Audit Report

OFFICE OF THE INSPECTOR GENERAL

DISTRIBUTION DEPOT OVER-OCEAN SECOND-DESTINATION TRANSPORTATION COSTS

Report No. 97-040 December 10, 1996

Department of Defense

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Acronyms

AMC	Air Mobility Command
DBOF	Defense Business Operations Fund
DLA	Defense Logistics Agency
IG	Inspector General
MSC	Military Sealift Command
TAC	Transportation Account Code
USTRANSCOM	U.S. Transportation Command

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

December 10, 1996

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Distribution Depot Over-Ocean Second-Destination Transportation Costs (Report No. 97-040)

We are providing this audit report for information and use. We performed the review of over-ocean second-destination transportation costs as part of the Audit of Revenue Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund. This report is the third in a series of reports dealing with revenue issues in the Defense Business Operations Fund. The other two reports dealt with a misclassification of revenue resulting from an equity transfer and the lack of revenue eliminations needed as a result of intrafund transactions. See Appendix B for details of those reports. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. As a result of the comments on the finding in the draft report, we made appropriate changes to this report. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. David C. Funk, Audit Program Director, at (303) 676-7445 (DSN 926-7445) or Mr. Byron B. Harbert, Audit Project Manager, at (303) 676-7405 (DSN 926-7405). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-040 **December 10, 1996**
(Project No. 5FD-2020.03)

Distribution Depot Over-Ocean Second-Destination Transportation Costs

Executive Summary

Introduction. The issue of over-ocean second-destination transportation costs was identified during our work in the Distribution Depot business area of the Audit of Revenue Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund (the Revenue Accounts audit). The Revenue Accounts audit was initiated to support the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990) as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994). In FY 1995, DoD reported $76.6 billion of revenues in the Defense Business Operations Fund. This report is the third in a series of reports dealing with revenue issues in the Defense Business Operations Fund. The other reports dealt with the misclassification of an equity transfer as revenue, and overstatement of revenues because intrafund transactions were not appropriately eliminated. See Appendix B for details of those reports.

Audit Objectives. The overall objective of the Revenue Accounts audit was to determine whether revenues on the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund are presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. A subobjective was to examine revenues recognized by the Distribution Depot business area. Specifically, we determined whether over-ocean second-destination transportation costs were correctly charged to the Defense Business Operations Fund. We also evaluated management controls over those charges.

Audit Results. Transportation costs applicable to other DoD activities were erroneously charged to the Distribution Depot business area of the Defense Business Operations Fund. Our review of three summary bills of 104,878 shipments, totaling $26.8 million, showed that $10.5 million (39 percent) was erroneously charged to the Distribution Depot business area. After our review, a management consulting firm hired by DLA found that an additional $41.8 million (27 percent) of the $155.7 million paid from April 1995 through March 1996 was not applicable to the Distribution Depot business area. As a result, the Distribution Depot business area paid for material amounts of transportation costs that should have been paid by other DoD activities. In FY 1995, the Distribution Depot business area lost $102 million in over-ocean second-destination transportation costs; this loss was caused partly by erroneous bills. See Part I for a discussion of the audit results.

The management control program at the Defense Logistics Agency needs improvement; we identified a material management control weakness in over-ocean transportation costs paid by the Distribution Depot business area of the Defense Business Operations Fund. A similar problem occurred in FY 1995, and the Defense Logistics Agency did not take corrective action.

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency, change the payment policy to require the Defense Distribution Regions to pay only those charges applicable to the Distribution Depot business area and to implement procedures to accomplish the new policy.

Management Comments. The Defense Logistics Agency partly concurred with the finding. The Defense Logistics Agency concurred with the recommendations and will direct the Defense Distribution Regions to pay only those charges applicable to the Distribution Depot business area. See Part I for a discussion of management comments. See Part III for the complete text of management comments.

Audit Response. We consider the Defense Logistics Agency comments to be fully responsive and we made certain revisions to the report accordingly. No additional comments are required.

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Part I - Audit Results

Audit Background

The issue of over-ocean second-destination transportation costs was identified during our work in the Distribution Depot business area of the Audit of Revenue Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund (the Revenue Accounts audit, Project No. 5FD-2020). The Revenue Accounts audit was required by the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990), as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994). The Chief Financial Officers Act requires DoD to prepare audited financial statements for each fiscal year and submit those statements to the Director of the Office of Management and Budget. The financial statements should report the financial position and results of operations of DoD Components and business activities.

DoD Regulation 4500.32-R, "Military Standard Transportation and Movement Procedures," Volumes I and II, March 15, 1987, and February 15, 1987, provide DoD policy for the transportation and movement of materiel. DoD Regulation 4500.32-R also prescribes standard data elements, codes, formats, documents, forms, rules, methods, and procedures required for the transportation and movement of materiel to, within, and outside of the Defense Transportation System. Transportation operating agencies provide or arrange for transportation services and bill customers for transportation costs. Transportation operating agencies identify customers for billing by using the transportation account code (TAC) that is entered on the transportation control and movement document.

The Distribution Depot business area of the Defense Business Operations Fund (DBOF) is required to pay the costs of over-ocean second-destination transportation, which is transportation of materiel from a Defense Logistics Agency (DLA) depot in the continental United States to an overseas customer. DoD 4500.32-R states that the Defense Distribution Regions East and West, the two regional centers for the Distribution Depot business area, shall be billed for the cost of over-ocean transportation that originates at a DLA depot and ends at a port or breakbulk point outside the continental United States. A breakbulk point is a shipping activity to which consolidated shipments for various consignees are shipped for subsequent shipment to the ultimate consignee.

In FY 1995, over-ocean second-destination transportation costs charged to the Distribution Depot business area totaled $221 million. This cost represented all bills received by both Defense Distribution Regions from the following U.S. Transportation Command (USTRANSCOM) components and the Naval Transportation Support Center:

- Air Mobility Command (AMC) - $154.5 million
- Military Sealift Command (MSC) - $39.1 million
- Military Traffic Management Command - $27.0 million
- Naval Transportation Support Center - $0.4 million

Audit Objectives

The overall objective of the Revenue Accounts audit was to determine whether revenues on the FY 1996 Consolidated Financial Statements of DBOF are presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. A subobjective was to examine revenues recognized by the Distribution Depot business area. Specifically, we determined whether over-ocean second-destination transportation costs were correctly charged to the Defense Business Operations Fund. An additional objective was to assess management controls and compliance with laws and regulations related to the financial statements. See Appendix A for a discussion of the audit scope, methodology, management control program, and prior audit coverage. See the finding in Part I for details on the material weaknesses.

Over-Ocean Second-Destination Transportation Costs

Transportation costs applicable to other DoD activities were erroneously charged to the Distribution Depot business area of DBOF. For 3 summary bills of 104,878 shipments valued at $26.8 million, $10.5 million (39 percent) was erroneously charged to the Distribution Depot business area. A similar but more extensive review was accomplished by a management consulting firm hired by DLA. That review showed that $41.8 million (27 percent) of $155.7 million paid from April 1995 through March 1996 was not applicable to the Distribution Depot business area. The mischarges occurred because DLA procedures required the Defense Distribution Regions to pay the total amount of bills received, and subsequently to identify and research nonapplicable charges and request reimbursement from identified shippers. Regional personnel were required to do much more than identify and not pay the erroneous charges. A Defense Distribution Region East official stated that staffing was not sufficient for the extensive work required to obtain reimbursement from identified shippers. As a result, the Distribution Depot business area paid for material amounts of transportation costs that should have been paid by other DoD activities, both DBOF and non-DBOF. In FY 1995, the Distribution Depot business area lost $102 million in over-ocean second-destination transportation costs. The loss was caused partly by erroneous bills. This condition represents a material management control weakness in DLA.

Revenue and Costs

In FY 1995, the Distribution Depot business area recognized $119 million in revenue for materiel transportation identified as over-ocean second-destination transportation; associated costs totaled $221 million. Although other circumstances contributed to the $102 million loss, part of the loss was caused by erroneous over-ocean second-destination transportation charges.

Billing Guidance

DoD Regulation 4500.32-R, "Military Standard Transportation and Movement Procedures," states that the shipping activity will prepare a transportation control and movement document for each shipment of materiel. This document will include the DoD activity address code of the shipper and the TAC that identifies the Service, agency, or contractor's account to be charged for the

transportation costs. Specific TACs identify over-ocean second-destination transportation costs to be paid by the Distribution Depot business area of DBOF.

Bills for Transportation Services

Bills for transportation services provided by USTRANSCOM components contain thousands of individual shipment transactions. In the past, supporting documentation for the transactions was provided on manual listings or on microfiche. Since July 1995, most supporting documentation from AMC and MSC has been in electronic form. Defense Distribution Region personnel stated that transaction listings for AMC and MSC bills often contained a consignor code applicable to other DoD activities; the consignor code identifies the shipping activity. For example, personnel at the Defense Distribution Region East identified 24 percent of the dollar amounts billed by AMC in October 1995 as shipments made by other DoD activities.

On March 12, 1993, the Deputy Comptroller, DLA, issued a memorandum on "Operating Procedures for Processing Payment to the Transportation Operating Agencies." The memorandum stated that the Defense Distribution Regions should pay the total amount on all bills received for transportation services. For erroneously billed transactions, personnel in the Defense Distribution Regions were to identify and contact the activity that shipped the materiel and request reimbursement for the Distribution Depot business area for erroneous amounts paid. Accounting personnel in the Defense Distribution Regions stated that because of the large number of erroneous transactions, they did not have sufficient staffing to identify and contact the shippers. Therefore, they obtained reimbursement in only a few instances.

Review of Bills

We reviewed three summary bills for $26.8 million from AMC paid by the Distribution Depot Region East in the first quarter of FY 1996. That region paid a total of $43.7 million during the quarter. Of the $26.8 million reviewed, $10.5 million should have been charged to other DoD activities but was erroneously billed to distribution depots.

o Consignor codes indicated that $10.1 million of the transactions (26,961 transactions) was for transportation of materiel shipped by other DoD activities or DoD contractors. This included $579,000 of transactions (2,221 transactions) for which the consignor code could not be matched to an activity.

o Consignor codes indicated that $457,000 of the transactions (6,113 transactions) was for transportation of materiel shipped by Distribution Depots in the continental United States. However, airport codes on the transaction listings indicated that the shipments originated outside of the continental United States.

Review by Management Consulting Firm

After our review, a management consulting firm, hired by DLA to assist in correcting accounting system problems with DBOF, reviewed all automated bills that AMC submitted to the Defense Distribution Regions East and West for April 1995 through March 1996. The consulting firm determined that $41.8 million (27 percent) of $155.7 million billed by AMC was for shipments not made by the Distribution Depot business area. The consulting firm is currently reviewing automated bills submitted by MSC.

Recommendations and Management Comments

We recommend that the Director, Defense Logistics Agency:

1. Change the Defense Logistics Agency policy to require the Defense Distribution Regions to pay only transportation bills applicable to the Distribution Depot business area. Amounts not applicable to the Distribution Depot business area should not be paid.

2. Establish procedures to pay only the transportation bills that apply to the Distribution Depot business area, and notify the U.S. Transportation Command of the specific portions of bills that are not paid.

DLA Comments. The Defense Logistics Agency concurred with the recommendations, stating that all actions will be completed by December 31, 1996.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Our financial-related review of over-ocean second-destination transportation costs was made in conjunction with the Audit of Revenue Accounts in the FY 1996 Financial Statements of the DBOF (the Revenue Accounts audit). As part of the Revenue Accounts audit, we examined accounting practices for revenue recognition in the Distribution Depot business area. The Distribution Depot business area incurred some costs for over-ocean second-destination transportation costs that would not be recovered as revenue from customers because those costs were not applicable to the Distribution Depot business area. We examined three summary bills paid by the Defense Distribution Region East in the first quarter of FY 1996. The 3 bills contained 104,878 individual shipments made at a cost of $26.8 million.

Methodology

We evaluated over-ocean second-destination transportation costs by examining three summary bills received by the Distribution Depot Region East in the first quarter of FY 1996. The three bills selected for review exceeded $5 million each, and were in automated form. We identified the transactions in the bills that did not apply to DBOF by using a personal computer and database software to identify and summarize those transactions.

Audit Period, Standards, and Locations. We performed the review of over-ocean second-destination transportation costs from December 1995 to June 1996. Our review was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General (IG), DoD. Although we used computer-processed data from the AMC Airlift Services Industrial Fund Integrated Computer System to reach our conclusions, we did not test the reliability of this system. We did not use statistical sampling. We included such tests of management controls as were considered necessary. Appendix C lists the organizations we visited or contacted.

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 DLA management controls related to bills for over-ocean second-destination transportation. Specifically, we reviewed DLA management controls to ensure that bills received from the USTRANSCOM components and the Naval Transportation Support Center were for shipments made by the Distribution Depot business area. We also reviewed the results of any DLA self-evaluation of those management controls.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Directive 5010.38. Management controls at the Distribution Depot Region East were not adequate to ensure that bills received from the USTRANSCOM components and the Naval Transportation Support Center were for shipments made by the Distribution Depot business area. A similar problem existed in FY 1995, and DLA took no corrective action. This weakness is material at the DLA level. The recommendations, if implemented, will improve the accuracy of charges paid by DLA for the Distribution Depot business area of DBOF. A copy of the report will be provided to the senior official responsible for DLA management controls.

Adequacy of Management's Self-Evaluation at DLA. DLA officials did not identify second-destination transportation as an assessable unit, but did evaluate this area, and correctly identified the associated risk as high. However, the DLA officials did not identify the material management control weakness that we found because the DLA evaluation was limited to implementing the DoD policy for funding and execution of second-destination transportation.

*DoD Directive 5010.38 has been reissued as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive.

Appendix B. Prior Audits and Other Reviews

General Accounting Office

GAO/AIMD-96-54 (OSD Case No. 1109), "DoD is Experiencing Difficulty in Managing the Fund's Cash," April 10, 1996. This review was made at the request of the Ranking Minority Member of the House Committee on National Security. The report discussed various causes of problems in cash management within the DBOF. The report stated that as of September 30, 1995, the USTRANSCOM had not received reimbursement for $104.5 million of transportation services provided in FYs 1993 and 1994, primarily because billing documentation did not identify the activities to be billed. The report did not make any recommendations to improve the identification of activities to be billed.

Inspector General, Department of Defense

The IG, DoD, has issued two reports on issues identified during the Audit of Revenue Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund:

IG, DoD, Report No. 96-198, "Defense Logistics Agency Revenue Eliminations," July 22, 1996. When DLA made sales to other organizations in the DBOF, revenues from these sales were not eliminated from the amount reported in the FY 1995 financial statements, as required by guidance from the Under Secretary of Defense (Comptroller). Consequently, revenue of $13.3 billion, reported by DLA in the FY 1995 Consolidated Financial Statements of the DBOF, was overstated by $8.4 billion (63 percent). Revenue was also overstated by $.6 billion in the DLA financial statements. Actions planned by management were responsive to the recommendations.

IG, DoD, Report No. 96-160, "Defense Business Operations Fund Equity Transfer -- Defense Commissary Agency," June 13, 1996. At the direction of the Office of the Under Secretary of Defense (Comptroller), the Defense Commissary Agency erroneously reported a $251.6 million transfer of equity from the Defense Logistics Agency segment of the Defense Business Operations Fund (DBOF) as revenue in the FY 1995 financial statements. As a result, revenues and net results of operations were overstated by $251.6 million in the FY 1995 consolidated financial statements of the DBOF. The Deputy Chief Financial Officer nonconcurred with the finding and recommendations. Mediation has been requested to resolve the disagreement.

Appendix C. Organizations Visited or Contacted

Department of the Air Force

Air Mobility Command, Scott Air Force Base, IL
Air Force Audit Agency, Scott Air Force Base, IL

Unified Command

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

Other Defense Organizations

Defense Logistics Agency, Fort Belvoir, VA
  Defense Distribution Region East, New Cumberland, PA
  Defense Distribution Region West, Stockton, CA
Defense Finance and Accounting Service Denver Center, Denver, CO
  Defense Accounting Office, Scott Air Force Base, IL

Appendix D. Report Distribution

Office of the Secretary of Defense

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    Assistant Deputy Under Secretary of Defense (Transportation Policy)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
  Director for Accounting Policy
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Commander, Military Traffic Management Command
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander, Military Sealift Command
Auditor General, Department of the Navy
Superintendent, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
  Director (Audit Liaison and Follow-up)
Commander, Air Mobility Command
Auditor General, Department of the Air Force
  Acquisition and Logistics Directorate
  Directorate for Operations

Unified Command

Commander in Chief, U.S. Transportation Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Denver Center
Director, Defense Logistics Agency
  Commander, Defense Distribution Region East
  Commander, Defense Distribution Region West
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

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  Senate Subcommittee on Defense, Committee on Appropriations
  Senate 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

Part III - Management Comments

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY REFER TO DDAI

NOV 19 1996

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Distribution Depot Over-Ocean Second Destination Transportation Costs 5FD-2020.03

Enclosed is our revised response to Recommendations 1 and 2. Should you have any questions, please contact LaVaeda Coulter, 767-6261.

OLIVER E. COLEMAN
Acting Chief
Internal Review Office

cc:
FOX

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AUDIT TITLE: Distribution Depot Over-Ocean Second Destination Transportation Costs
5FD-2020.03

Recommendation 1: Recommend that the Director, Defense Logistics Agency change the Defense Logistics Agency policy to require the Defense Distribution Regions to pay only transportation bills applicable to the Distribution Depot business area. Amounts not applicable to the Distribution Depot business area should not be paid.

DLA Comments: Concur. A change will be made to the Defense Logistics Agency policy to require the Defense Distribution Regions to pay only transportation bills applicable to the Distribution Depot business area.

Disposition: ONGOING. ECD: 31 DEC 96

Action Officer: Terrie Stephens, FOXS
Review/Approval: B. A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261
Oliver E. Coleman, Acting Chief, Internal Review Office

DLA Approval:

AUDIT TITLE: Distribution Depot Over-Ocean Second Destination Transportation Costs 5FD-2020.03

Recommendation 2: Recommend that the Director, Defense Logistics Agency establish procedures to pay only the transportation bills that apply to the Distribution Depot business area, and notify the U. S. Transportation Command of the specific portions of bills that are not paid.

DLA Comments: **Concur.** Procedures will be established to require that payments be made only to transportation bills that apply to the Distribution Depot business area. Also, notification will be made to the U.S. Transportation Command of specific portions of bills that are not paid.

Disposition: ONGOING. ECD: 31 Dec 96

Action Officer: Terrie Stephens, FOXS
Review/Approval: B. A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261
Oliver E. Coleman, Acting Chief, Internal Review Office

DLA Approval:

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY REFER TO DDAI

15 NOV 1996

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Distribution Depot Over-Ocean Second Destination Transportation Costs 5FD-2020.03

Enclosed is our response to your request of 9 September 1996. Should you have any questions, please contact LaVaeda Coulter, 767-6261.

Oliver E. Coleman
OLIVER E. COLEMAN
Acting Chief
Internal Review Office

cc:
FOX

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Final Report Reference

AUDIT TITLE: Distribution Depot Over-Ocean Second Destination Transportation Costs 5FD-2020.03

Finding: Over-Ocean Second Destination Transportation Costs. Transportation costs applicable to other DoD activities were erroneously charged to the Distribution Depot business area of DBOF. For 3 summary bills of 104,878 shipments valued at $26.8 million, $10.5 million (39 percent) was erroneously charged to the Distribution Depot business area. A similar but more extensive review was accomplished by a management consulting firm hired by DLA. That review showed $41.8 million (27 percent) of $155.7 million paid from April 1995 through March 1996 was not applicable to the Distribution Depot business area. The mischarges occurred because DLA procedures required the Defense Distribution Regions to pay the total amount of bills received, and subsequently, identify and research nonapplicable charges and request reimbursement from identified shippers. Regional personnel were required to do much more than identify and not pay the erroneous charges. A Defense Distribution Region East official stated that staffing was not sufficient for the extensive work required to obtain reimbursement from identified shippers. As a result, the Distribution Depot business area paid for material amounts of transportation costs that should have been paid by other DoD activities, both DBOF and non-DBOF. In FY 1995, the Distribution Depot business area lost $102 million in over-ocean second destination transportation costs. The loss was caused partly by erroneous bills. The Under Secretary of Defense (Comptroller) replenished the loss to the Distribution Depot business area by transferring funds from other sources in DBOF. This condition represents a material management control weakness in DLA.

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DLA Comments: Partially concur. We disagree that distribution business losses were replenished by USD(C) transferring funds from other DBOF sources. DLA cash is managed by the Agency, not USD(C), and at the Agency, not the business area, level. To the extent that the distribution business area's revenues failed to cover expenses, the cash "loss" was offset within the Agency, not from a DBOF corporate account.

Internal Management Control Weakness:
(X) Nonconcur.

Action Officer: Terrie Stephens, FOXS
Review/Approval: B. A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261
Oliver E. Coleman, Acting Chief, Internal Review Office

DLA Approval:

AUDIT TITLE: Distribution Depot Over-Ocean Second Destination Transportation Costs 5FD-2020.03

Recommendation 1: Recommend that the Director, Defense Logistics Agency change the Defense Logistics Agency policy to require the Defense Distribution Regions to pay only transportation bills applicable to the Distribution Depot business area. Amounts not applicable to the Distribution Depot business area should not be paid.

DLA Comments: **Concur.**

Disposition: ONGOING. ECD: 31 DEC 96

Action Officer: Terrie Stephens, FOXS
Review/Approval: B. A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261
Oliver E. Coleman, Acting Chief, Internal Review Office

DLA Approval:

AUDIT TITLE: Distribution Depot Over-Ocean Second Destination Transportation Costs 5FD-2020.03

Recommendation 2: Recommend that the Director, Defense Logistics Agency establish procedures to pay only the transportation bills that apply to the Distribution Depot business area, and notify the U. S. Transportation Command of the specific portions of bills that are not paid.

DLA Comments: Concur.

Disposition: ONGOING. ECD: 31 Dec 96

Action Officer: Terrie Stephens, FOXS
Review/Approval: B. A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261
Oliver E. Coleman, Acting Chief, Internal Review Office

DLA Approval:

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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