple contracts in the same geographical location. During the annual reconciliation process, the Postal Service requires suppliers to reimburse it for all fuel used in excess of the contracted gallons by each individual contract route unless pooling was expressly approved for the benefit of the Postal Service.[2]

The Postal Service has made annual changes to the pooling policy since the HCR Voyager Card Program began. Policy revisions allowed the practice of aggregate pooling, where authorized fuel for all HCR contracts for a particular supplier are combined, allowing a supplier to exceed the fuel allotted for a particular HCR contract as long as that supplier does not exceed the allotment for all of its contracts combined. The Postal Service allowed widespread aggregate pooling instead of enforcing the requirements and intent of the original policy. Additionally, the Postal Service reviewed the policy and practices for the previous 4[3] fuel years and determined it should not retroactively enforce the pooling policy despite the risk of possible loss in unidentified excess gallons and related overpayments.

In our March 22, 2013, review, *High-Risk Voyager Policy and Procedure Changes for Highway Contract Routes* (Report Number NO-MA-13-003),[4] we reported on proposed changes to the pooling policy and concluded that aggregate pooling increases the risk of fraud, waste, abuse, and non-recovery of overpayments.

1 Reconciliation is the process whereby the actual gallons purchased with the HCR Voyager card are compared with the contractually allowed gallons to determine "excess gallons" by HCR. Untimely or inaccurate reconciliations may result in the Postal Service being unable to fully recover overpayments.
2 Before a 2012 policy change, pooling was only allowed in instances where fuel purchased on one contract might be used on another contract based on maintenance operations, line-of-travel, or method of operation.
3 Prior 4 years references the present fuel year (July 1, 2014–June 30, 2015).
4 The review specifically addressed the 2012 pooling policy changes and their negative impacts on the HCR Voyager Card Program. The assessment did not include the overall review of the HCR Voyager Card Program.

Conclusion

The Postal Service has not effectively implemented and managed fuel pooling for HCR suppliers under the HCR Voyager Card Program. It intentionally allowed all HCR suppliers with multiple HCRs to pool their authorized fuel gallons (called aggregate pooling) without regard to supplier operational needs (such as the use of the same equipment on multiple routes) or cost benefits for the Postal Service. This widespread pooling occurred because the policy was inadequate as a result of diluted requirements, and required pooling agreements were either missing or lacked consistency. Consequently, the Postal Service may be paying more in fuel costs than necessary. We estimate the risk of unrecoverable fuel overpayments at $42.5 million annually. Without corrective actions, financial assets of about $42.5 million are also at risk for the July 1, 2014–June 30, 2015, fuel year.

Highway Contract Route Voyager Contract Pooling Practices

In fuel year July 1, 2012–June 30, 2013, the Postal Service allowed all 407[5] HCR suppliers with multiple HCR contracts to pool about 168 million authorized fuel gallons, representing about 89 percent of total authorized HCR Voyager fuel gallons. Because of aggregate pooling, the Postal Service failed to identify and collect about 11 million gallons of excess fuel.

The Postal Service did not identify these excess gallons because the policy setting requirements for pooling has been gradually relaxed and is now inadequate. In addition, prior to the July 1, 2013–June 30, 2014, fuel year, required pooling agreements between the Postal Service and suppliers were either missing or lacked consistency.

The Postal Service has loosened pooling requirements over several years in its FMP. In 2007, when establishing the pooling policy, the Postal Service allowed pooling only in limited cases. Pooling was allowed when the same vehicles were used on multiple routes or in the same geographical location. On rare occasions, management made allowances when personal identification number (PIN) management[6] was not effective or adequate to allocate fuel to the proper contracts.

In 2013, the Postal Service changed its requirements to allow suppliers to pool in some instances, depending on maintenance operations, line of travel, or method of operations. However, the policy does not set specific requirements to clearly demonstrate the operational need for pooling. The more flexible policy allows HCR suppliers to broadly interpret guidelines and inevitably promotes ignoring the intention of the program. It also leads to the continued practice of "pool-all"— which is effectively aggregate[7] pooling — and allows suppliers to avoid managing fuel by route, as required by the original policy.

In addition, the U.S. Postal Service Office of Inspector General (OIG) previously reported that pooling agreements were missing and lacked consistency (*Management of the Highway Contract Route Voyager Card Program*, Report Number, NL-AR-11-003 dated June 7, 2011). These shortcomings led the Postal Service to allow aggregate pooling. While the Postal Service made efforts in the July 1, 2013–June 30, 2014, fuel year to document pooling agreements, the agreements still do not clearly demonstrate an operational need for or benefit to the Postal Service from pooling.

The OIG previously reported that aggregate pooling, or a "pool-all" practice, could:

- Lead to potential non-collection of all fuel overages. Aggregate pooling prevents identification of all possible recoverable overpayments for excess fuel and can result in non-recovery of those unidentified fuel overcharges.

---

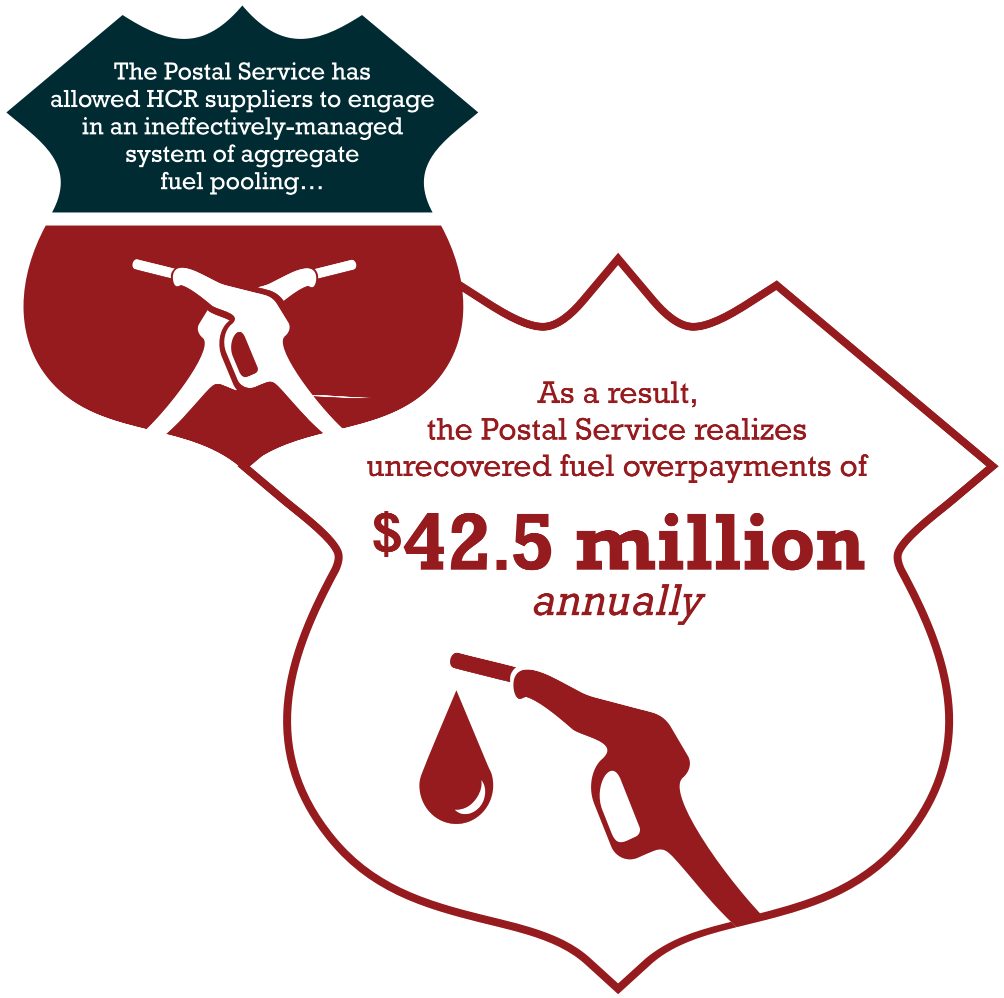
5 This value may be slightly overstated due to recent mergers and acquisitions decreasing the number of unique suppliers.
6 Effective PIN management is necessary and expected to ensure proper allocation and tracking of fuel gallons purchased to the correct contracted routes. The misuse of PINs obscures contract-by-contract fuel performance information.
7 Aggregate pooling is when the Postal Service allows a contractor with multiple HCRs, each with individual fuel usage requirements, to be treated as one large contract regardless of operational requirements, geographical location of contracts or use of the same vehicle on multiple routes. The Postal Service creates one national or "aggregated" fuel pool for each contractor when evaluating authorized fuel gallons against purchased gallons.

- Hinder the ability of the Postal Service to determine actual fuel use by contract. Broad-based aggregate pooling significantly diminishes the ability to make fuel adjustments for contracts based on actual use.
- Provide an unfair competitive advantage to contractors with multiple Postal Service contracts when bidding on new available routes. They are able to submit lower bids on some routes and make up any losses using excess fuel gallons from existing contracts.

Since we issued the *High-Risk Voyager Policy and Procedure Changes for Highway Contract Routes* alert, the Postal Service has not taken effective action to clarify and correct these pooling concerns. Revisions to the FMP pooling policy have focused on adjusting policy language to be compatible with the practice of aggregate pooling, rather than changing it to be compliant with the original requirements and intent of the policy.

Consequently, the Postal Service may be paying more in fuel costs than necessary. We believe the Postal Service's liberal pooling practices have resulted in unrecoverable fuel overpayments of $42.5 million annually for the fuel periods 2012–2013 and 2013–2014. Further, the Postal Service could avoid placing about $42.5 million of assets at risk in the subsequent fuel year[8] by developing and enforcing clear pooling requirements.

Voyager Card 2012 – 2013



8 The subsequent fuel year would be 2014-2015.

Recommendations

We recommend management ensure pooling agreements clearly demonstrate an operational need, are consistently applied and that aggregate pooling is not allowed. We also recommend management ensure timely identification and recovery of overpayments.

We recommend the vice president, Supply Management:

1. Ensure pooling agreements clearly demonstrate an operational need, that pooling is consistently applied, and that aggregate pooling is not allowed.

2. Ensure that all overpayments to suppliers for excess fuel gallons not attributed to proper pooling are identified and collected timely to safeguard Postal Service financial assets for the July 1, 2014–June 30, 2015, fuel year and any subsequent periods.

Management's Comments

Management agreed with the findings and recommendations, but disagreed with some of the monetary impact calculations. Below is a summary of management's responses to our recommendations.

Management agreed with recommendation 1 and has ensured that they based recently completed, new pooling agreements on operational need for the 2013-2014 fuel year. Management stated that the Postal Service implemented the recommendation on November 30, 2013.

Management agreed with recommendation 2 and stated they will complete reconciliations and collect any overpayments for excess gallons in a timely manner. Management plans to implement the recommendation by August 31, 2015.

Regarding monetary impact, management disagreed with the questioned costs of $42.5 million for year two and $42.5 million in assets at risk for the current period. They stated they were not valid exposures because of the corrective actions and enhanced controls addressed in their response.

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

Evaluation of Management's Comments

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

Regarding management's comments on our monetary impact and assets at risk, our approach and methodology are sound for both categories. Given the risks identified throughout this report and prior work, we continue to have concerns that the Postal Service may be challenged in collecting all overpayments because of past practices. Further, regarding implementation of recommendation 1 covering pooling agreements, the OIG will review management's implementation and pooling documentation in closing out this significant recommendation.

The OIG considers all 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.

Appendices

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

Appendix A: Additional Information

Background

The Postal Service negotiates HCR contracts about every 4 years. As part of the process, the Postal Service negotiates fuel separately and establishes annual authorized gallons for each HCR. 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 (known as the HCR Voyager Card Program). In fuel year 2012–2013, the Postal Service paid over $665 million for fuel transactions covering the purchase of close to 170 million gallons under the HCR Voyager Card Program.

The Postal Service's FMP document provides policy to suppliers and the Postal Service on the HCR Voyager Card Program. Under this policy, the Postal Service must perform timely, annual reconciliations[9] of Voyager card transactions to determine whether HCR supplier purchases exceed their annual allotted fuel gallons. The FMP document also includes guidance on pooling authorized fuel gallons and requires suppliers to submit written justification for pooling. Pooling allows an HCR supplier to combine, or "pool," authorized gallons for contracts when there is an operational need to do so. This need generally occurs when suppliers use the same equipment on multiple contracts in the same geographical location.

During the annual reconciliation process, the Postal Service requires reimbursement of fuel used in excess of the contracted gallons for each individual contract route unless pooling was expressly approved for the benefit of the Postal Service.[10] In practice, pooling also allows a contractor to offset overages of fuel in one particular contract with underused fuel on another contract route, allowing the contractor to avoid reimbursing the Postal Service for any fuel usage above an individual contract limit.

The OIG has continuously reported concerns with the control weaknesses and FMP policy changes, including pooling, since the 2008–2009 fuel year reconciliation (see Prior Audit Coverage). As part of our work, the OIG has identified over $118 million in impacts relating to excess fuel gallons. Further, there have been a number of fraud investigations stemming from the ineffective controls and oversight of the HCR Voyager Card Program.

Objective, Scope, and Methodology

Our objective was to assess the Postal Service's HCR supplier fuel pooling policy and practices. We also assessed the associated excess fuel gallons and related overpayments. To meet our objective, we discussed the FMP and HCR Voyager reconciliation with Postal Service management on April 2, 2014, and subsequently reviewed a legal opinion from the Postal Service General Counsel dated March 28, 2014. We reviewed the draft 2014 FMP and provided comments on May 1, 2014. We calculated the maximum possible exposure by reviewing HCR Voyager data, including reconciliation worksheets.

We conducted this review from May through September 2014, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on September 3, 2014, and included their comments where appropriate.

We assessed the reliability of the data from the Postal Service's 2012–2013 reconciliation file and supplemented that with transaction data from the Fuel Asset Management System (FAMS). The Postal Service's reconciliation file is from back-end queries of FAMS. The OIG performed high-level data quality checks by comparing Postal Service workbooks to data from the Enterprise Data Warehouse system for the 2012–2013 fuel year and other Postal Service reports. Column totals indicated the data was sufficient for our purposes of calculating the exposure and the observations regarding irregular PIN management. We determined that the data were sufficiently reliable for the purposes of this advisory.

9 Reconciliation is the process whereby the actual gallons purchased with the HCR Voyager card are compared with the contractually allowed gallons to determine "excess gallons" by HCR. Untimely or inaccurate reconciliations may result in the Postal Service being unable to fully recover overpayments.
10 Before the 2012 policy change, pooling was only allowed in those instances where fuel purchased on one contract might be used on another contract based on maintenance operations, line of travel, or method of operation.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Highway Contract Routes – Miles per Gallon Assessment	NO-AR-14-008	5/27/2014	$287
Report Results: Our report determined the Postal Service incurred unnecessary fuel costs of about $48.3 million annually for FYs 2012 and 2013 and could avoid costs of about $48.3 million annually if it contracts for future fuel gallons based on, at least, industry miles per gallon (MPG) averages. Further, if the Postal Service uses industry advanced fuel-efficient practices, it can reduce its carbon footprint, conserve non-renewable energy resources, and save an additional $46.7 million in fuel costs annually. We recommended developing procedures to ensure industry MPG averages and more specific vehicle classifications are used to determine allotted HCR fuel gallons and coordinate with the chief sustainability officer and suppliers to develop a comprehensive strategy for using advanced fuel-efficient technology in vehicles and equipment. Management agreed with the findings and recommendations, but disagreed with the monetary impact calculations.			
Voyager Card Program for Highway Contract Routes – Unidentified and Unrecovered Fuel Overpayments	NO-MA-14-001	10/30/2013	$9.9
Report Results: Our report estimated that about $9.9 million in fuel overpayments to HCR suppliers were not properly identified and recovered by the Postal Service for fuel year 2009–2010. Failure to collect these overpayments occurred because the HCR Voyager Card Program reconciliation process was not reasonably conducted and documented. We recommended the Postal Service immediately re-conduct the 2009–2010 fuel year HCR Voyager card reconciliation in accordance with the pooling and reconciliation requirements of the FMP and the current reconciliation methodology. Further, we recommended validating and documenting the results of 2009–2010 fuel overpayment determinations and collecting these overpayments. Management agreed to evaluate the 2009–2010 fuel year reconciliations for any anomalies and disagreed with the monetary impacts. Managers also stated they would initiate the recovery of funds resulting from evaluation of the 2009–2010 fuel year reconciliations.			
High-Risk Voyager Policy and Procedure Changes for Highway Contract Routes	NO-MA-13-003	3/22/2013	None
Report Results: Our report identified recent and proposed policy changes that could increase the risk of fraud, waste, and abuse. We recommended the Postal Service reverse the changes made or provide justification for pooling across all contracts. Further, the report recommended restating previous language in the FMP document restricting the use of fuel for non-postal purposes and continuing to notifying the OIG of suspicious or fraudulent circumstances involving HCR suppliers. Management agreed to revert to the 2011 FMP language and reinstate the restriction on fuel use for non-postal purposes, including the notification of suspicious or fraudulent circumstances involving HCR suppliers.			
Management of the Highway Contract Route Voyager Card Program	NL-AR-11-003	6/7/2011	$108
Report Results: The Postal Service did not always ensure that HCR suppliers purchased only authorized grades of fuel or remained within the contract limitations on the number of fuel gallons purchased. We recommended that fuel purchases be more closely monitored, apply pooling, in accordance with established requirements, and perform all outstanding reconciliations. Management generally agreed with our findings and recommendations. However, these recommendations were closed as of March 2013 with caveats that we will be revisiting these issues during current and future HCR Voyager Card Program audit work.			

Appendix B: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

UNITED STATES POSTAL SERVICE

September 25, 2014

LORI LAU DILLARD

SUBJECT: Management Response - Voyager Card Program for Highway Contract Routes – Pooling Policy Concerns and Related Overpayments (Report Number NO-MA-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the recommendations contained in the Draft Management Advisory Report – Voyager Card Program for Highway Contract Routes (HCR) – Pooling Policy Concerns and Related Overpayments (Report Number NO-MA-14-DRAFT). Management is in general agreement with the findings and recommendations within the report and will address each separately below. We are not in agreement with the monetary impact.

Management disagrees with year two (July 1, 2013–June 30, 2014 fuel year) of questioned costs in the amount of $42.5 million and the assets at risk of $42.5 million for July 1, 2014–June 30, 2015 fuel year that are based on exposure from inadequate controls. Beginning January 2012, we established a periodic review process where we perform reviews of fuel usage throughout the fuel year, notifying suppliers who have exceeded or are about to exceed their allocated gallons and potentially deactivate their card(s). Additionally, completed November 2013, we updated HCR contracts with a single Fuel Management Program policy that included the OIG agreed-upon language on pooling from fuel year 2011/2012. New pooling agreements were established with suppliers that are based upon operational needs for use with the 2013/2014 and 2014/2015 fuel year reconciliations. These controls have reduced our risk exposure for excess fuel gallons and, therefore, the monetary impact as stated above should be eliminated from this report.

Recommendation 1: Ensure pooling agreements clearly demonstrate an operational need, that pooling is consistently applied, and that aggregate pooling is not allowed.

Management Response/Action Plan: Management agrees. This practice was completed in November 2013 and new pooling agreements based upon operational needs are in place for the 2013/2014 fuel year. During this process management ensured that pooling agreements demonstrated an operational need and that pooling was consistently applied.

Target Completion Date: Completed November 2013

Responsible Official: Manager, Transportation Portfolio

Recommendation 2: Ensure that all overpayments to suppliers for excess fuel gallons not attributed to proper pooling are identified and collected timely to safeguard Postal Service financial assets for the July 1, 2014–June 30, 2015, fuel year and any subsequent periods.

Management Response/Action Plan: Management agrees. We established a periodic review process beginning in January 2012 where we perform reviews of fuel usage, notify suppliers who have exceeded or are about to exceed their allocated gallons, and potentially deactivate their card(s).

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-6200
202-268-4040
FAX: 202-268-2756
WWW.USPS.COM

This has reduced our risk exposure for excess fuel gallons. We plan to complete reconciliations in accordance with our new pooling agreements and will ensure overpayments for excess fuel gallons are collected timely.

Target Completion Date: August 2015

Responsible Official: Manager, Fuel Management CMC

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

Susan M. Brownell

cc: Corporate Audit and Response Management

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Contact us via our Hotline and FOIA forms, follow us on social networks, or call our Hotline at 1-888-877-7644 to report fraud, waste or abuse. Stay informed.

1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100