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OFFICE OF THE INSPECTOR GENERAL

EXPRESS PACKAGE SHIPMENTS

Report No. 96-016 October 25, 1995

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Acronyms

DLA	Defense Logistics Agency
GSA	General Services Administration
RDD	Required Delivery Date
UMMIPS	Uniform Materiel Movement and Issue Priority System

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

Report No. 96-016 October 25, 1995

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR LOGISTICS
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit of Express Package Shipments (Project No. 5LB-0039)

Introduction

We are providing this final report for your information and use. DoD makes extensive use of express package delivery services to reduce transit times for small packages and freight. DoD estimated that over the next 5 years, it will make about 3.39 million express small package and freight shipments annually at a cost of about $80.6 million. The Uniform Materiel Movement and Issue Priority System (UMMIPS) sets delivery time standards for DoD shipments.

Audit Results

DoD organizations were using express package delivery services to improve responsiveness to supply system customers. However, based on our review of shipments made at two Defense Logistics Agency (DLA) depots in April and May 1995, use of express package delivery services could be more cost-effective if DoD organizations complied with the UMMIPS standards. Further, controls over small package shipments were not established to ensure that shipments were delivered. We believe the ongoing Task Force to Reengineer the DoD Transportation Process (Task Force) should address the weaknesses identified because the Task Force has the necessary resources and charter to bring about rapid improvements in operations. The Task Force is discussed later under Other Matters of Interest.

Audit Objectives

The audit objective was to determine whether DoD organizations used the most efficient and cost-effective transportation methods available to move express package shipments, and to evaluate management controls and performance indicators as they related to the audit objective.

Scope and Methodology

Scope and Methodology. We reviewed DoD policies, procedures, and practices applicable to the express shipment of small packages and freight, and the Task Force action plans. We also reviewed supporting documentation (customer requisitions, shipping manifests, and DoD standard tenders[1]) from April and May 1995 for express small package shipments made by Defense Depot Susquehanna, Pennsylvania, and Defense Depot Warner-Robins, Georgia. In addition, we reviewed the November 1989 General Services Administration (GSA) express small package delivery services contract, for which DoD is an optional user, and the statement of work for the pending GSA express small package and freight delivery services contract being solicited. DoD has agreed to become a mandatory user of the pending contract. We obtained from GSA the estimates of the annual DoD shipping volume to include the number of shipments and transportation costs under the pending contract. We also discussed implementation of the new contract with the U.S. Transportation Command, the Military Traffic Management Command, the Air Mobility Command, the Military Departments, DLA, and the GSA Federal Supply Service. Because the Task Force plans to perform a comprehensive review of performance measurement methods and systems (including the UMMIPS) in the near future, we did not review performance indicators applicable to the audit objectives.

Audit Period, Standards, and Locations. This economy and efficiency audit was conducted from April through September 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not rely on the use of computer-processed data or statistical sampling procedures for this audit. A complete list of organizations visited or contacted during the audit is in Enclosure 1.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and evaluate the adequacy of those controls.

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[1]A DoD standard tender is an offer voluntarily submitted by a carrier to provide transportation services at specified rates for a specified time.

Scope of Review of the Management Control Program. We reviewed management controls over the express shipment of small packages at Defense Depot Susquehanna, Pennsylvania, and Defense Depot Warner-Robins, Georgia. Specifically, we reviewed controls over the selection of transportation modes (air or surface), delivery times (1- or 2-day service), and carriers necessary to ensure that shipments of small packages were cost-effective and consistent with mission requirements. We also reviewed controls necessary to ensure that small package shipments were delivered to requisitioning organizations. We did not assess management's self-evaluation of applicable controls.

Adequacy of Management Controls. We identified management control weaknesses related to delivery time standards, automated systems processing, and delivery of small package shipments. Specifically, management controls were not sufficient to ensure that small package shipments were moved at the lowest cost consistent with mission requirements. In addition, management controls were not sufficient to ensure that small package shipments were delivered. Because of ongoing Task Force efforts, we did not expand the scope of the review to determine the materiality of the weaknesses.

Prior Audits and Other Reviews

Inspector General, DoD. The Inspector General, DoD, issued Report No. 91-100, "Contractor Use of Federal Supply Schedules," June 19, 1991. The report showed that contractors could have saved 36 to 64 percent by using the GSA contract for express delivery of small packages. Contracting officers and contractors were unaware of the GSA contract. The report recommended that the then Assistant Secretary of Defense (Production and Logistics), in coordination with GSA, develop a marketing plan to increase awareness of available GSA programs, and the Director of Defense Procurement incorporate into the training curriculum guidance on the contractor use of the GSA Federal Supply Schedules and compliance with Federal regulations. The actions taken by management were considered responsive.

Air Force Audit Agency. The Air Force Audit Agency Project 95061023, "Management of Express Transportation for Small Packages," is reviewing small package shipments made by the Air Force. The audit will determine whether the Air Force uses overseas express transportation for small packages efficiently and effectively.

Other Matters of Interest

In May 1995, the Deputy Secretary of Defense directed the Under Secretary of Defense (Acquisition and Technology) to establish a Task Force to reengineer the DoD transportation process. The Task Force was instructed to complement the ongoing efforts to improve transportation business practices and to identify other practices that can be streamlined. The Office of the Deputy Under Secretary of Defense (Logistics) chairs the Task Force, which includes representatives from the Office of the Under Secretary of Defense (Comptroller), the Joint Staff, the Military Departments, the U.S. Transportation Command, DLA, and the Office of the Inspector General, DoD.

In June 1995, the Task Force developed its action plan. The plan emphasized four major areas: DoD transportation vision for the 21st century, transportation acquisition methods, financial management, and transportation structure and processes. The initiatives within the transportation acquisition are: to review transportation performance methods and systems (such as UMMIPS), and to establish policies and procedures for collection and use of transportation performance data, for example, to ensure delivery of shipments, related to the weaknesses we identified. The U.S. Transportation Command has been designated as the lead component for all elements of the transportation acquisition action plan.

Background

DoD organizations estimate that, over the next 5 years, DoD will make about 3.35 million express small package shipments, and about 40,000 express freight shipments annually. DoD estimates that it will spend about $80.6 million annually to move the shipments. DoD developed those estimates using data provided by the GSA contract carrier and DoD shipping organizations. Of the $80.6 million total, $56.3 million represents express small package shipments now moved under either the current GSA express small package delivery services contract ($16.3 million) or DoD standard tenders ($40 million) that offer rates comparable to or lower than the GSA contract. Use of the GSA contract is mandatory for civilian executive agencies and optional for DoD. The contract includes single small packages weighing up to 70 pounds and multiple small package shipments weighing up to 150 pounds (no single small package exceeding 70 pounds) for 1-day delivery. Express small package shipments under both the GSA contract and DoD standard tenders are made using commercial forms (commercial bills of lading, commercial express receipts, etc.) and related billing procedures as opposed to Government bills of lading used for freight shipments.

The remaining $24.3 million of the $80.6 million represents express freight shipments weighing between 151 pounds and 4,000 pounds moved under guaranteed traffic agreements[2] or DoD standard tenders using Government bills of lading.

As of September 1995, GSA was in the process of awarding a new, expanded express small package and freight delivery services contract that is scheduled to take effect in FY 1996. The new GSA contract will include single and multiple small packages weighing up to 150 pounds for 1- or 2-day delivery and single small packages weighing up to 150 pounds and multiple small packages weighing up to 1,000 pounds (no single small package exceeding 150 pounds) for 3-day delivery. Freight shipments weighing from 151 pounds to 4,000 pounds (no single item exceeding 300 pounds) will be delivered in 1 or 2 days.

The new GSA contract will not be mode-specific; that is, separate air and surface delivery services will not be included in the contract. Shipments under the contract will use commercial forms and related billing procedures. DoD has agreed to become a mandatory user of the contract for shipments over 500 miles and an optional user for shipments under 500 miles. DLA, in conjunction with the Military Traffic Management Command, plans to award a separate small package and freight delivery services contract for shipments under 500 miles. DLA believes that it can negotiate rates lower than the new GSA contract for such shipments.

Discussion

In conjunction with the National Performance Review and DoD inventory reduction initiatives, DoD organizations have improved responsiveness to supply system customers, in part, by using express package delivery services to reduce transportation times. DoD believes that increased responsiveness to customer requisitions will decrease the need for on-hand inventory at the customer level. However, the supplier should not pay a premium for express delivery service to ship an item at a higher transportation priority than required. The UMMIPS time standards were developed to match the priority of need with the type of transportation provided.

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[2]A guaranteed traffic agreement is an agreement between the Government and a carrier under which the Government "guarantees" the carrier all shipments to, from, or between specified shipping points in return for reduced rates. Some guaranteed traffic agreements include provisions for express shipments that meet the GSA contract criteria.

The shipment of express small packages was not always cost-effective because shipping organizations did not comply with UMMIPS time standards. In addition, controls over small package shipments were not established to ensure that shipments were delivered.

Compliance with Established Criteria. The DLA organizations were not using UMMIPS time standards to ship small packages because DLA established separate time standards. In addition, the automated supply and distribution systems that DLA used did not process small package shipments in accordance with either UMMIPS or DLA standards. As a result, DoD incurred excessive transportation costs for express shipment of small packages.

UMMIPS Time Standards. The UMMIPS time standards are included in DoD Regulation 4140-R, "DoD Materiel Management Regulation," January 1993. UMMIPS is used to allocate supply and transportation resources among competing demands during peacetime and war. UMMIPS establishes time standards for the supply of materiel from the time of requisition to customer receipt. DoD organizations collect performance data to evaluate the effectiveness of the supply and transportation systems against the time standards. The time standards vary depending on the required delivery date (RDD) code assigned by the requisitioning activity. By using the appropriate RDD code, a requisitioning organization can request either the fastest possible service, expedited service, or routine service. UMMIPS time standard for the delivery of CONUS shipments requiring the fastest possible service is 1 calendar day; expedited service, 4 business days; and routine service, 10 business days. The standard extends from the date an item is made available to the transportation officer to the date the item is received by the requisitioning installation.

DLA Policy. Headquarters, DLA, issued a policy memorandum, "DLA Mode Selection Policy for Requisitions with Required Delivery Date (RDD) Entry of 777," December 22, 1994. A 777 RDD code indicates that the customer requests expedited service for reasons other than deployment or nonmission-capable supply status. DLA policy states that such requisitions should generally be provided 2 business days for transit time. In contrast, UMMIPS delivery time for 777 RDD and other requisitions requiring expedited service is 4 business days. DLA policy also states that certain distribution sites receiving requisitions with both a 777 RDD and a project code representing certain Air Force-unique missions (such as the lean logistics and two-level maintenance programs) should process the requisitions for overnight delivery. UMMIPS does not provide for the use of project codes in determining transportation priority.

Automated Systems Processing. The DLA depot-level automated supply and distribution systems routinely processed 777 RDD and other shipments requiring expedited service for more costly 1-day air delivery. That

processing was independent of the delivery time standards established by both UMMIPS and DLA. We reviewed the routing procedures for small package shipments at Defense Depot Susquehanna, which used the Depot Standard System to process customer requisitions, and the Defense Depot Warner-Robins, which used the Stock Control and Distribution System. Unless depot personnel manually intervene, both automated systems routinely process 777 RDD and other shipments requiring expedited service for 1-day (overnight) delivery. Specifically, the systems process the shipments as though they required the fastest possible service, which is more costly.

Transportation Cost Analysis. Our review of small package shipments showed that DoD incurred increased transportation costs as a result of control weaknesses related to delivery time standards and automated systems processing. For example, we reviewed 818 small package shipments made from Defense Depot Warner-Robins on May 3, 1995. Of the 818 shipments, 524 had RDDs other than 777 and generally were moved in accordance with DLA and UMMIPS standards. The remaining 294 shipments had RDDs of 777 and generally were moved at a higher transportation priority (1-day) than required. These shipments required 2- and 4-day delivery under DLA and UMMIPS standards, respectively. We computed the total constructive cost of the 818 shipments as if the 777 RDD shipments had been moved in accordance with DLA or UMMIPS standards. We compared the total constructive cost under each scenario with the total actual cost of the 818 shipments. Our cost analysis showed potential savings of $481 or $746 if DLA or UMMIPS standards had been followed, respectively. The constructive cost of the 524 shipments with RDDs other than 777 remained relatively constant considering the effects of changes in shipping rates per pound when the shipments were reconfigured. For the remaining 294 shipments, the constructive cost was significantly lower when the shipments were rerouted based on their true transportaton priority. The results of our comparison of the 818 shipments are summarized in the following table.

Comparison of Shipping Costs Under Various Delivery Time Standards

Delivery Time Standard	Applicable Delivery Standard	Actual Shipping Cost	Constructive Shipping Cost	Amount of Potential Savings	Percent of Cost Savings
DDWG[1]	1 day[2]	$5,054	$5,054	$ 0	0
DLA	2 days	5,054	4,573	481	9.5
UMMIPS	4 days	5,054	4,308	746	14.8

[1]DDWG Defense Depot Warner-Robins, Georgia.

[2]The Stock Control and Distribution System, used at the Defense Depot Warner-Robins, automatically processes express package shipments for 1-day delivery.

The potential savings in our comparison were based on the use of less costly surface rather than air transportation for 777 RDD shipments when surface transportation would have met the applicable UMMIPS or DLA delivery time standard. When surface transportation would not have met the standard, we did not question the use of 1-day versus 2-day air delivery. We identified similar results during our review of small package shipments at the Defense Depot Susquehanna.

Small Package Shipment Deliveries. The DoD could not ensure that small package shipments were actually delivered because no controls have been established to track the shipment from origin to destination. Although major express carriers provide extensive in-transit visibility over small package shipments while in the carriers' custody, DoD did not maintain accountability to verify that small package shipments placed in the carriers' custody were actually delivered. The carriers maintained records of completed shipments; however, the carriers' records were for their own internal management purposes. Further, DoD had not established a tracking system that included small package shipments.

The Continental United States Freight Management System, a DoD automated transportation system, provides shipment and payment data for completed freight shipments moved under Government bills of lading, but it does not provide such data for small package shipments moved under commercial procedures. As a result, data on completed small package shipments were not available at the DoD level for external audit, analyses of carrier performance, and other management purposes.

Conclusion

As DoD moves into a period of "just in time" inventory management, it needs to establish appropriate delivery time standards for express shipments and ensure compliance with those standards. Under the new GSA contract, DoD organizations will need to choose among 1-, 2-, or 3-day delivery service for express shipments. Those shipments requiring the fastest possible service will continue to be moved using 1-day delivery. However, DoD needs to decide which of the three delivery time choices is appropriate for expedited shipments. Further, depot-level automated supply and distribution systems should be programmed to choose delivery time based on transportation priorities. Finally, DoD needs to establish management controls to ensure that small package shipments are actually delivered.

To improve intransit visibility and controls over express shipments, DoD is considering acquiring new management information systems or making costly modifications to existing systems. The Task Force should closely examine any proposal to develop a new expensive transportation management information system or modify an existing system. Information systems currently operated by carriers should be fully evaluated to see whether DoD can use those systems. As part of that examination, the Task Force should also determine whether modifications to carriers' express shipment information systems would satisfy DoD needs.

Senior DoD officials, particularly top DoD transportation officials, are keenly aware of the numerous problems in the transportation area and are taking active steps to bring about corrective action. The weaknesses should be addressed by the Task Force because it has the necessary resources and the charter to bring about rapid improvements in operations.

Management Comments

We provided a draft of this report to you on September 13, 1995. Because this report contains no recommendations, comments were not required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. John A. Gannon, Audit Program Director, at (703) 604-9427 (DSN 664-9427) or Mr. Albert L. Putnam, Audit Project Manager, at (703) 604-9462 (DSN 664-9462). The distribution of this report is listed in Enclosure 2. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense (Acquisition and Technology), Washington, DC
Office of the Assistant Deputy Under Secretary of Defense (Transportation Policy), Washington, DC

Department of the Army

Office of the Deputy Chief of Staff (Logistics), Washington, DC
Military Traffic Management Command, Falls Church, VA

Department of the Navy

Naval Supply Systems Command, Arlington, VA

Department of the Air Force

Office of the Deputy Chief of Staff (Logistics), Washington, DC
Air Mobility Command, Scott Air Force Base, IL

Unified Command

U.S. Transportation Command, Scott Air Force Base, IL

Other Defense Organizations

Defense Logistics Agency, Alexandria, VA
- Defense Distribution Region East, New Cumberland, PA
  - Defense Depot Susquehanna, PA
  - Defense Depot Warner-Robins, GA

Non-Defense Federal Organization

General Services Administration, Federal Supply Service, Arlington, VA

Non-Government Organizations

Federal Express Corporation, Government Sales Division, Greenbelt, MD
United Parcel Service, Government Sales Division, Beltsville, MD

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This report was produced by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Shelton R. Young
John A. Gannon
Albert L. Putnam
Edward L. Grimm, Jr.
Delores Brooks
Timothy J. Harris