



December 14, 2007

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Fiscal Year 2007 Peak Season (Christmas 2006) Fuel  
(Report Number FT-AR-08-003)

This report presents issues concerning fiscal year (FY) 2007 peak season (Christmas 2006) fuel payments processed by the Supply Management Transportation Portfolio in Washington, D.C. We identified these issues during our audit of the FY 2007 Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (IT/ASC) (Project Number 07BM002FT003).

### **Background**

The Postal Service contracted directly with [REDACTED] and [REDACTED] [REDACTED]<sup>1</sup> for jet fuel for the FY 2007 peak season (Christmas 2006). According to these contracts, the designated contracting officer representative is responsible for validating receipt of the fuel product, certifying and approving invoices for payment, and forwarding invoices for review and payment to the St. Louis IT/ASC.

### **Objectives, Scope, and Methodology**

The objectives of this portion of the audit were to determine whether FY 2007 peak season (Christmas 2006) fuel invoices were properly validated and whether payments represented the actual cost associated with the transportation of mail.

To accomplish our objectives, we examined FY 2007 peak season (Christmas 2006) fuel documentation in the Logistics Contract Management System (LCMS)<sup>2</sup> processed by the Transportation Portfolio between November 24, 2006, and March 2, 2007. We reviewed all 83 peak season fuel payments made to [REDACTED] [REDACTED], totaling over \$22 million. We interviewed employees from the [REDACTED]

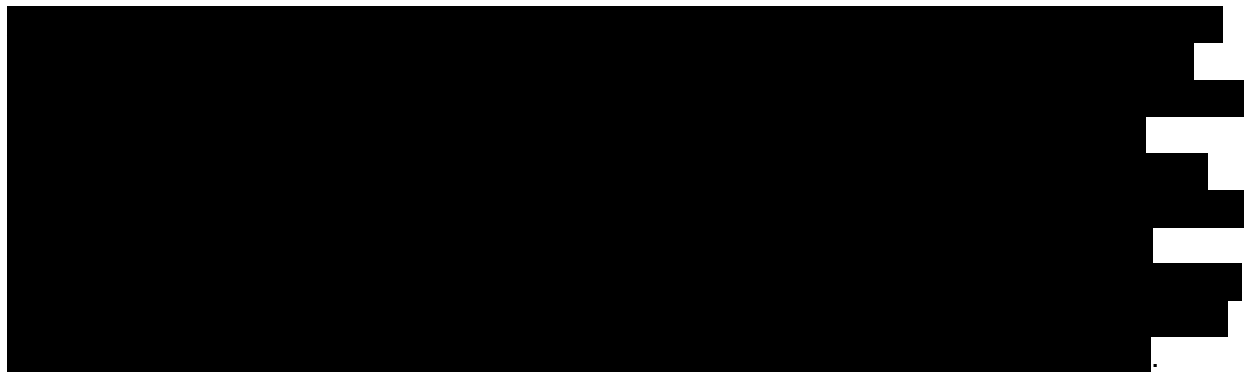
<sup>1</sup> [REDACTED], Section 14, dated November 18, 2005, and modified November 16, 2006; and [REDACTED], dated November 28, 2002, and modified November 16, 2006.

<sup>2</sup> LCMS provides payment parameters for domestic air and terminal handling services provider contracts. It also stores manual air transportation payment documentation for processing.

St. Louis IT/ASC, Air Transportation Section; the Air Transportation Category Management Center (CMC); and Network Operations.

We conducted this audit from March through December 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as were 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 objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on August 23 and October 3, 2007, and included their comments where appropriate. We relied on computer-generated data from the LCMS. We performed specific internal control and transaction tests on LCMS data to include tracing selected financial information to supporting source records. For example, we traced payment data extracted from LCMS to documentation indicating that payment was certified.

**Prior Audit Coverage**



**Results**

Postal Service personnel could not determine whether payments represented the actual cost associated with the transportation of FY 2007 peak season (Christmas 2006) mail. Specifically, they did not properly validate peak season (Christmas 2006) fuel invoices or perform post-season reconciliations of those fuel payments.

Current Postal Service procedures require Network Operations personnel to verify that the invoice amount matches fuel amounts in the Aircraft Scheduling and Alerting System (commonly referred to as the CORE system<sup>3</sup>). In addition, after the peak season, Air Transportation CMC personnel, in conjunction with Network Operations personnel, are required to reconcile all invoices with carrier flight information to finalize payments. The post-season fuel reconciliation and final certification should consist of

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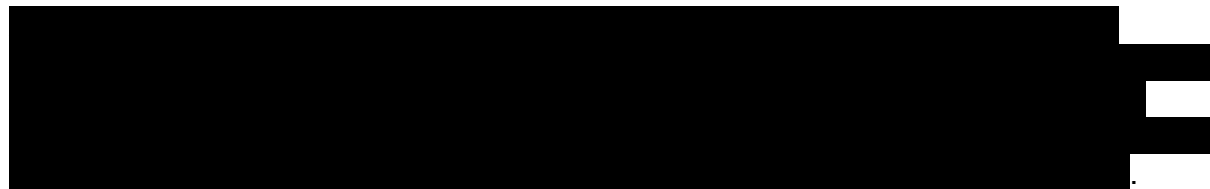
<sup>3</sup> The system was developed by CORE Transport Technologies.

verifying that the carrier received the fuel invoiced by the supplier and that the carrier actually used the fuel in performing the Postal Service contract.

Management did not adequately plan the process for validating invoices and performing post-season reconciliations. Initially, management decided to use the CORE system to obtain carrier information to perform validations and a post-season reconciliation. They required suppliers to enter fuel invoice information into the CORE system as a condition for payment. However, during the FY 2007 peak season (Christmas 2006), management realized the CORE system did not contain the information needed to validate invoices or perform post-season reconciliations. Consequently, management requested that carriers reconcile fuel invoices to fuel tickets.<sup>4</sup> Carriers did not comply, since their contracts did not require them to perform this reconciliation. Instead, carriers agreed to provide copies of the fuel tickets to Postal Service personnel.

At the time of our audit, Postal Service personnel could provide only a small portion<sup>5</sup> of the fuel tickets requested from the carriers, and none of these tickets had been used to validate invoices. Personnel compared electronic invoice data received from the suppliers to data entered by the suppliers into the CORE system. Also, management advised they performed a post-season reconciliation. However, we did not find any evidence of an independent validation of invoices or evidence that they performed a post-season reconciliation.

As a result, the Postal Service paid fuel costs totaling over \$22 million, when actual fuel costs may have been less. We recognize that the Postal Service used fuel to transport mail during the holiday peak season. However, without proper support, we could not verify the actual amounts used for transportation of the mail. We plan to report the total \$22,478,565 as assets at risk (non-monetary impact) in our *Semiannual Report to Congress*.



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<sup>4</sup> Fuel tickets are provided to air carriers by the personnel who actually fuel the carriers' planes.

<sup>5</sup> Air Transportation CMC provided 74 of an estimated 7,100 fuel tickets.

## **Recommendation**

We recommend the Vice President, Supply Management, direct the Manager, Transportation Portfolio, to:

1. Ensure that peak season contracts include provisions to obtain adequate supporting documentation from suppliers and carriers in order to validate invoices and reconcile fuel payments.

## **Management's Comments**

Management agreed the peak season jet fuel invoicing process could be improved by enhancing payment-related documentation and has implemented a process change for FY 2008 contracts to require fuel suppliers and air carriers to provide supporting documentation to validate invoices.

Based on management's review of payments and requisitions for FY 2007 peak season (Christmas 2006) fuel, they believe costs were contained and the controls established were effective in mitigating the risk of overcharges. Management used industry knowledge and standards in their review and identified no erroneous payments. They calculated variances for variables that could not be precisely determined, but are common to air service, at 7 percent of total fuel. They based that percentage on the accepted industry standard of 5 to 10 percent. Therefore, management did not agree that the entire \$22,478,565 was at risk during the contract period. Using the high end of the industry's tolerance for fuel consumption, they believe the U.S. Postal Service Office of Inspector General's (OIG) calculation of assets at risk should be adjusted to no more than \$2,247,857. Management's comments, in their entirety, are included in the appendix of this report

## **Evaluation of Management's Comments**

Management's comments are responsive to the recommendation. Management's actions taken should correct the issues identified in the finding. Also, as previously stated, we recognize the Postal Service used fuel to transport mail during the holiday peak season. Therefore, we agree with management's recommended reduction in the amount of assets at risk based on accepted industry standards and will report \$2,247,857 as assets at risk (nonmonetary impact) in our *Semiannual Report to Congress*.

The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Financial Reporting, or me at (703) 248-2100.



John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

cc: H. Glen Walker  
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**APPENDIX. MANAGEMENT'S COMMENTS**

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT



November 15, 2007

JOHN E. CIHOTA

SUBJECT: Draft Audit Report – Fiscal Year 2007 Peak Season (Christmas 2006) Fuel  
(Report Number FT-AR-08-DRAFT)

Thank you for the opportunity to review and comment on the subject October 24 draft audit report covering the 2006 peak season fuel period, running between the Thanksgiving and Christmas holidays. We agree the peak season jet fuel invoicing process can be improved by enhancing payment related documentation. In fact, we have already addressed this report's recommendation in the fiscal year 2008 contracts through updated provisions that require supporting documentation from fuel suppliers and air carriers in order to validate invoices during the fuel payment reconciliation process.

This process change enhances controls by requiring the fuel supplier to secure electronic copies of the signed fuel receipts/ticket from the into-plane agents documenting that the fuel supplier loaded the plane with the fuel it is charging the Postal Service. The signed fuel ticket will be submitted as backup to the fuel supplier's invoice in the event of any reconciliation issue between electronically submitted tickets in Core-TT (Aircraft Scheduling and Alerting System) data system and the electronic invoice submitted by the fuel supplier. This will allow the Postal Service to validate the accuracy of the invoiced rate and gallons received to the invoiced amounts. As part of the validation process, the total number of gallons shown on all of the fuel receipts/tickets compiled for a given invoice must match the total number of gallons charged on the invoice and subsequently must match the figures shown in Core-TT hosted transport/logistics application.

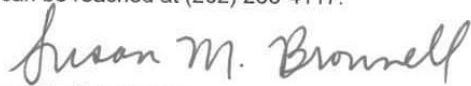
Based on our review of the 83 payments totaling \$22,478,565, and the eBuy requisitions budgeting over \$30 million for Fiscal Year 2007 Peak Season (Christmas 2006) fuel, we believe that costs were contained and the controls established were effective in mitigating risk of overcharges. As a result of our review, we did not find any erroneous payments. Using industry knowledge of burn rates of the aircraft employed, the miles flown, and the actual price of jet fuel, we compared fuel costs with the charter carrier, further ensuring that the fuel supplier payments were proper. What we could not determine precisely is the amount of fuel needed by the planes to taxi, to shuttle from their hanger to their starting point, to compensate for in-flight delays necessitated by traffic control, etc. These situations, common to air service, typically account for five to ten percent of the fuel used by an aircraft. This is an accepted industry standard. We used a seven percent factor to account for this acceptable variation during our review process.

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- 2 -

While any risk associated with these payments was minimal and is no longer in question, we do not take issue with you tracking in the nonmonetary "assets at risk" category. However, we cannot agree that the entire \$22,478,565 was at risk during the contract period. As explained above, due to normal variances associated with flight, precisely determining actual fuel costs is not practicable. Using the high end of the industry's tolerance for fuel consumption (ten percent), your nonmonetary assets at risk calculation should be adjusted to no more than \$2,247,857.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. You may contact Marie Martinez if you have any questions regarding this response or actions taken to satisfy the report's recommendations. She can be reached at (202) 268-4117.



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