Audit Report

OFFICE OF THE INSPECTOR GENERAL

FREIGHT SHIPMENT DELIVERIES

Report No. 96-044 December 12, 1995

Department of Defense

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Acronyms

CFM	Continental United States Freight Management System
CONUS	Continental United States
DFAS	Defense Finance and Accounting Service
EDI	Electronic Data Interchange
GAO	General Accounting Office
GBL	Government Bill of Lading
MTMC	Military Traffic Management Command
RPS	Roadway Package Service
TDR	Transportation Discrepancy Report

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MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR LOGISTICS
ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE (TRANSPORTATION POLICY)

SUBJECT: Audit of Freight Shipment Deliveries (Project No. 5LB-0038)

Introduction

We are providing this report for your information and use. The audit, originally announced in September 1993, was to evaluate DoD management controls over freight shipments made under Government bills of lading (GBL). We suspended the audit in November 1993, to give management the opportunity to implement the Continental United States (CONUS) Freight Management System (CFM), being developed by the Military Traffic Management Command (MTMC), to control all freight shipments made within CONUS. The CFM, when fully operational, should provide automated capabilities to rate and select carriers, to obtain intransit visibility of freight shipments, and to provide support to the Defense Finance and Accounting Service (DFAS) in the electronic bill payment process by verifying the accuracy and validity of carrier invoices. During FY 1994, DoD made 1.2 million shipments under GBLs at a cost of nearly $600 million; however, only a portion of those shipments was processed using CFM because the system, as of August 1995, was still not fully developed and implemented.

In May 1995, the Deputy Secretary of Defense directed the Under Secretary of Defense (Acquisition and Technology) to establish the DoD Task Force to Reengineer Transportation (the Task Force). The Task Force was instructed to complement the ongoing efforts to improve transportation business practices and to identify other practices that can be streamlined.

Audit Results

The CFM was not fully developed and implemented; therefore, we were unable to fully evaluate the system. However, we identified the following issues that the Task Force should address.

o CFM processing of freight shipments did not provide adequate control to ensure that undelivered shipments could be promptly identified and that

shipments would be made in the most cost-effective manner possible. For example, at one DoD organization with a CFM interface, advance notice of the shipment was provided on only 2 of 52 shipments.

o CFM has the potential to increase control over payments of carrier freight invoices. However, all carriers must submit invoices by Electronic Data Interchange (EDI) and all GBLs for CONUS freight shipments must be processed by CFM so that payments for freight shipments will be subject to CFM automated controls.

o The interface between CFM and other automated logistical systems may not provide the information required to permit DoD to attain its goal of total asset visibility.

o The procedures for processing transportation discrepancy reports (TDRs) and related Government claims against carriers were inadequate. For example, during FY 1994 DFAS canceled or suspended collection efforts on 1,190 TDRs, valued at about $14.5 million, because of insufficient documentation.

The MTMC was monitoring carrier performance and taking action against carriers that did not perform. We did not quantify the potential benefits of the audit or make any recommendations because the CFM system is still under development and because of pending management initiatives by the Task Force. We believe that the issues discussed in this report should be addressed by the Task Force because it has the necessary resources and charter to bring about rapid improvements in operations.

Audit Objectives

The objectives were to determine whether DoD had effective management controls to detect undelivered freight shipments made using GBLs, whether DoD received adequate compensation from carriers for undelivered freight, and whether appropriate sanctions were taken against carriers that did not deliver DoD freight. We also evaluated management controls and performance indicators applicable to the other objectives.

Scope and Methodology

Scope and Methodology. We examined GBLs, TDRs, correspondence, and other shipping documentation dated from October 1993 to June 1995 at five DoD transportation offices. We used the MTMC Freight Information System data base to identify a FY 1994 universe of GBL freight shipments to the five DoD transportation offices, from which we selected a judgmental

sample of 208 shipments to verify that actual deliveries were made. The sample was not selected to project any results, but to test for existence and use of applicable management controls. We also reviewed 13 of 124 claims in which DFAS received less than the original claim amount. The 13 claims reviewed were selected because of large reductions in the settlement amount. In addition, we interviewed officials of the Defense Logistics Agency, DFAS, selected Defense Distribution Depots, MTMC, the CFM Program Office, and other appropriate sources. Because we used computer-processed data to identify shipments for judgmental sampling only, we did not verify the accuracy or completeness of the data base. We did not use statistical sampling techniques during the audit. We received assistance from our Technical Assessment Division to evaluate CFM operational capabilities and controls.

Scope Limitation. Initial audit work at transportation offices that were not using CFM disclosed that weaknesses previously identified by the General Accounting Office (GAO) relative to our audit objectives still existed. Therefore, we limited the scope of additional audit work to shipments processed by the CFM to determine whether CFM had eliminated or had the potential to eliminate or reduce the impact of the weaknesses. However, the CFM software was not sufficiently developed and implemented for us to completely evaluate the effectiveness of its management controls over freight shipments. As a result, we did not evaluate the management control program as it applied to CFM. For a discussion of the initial audit work we performed, see Other Matters of Interest in this report.

Audit Period, Standards, and Locations. This economy and efficiency audit was made from February to August 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, the audit included tests of management controls as considered necessary, except as noted above. The organizations we visited or contacted are listed in Enclosure 1.

Termination of Audit Work. The CFM was not sufficiently developed and implemented to enable us to evaluate its planned controls over freight shipments. We reviewed the CFM procedures being used to process shipments and identified issues which required management attention. Because the Task Force was chartered to reengineer transportation, we terminated the audit to provide them with our results for their action.

Management Control Program

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

Scope of Review of Management Control Program. We reviewed the adequacy of management controls in place at DoD shipping and receiving organizations. We did not fully evaluate the management control program as it applied to freight shipments processed through the CFM because it was not yet sufficiently implemented to allow a complete evaluation. We did evaluate the management controls over the processing of TDRs and related claims against carriers for nondelivery or damage to DoD freight.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. Management controls over freight shipments at organizations where CFM was not used were inadequate. In addition, management controls were inadequate in the processing of TDRs and related claims against carriers for lost or damaged freight. Related conditions were identified in a 1992 GAO audit report. Ongoing management initiatives to reengineer the transportation process and to implement a new deficiency reporting system have the potential to correct or ease those weaknesses; therefore, no recommendations for corrective actions were made in this report. For a more detailed discussion of the management control weaknesses, see the Discussion section of this report. A copy of this report will be provided to the senior official in charge of management controls at the Defense Logistics Agency.

Adequacy of Management Self-Evaluation. We limited our review of management risk assessment of management controls to the Defense Distribution Depot, Susquehanna, Pennsylvania, and Warner Robins, Georgia. Both depots identified transportation operations as an assessable unit, but assessed them as medium risk or low risk. In our opinion, the transportation operations should have been considered high risk because of the potential for loss or damage of valuable DoD freight.

Prior Audits and Other Reviews

The following is a summary of prior audit reports issued in the past 5 years related to our audit objectives.

GAO Report No. NSIAD-94-26 (OSD Case No. 9456), "Commercial Practices Offer Improvement Opportunities," November 1993. GAO stated that DoD had ineffective carrier management practices and redundant and nonstandard automated systems, and suggested that DoD emulate commercial practices to improve its freight transportation system. DoD acknowledged that the problems existed and stated that the Corporate Information Management initiative for the transportation functional area would streamline transportation management practices, eliminate redundant systems, and encourage standardization.

GAO Report No. NSIAD-92-96 (OSD Case No. 8913), "Ineffective Oversight Contributes to Freight Losses," June 1992. GAO stated that DoD did not have adequate controls to protect its intransit property and DoD did not always report discrepancies correctly. DoD acknowledged that the problems existed and claimed CFM would provide additional control over freight shipments, that discrepancy reporting would be automated, and carrier liability rates would be reviewed.

Audit Background

Intransit Visibility. Realizing the need to improve control and visibility over DoD transportation, the Deputy Under Secretary of Defense for Logistics established the Total Asset Visibility Joint Task Force. As part of that effort, the U.S. Transportation Command is developing the Global Transportation Network. The Global Transportation Network will be the transportation module of the Global Command and Control System which will be DoD's worldwide command and control information system. The Global Transportation Network is planned to provide intransit visibility on all movements from point of origin to the theater transportation and supply activity. Intransit visibility is defined as the ability to track the identity, status, and location of DoD freight and unit movements from origin to destination during peace, contingencies, and war. The CFM is planned to interface with and update the Global Transportation Network with information on CONUS freight shipments.

CFM Automated System. The CFM project was started in September 1984. In its November 1993 report, GAO stated that CFM was scheduled to be fully operational by 1996. As of August 1995, the CFM Program Office target date for CFM full operational capability was the end of FY 1999. CFM is planned to interface with about 20 other automated financial and logistical systems, including the Global Transportation Network. CFM is planned to provide automated capabilities and controls over all CONUS freight shipments to include carrier selection, shipment documentation, intransit visibility, and support to DFAS in the electronic billing and payment process. CFM shipping organizations (field users) who process GBLs on the CFM must access the CFM mainframe (host) in Falls Church, Virginia, through a CFM field module. The field module is software installed on a stand-alone personal computer or a local area network that connects to the host through a modem. All interaction between the host and field user is done by batch processing. The field user cannot directly access the host and input or receive data on-line in real time. The CFM Program office is planning to replace CFM hardware with a new package that will provide an on-line capability for CFM. The projected date of availability of that capability is late 1996.

CFM Field Module. When a GBL for a new shipment is initiated using the field module, the field user inputs all required data, then connects to the CFM

host. The host uploads new shipment data and all changes the field user made to existing GBL shipments since the last connection. During the same session the host will download all changes that it had made to previously transmitted GBL shipments. After the information exchange is completed the connection is terminated. The host will then route and rate the new shipments and prepare lists of carriers by least cost. The next time the field user connects to the host, the carrier lists will be downloaded. During every connection, all new or updated information on GBL shipments is exchanged between the host and field user. Each time a field user or the CFM host changes a GBL, the status code on the system associated with the GBL is updated. After the field user receives the carrier routing lists from the host, shipments are awarded to carriers, the GBLs are printed and the shipments released. CFM is designed to send an EDI copy of the GBL to the intended receiving organizations as advance notification of inbound shipments.

As of February 21, 1995, 224 transportation offices had the CFM field module. In addition, 8 of the 29 Defense Logistics Agency depots were transmitting GBLs electronically to DFAS through CFM, and DFAS had certified 33 carriers to submit freight billings using EDI.

Discussion

CFM Processing of Freight Shipments. The CFM processing of freight shipments did not provide adequate control to ensure that undelivered shipments could be promptly identified and that shipments would be made in the most cost-effective manner possible. CFM was not producing complete due-in files at receiving organizations, shipment close-out procedures allowed the shipping organizations to close out the shipment when carriers picked them up, shipment status codes showed the GBL documentation status rather than actual shipment status, and transportation officers could award shipments to more expensive carriers without providing justification.

Due-in Files on Inbound Shipments. The CFM was not creating complete due-in files at receiving transportation offices. For example, the U.S. Army Tank-automotive and Armament Command (the Tank Command), has been a CFM field user since October 1993. Between October 1, 1994, and May 31, 1995, the Tank Command was notified in advance of only 2 of the 341 inbound GBL shipments it received. Of the 341 shipments, 52 originated at 1 of 8 Defense Logistics Agency depots that were capable of electronically transmitting GBLs to the CFM system. Of the 52 shipments, only 1 from Defense Distribution Depot, Ogden, Utah, was shown as due-in on the Tank Command field module. The other due-in at the Tank Command was from Watervliet Arsenal, New York, another CFM field user. We had discussions with CFM Program Office personnel, who told us that the problem of generating complete due-in files was being worked on and was planned to be

corrected with the next software version scheduled for release in FY 1996. The lack of visibility of inbound shipments is a control weakness that makes prompt detection of missing freight shipments difficult. We believe the Task Force should monitor the ongoing development of the CFM to ensure the system provides receiving organizations with advance EDI copies of GBLs for all inbound shipments.

Shipment Close-Out Procedures. Shipment processing procedures allowed shipping organizations to close shipments when the carriers picked them up. Such procedures circumvented controls established to ensure shipments were delivered in good order. To achieve more visibility and control over intransit shipments, only the receiving organization should be authorized to close out shipments, and only after shipments are received. However, because CFM was not producing complete due-in GBL files at receiving organizations, and because a shipment must have a closed status code to be archived, MTMC instructed shipping organizations to close shipments when they were released to the carrier.

In addition to not providing control and visibility over intransit shipments, premature shipment closure by shipping organizations also resulted in GBLs having different status codes on the records of shipping and receiving organizations. For example, an inbound shipment from Watervliet Arsenal to the Tank Command was shown as closed on the Watervliet field module, while at the Tank Command, the same shipment was shown as open. Until advance EDI notification of inbound shipments to receiving organizations is functioning as intended, allowing shippers to close out shipments may be necessary to enable the shipping organization to archive GBLs and prevent excessive open shipments from remaining in current files.

We believe that when CFM demonstrates it can produce accurate and complete due-in files, these procedures should be immediately changed to authorize only the receiving organization the access to input closure data after receipt of shipment. We also believe a status code to indicate that a shipment has been picked up and is enroute should be created, and the same code should be used on records of both the shipping and receiving organizations. Creating a specific status code would generate more intransit visibility and control over freight shipments by both shipping and receiving organizations. They could identify and make inquiries on shipments for which the scheduled delivery date had passed but were still listed as open. In addition, an intransit code could also be used in the electronic payment process to prevent making payments to carriers for freight shipments that have not been delivered. Another advantage to having an enroute status code that could only be updated when the shipment is received is that the actual delivery dates would be recorded in the CFM data base, and carrier performance could be more effectively monitored by identifying carriers that consistently deliver freight late.

Adequacy of Shipment Status Codes. Shipment status codes showed the status of the GBL documentation rather than the status of actual freight shipment. The CFM users manual lists 54 possible status codes for GBL shipments (36 codes for outbound shipments and 18 codes for inbound shipments). The codes tracked GBL status from preparation of the initial shipment request to the final GBL closure. For example, status codes showed when the host received the new shipment request, when the GBL was rated and routed, and when the shipping organization awarded the carrier the shipment. Other codes identified GBLs with errors; indicated whether the GBL was rated manually or by the CFM system; and documented when the GBL was printed, approved, closed, and archived. Because no codes showed the intransit status of freight shipments, we questioned the usefulness and effectiveness of CFM tracking and control over freight shipments. In addition, we believe that numerous and possibly unnecessary codes increased system complexity and could discourage potential users from using the system. As stated earlier, the CFM program office should, at a minimum, create a code showing that the shipment is en route and that code should appear in the records of both the shipping and receiving organizations.

Carrier Selection. The transportation officer can award a shipment to a more expensive carrier without justifying his action in the system. CFM provides field users a ranked list of carriers, with number one being the least expensive. If the transportation officer wants to use a carrier other than the least expensive, the officer must enter a reason code into CFM to continue processing the shipment. There are two groups of reason codes for using more expensive carriers. The first group are service failures, which are chargeable against the carriers' performance record and can result in suspension of a carrier. The second group are known as nonuse codes, and are not chargeable to carrier performance. However, two of the nonuse codes do not require the transportation officer to provide justification for not using the lowest-cost carrier. The first code, traffic distribution, is used when multiple carriers have quoted the same lowest price. In that case, the field user can choose any of the carriers offering the lowest price to divide shipments equitably among the carriers. The second code, excusable refusal, allows the field user to use a more expensive carrier without documented justification. That code was intended for extenuating circumstances, such as when a crucial shipment must be shipped immediately, and the lowest cost carrier is not readily available. The second code could also allow transportation officers to show unwarranted favoritism to certain carriers by consistently awarding to a carrier of choice instead of to the least expensive. The CFM Program Office explained that CFM records every occurrence in which more expensive carriers are used; and MTMC plans to review those reports and request justification from transportation officers who consistently use more expensive carriers. We recognize that certain circumstances may require the use of more costly carriers and we commend MTMC for implementing controls that would prevent transportation officers from showing favoritism or creating the perception of

favoritism to carriers. However, we also recognize that this control may not be totally effective. During FY 1994, the excusable refusal code was used by installation transportation officers a total of 12,368 times. We did not determine whether this usage was excessive or indicated favoritism to carriers because the report only showed the number of times the code was used. To determine materiality, the number of uses would have to be compared to the total number of shipments that each transportation office made. In our opinion, MTMC, in coordination with the CFM Program Office, should define a reasonable standard for the number of times the code would be expected to be used within a given period and establish automated controls that prohibit field users from exceeding the standard without justification.

Control Over Carrier Invoice Payments. The CFM has the potential to increase control over payment of carrier freight invoices. However, all carriers must submit invoices by EDI and all applicable GBLs must be processed by CFM so that payments for freight deliveries can be subject to CFM automated controls. Personnel at the DFAS Center at Indianapolis, Indiana, told us that as of May 1995 the finance center had certified 8 depots and 33 carriers to use EDI techniques to transmit billing data. When a carrier invoice was received at the finance center, the center connected to the host to verify that one of the depots had transmitted a corresponding GBL. If the GBL was recorded in the CFM and matched the carrier invoice, GBL number, and other edit checks, payment was made. If the GBL was not on the CFM, or failed the edit checks, the transaction was aborted and processed manually. We did not perform tests to determine whether the management controls were operating as intended. However, if the payment function using CFM at DFAS operates as planned, it could eliminate or reduce erroneous and duplicate payments to carriers.

The CFM is planned to become the DoD system to manage all CONUS freight shipments; therefore, the Task Force should take action to ensure that all applicable GBLs are processed by CFM and that carriers are EDI capable by including that requirement in all future tender solicitations. This requirement would enable all freight payments to be made by EDI and be subject to the CFM automated controls for verification and accuracy. In addition, a status code should be created to show when DFAS paid the carrier invoice. We recognize that it is not the CFM function to identify and prevent duplicate payment; however, creating a code to show that a GBL has been paid would provide an additional control for prevention of duplicate payments to carriers.

Total Asset Visibility. The interface between CFM and other automated logistical systems may not provide the information required to permit DoD to attain its goal of total asset visibility. In our opinion, total asset visibility will not be achieved unless actions are taken. More specifically, if CFM is to effectively control all CONUS freight shipments, CFM must be

programmed to identify freight shipment contents by line item number, effective interface capabilities must be developed between CFM and all other automated systems used to process freight shipments, and all shipping organizations must be required to use CFM for applicable GBLs.

Identification of Shipment Contents. The CFM does not identify the entire contents of a GBL shipment. The main control on a GBL is the transportation control number. The CFM can accept only one national stock number per transportation control number. If the shipment consisted of one large item, such as a truck, the CFM would provide adequate documentation. However, if the transportation control number was for a pallet load bound by shrink wrap (containing numerous items), the controlling transportation control number of the shipment would be for the pallet load. The quantity and description of the items contained in the shipment would not be readily identifiable from the CFM system. Personnel at the CFM program office stated that a text field is available which could be used to identify the GBL shipment contents. However, creating a shipment inventory using a text field would be tedious, and we do not believe shippers would expend the effort to create a shipping manifest using a text field. We believe instead that shippers would enter short generic descriptions of the shipments, which would thwart efforts to gain intransit visibility. In addition to not providing intransit visibility of shipments, the procedures required shipping and receiving organizations to keep a backup file of the GBL and associated documentation, including the list of line items contained in the shipment. We believe CFM should produce shipping manifests with the GBLs.

Interface Between CFM and Other Automated Systems. The interface between CFM and other automated logistics systems may not provide adequate control and visibility over freight shipments. For example, the Defense Logistics Agency developed the Depot Standard System to be the standard depot system. The Depot Standard System managed depot inventory, processed customer invoices, created bills of lading, and staged material for carrier pickup. The only interface between the Depot Standard System and CFM was the capability of the depot to transmit EDI copies of GBLs to the CFM data base. The interface neither allowed the Depot Standard System to query CFM for shipment status nor accommodated transmission of manifests for shipments initiated by the depot automated system. In addition, other automated transportation systems, such as the Air Force Cargo Movement Operations System, will remain operational and interface with the CFM. If the interface for the other automated systems is going to be limited to EDI transmission of GBLs, we are concerned that intransit visibility will not be achieved because the GBL alone does not provide shipment manifest information. Also, if an organization that uses CFM makes a shipment to a depot, a due-in file at the depot will not be created with the current interface. The Task Force needs to determine whether all of the existing automated transportation logistics systems are necessary; and if so, ensure that the current

or planned interface between CFM and other systems will be sufficient to achieve intransit visibility and provide adequate support for the Global Transportation Network mission.

Field User Acceptance of CFM. Some transportation offices that had the CFM field module were not using it to produce all their GBLs. We contacted 40 transportation offices with the field module. Only 14 of those contacted prepared all GBLs using the CFM field module; 19 others never used it, and the remaining 7 used it only part of the time. The reasons transportation office personnel gave for not using CFM for all outbound GBLs were that the CFM was too slow and too complicated. Users experienced technical difficulties with their computer equipment, lacked needed training, required an advance GBL, or shipped by way of guaranteed traffic* (as of September 1995, CFM could process only non-guaranteed traffic GBLs). The barriers to DoD organizations fully accepting the CFM system appeared formidable. Until a single automated system is used to process all freight shipments, adequate control and visibility may not be realized. If CFM is to be the DoD system to control all CONUS freight movements, the Task Force should establish an agenda item to determine what actions are required to ensure that all CONUS freight shipments are processed through CFM.

Processing Transportation Deficiency Reports. The procedures for processing TDRs and the related claims against carriers were inadequate. During 1994, the DFAS Indianapolis Center canceled or suspended collection effort on 1,190 TDRs, valued at about $14.5 million, because of insufficient documentation. GAO reported the same condition in 1992. Because TDRs must be completed accurately and have sufficient documentary support for DFAS to initiate a claim against a carrier for nondelivery or damage of DoD freight shipments, we reviewed the procedures for suspending or canceling TDRs. Cancellation was up to claim examiner discretion with no supervisory review or approval required. We considered this a material management control weakness and discussed it with DFAS officials, who promptly implemented new procedures. The new procedures require that when a TDR is received that lacks documentation for processing, the claims examiner will send a letter to the submitting organization outlining what additional information is required to file a claim against the carrier. Generally, the organization will be given 45 days to submit the additional information. If no response is received, the examiner will send a followup letter. After 30 days, the examiner will prepare a letter to the MTMC TDR Program Office requesting assistance in getting the required

*Guaranteed traffic is transportation services provided under a guaranteed traffic agreement. 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.

information from the reporting organization. A copy of the letter also will be sent to the transportation officer of the reporting organization. At that time, the claim will be closed without further followup. If DFAS receives adequate information to enable it to file a claim, the case will be reopened and worked. The new procedures are a significant improvement, which should correct the management control weakness. DFAS is to be commended on its prompt management action.

Deficiency Reporting System. In addition to new TDR processing procedures, a new Deficiency Reporting System is being developed to provide management with better controls. However, the Deficiency Reporting System may duplicate the CFM deficiency data base. The DoD tasked the Joint Logistics System Center to develop the Deficiency Reporting System to capture and analyze Reports of Discrepancy, Product Quality Deficiency Reports and TDRs. The Deficiency Reporting System was to be the centralized method to store, process and analyze all discrepancies. One CFM function was to process and analyze TDRs. Neither the Joint Logistics System Center nor the CFM program office had a plan that addressed how TDR information would be exchanged between the two systems. The lack of coordination between those systems threatened to create unnecessary duplication of effort and redundant and incomplete data bases. Because completeness and accuracy of deficiency information is critical in identifying lost shipments, and processing claims against carriers, the Joint Logistics System Center and MTMC need to coordinate efforts to ensure that the systems will be compatible or consolidate and utilize only one of the deficiency reporting data bases. The Task Force should also examine the need for two deficiency reporting data bases and determine whether consolidation is feasible.

Processing Claims Against Carriers. DoD did not always receive adequate compensation from carriers for lost or damaged freight. DFAS provided us a list of 914 claims against carriers settled during FY 1994. The claims had an initial value of $886,782. However, 124 of the 914 claims were settled for $337,451 less than their initial total claim value. We selected 13 claims reduced by large amounts and reviewed the documentation to determine the reason for the reductions. Of the 13 claims, 9 were reduced from $190,000 to about $11,000 because of released value rates. Released value rates provide limits for carrier liability for lost and damaged shipments, and are written in the carrier tenders when they are negotiated. The released value rates are approximately $1.75 to $2.25 per pound without regard to shipment value. Released value rates were also criticized in a 1992 GAO audit report. MTMC, in coordination with the Military Department headquarters, has reviewed this practice. On December 1, 1994, liability limitations of $50,000 for less than truckload shipments and $150,000 for truckload shipments were established and will be written into all new guaranteed traffic agreements. In addition, MTMC recommended that the Military Department headquarters also use the increased liability limitations for voluntary motor freight tenders, and consider using

negotiated commodity or one-time-only rates for valuable shipments, such as aircraft engines, electronics equipment, and other high value parts, to ensure equitable recovery amounts for the Government. The procedures, if implemented, should provide more equitable compensation for lost and damaged freight shipments. The Task Force should followup on the Military Departments' implementation of the new procedures.

Carrier Performance Evaluation and Enforcement. Sanctions were taken against carriers who failed to pick up shipments or were consistently late delivering shipments. The required carrier performance standards and grounds for sanctions against carriers who fail to perform acceptably are in the guaranteed traffic agreements between the carriers and the Government. For example, at Defense Distribution Depot Columbus, Ohio, carriers can be placed in a state of nonuse for up to 60 days by the installation transportation officer. For a first offense, a service failure letter is sent to the carrier. If a second offense occurs, a letter of warning will be sent to the carrier, and a third infraction will result in a suspension of the carrier. During the period March 1993 to December 1994, the Columbus depot issued 17 service failure notices and 7 letters of warning and suspended 1 carrier. In addition, seven carriers voluntarily withdrew from business with the Government. For more serious infractions, a carrier review board must review the incident and impose stronger sanctions, such as suspending a carrier from a geographical area or region or completely disqualifying a carrier from moving Government freight for a given period. During FY 1994, 38 incidents were referred to the carrier review board, and 27 resulted in actions. The actions taken ranged from a refund for services not performed to a 2-year disqualification from the Government transportation program, depending on the infraction. The infractions included failed inspections, theft, forged signatures, brokering or subcontracting out freight shipments, and transportation protection services violations.

Other Matters of Interest

Astray Freight Program. The Defense Distribution Depot Columbus developed a commendable agreement with Roadway Package Service (RPS) for recovery of astray freight. The RPS centralized astray freight terminal is in the Columbus, Ohio, area. Any package in the RPS system that becomes unidentifiable or undeliverable for any reason is sent to the RPS Columbus terminal. RPS and the Defense Distribution Depot Columbus made an agreement that any astray freight identified as Government (with a Government contract number, national stock number, or any other type of Government identification) will be delivered to the Defense Distribution Depot Columbus for disposition. The agreement benefits both the Government and RPS, because the Government recovers lost freight with minimal expense, and RPS does not have to expend resources to locate the Government owner of the shipment. During FY 1994 and the first half of FY 1995, the Defense Distribution Depot

Columbus recovered about $632,000 of $772,000 in lost freight that the Government recovered in Ohio. Personnel at the Defense Distribution Depot Columbus estimated that approximately 90 percent of the lost freight recovered in Ohio resulted from their arrangement with RPS. The Task Force should examine the benefits of the agreement with RPS and consider pursuing similar arrangements at other DoD organizations and with other carriers.

Management Controls Over Freight Shipments. We performed preliminary audit work at Fort Belvoir, Virginia, and the Defense Distribution Depots in Susquehanna, Pennsylvania; Albany, Georgia; and Warner Robins, Georgia. Those organizations were not CFM sites. We judgmentally selected 208 inbound shipments made to those organizations to evaluate the existing management controls over freight shipments. No documentary evidence supported receipt of 55 of the 208 shipments. Documentary evidence of receipt would include a copy of the GBL and appropriate receipt documents on file. (GAO reported the same conditions in a 1992 audit report.) After obtaining the results of unconfirmed freight deliveries, we focused our audit work on organizations that were using the CFM to process freight shipments to assess whether CFM had the potential to correct the transportation management control weaknesses we identified. Correction of the problems noted in this report, and full implementation of a DoD-wide standard system, such as CFM, should provide increased control and visibility over freight shipments.

Conclusion

The management control weaknesses that GAO identified in its 1992 and 1993 audit reports on DoD transportation still exist and CFM had not corrected the problems. CFM has the potential to correct many problems and reduce the impact of others. The Task Force should evaluate the current and planned capabilities of CFM before it becomes fully operational to determine whether CFM will satisfy the DoD transportation goals in the 21st century. If the Task Force determines that CFM is capable of providing the required management controls and information support needed, then full implementation of the system should become a high priority. However, if the Task Force concludes that CFM will not satisfy the objectives of the DoD plan to reengineer transportation, then an evaluation of adopting existing commercial transportation systems should be made before making a costly investment to develop a new system. The problems we have identified in this report are likely to continue until a single automated system is used to process and control all freight shipments made by ground transportation.

Management Comments

We provided a draft of this report to you on October 11, 1995. Because the report contained no recommendations, written comments were not required and none were received. Therefore, we are publishing this memorandum report in final form.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. John A. Gannon, Audit Program Director, at (703) 604-9427 (DSN 664-9427) or Mr. Bernard M. Baranosky, Acting Audit Project Manager, at (703) 604-9429 (DSN 664-9429). The distribution of the report is listed in Enclosure 2. 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 Deputy Under Secretary of Defense for Logistics, Washington, DC
- Assistant Deputy Under Secretary of Defense (Logistics Business Systems and Technology Development), Washington, DC
  - Joint Logistics Systems Center, Wright-Patterson Air Force Base, OH
- Assistant Deputy Under Secretary of Defense (Transportation Policy), Washington, DC
  - DoD Task Force to Reengineer Transportation, Washington, DC

Department of the Army

Military Traffic Management Command, Falls Church, VA
- Program Manager, Continental United States Freight Management System, Arlington, VA

Tank-automotive and Armament Command, Warren, MI
Directorate of Logistics, Fort Belvoir, VA

Marine Corps

Marine Corps Logistics Base, Albany, GA

U.S. Transportation Command

Transportation Command, Scott Air Force Base, IL
- Program Manager, Global Transportation Network, Scott Air Force Base, IL

Defense Organizations

Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Logistics Agency, Fort Belvoir, VA
- Defense Distribution Region East, New Cumberland, PA
  - Defense Distribution Depot Albany, GA
  - Defense Distribution Depot Columbus, OH
  - Defense Distribution Depot Susquehanna, New Cumberland, PA
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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Acquisition and Technology, Committee on Armed Services
Senate Subcommittee on Readiness, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security
House Subcommittee on Military Readiness, Committee on National Security

Audit Team Members

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

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