Audit Report

OFFICE OF THE INSPECTOR GENERAL

AIR CLEARANCE PROCESS

Report No. 94-148 June 27, 1994

Department of Defense

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Acronyms

ACA	Airlift Clearance Authority
AMC	Air Mobility Command
ATCMD	Advance Transportation Control and Movement Document
CONUS	Continental United States
DLA	Defense Logistics Agency
GBL	Government Bill of Lading
MILSTAMP	Military Standard Transportation and Movement Procedures

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 27, 1994

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR LOGISTICS

SUBJECT: Report on the Audit of the Air Clearance Process (Report No. 94-148)

We are providing this report for your review and comments. It discusses the DoD air clearance process for overseas shipment of cargo. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that you provide comments on the unresolved recommendation by August 26, 1994. You may propose alternatives to the recommendation. However, the alternatives must specify the planned actions and the estimated dates for completion of the planned actions.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John S. Gebka, Audit Program Director, Logistics Support Directorate at (703) 604-9448 (DSN 664-9448) or Mr. Billy T. Johnson, Audit Project Manager, at (703) 604-9452 (DSN 664-9452). The distribution of this report is listed in Appendix F.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-148 **June 27, 1994**
(Project No. 3LC-0014)

AIR CLEARANCE PROCESS

EXECUTIVE SUMMARY

Introduction. The method of transportation for DoD cargo shipments should be the mode that satisfactorily meets DoD requirements at the overall lowest cost to the Government. Transportation officers were responsible for determining the mode of shipping cargo, whether surface or air, based on supply priorities and required delivery dates, as established by requisitioners. During FY 1992, the Military Departments spent approximately $359.3 million to airlift cargo shipments aboard Government aircraft from the continental United States to overseas destinations. Additionally, the Military Departments spent approximately $35.8 million to transport shipments made under Government bills of lading aboard commercial aircraft.

Objectives. One audit objective was to determine whether the Military Departments and the Defense Logistics Agency have implemented effective air challenge programs to restrict the unnecessary use of air transportation for DoD shipments. Other objectives were to evaluate the feasibility of directly charging requisitioners for the cost of air transportation; to follow up on a recommendation in Inspector General, Department of Defense, Report No. 88-041, "Express Cargo Movement Within the Department of Defense," October 20, 1987, concerning standard weight threshold challenge criteria for air eligible cargo; and to determine if shipments made under Government bill of ladings aboard commercial aircraft had effective air challenge procedures. We also evaluated applicable internal controls.

Audit Results. During FY 1992 DoD reported successfully challenging and downgrading cargo shipments to surface transportation and realized a cost avoidance of $49.3 million. However, improvements were still needed in the air clearance process. DoD shipping organizations sent about 33 percent of the cargo to Air Mobility Command aerial ports without first obtaining air clearance approval from the Military Departments' airlift clearance authorities. As a result, DoD unnecessarily expended an additional $27.1 million to airlift cargo to overseas destinations during FY 1992 (Finding, Part II).

The DoD is instituting a two-tier pricing policy for air and surface transportation in FY 1995. The Defense Logistics Agency was in the process of establishing uniform policies for air challenge thresholds. Also, over 99 percent of the shipments on commercial aircraft were valid air cargo (Other Matters of Interest, Part I).

Internal Controls. A material internal control weakness existed because DoD shipping organizations were not required to pay airlift transportation costs on uncleared air cargo shipments sent to the Air Mobility Command aerial ports. See Part I for details of internal controls assessed and Part II for details on the internal control weakness.

Potential Benefits of Audit. DoD could realize an additional potential monetary benefit of about $100 million during the 6-year Future Years Defense Program, if more cargo destined for overseas locations is challenged and downgraded to lower cost surface transportation. The actual amount of monetary benefits will vary based on the success of improved air clearance procedures, and the continued volume of cargo that is shipped on air transportation (see Appendix D).

Summary of Recommendation. We recommend that DoD Regulation 4500.32, "The Military Standard Transportation and Movement Procedures," March 15, 1987, be amended to require the payment of air transportation costs by shipping organizations on all air cargo shipments not submitted to the air clearance process.

Management Comments. The Assistant Deputy Under Secretary of Defense (Transportation Policy) nonconcurred with the recommendation, stating that amending DoD Regulation 4500.32 will not fundamentally improve the air clearance process. The Assistant Deputy Under Secretary attributed uncleared cargo shipments to other problems, not always to the shippers. The Assistant Deputy Under Secretary stated that creating an internal billing process to penalize shippers will outweigh the potential benefits and further complicate, rather than simplify, current procedures. The Assistant Deputy Under Secretary proposed that the United States Transportation Command working group be permitted to provide specific alternative actions. Since its establishment in March 1993, the group has increased the percentage of correctly processed air shipments from 66 percent to 77 percent. The Assistant Deputy Under Secretary also stated that the cost avoidance from improved air clearance procedures was more likely to be $44 million in 3-years or $63.2 million over 6 years. The Assistant Deputy Under Secretary's comments are further discussed in Part II of the report, and a complete text of the comments is in Part IV.

Audit Response. The Assistant Deputy Under Secretary's comments were not fully responsive to the recommendation. DoD Regulation 4500.32 states that shippers are the key to successfully documenting cargo shipments within the Defense transportation system. The documentation process includes obtaining air clearance approval from air clearance authorities before cargo shipments are released to aerial ports. The intent of our recommendation is to hold shippers accountable for shipping cargo to aerial ports without first obtaining air clearance approval. We are willing to consider alternatives to our recommendation. However, the Assistant Deputy Under Secretary of Defense did not provide sufficient information to determine whether actions of the United States Transportation Command would meet the intent of our recommendation and did not provide an acceptable alternative action. Therefore, we request comments from the Assistant Deputy Under Secretary of Defense on this final report by August 26, 1994.

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objectives 2
Scope and Methodology 3
Internal Controls 3
Prior Audits and Other Reviews 4
Other Matters of Interest 4

Part II - Finding and Recommendation 7

Air Shipment Clearances 8

Part III - Additional Information 13

Appendix A. Commercial Air Shipments Made Under GBLs 14
Appendix B. Schedule of Military Departments Cargo Shipped Through the AMC Aerial Ports and Related Cost for FY 1992 16
Appendix C. Schedule of Uncleared Overseas Air Shipments for FY 1992 17
Appendix D. Summary of Potential Benefits Resulting from Audit 18
Appendix E. Organizations Visited or Contacted 19
Appendix F. Report Distribution 22

Part IV - Management Comments 25

Office of the Under Secretary of Defense for Acquisition and Technology 26

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

The Defense Traffic Management Regulation, a joint regulation, states that the mode of transportation for DoD shipment of cargo should be the mode that satisfactorily meets DoD requirements at the overall lowest cost to the Government. The joint regulation, dated July 31, 1986, comprises Army Regulation 55-355, Navy Supply Instruction 4600.70, Air Force Regulation 75-2, Marine Corps Order P4600.14B, and Defense Logistics Agency (DLA) Regulation 4500.3. Transportation officers are responsible for determining the mode of shipping cargo, whether surface or air, based on supply priorities and the required delivery dates, as established by requisitioners. DoD requisitioners do not pay directly for the cost of air transportation. Instead, transportation costs are paid from funds maintained by each of the Military Departments at headquarters level. The air challenge process implies that before air eligible shipments are forwarded to an Air Mobility Command (AMC) aerial port, shipping and priority data on shipments were submitted to the appropriate Airlift Clearance Authority (ACA) for the potential to be downgraded to surface transportation. DoD Regulation 4500.32, "The Military Standard Transportation and Movement Procedures," March 15, 1987, (MILSTAMP) requires DoD shipping organizations to provide to the Military Departments' ACA for validation, all continental United States (CONUS) originating air eligible cargo for overseas air transportation before the cargo is released to the AMC aerial ports for shipment. The air challenge program ensures that only qualified and appropriate air shipments are airlifted. The Military Departments' ACAs control the movement of cargo shipments within the DoD transportation system and challenge requisitioners on the need for costly premium air transportation on overseas shipments.

Objectives

One audit objective was to determine whether the Military Departments and DLA have implemented effective air challenge programs to restrict the unnecessary use of air transportation for DoD shipments and to evaluate the feasibility of directly charging requisitioners for the cost of air transportation. We also followed up on Recommendation A.1. of Inspector General, DoD, Report No. 88-041, "Express Cargo Movement Within the Department of Defense," October 20, 1987, and evaluated the effectiveness of related internal controls.

At the end of the audit survey, we determined that no additional audit work was deemed necessary on the objectives concerning effectiveness of the air challenge program for shipments made under Government bills of lading (GBL) aboard commercial aircraft, evaluation of charging the requisitioners directly for the cost of premium air shipments, and our follow up on Recommendation A.1. Those objectives are discussed under Other Matters of Interest.

Scope and Methodology

To review overseas shipments made through the AMC aerial ports, we visited the Military Department's ACAs located at Presidio, San Francisco, California; Naval Station, Norfolk, Virginia; Wright-Patterson Air Force Base, Dayton, Ohio; and Marine Corps Logistics Base, Barstow, California. We also visited selected DLA depots; Headquarters, AMC, Scott Air Force Base, Bellville, Illinois; and selected AMC aerial ports. We reviewed procedures and policies that were in effect for FY 1992 related to advance transportation control and movement documents (ATCMD). We reviewed a sample of 1,106 uncleared cargo shipments to determine where cargo shipments destined for overseas locations originated and the validity of using air versus surface transportation. During FY 1992, the Military Departments made 748,094 air cargo shipments at a total cost of $359.3 million aboard Government controlled aircraft.

To review commercial air cargo shipments made under GBL, we sampled 310 FY 1992 paid GBLs, valued at $3.3 million. We reviewed the GBLs and contacted shipping organizations to determine if the use of commercial air transportation was justified. During FY 1992, the Military Departments and Defense organizations issued 154,243 GBLs, valued at $35.8 million, that documented the use of commercial air. Details of our audit sample and the results are in Appendix A.

This economy and efficiency audit was made from January 1993 to January 1994, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. The freight information system data base, which was used to make a sample selection of commercial air GBLs, was found to be reliable. Organizations visited or contacted during the audit are in Appendix E.

Internal Controls

The audit identified material internal control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal control was not in place to prevent uncleared shipments from being shipped to aerial ports for airlift to overseas destinations. This internal control weakness was not identified by Headquarters, Defense Logistics Agency, in the annual statement of assurance for FY 1992. The recommendation in this report, if implemented, will correct the weakness. We have calculated that potential monetary benefits of $100 million can be realized by implementing the recommendation (see Appendix D). A copy of this report will be provided to the senior official responsible for internal controls within the Office of the Secretary of Defense, the Army, the Navy, the Air Force, and the DLA.

Prior Audits and Other Reviews

The Inspector General, DoD, issued Report No. 88-041, "Express Cargo Movement Within the Department of Defense," October 20, 1987. The audit disclosed that although the Military Departments were achieving cost savings on the air challenge program, further savings could be achieved and transportation costs could be further reduced if more stringent challenge criteria were developed for all DoD. The report recommended that the then Assistant Secretary of Defense (Production and Logistics) direct that standard DoD challenge criteria for air shipments be established. The Assistant Secretary nonconcurred with the recommendation but directed DoD Components to evaluate their weight challenge criteria annually. We considered management's alternative action to be acceptable.

The General Accounting Office issued Report No. 92-263, "Military Airlift: Greater Use Of Peacetime Airlift Cargo Capacity Would Reduce Costs," (OSD Case No. 9168) September 16, 1992. The audit determined that the Air Force's transportation priority four cargo program, referred to as filler cargo, could be more effectively used. The report recommended that the Commander in Chief, U.S. Transportation Command, allocate the maximum amount of unused channel cargo space feasible to the Military Departments. Management partially concurred but agreed that optimal utilization of airlift capacity would be made to accommodate the filler cargo program.

Other Matters of Interest

Air Challenge of Commercial Air Shipments. Our objective to determine if shipments made under GBLs aboard commercial aircraft had effective air challenge procedures did not disclose a reportable adverse condition requiring management's attention. We selected and analyzed a stratified sample of 310 GBLs from a universe of 154,243 GBLs issued during FY 1992, valued at $35.8 million (see Appendix A for sampling results). Our analysis showed that 99.91 percent of the commercial air cargo shipments were made correctly or the priority of need of the shipments were such that using commercial air served to meet the requisitioner's needs. Therefore, no additional audit work was deemed necessary.

Direct Charge for the Cost of Air Transportation. We held discussions with personnel from the Office of the Deputy Under Secretary of Defense for Logistics and from DLA on the feasibility of charging requisitioners premium air transportation costs. DLA personnel informed us that the Office of the Deputy Under Secretary of Defense for Logistics would be instituting a two-tier pricing policy in FY 1995. The concept will be to charge customers a higher cost when items requisitioned from inventory control points require air rather than surface transportation. Because of the ongoing action, no additional audit work was deemed necessary.

Follow Up on Recommendation A.1. of Inspector General, DoD, Report No. 88-041. We recommended that the then Assistant Secretary of Defense (Production and Logistics) direct that the standard challenge criteria of 50 pounds for CONUS shipments and 150 pounds for overseas shipments be used by all DoD activities that ship air-eligible cargo. The Assistant Secretary nonconcurred with the recommendation and indicated that each Military Department and DoD agency should be authorized to set its own weight criteria for challenging air-eligible shipments because of the nature of the items that they managed. The Assistant Secretary further stated that instructions would be issued requiring a regular review of air challenge thresholds. Our discussions with the Office of the Deputy Under Secretary of Defense for Logistics indicated that a lack of agreement for a uniform weight challenge criteria for air cargo shipments existed. DLA has responsibility for DoD's depots and is in agreement that uniform policies are needed. During our audit, DLA held discussions with personnel from the Military Departments and from the Office of the Deputy Under Secretary of Defense for Logistics in an attempt to establish uniform policies. With the consolidation of all supply depots under DLA management, DLA expects to have uniform policies in place by late FY 1994. Accordingly, no additional audit work was deemed necessary.

Part II - Finding and Recommendation

Air Shipment Clearances

DoD shipping organizations sent cargo to Air Mobility Command aerial ports without first obtaining air clearance approval from the Military Departments' airlift clearance authorities. The condition occurred because shipping organizations were not held accountable for shipping uncleared cargo shipments to the aerial ports for air transportation. As a result, DoD expended about $27.1 million more than necessary to transport cargo shipments overseas during FY 1992. We calculated that DoD can realize a potential monetary benefit of about $100 million over the 6-year Future Years Defense Program, if uncleared shipments are subjected to air challenge procedures before being sent to aerial ports.

Background

DoD Regulation 4500.32, MILSTAMP, requires that DoD shipping organizations obtain air clearance approval before cargo shipments are airlifted overseas through the DoD transportation system. Air clearance approval is obtained from the Military Departments' ACAs and is to be obtained before release of shipments to AMC aerial ports. Approval is required for all overseas air shipments to ensure that only necessary shipments are transported by air. All shipments require air clearance but only selected shipments are subjected to air challenge. Under the Military Departments' Air Challenge Program, ACAs screen selected shipments that qualify for airlift; and require requisitioners to justify the need to airlift the shipments. When the Military Departments' ACAs and requisitioners agree that costly air transportation is not justified, the ACA notifies the shipper to use lower cost surface transportation and not send the cargo to the aerial port. During FY 1992, the ACAs of the Military Departments reported successfully challenging and downgrading 29,516 cargo shipments to surface transportation, which resulted in a cost avoidance of $49.3 million.

DoD shipping organizations request air clearance approval by sending an ATCMD for each air shipment to the appropriate Military Department ACA. The ATCMD provides personnel from ACAs and AMC aerial ports with advance information necessary to schedule airlift and process cargo shipments through the DoD transportation system. MILSTAMP requires AMC aerial ports to determine whether the respective Military Departments' ACA have cleared and validated cargo shipments received for airlift and to refer back to the ACAs all uncleared cargo shipments for potential downgrade to lower cost surface transportation.

Overseas Movement of Cargo

Cargo Clearance. Shipping organizations released cargo shipments to AMC aerial ports without first obtaining air clearance approval from the Military Departments' ACAs, and AMC aerial ports airlifted the uncleared cargo. AMC officials stated that uncleared cargo shipments were airlifted to avoid interference with the Military Departments' missions. To determine the shipping organizations that were responsible for releasing uncleared cargo shipments, we reviewed a sample of 1,106 uncleared cargo shipments airlifted from AMC aerial ports at Dover Air Force Base, Delaware, and Charleston Air Force Base, South Carolina, to overseas locations. Of the 1,106 uncleared cargo shipments, 524 (47 percent) shipments originated from DLA depots. For example, of the 524 shipments, 253 originated from the Mechanicsburg and New Cumberland Distribution Depots. Of the remaining 582 uncleared cargo shipments, 411 originated from Military Departments' shipping offices, 152 from the Army, 48 from the Navy, and 211 from the Air Force. The number of uncleared shipments at any one Military Department organization ranged from 1 to 41.

By avoiding the air clearance process, some DoD overseas cargo shipments were airlifted that otherwise would have been subjected to the challenge process and downgraded to surface transportation. Our review of FY 1992 records at Headquarters, AMC, showed that AMC aerial ports airlifted 748,094 cargo shipments. An analysis of FY 1992 transportation records maintained at Headquarters, AMC, and the ACAs located at San Francisco, California; Norfolk, Virginia; Dayton, Ohio; and Barstow, California, showed that 250,234 (33.45 percent) of the 748,094 cargo shipments were transported without air clearance approval during FY 1992, through the DoD airlift system to overseas locations (see Appendix B). The 250,234 cargo shipments without air clearance approval did not receive further evaluation for possible downgrade to surface transportation.

Based on the FY 1992 Military Departments' ACAs historical cost avoidance experience for successfully downgrading air cargo shipments to surface transportation, we calculated that 14,145 (5.7 percent) of the 250,234 uncleared cargo shipments could have been downgraded to the lower cost surface transportation. Using the Military Departments' historical cost avoidance experience, we calculated that the overall cost avoidance on the 14,145 uncleared overseas shipments was $27.1 million (see Appendix C). We calculated that DoD can realize a potential monetary benefit of about $100 million over the 6-year Future Years Defense Program. The calculated potential monetary benefits are based on the assumption that potential monetary benefits will decrease by 20 percent annually because of overseas force reductions.

Validating Uncleared Shipments. The ACAs of each Military Department made no attempt to validate uncleared air cargo shipments shipped to AMC aerial ports when informed of the uncleared cargo shipments. AMC officials informed us that they provided a listing of uncleared cargo shipments to the ACAs by shipping organization. ACA officials stated, however, that the

listings were received after shipments had been delivered to AMC aerial ports, which was too late to subject cargo shipments to the air challenge process. The challenge and downgrading of shipments should be done before the shipments are released to the aerial ports to preclude spending additional expenses to transport downgraded shipments to the ocean terminals. For example, we visited AMC aerial ports located at Dover Air Force Base, Delaware, and Charleston Air Force Base, South Carolina, and examined shipping documentation on 1,106 uncleared cargo shipments. Of the 1,106 uncleared cargo shipments, 294 (27 percent) shipments were likely to be challenged and eligible to be downgraded to surface transportation. Those shipments included blank required delivery dates and transportation priority code three shipments.

Accountability. Shipping organizations were not held accountable for shipping uncleared cargo shipments by air transportation when lower cost surface transportation was available. Air transportation costs on uncleared cargo shipments were paid by the Military Departments from transportation funds maintained at headquarters level. As a result, the shipping organizations were not motivated to use transportation funds prudently.

Obligation of DoD transportation funds are accomplished through the use of transportation account code numbers. The shipping organizations generally assign transportation account code numbers to each cargo shipments that has been cleared through the ACA. Headquarters, AMC, uses the transportation account code numbers to identify the correct Military Department fund citation to be charged for transportation cost. Headquarters, AMC, bills the Military Departments by sending billing tapes to the Defense Finance and Accounting Services and to each of the Military Departments. For each cargo shipment arriving at an AMC aerial port without an ATCMD, aerial port personnel assign a transportation account code number before airlifting shipment. Aerial port personnel generally assign a transportation account code based on the requisitioner's Military Department or agency.

The lack of funding responsibilities and financial incentives on the DoD shipping organizations caused them to send uncleared cargo to AMC aerial ports. The transportation cost to airlift cargo shipments was not a consideration of the DoD shipping organizations and the requisitioners. Because funding for shipping DoD cargo to overseas locations was maintained at the Military Departments' headquarters elements, shipping organizations lacked the incentive to make valid decisions on shipping cargo to overseas locations. However, the Military Departments were held financially accountable for the shipping organizations' erroneous transportation decisions. Additionally, by airlifting shipments overseas without air clearance approval, AMC aerial ports accommodated shipping organizations and provided them incentives not to comply with DoD regulations.

Recommendation, Management Comments, and Audit Response

We recommend that the Deputy Under Secretary of Defense for Logistics amend DoD Regulation 4500.32, "Military Standard Transportation and Movement Procedures," March 15, 1987, to require that DoD shipping organizations pay airlift transportation costs when they send air cargo shipments to aerial ports without first obtaining air clearance approval.

Management Comments. The Assistant Deputy Under Secretary of Defense (Transportation Policy) nonconcurred with the recommendation and stated that amending DoD Regulation 4500.32, MILSTAMP will not fundamentally improve the DoD air clearance process. The Assistant Deputy Under Secretary attributed uncleared cargo shipments to other problems, not always to the shippers. The Assistant Deputy Under Secretary stated that creating an internal billing process to penalize shippers will outweigh the potential benefit and further complicate, rather than simplify, current procedures. To resolve the problem of uncleared air shipments, the Assistant Deputy Under Secretary proposed a strategy that seeks continuous improvements in the air clearance process rather than a single solution. The proposal was to permit a United States Transportation Command working group, specifically established in March 1993 to improve the air clearance process, to complete its work. The group would recommend changes to increase the percentage of timely air clearance actions and to reduce the incidence of shippers improperly requesting air service when other modes will meet mission requirements. As a result of the working group's efforts, in March 1994, the rate of properly cleared air shipments had increased to 77 percent from the rate of 66 percent, which was identified during the audit. The Assistant Deputy Under Secretary of Defense will direct the United States Transportation Command to continue its efforts and make enhancements in the air clearance process as they are identified.

Audit Response. The Assistant Deputy Under Secretary of Defense's comments are not fully responsive. The intent of our recommendation is to hold shippers more accountable in the air clearance process. According to MILSTAMP, shippers are the key to successful documentation of cargo shipments within the Defense transportation system; and they must plan shipments carefully to ensure effective and economical use of transportation resources. We believe that the recommendation is appropriate and that some incentives are needed to prevent shippers from sending uncleared cargo to aerial ports. We are willing to consider proposed alternatives to the recommendation. However, the Assistant Deputy Under Secretary's proposed action was not clear on how the air clearance process would be improved and no implementation date was given for specific actions. Therefore, we request that the Assistant Deputy Under Secretary provide additional comments to the final report to clarify the specific corrective actions the United States Transportation Command is taking to eliminate uncleared cargo shipments and the dates when those actions will be implemented.

Management Comments and Audit Response to Potential Monetary Benefits

Management Comments. The Assistant Deputy Under Secretary of Defense generally agreed with our cost estimating methodology but agreed with only $63.2 million of the $100 million potential cost avoidance cited in the report. The Assistant Deputy Under Secretary noted several factors that could reduce potential monetary benefits over the 6-year Future Years Defense Program. Those factors included fewer uncleared cargo shipments than those shown in the audit report, a greater reduction in the overall volume of overseas shipments than that estimated in the report, and less invalid requests for air shipments because of improved compliance with procedures. After consideration of those factors the cost avoidance for FY 1992 would be $19.2 million, rather than $27.1 million as estimated in the draft report. That would reduce future years estimated monetary benefits from $100 million to $63.2 million. The Assistant Deputy Under Secretary also expressed concern about estimating potential monetary benefits for a period of 6 years into the future, stating that the estimates are based on the assumption that shippers will place orders that are challenged and rerouted at the same rate in the future as the present rate. The Assistant Deputy Under Secretary stated that because of diminishing returns, resulting from improved procedures, it may be more realistic to project the cost avoidance for 3 years instead of 6 years. Over a 3 year period, the Assistant Deputy Under Secretary estimated the potential cost avoidance to be $44.4 million.

Audit Response. We recognize the difficulty of precisely estimating the monetary benefits over the 6 years Future Years Defense Program. However, both audit and management estimates indicate that significant monetary benefits can be achieved by improving the air clearance process. To identify the monetary benefits that occur in future years, the actual cost avoidance from improved air clearance procedures should be tracked annually by the Assistant Deputy Under Secretary of Defense (Transportation Policy) and reported to the Assistant Inspector General for Analysis and Followup, DoD.

Part III - Additional Information

Appendix A. Commercial Air Shipments Made Under GBLs

We identified a universe of 154,243 GBLs for commercial air shipments, valued at $35.8 million, which were issued during FY 1992. The sample was stratified into six categories based on the cost of GBLs.

Sample Strata	Total Dollar Range	Number of GBLs	Cost
1	50,001 and up	12	$ 813,880
2	20,001 to 50,000	154	4,480,268
3	10,001 to 20,000	454	6,309,365
4	5,001 to 10,000	376	2,816,214
5	1,001 to 5,000	3,132	5,954,793
6	1 to 1,000	150,115	15,419,711
Total		154,243	$35,794,231

Within each stratum, we randomly selected a sample of GBLs based on computer-processed random numbers.

Strata	Sample Size	Cost	Sample Results on Shipments to be Downgraded	Projection on Shipments to be Downgraded
1	10	$ 606,723	0	0
2	50	1,516,374	0	0
3	50	676,585	3	27
4	50	389,930	6	45
5	50	95,901	1	63
6	100	10,334	0	0
Total	310	$ 3,295,847	10	135

The 310 paid sample GBLs, valued at $3.3 million, from a universe of 154,243 GBLs showed that 99.91 percent of the 154,243 CONUS commercial air cargo shipments were made correctly. The projected results indicated that only a possible 135 shipments would have been made in error.

Appendix B. Schedule of Military Departments Cargo Shipped Through the AMC Aerial Ports and Related Cost for FY 1992 [1]

Military Departments	Total Airlifts by AMC[2] No. of Shipments (a)	Total Airlifts by AMC[2] Transportation Cost (b)	Cleared by Air Clearance Authorities (c)	Uncleared Air Cargo Shipments (a-c)
Army	192,333	$147,347,530	89,608	102,725
Navy	221,676	72,651,108	175,748	45,928
Air Force	322,913	129,618,035	224,069	98,844
Marine Corps	11,172	9,716,443	8,435	2,737
Total	748,094	$359,333,116	497,860	250,234.

[1]This schedule covers shipments made only for the Military Departments and excludes shipments for DoD Components, such as the Defense Mapping Agency and the Defense Nuclear Agency.

[2]All AMC aerial ports.

Appendix C. Schedule of Uncleared Overseas Air Shipments for FY 1992

Military Departments	Uncleared Air Cargo Shipments (a)	Air Shipments[1] Diverted to Surface (b)	Cost Avoidance[2] Per Shipment (c)	Computed Cost Avoidance (b x c)
Army	102,725	7,037	$2,344	$16,494,728
Navy	45,928	3,462	1,438	4,978,356
Air Force	98,844	3,637	1,543	5,611,891
Marine Corps	2,737	9	1,565	14,085
Total	250,234	14,145		$27,099,060

[1]Based on historical experience. The experience of the Army was 6.85 percent, the Navy was 7.54 percent, the Air Force was 3.68 percent, and the Marine Corps was 0.34 percent.

[2]The average cost avoidance experience per shipment as reported by the Military Department ACAs in FY 1992.

Appendix D. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
Recommendation	Internal Control. Require DoD shipping organizations to pay airlift cost on uncleared air cargo shipments.	Funds Put to Better Use. DoD could have realized a potential monetary benefit of $27.1 million during FY 1992. DoD can reduce transportation costs by $100 million over the 6-year Future Years Defense Program (FY 1994-1999). The calculated potential monetary benefits are based on the assumption that potential monetary benefits will decrease by 20 percent annually because of overseas force reductions. *

*For example, in the second year the potential monetary benefits were calculated by multiplying $27.1 million by 0.8 (1 - 20 percent) which equals $21.7 million. A similar calculation was performed over the 6 years.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC
Deputy Under Secretary of Defense (Logistics), Washington, DC

Department of the Army

Director of Transportation Energy and Troop Support, Deputy Chief of Staff for Logistics, U.S. Army, Washington, DC
U.S. Army Military District of Washington, Cameron Station, VA
Logistics Control Activity, Army Materiel Command, Presidio, CA
U.S. Army Garrison, Vint Hill Farms Station, Warrenton, VA
U.S. Army Natick Research and Development Center, Natick, MA
Ft. Belvoir, Alexandria, VA
Ft. Greely, Delta Junction, AK
Ft. Hood, Killeen, TX
Ft. Irwin, Barstow, CA
Ft. Lewis, Tacoma, WA
Lexington Blue Grass Army Depot, Lexington, KY

Department of the Navy

Navy Material Transportation Command, Naval Supply System Command, Arlington, VA
Navy Material Transportation Office, Naval Base, Norfolk, VA
Fleet Hospital Support Office, Alameda, CA
Naval Air Facility, El Centro, CA
Naval Air Station Corpus Christi, Corpus Christi, TX
Naval Air Station Miramar, San Deigo, CA
Naval Air Station Oceana, Virginia Beach, VA
Naval Air Warfare Center, Warminster, PA
Naval Coastal System Center, Panama City, FL
Naval Hospital, Oakland, CA
Naval Ordnance Station, Indian Head, MD
Naval Postgraduate School, Monterey, CA
Naval Research and Development, Naval Command, Control and Ocean Surveillance Center, San Diego, CA
Naval Research Laboratory, Washington, DC

Department of the Navy (cont'd)

Naval System Warfare Center, Crane, IN
Navy Material Transportation Office Representative, Military Traffic Management Command-Western Area, Naval Supply Center, Oakland, CA
Portsmouth Naval Shipyard, Portsmouth, NH
Strategic Weapons Facility-Pacific, Bangor, WA
Supervisor of Shipbuilding, Conversion and Repair, Pascagoula, MS
Trident Refit Facility, Naval Submarine Base, Bangor, WA

Department of the Air Force

Directorate of Transportation, Deputy Chief of Staff for Logistics, Department of the Air Force, Washington, DC
Air Force Materiel Command, Wright-Patterson Air Force Base, Dayton, OH
Air Mobility Command, Scott Air Force Base, Bellville, IL
Aircraft Tire Storage and Distribution Point, Wright-Patterson Air Force Base, Dayton, OH
Andrews Air Force Base, Washington, DC
Dover Air Force Base, Dover, Delaware
Hill Air Force Base, Ogden, UT
Reese Air Force Base, Hurlwood, TX
Robins Air Force Base, Warner-Robins, GA
60th Aerial Port Squadron, Travis Air Force Base, Fairfield, CA
63rd Transportation Squadron, Norton Air Force Base, San Bernardino, CA
437th Aerial Port Squadron, Charleston Air Force Base, Charleston, SC
645th Transportation Squadron, Wright-Patterson Air Force Base, Dayton, OH

Marine Corps

Marine Corps Logistics Base, Albany, GA
Marine Corps Logistics Base, Barstow, CA

Other Defense Organizations

Headquarters, Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service Center, Albany, GA
Defense Finance and Accounting Service Center, Cleveland, OH
Defense Finance and Accounting Service Center, Columbus, OH
Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Accounting Office, Defense Finance and Accounting Service, Naval Base, Norfolk, VA

Other Defense Organizations (cont'd)

Defense Finance and Accounting Service Office, Defense Finance and Accounting Service, Defense Personnel Support Center, Philadelphia, PA
Defense Logistics Agency, Cameron Station, Alexandria, VA
Defense Distribution Region East, Defense Logistics Agency, New Cumberland, PA
Defense Distribution Region West, Defense Logistics Agency, Stockton, CA
Defense Distribution Depot, Albany , GA
Defense Distribution Depot, Memphis, TN
Defense Distribution Depot, Naval Air Station, North Island, San Diego, CA
Defense Distribution Depot, Naval Base, Norfolk, VA
Defense Distribution Depot, Richmond, VA
Defense Distribution Depot, Tobyhanna, PA
Defense Construction Supply Center, Columbus, OH
Defense Electronics Supply Center, Dayton, OH
Defense General Supply Center, Richmond, VA
Defense Personnel Support Center, Philadelphia, PA
Defense Plant Representative Office-Boeing, Seattle, WA
Defense Contract Management Area Operations-Baltimore, Towson, MD
Defense Contract Management Area Operations, Bridgeport, CT
Defense Contract Management Area Operations, Chicago-O'Hare, IL
Defense Contract Management Area Operations, Denver, CO
Defense Contract Management Area Operations, Phoenix, AZ
Defense Contract Management Area Operations-San Francisco, San Bruno, CA
Defense Contract Management Area Operations, St. Louis, MO
Defense Automatic Addressing System, Dayton, OH
Depot, Defense Mapping Agency, Philadelphia, PA
Military Ocean Terminal, Military Traffic Management Command, Bayonne, NJ
National Security Agency, Fort Meade, MD

Appendix F. Report Distribution

Office of the Secretary of Defense

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Commander, Air Mobility Command
Auditor General, Air Force Audit Agency

Defense Organizations

Director, Defense Contract Audit Agency
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Director, National Security Agency
Inspector General, Central Imagery Office
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Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Unified Command

Commander in Chief, U.S. Transportation Command

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
- National Security and International Affairs Division, Technical Information Center
- National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
- National Security and International Affairs Division, Military Operations and Capabilities Issues

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- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Office of the Under Secretary of Defense for Acquisition and Technology Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

11 MAY 1994

ACQUISITION AND TECHNOLOGY

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL

THROUGH: CAIR,PI, OUSD(A&T) 11 May 1994

SUBJECT: Audit Report on Air Clearance Process (No. 3LC-0014)

This responds to your memorandum of March 7, 1994, requesting review of the draft audit. Our detailed comments are attached.

In general, we concur with the audit methodology and the substance of the finding that some air cargo is shipped without the approval of airlift clearance authorities. However, it is misleading to state in the finding that the Department of Defense (DoD) spent more than necessary to ship cargo overseas without acknowledging the $49.3 million cost avoidance DoD achieved during the audit period by challenging questionable shipments which were processed for air movement. Unless this statement is changed, readers will be left with a mistaken impression that the air clearance process is ineffective, rather than being correctly informed that it may be further improved if DoD can increase the percentage of timely airlift clearance approval actions.

For several reasons, we nonconcur with the draft report's computed cost avoidance figures of $27.1 million in FY 1992 and the potential six-year savings projection of $100 million. First, the quantity of uncleared shipments in the report is incorrect because it includes several types of shipments which do not require approval under DoD air clearance procedures. It also includes a significant number of shipments which we believe were subjected to air challenge procedures and cleared by the air clearance authorities, but the action was not documented in the airlift system because of gaps in data transmission, data entry errors, the absence of reliable bar code scanners at some aerial ports and other factors. At a minimum, these factors applied to 10 percent, or 74,809 of the total shipments made during the audit period and should be subtracted from the 250,234 uncleared shipments that the auditors used as a basis for projecting their FY 1992 cost avoidance estimate. Therefore, DoD estimates that the additional cost avoidance beyond the $49.3 million achieved in FY 1992 was approximately $19.2 million, as opposed to the $27.1 million estimated in the draft report.

Further, it appears that the DoD could experience diminishing returns on cost avoidance data at a faster rate than the one projected in the report. For example, the Air Force recorded a $5.6 million cost avoidance in FY 1992, but projects only $3 million for this year, a reduction of greater than 25 percent per year, as opposed to the 20 percent annualized estimate in the draft report. In addition to the expected decrease in the total volume of shipments, we're confident that DoD's increased emphasis on proper air clearance procedures will continue to even further reduce the percentage of shipments which incorrectly enter the system and are subsequently challenged and rerouted to a less expensive mode. Based on these factors, we estimate that the FY 1992 cost avoidance of $19.2 million, with an annual decrease of 25 percent in potential monetary benefit over six years, would result in a total cost avoidance of $63.2 million.

Our experience in attempting to further improve the air clearance process since the audit was done is the basis of our nonconcurrence with the report recommendation. Devising a system to bill shippers who fail to obtain air clearances will be expensive because it is difficult and time consuming to review each uncleared shipment to ensure the shipper was actually at fault. As noted elsewhere in this response, there are a number of other problems beyond the control of the shipping activity which may also result in an uncleared shipment entering the DoD airlift system. Adoption of the recommendation would further complicate, rather than streamline and improve the air clearance process. Instead, we will direct the United States Transportation Command to continue its efforts in this area and make enhancements as they are identified.

Because our strategy for resolving this problem is one which seeks continuous improvement rather than a single solution, we also request that once finalized, this audit report be closed and used as a benchmark from which DoD can validate the effectiveness of present and future air clearance process improvements.

Thank you for your assistance during the audit. Please contact Major Chris O'Hara at (703) 697-7287 if you have any questions.

Mary Lou McHugh
Assistant Deputy Under Secretary
of Defense (Transportation Policy)

Attachment

Finding:

DoD shipping organizations sent cargo to Air Mobility Command aerial ports without first obtaining air clearance approval from the Military Departments' airlift clearance authorities (ACAs). The condition occurred because shipping organizations were not held accountable for shipping uncleared cargo shipments to the aerial ports for air transportation. As a result, DoD expended about $27.1 million more than necessary to ship cargo to overseas destinations during FY 1992.

Response:

Partially Concur. According to the draft report, DoD identified, challenged and rerouted 29,516 shipments from air to alternate modes of transportation, thereby avoiding $49.3 million in excess transportation costs during FY 1992. Although we disagree with the $27.1 million figure cited in the finding (See Monetary Benefits section), we consider the information on successful air challenges as central to the audit and necessary to accurately frame the magnitude of the finding.

Therefore, the wording in the Executive Summary's Audit Results section, as well as the actual finding, should both be amended to reflect that, if the percentage of shipments receiving prior air clearance approvals was higher, there was a potential cost avoidance of an additional $19.2 million (See Monetary Benefits section) *beyond* the $49.3 million cost avoidance which DoD achieved through the air clearance process which was in effect in FY 1992. This change will improve clarity by helping DoD and other Federal officials understand that successful challenges to air clearance requests which were processed in FY 1992 clearly helped reduce transportation charges within the Department during the period of the audit.

Further, for reasons discussed below under "Internal Controls", we recommend that the statement ascribing the cause of the finding to a lack of shipper accountability be removed from the final report.

Recommendation:

"We recommended that DoD 4500.32-R, "The Military Standard Transportation and Movement Procedures", March 15, 1987, be amended to require the payment of air transportation costs by shipping organizations on all air cargo shipments not submitted to the air clearance process."

Attachment

Response:

Nonconcur. Amending DoD 4500.32-R as recommended will not fundamentally improve the DoD air clearance process. The primary reason is that absence of a timely air clearance request is not always the fault of the shipper. Other problems which may defeat the completion of a timely air clearance request and approval include errors in manual preparation or miskeyed data inputs, intermittent problems with bar code scanners or other automated devices, vendors who do not comply with contract provisions covering mode selection criteria, and many other reasons.

We believe that it will be difficult and time consuming to accurately determine when the shipper was clearly responsible for a breakdown in the air clearance process. Therefore, the cost of creating an internal billing process to "penalize" those shippers will outweigh its potential benefit and further complicate, rather than simplify current procedures. Further, primarily because of the difficulties in determining liability, the unanimous opposition of DLA, USTRANSCOM, and the Military Departments to the recommendation could additionally detract from the effectiveness of any DoD implementation efforts.

Instead, we propose that the USTRANSCOM working group, which was established in March 1993 specifically to improve the air clearance process, be permitted to complete its work and recommend changes which should increase the percentage of timely air clearance actions, and more importantly, reduce the incidence of shippers improperly requesting air service when other modes will meet mission requirements. We are already beginning to see the results of these efforts. For example, approximately 77% of DoD shipments requiring clearance were correctly processed during March 1994, as opposed to a rate of 66% noted during the audit.

Internal Controls:

"Internal Control Policies and procedures as implemented in accordance with the Federal Managers' Financial Integrity Act did not require that DoD shipping organizations pay airlift transportation cost on uncleared air cargo shipments sent to AMC aerial ports."

Response:

Nonconcur: As acknowledged by the DoD IG in the draft report, shippers (Defense Logistics Agency and the Military Departments) do in fact pay for air transportation of uncleared shipments. Similarly, we believe the $49.3 million in cost avoidance achieved in FY 1992 indicates that DLA and the Military Departments are very much motivated to reduce fiscal outlays for air transportation.

2

Pushing accountability farther down to the actual shipping office in each agency may further degrade, rather than substantially improve the process. Further, a penalty billing system is inconsistent with quality management principles. A more comprehensive solution that involves all logistics disciplines will be necessary to attack this problem at its source and further reduce or eliminate the requests for airlift service which is not mission essential. We believe the USTRANSCOM approach of working with all key players to improve the entire air clearance process will ultimately improve internal controls and the effectiveness of the airlift system far more than implementation of the draft report recommendation.

Monetary Benefits:

"We have calculated that potential monetary benefits of $100 million can be realized by implementing the recommendation (See Appendix D)."

Response:

Nonconcur. For several reasons, we nonconcur with the draft report's computed cost avoidance figures of $27.1 million in FY 1992 and the potential six year projection of $100 million. First, the quantity of uncleared shipments in the report is incorrect because it includes several types of shipments (such as Code J baggage, AMC forward supply support, and shipments from one overseas area to another) which do not now and did not require approval under DoD air clearance procedures during the audit period. The draft report also includes a significant number of shipments which we believe were properly cleared by the Air Clearance Authorities, but the action was not completed because of gaps in data transmission, data entry errors, the absence of reliable bar code scanners at some aerial ports and other factors. At a minimum, these additional factors accounted for at least 10%, or 74,809 of the total shipments made during the audit period and should therefore be subtracted from the 250,234 uncleared shipments that the auditors used as a basis for projecting the draft FY 1992 cost avoidance estimate. Therefore, DoD estimates that the additional cost avoidance beyond the $49.3 million achieved in FY 1992 was approximately $19.2 million, as opposed to the $27.1 million estimated in the draft report.

Further, it appears that the DoD could experience diminishing returns on cost avoidance data at a faster rate than the one projected in the report. For example, the Air Force recorded a $5.6 million cost avoidance in FY 1992, but projects only $3 million for this year, a reduction of greater than 25% per year, as opposed to the 20% annualized estimate in the draft report. In addition to the expected decrease in the total volume of shipments,

3

we're confident that DoD's increased emphasis on proper air clearance procedures since the audit will continue to even further reduce the percentage of shipments which incorrectly enter the air clearance process and are subsequently challenged and rerouted to a less expensive mode. Based on these factors, we estimate that the initial FY 1992 cost avoidance of $19.2 million, with an annual decrease of 25% in potential monetary benefit over six years, would result in a total cost avoidance of $63.2 million.

We do concur with the basic cost estimating methodology used by the auditors which gathered data from successful air challenges among properly cleared shipments and applied the average cost avoidance obtained toward the gross number of shipments which were shipped by air without clearance authority. However, we are more cautious about projecting these figures so far into the future, since they are premised on the assumption that shippers will place orders that are challenged and rerouted at the same rate in the future as presently occurs. Our expectation is that, as timely air clearance actions increase and aggressive air challenges continue, the quantity of invalid (rerouted) air shipments as a percentage of the total will decrease. Because of the diminishing returns that will be obtained as the situation improves, it may be more realistic to project the cost avoidance for three years instead of six, as stated in the draft report. Over three years, we would project an estimated cost avoidance of $44.4 million.

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