Audit Report

OFFICE OF THE INSPECTOR GENERAL

SELECTED DEDICATED MOTOR CARRIER SERVICE AGREEMENTS

Report No. 95-007

October 13, 1994

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Department of Defense

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DEPARTMENT OF DEFENSE
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October 13, 1994

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Selected Dedicated Motor Carrier Service Agreements (Report No. 95-007)

We are providing this final report for your review and comments. It discusses the Navy's administration of two dedicated guaranteed traffic agreements, the Northeast Dedicated Truck Service and the Consolidated Truck Service. Management comments on a draft of this report were considered in preparing the final report.

The audit disclosed evidence of possible illegal acts. The matter has been referred to the Defense Criminal Investigative Service and the Naval Criminal Investigative Service for action deemed appropriate. Corrective actions taken by management at this time should be limited to the two recommendations provided to strengthen internal controls and prevent further unnecessary costs to DoD. No action to recoup the overcharges identified in this report should be taken without prior approval of the Defense Criminal Investigative Service. The Office of the Assistant Inspector General for Auditing will coordinate with the Defense Criminal Investigative Service in obtaining approval to act on further recommendations, if any, related to the audit finding. After such approval is received, we will issue a separate memorandum advising you of further recommendations and requesting management comments.

DoD Directive 7650.3 requires prompt resolution of all audit recommendations and potential monetary benefits. Therefore, we request that the Assistant Secretary of the Navy (Research, Development and Acquisition) provide additional comments on the potential monetary benefits for Recommendation 1., and the Deputy Director for Finance, Defense Finance and Accounting Service, provide comments on the potential monetary benefits for Recommendation 2. by December 12, 1994.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John Gebka, Audit Program Director, at (703) 604-9448 (DSN 664-9448) or Mr. Albert Putnam, Audit Project Manager, at (703) 604-9462 (DSN 664-9462). The distribution of this report is listed in Appendix H. The audit team members are listed on the inside back cover.

David K. Steensma

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Deputy Assistant Inspector General
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Office of the Inspector General, DoD

Report No. 95-007 **October 13, 1994**
(Project No. 3LC-0034)

SELECTED DEDICATED MOTOR CARRIER SERVICE AGREEMENTS

EXECUTIVE SUMMARY

Introduction. The Consolidated Truck Service and Northeast Dedicated Truck Service are dedicated guaranteed traffic agreements administered by the Navy. A dedicated guaranteed traffic agreement is a transportation agreement that guarantees one carrier all freight traffic between specified shipping points or geographic areas for a specified time. Dedicated agreements have preestablished departure and arrival schedules that DoD may change on an as needed basis as specified in the agreement. The Consolidated Truck Service agreement provides for the transportation of low priority and oversized freight, which could not be transported by Quicktrans air, between Norfolk, Virginia; the Naval Air Station, North Island, California; and Travis Air Force Base, California, at an annual cost of approximately $0.7 million. The Northeast Dedicated Truck Service provides commercial carrier scheduled pickup and delivery service for high and low priority freight between Norfolk, Virginia, and designated activities in the northeastern United States, at an annual cost of approximately $2.8 million. As of March 1, 1993, 19 dedicated motor carrier agreements were in force with estimated annual costs of $4.7 million.

Objectives. The audit objectives were to determine whether dedicated motor carriers are being effectively utilized and whether dedicated motor carrier service duplicates other transportation alternatives available to the Military Departments and the Defense Logistics Agency. We also evaluated internal controls applicable to the audit objectives and reviewed the impact of management actions taken in response to recommendations made in General Accounting Office Report No. NSIAD 88-53 (OSD Case No. 7464), "Cost Savings of Expanding the Guaranteed Traffic Program," November 9, 1987, as they related to the dedicated motor carrier service.

The Military Traffic Management Command was emphasizing the solicitation of guaranteed traffic agreements, when warranted, in response to the General Accounting Office recommendations. Based on the Military Traffic Management Command's ongoing action, no further audit work on the associated objective was required.

Audit Results. The Consolidated Truck Service agreement is cost-effective in the movement of low priority freight. The Northeast Dedicated Truck Service agreement is inadequate for movement of high priority freight and not cost-effective for movement of low priority freight, and internal controls over payments to the carrier were inadequate. As a result, high priority freight was not always delivered within time delivery standards, and DoD incurred excessive costs. See Part II for details.

Internal Controls. Internal controls and implementation of the DoD Internal Management Control Program were not adequate to ensure that Government Bills of Lading were paid in accordance with the written Northeast Dedicated Truck Service agreement. However, during our audit, Military Traffic Management Command, Navy Material Transportation Office, and

Defense Finance and Accounting Service personnel initiated action to correct the material weakness by enforcing adherence to some of the provisions of the written agreement. See Part I for a discussion of controls assessed and Part II for a discussion of weaknesses identified.

Potential Benefits of Audit. DoD could realize a cost avoidance of approximately $6.9 million in line-haul and stopoff costs and $3.7 million in carrier overcharges over the 6-year Future Years Defense Program by discontinuing the Northeast Dedicated Truck Service agreement and requiring the carrier to adhere to the provisions of the written agreement. Appendix F summarizes the potential benefits of audit.

Summary of Recommendations. We recommend that the Northeast Dedicated Truck Service agreement be discontinued and that less costly motor freight transportation alternatives be used to move low priority freight, and a mode of transportation be used to move high priority freight that will meet the Uniform Materiel Movement and Issue Priority System time standards. We also recommend that internal controls be strengthened by directing pre-audit and payment personnel to allow only carrier charges for mileage, stopoffs, and transportation protective services that are in accordance with the provisions of the written agreement until the agreement is discontinued.

Management Comments. The Assistant Secretary of the Navy (Research, Development and Acquisition) agreed to discontinue the Northeast Dedicated Truck Service agreement and to use less costly alternatives to transport low priority freight. The Navy did not agree to use a mode of transportation to move high priority freight to meet the time standards of the Uniform Material Movement and Issue Priority System. The Navy stated that premium transportation will be used for only the most critical high priority material. The Navy also stated that the claimed cost avoidance attributable to the recommendation should be reduced from $6.9 million to $2.1 million.

The Deputy Director for Finance, Defense Finance and Accounting Service, agreed to strengthen internal controls over the payment of carrier charges and took action to correct the deficiency. See Part II for a full discussion of managements' comments and Part IV for the complete texts of the comments.

Audit Response. The Navy's comments were responsive to the recommendation, but we disagree with the Navy's position on the potential monetary benefits. Accordingly, we request that the Navy provide additional comments on the potential monetary benefits attributable to the recommendation. The Defense Finance and Accounting Service did not comment on the potential monetary benefits. We request that the Defense Finance and Accounting Service provide comments on the potential monetary benefits attributable to the recommendation. We request the Navy and the Defense Finance and Accounting Service provide comments by December 12, 1994.

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

Part I - Introduction

Background

A guaranteed traffic agreement (GTA) is a transportation agreement that guarantees one carrier all freight traffic between specified shipping points or geographic areas for a specified time. The Military Traffic Management Command (MTMC) solicits GTAs at the request of shipping activities. The GTAs can be nondedicated or dedicated and usually cover time periods of 12 to 24 months.

Nondedicated Agreements. Generally, under nondedicated agreements, the freight transportation services are provided as needed, and payments for line-haul are based on mileage groups in increments of 100 pounds of weight (hundred weight per mile). For example, if the transportation officer at Defense Depot, Norfolk, Virginia, shipped 11,000 pounds of freight to the Naval Shipyard, Philadelphia, Pennsylvania, under the Defense Logistics Agency (DLA) GTA, the line-haul cost would be $385, while a 5,000 pound shipment would cost $205. The line-haul cost does not include additional accessorial charges for stopoffs and transportation protective services.

Dedicated Agreements. Under dedicated motor carrier agreements, a form of GTA, the freight transportation services are provided in accordance with preestablished departure and arrival schedules that may be changed as specified in the agreement. In contrast with nondedicated GTAs, payment for dedicated services is not based on weight per mile, but on a flat rate per mile or flat rate per trip, regardless of weight. Using the same example as above, but using the Northeast Dedicated Truck Service (NDTS) agreement, the line-haul costs would total $779 for an 11,000 pound shipment, the same as for a 5,000 pound shipment. As of March 1, 1993, MTMC had 19 dedicated motor carrier service agreements in effect, with estimated annual costs of $4.7 million.

Freight shipments between locations not covered by a GTA are distributed among carriers with valid DoD standard tenders on file with MTMC, based on the lowest cost hundred weight per mile. A standard tender is a document specifying rates, charges, or arrangements made by a carrier for the transport, storage, or handling of freight. DoD standard tenders are unsolicited and are effective from 90 days up to 2 years.

Objectives

The audit objectives were to determine whether dedicated motor carriers are being effectively utilized and whether dedicated motor carrier service duplicates other transportation alternatives available to the Military Departments and DLA. We also evaluated internal controls applicable to the audit objectives and reviewed the impact of management actions taken in response to recommendations made in General Accounting Office Report No. NSIAD 88-53

(OSD Case No. 7464), "Cost Savings of Expanding the Guaranteed Traffic Program," November 9, 1987, as they related to the dedicated motor carrier service.

The audit disclosed that MTMC was emphasizing the solicitation of GTAs, when warranted, in response to the General Accounting Office recommendations. Based on MTMC's ongoing action, no further audit work on the associated objective was required. See the Other Matters of Interest section of this report for more details.

Scope and Methodology

We limited the scope of our audit to the review of Government bills of lading (GBL) and related transportation documents for shipments made under the 2 largest [Consolidated Truck Service (CTS) and NDTS] of 19 dedicated motor carrier service agreements negotiated by MTMC. We also reviewed MTMC's and the Military Departments' expanded use of the guaranteed traffic agreement program in response to General Accounting Office recommendations. We reviewed the 92 GBLs, valued at $667,605, paid under the CTS agreement from March 1, 1992, through February 28, 1993. We also reviewed the Navy Material Transporation Office (NAVMTO) comparative analysis between the CTS agreement and an alternative DLA GTA. Our conclusions are discussed in Other Matters of Interest.

Our Quantitative Methods Division selected a random sample of 254 GBLs, valued at $942,306 from the universe of 746 GBLs, valued at $2.8 million, paid under the NDTS agreement from March 1, 1992, through February 28, 1993. A more detailed explanation of our sampling methodology is discussed in Appendix A. The CTS and NDTS GBLs were extracted from the MTMC Freight Information System data base of paid GBLs.

This economy and efficiency audit was made from March 1993 through May 1994 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. The organizations visited or contacted during the audit are listed in Appendix G.

Internal Controls

The audit evaluated internal controls applicable to the procedures used in the receipt, validation, pre-audit, and payment of GBLs under the CTS and NDTS agreements. The audit identified a material internal control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls were not adequate to ensure that GBLs were paid in

accordance with the written NDTS agreement. MTMC personnel misinterpreted provisions of the agreement, or were verbally instructed by NAVMTO or Defense Finance and Accounting Service (DFAS) personnel to allow charges that were not specified in the written agreement. The NDTS agreement was assessed as part of NAVMTO's FY 1988 Internal Management Control Program, but no significant deficiencies were found. This area was not specifically assessed as part of MTMC's FY 1993 Internal Management Control Program.

In July 1993, NAVMTO, in cooperation with DFAS and the MTMC pre-audit branch, started to correct the weakness by disallowing some carrier charges that were not in accordance with the written agreement. Recommendation 2., if implemented, will correct the internal control weakness and provide potential monetary benefits of approximately $3.7 million during the 6-year Future Years Defense Program. A copy of the final report will be provided to the senior official responsible for internal controls in the Department of the Army, Department of the Navy, and DFAS. See Part II for a detailed discussion of the weakness.

Prior Audits and Other Reviews

Other than the General Accounting Office Report No. NSIAD 88-53, discussed in Other Matters of Interest, there has been no other audit coverage specifically related to dedicated motor carrier service in the past 5 years.

Other Matters of Interest

One audit objective was to review management actions taken in response to recommendations made in the General Accounting Office Report No. NSIAD 88-53. The General Accounting Office recommended that the then Assistant Secretary of Defense (Production and Logistics) direct MTMC to evaluate the cost-effectiveness of expanding the guaranteed traffic program and to follow up on its March 1987 memorandum to the Military Departments to make sure the Military Departments expanded their use of the guaranteed traffic program. We found that as of March 15, 1993, MTMC had 161 GTAs under negotiation and an additional 53 GTAs planned for future negotiations, and MTMC was continuing to identify, at the request of the Military Departments' shipping activities, similar GTAs where sufficient traffic warranted such an agreement. Based on MTMC's acceptable ongoing actions, no further audit work on the objective was required.

To accomplish our remaining audit objectives, we evaluated two dedicated motor carrier service agreements: CTS and NDTS. The CTS results are discussed below, while the NDTS results are discussed in Part II.

The CTS agreement consisted of five routes that primarily moved low priority and oversized freight that could not be airfreighted by Quicktrans (a motor and air transportation network operated by the Navy) between Norfolk, Virginia; Naval Air Station, North Island, California; and Travis Air Force Base, California. Under the CTS agreement, the frequency of trips made is changed based on the amount of freight available for shipment. Based on analysis of 92 GBLs paid under the CTS agreement from March 1, 1992, through February 28, 1993, the CTS capacity utilization rate was about 62 percent. We also reviewed the July 1993 NAVMTO comparative analysis that concluded that the CTS agreement was 42 percent cheaper than the alternative DLA GTA that covered the same geographic areas. We reviewed the Navy's cost comparison methodology and found no inconsistences. Based on the capacity utilization rate and the Navy's analysis, we concluded that the CTS agreement was cost-effective and no further audit work was required.

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Part II - Finding and Recommendations

Northeast Dedicated Truck Service

The Navy's Northeast Dedicated Truck Service agreement is inadequate for the movement of high priority freight and not cost-effective for movement of low priority freight. Additionally, internal controls over payment of Government bills of lading were inadequate. The conditions occurred because other modes of shipment were not used to meet delivery time standards of DoD's Uniform Materiel Movement and Issue Priority System, truck capacity was underutilized, line-haul rates were excessive, and pre-audits of billings did not ensure charges were in accordance with the provisions of the written agreement. As a result, high priority freight was not always delivered within time delivery standards, and DoD incurred excessive costs. DoD could realize a cost avoidance of approximately $6.9 million in line-haul and stopoff costs and $3.7 million in carrier overcharges over the 6-year Future Years Defense Program by discontinuing the Northeast Dedicated Truck Service agreement and enforcing adherence to the provisions of the agreement until the agreement is discontinued.

Background

The NDTS agreement is a motor freight agreement under the Navy's Quicktrans integrated transportation system, which is a continential United States-wide network of scheduled air and motor freight routes managed by NAVMTO. The NDTS agreement was negotiated and awarded by MTMC and administered by NAVMTO. A pre-audit before payment of GBLs issued under the agreement was performed by MTMC's Eastern Area Command and General Services Administration contractors. The GBLs were paid by the Defense Accounting Office, DFAS, Cleveland Center, Transportation Payment Center, Norfolk, Virginia. The GBLs are paid out of the Navy Management Fund, which is reimbursed by various customer funds. See Appendix C for a more detailed explanation of the responsibilities of DoD and non-DoD organizations involved in the procurement and administration of the NDTS agreement.

The NDTS agreement was established in 1980 to reduce shipping time for Navy freight between Norfolk, Virginia, and designated fleet support activities in the northeast United States. The NDTS consists of five routes with up to five scheduled stopoffs with two to six round-trip deliveries per route per week. Changes in the number of trips can be made by notifying the carrier that insufficient freight is available for shipment. Both high and low priority freight is shipped under the NDTS agreement. However, NAVMTO personnel stated that the primary goal of the NDTS agreement is to expedite the movement of high priority freight regardless of the amount of freight available for shipment. Therefore, changes in the number of trips under the NDTS agreement were generally not made.

Delivery Time Standards

The NDTS agreement is inadequate for the movement of high priority freight because the freight was not always transported to meet delivery time standards in effect at the time of our audit and will not be able to meet more stringent standards under the revised January 1993 Uniform Materiel Movement and Issue Priority System (UMMIPS). The delivery time standards for high priority freight changed from 72 to 24 hours. According to DLA, implementation of the new UMMIPS standards has been delayed until the end of calendar year 1996. (See Appendix D.) Additionally, other modes of shipment were not used to meet the DoD standards.

The NDTS agreement, as implemented for high transportation priority (TP) shipments, did not meet the UMMIPS standard for all high TP shipments. Approximately 26 percent of the freight on the northbound shipments and 34 percent of the freight on the southbound shipments were high transportation priority (TP-1). The remaining freight was low priority (TP-2 and TP-3). Although the overall average transit time between Norfolk, Virginia, and the NDTS freight destination activities from March 1, 1992, through April 30, 1993, was 46 hours, the actual transit times between Norfolk and freight destination activities ranged from 27 to 133 hours. Under the UMMIPS standards in effect at the time of the shipments, the maximum time for TP-1 cargo to be in transit is 72 hours. Therefore, the NDTS could not always meet then current standards for TP-1 freight and would not be able to meet the more stringent January 1993 UMMIPS standards of 24 hours. To meet UMMIPS standards for high TP freight, DoD would have to use other modes of shipment, such as air transportation.

Cost-Effectiveness of NDTS Agreement

The NDTS agreement is not cost-effective for transporting low priority freight because truck capacity was underutilized, and line-haul rates were higher than under alternative transportation agreements. DoD could avoid approximately $6.9 million in unnecessary costs over the 6-year Future Years Defense Program by discontinuing the NDTS agreement.

Truck Capacity Utilization. NDTS truck capacity was underutilized and not cost-effective because NAVMTO did not consolidate low priority freight that would have reduced the number of trips, nor did NAVMTO consider other alternatives for shipping high and low priority freight. Utilization of truck capacity varied by route from 9 to 43 percent of cubic feet available and from 10 to 48 percent of the weight capacity available. On the average, only 26 percent of the cube capacity and 28 percent of the weight capacity of each truck was utilized (see Appendix E). NAVMTO stressed that a high rate of capacity utilization is not the primary goal. The main purpose of the NDTS agreement is to expedite the movement of high priority, less than truckload shipments, and since capacity was available, low priority freight is also

included. However, as discussed earlier, shipments under the NDTS agreement cannot always meet the UMMIPS timeframes for high priority freight. We believe that the low priority cargo should have been shipped under existing alternative agreements or tenders and that high priority freight should be shipped by a more appropriate transportation mode, such as air, that could meet the DoD standards.

Cost-Effectiveness of Line-haul Rates. Line-haul rates under the NDTS agreement were significantly higher than they would have been under an alternative DLA GTA agreement or other DoD standard tenders. Line-haul rates are the rates that the carrier charges per mile to actually move freight from the origin activity to the destination activity. Stopoff rates are the amounts charged by the carrier for making unscheduled stops between the origin and destination activities to off-load or pick up other freight.

Our review of NDTS GBLs disclosed that the overall NDTS line-haul and allowable stopoff costs were projected to be $1,058,574 higher than the line-haul costs under the alternative DLA GTA or other DoD standard tenders. For example, on one GBL, 14,246 pounds of cargo were shipped from Norfolk, Virginia, to three activities in the northeast. Of the 14,246 pounds of cargo, 4,900, 4,019, and 5,327 pounds were shipped to Boston, Massachusetts; Bath, Maine: and Brunswick, Maine, respectively. The NDTS trip involved one unscheduled stopoff for which a $75 stopoff charge was paid. The remaining stopoffs were scheduled and no stopoff charge applied. The actual NDTS cost for the trip was $1,780, including the $75 unscheduled stopoff charge. If the same freight had been shipped under the DLA GTA, the line-haul costs would have been computed as shown in Table 1.

Table 1. Computation of Line-haul Costs for Shipments Under DLA GTA

Origin - Destination	Pounds	Line-haul Costs
Norfolk, Virginia - Boston, Massachuetts	4,900	$268
Norfolk, Virginia - Bath, Maine	4,019	274
Norfolk, Virginia - Brunswick, Maine	5,327	317
Total	14,246	$859

If the DLA GTA had been used, DoD could have saved $921 or about 52 percent of the total cost. In this example, no stopoff charges would be applied under the DLA GTA because there would be three separate shipments. In our sample cost comparison, no stopoff charges were applicable under the alternative agreements or DoD standard tenders because the freight with a different origin or destination was divided into a separate shipment. Therefore,

one NDTS trip with one stopoff, for comparative cost purposes, was compared with two or more separate shipments. The sum of the costs of the two or more shipments was compared to the actual NDTS costs.

Carrier Charges

Internal controls over payments of GBLs did not adequately detect and stop payment of carrier overcharges for mileage, stopoffs, and transportation protective services because NAVMTO, DFAS, and MTMC personnel were not enforcing carrier adherence with the provisions of the written NDTS agreement until the agreement is discontinued. DoD could realize a cost avoidance of about $3.7 million in overcharges over the 6-year Future Years Defense Program by using the alternative DLA GTA or DoD standard tenders for low priority freight, discontinuing the NDTS agreement, and enforcing adherence to the agreement until termination. The audit disclosed overcharges for mileage, stopoffs, and transportation protective services.

Mileage Charges. DoD paid a projected $328,240 in mileage overcharges on the NDTS GBLs because the carrier did not compute the mileage charge in accordance with the written agreement, which specifically stipulated that mileage would be determined using the "Household Goods Carriers Bureau Mileage Guide," which provides the number of miles between 2 points. The agreement contained no exceptions for circuitous routing of shipments due to restrictions in carrying hazardous freight over designated highways and bridges and through tunnels. The proper mileage charge was to be computed by multiplying the mileage from the guide by the rate per mile stated in the NDTS agreement. Appendix B contains the line-haul rates by route under the NDTS agreement.

NAVMTO and DFAS personnel stated that it was their understanding that additional mileage for hazardous freight was generally allowable under most contracts and verbally instructed the MTMC personnel performing the pre-audit of the GBLs to allow such charges. However, neither the MTMC solicitation of the agreement nor the actual agreement addressed the issue. Mileage overcharges were paid on 1,266 of the 1,675 trip segments reviewed, for both hazardous and nonhazardous freight. Only 185 of the 1,266 trip segments overcharged carried hazardous freight. Further, the claims for mileage were inconsistent. For example, the carrier claimed different mileages when hauling both hazardous and nonhazardous freight between the same two points. The results of our analysis of mileage overcharges on trip segments that carried hazardous and nonhazardous freight are in Table 2.

Table 2. Summary of Trip Segments Overcharged by Type of Freight

Type of Freight	No. of Trip Segments in Sample	No. of Trip Segments Overcharged
Hazardous	299	185
Nonhazardous	1,376	1,081
Total	1,675	1,266

Pre-payment audits of NDTS GBLs did not detect or disallow excessive mileage claimed by the carrier. GBLs with total charges of less than $5,000 were pre-audited by an independent General Services Administration contractor. GBLs with total charges of $5,000 or greater were pre-audited by MTMC Eastern Area auditors, who were verbally instructed by NAVMTO and DFAS personnel to allow extra mileage for circuitous routing when hazardous material was hauled. According to the Chief, Pre-Payment Audit Branch, Operations Division, MTMC Eastern Command, in the absence of specific guidance, the auditors were allowing all circuitous mileage for both hazardous and nonhazardous freight unless the amount appeared out of line. We estimate that DoD could avoid paying approximately $2.1 million in unnecessary mileage overcharges during the 6-year Future Years Defense Program by discontinuing the NDTS agreement and enforcing adherence to the written agreement until termination.

Stopoff Charges. DoD paid a projected $227,530 in stopoff overcharges on NDTS GBLs because the carrier billed for scheduled stopoffs and for more unscheduled stopoffs than allowed under the NDTS agreement. A scheduled stopoff is one that is specifically identified as such in the NDTS agreement. Charging for scheduled stopoffs is expressly prohibited in the agreement. However, the carrier charged $75 each for scheduled stopoffs on a projected 670 of the 746 NDTS GBLs. See Apendix A for more details.

An unscheduled stopoff is defined as a stopoff that is not specifically cited on the schedule in the agreement. Item 27 of the NDTS agreement provided that the carrier could charge for up to 3 unscheduled stopoffs per trip. The carrier was frequently charging for more than three unscheduled stopoffs between origin and destination. When we mentioned that matter to NAVMTO, it took the position that limiting the carrier to three unscheduled stopoffs was not its intent. As a result, NAVMTO requested MTMC to modify Item 27 of the NDTS agreement. Supplement 1, issued in May 1993, attempted to modify the agreement to allow the carrier to charge $75 per unscheduled stopoff, not to exceed three per "activity/base/installation." The modification was to be made retroactive to August 31, 1991, the beginning of the current NDTS agreement. However, the carrier refused to agree to the change. We estimate that DoD could avoid paying approximately $1.5 million over the 6-year Future Years Defense Program by not paying the stopoff overcharges.

Prepayment audits of GBLs that the NDTS carrier submitted for payment failed to detect overcharges for scheduled and unscheduled stopoffs. MTMC Eastern Area auditors misinterpreted Item 27 and, as a result, were not looking for the overcharges. Since we brought this issue to the attention of DFAS and MTMC Eastern Area personnel, the auditors have begun to disallow carrier claims for scheduled and unallowable unscheduled stopoffs. The practice has resulted in the detection and disallowance of $109,701 in stopoff overcharges for GBLs audited from July 1993 through February 1994.

Transportation Protective Services Charges. DoD paid a projected $14,174 in overcharges for transportation protective services on NDTS GBLs paid from March 1, 1992, through February 28, 1993, because the carrier double billed for the same transporation protective services. Transportation protective services are in transit physical security services required for sensitive and classified DoD freight. The services are requested by the shipper as indicated on the GBL. The two types of transportation protective services required for some NDTS shipments are constant surveillance service and signature and tally record. According to the Defense Traffic Management Regulation, constant surveillance service requires that a qualified carrier representative constantly watch a freight shipment while in transit. The Defense Traffic Management Regulation defines signature and tally record as a form signed by a carrier representative to maintain continuous accountability and custody of a shipment from point of pickup to delivery to the consignee. The NDTS agreement provides that the carrier is allowed to charge $35 each per trip for constant surveillance service and signature and tally record. However, if both transportation protective services are requested, the carrier is authorized to charge for constant surveillance service only, which includes signature and tally record.

Transportation protective service was requested for a projected 303 of the 746 GBLs, of which the carrier claimed unauthorized transportation protective service charges on a projected 162 GBLs. The overcharges resulted when both constant surveillance service and signature and tally record were claimed and paid. These transportation protective service overcharges were not detected during prepayment audits of the GBLs. We estimate that DoD could realize a cost avoidance of about $0.1 million over the 6-year Future Years Defense Program by discontinuing the NDTS agreement and enforcing adherence to the written agreement until the agreement is discontinued.

Transportation Alternatives

There are alternative motor freight transportation agreements or DoD standard tenders for low priority freight between the Norfolk, Virginia, area and shipping activities currently serviced under the NDTS agreement. DLA had a GTA in effect that provided service from the Defense Depot, Norfolk, Virginia, to 11 distribution centers in the continential United States. The Defense Depot, Norfolk, GTA provided the desired transit times of 72 and 96 hours for less than truckload shipments (under 20,000 pounds) to the northeast and New

England regions, respectively. For full truckloads, desired transit times are 24 to 48 hours for the northeast region and 48 hours for the New England region. DoD standard tenders provided by other commercial carriers are also available to provide service from shipping activities in the northeast to the Norfolk area. Desired transit times under DoD standard tenders vary by state and are contained in the DoD Standard Transit Times Guide. High priority freight, depending on the destination, can be moved by DoD standard tenders or air freight.

In August 1993, we discussed the overcharge issues with NAVMTO personnel. Despite our recommendation to do so, NAVMTO did not clarify the issues related to how mileage, stopoff, and transportation protective services charges should be calculated, before extending the agreement for another 12 months.

Recommendations, Management Comments, and Audit Response

Because evidence of possible illegal acts was disclosed during this audit, the recommendations made at this time are limited to those required to strengthen internal controls and prevent further unnecessary costs to DoD. No recoupment action of overcharges identified in this report should be taken without the approval of the Defense Criminal Investigative Service. The Office of the Assistant Inspector General for Auditing will coordinate with the Defense Criminal Investigative Service if additional recommendations are needed. The recommendations will be provided to management under separate memorandum.

1. We recommend that the Commanding Officer, Navy Material Transportation Office, discontinue the Northeast Dedicated Truck Service agreement and use a mode of transportation to move high priority freight that will meet the standards of the Uniform Materiel Movement and Issue Priority System, and use existing alternative motor guaranteed traffic agreements or DoD standard tenders to transport low priority freight.

Management Comments. The Assistant Secretary of the Navy (Research, Development and Acquisition) agreed that the NDTS agreement should be discontinued, but for reasons different from those stated in the report. The Navy stated that the NDTS agreement should be terminated because of force drawdowns, Navy supply system consolidation, the evolution of comparable commercial services, and the decline of shipment volume to such an extent that the NDTS was no longer economical. Accordingly, the Navy agreed to terminate the NDTS agreement, effective October 1, 1994. The Navy also agreed that alternative guaranteed traffic agreements or DoD standard tenders should be used to transport low priority freight previously shipped on NDTS. However, the Navy indicated that premium transportation would be used for

only the most critical TP-1 (high priority) shipments. The Navy stated that it does not have adequate funds to pay premium transportation costs for the movement of all TP-1 shipments.

The Navy maintained that the cost avoidance over the 6-year Future Years Defense Program resulting from discontinuance of the NDTS should be $2.1 million rather than $6.9 million, as stated in the report. The Navy stated that the audit computation overstated the savings by assuming that all TP-1 shipments would be transported on routine guaranteed traffic agreements or standard tenders, rather than higher cost premium transportation, if the NDTS was discontinued. If the higher cost premium transportation were used in the cost avoidance computation, audit savings would be reduced from approximately $1.06 million per year to $351,000 per year. The full text of the Navy's comments is in Part IV of this report.

Audit Response. The Navy's comments are responsive to the recommendation, but additional comments are needed on the monetary benefits. We do not agree that the cost avoidance should be reduced from $6.9 million to $2.1 million. We agree that some reduction to the $6.9 million cost avoidance may be appropriate because some shipments may require premium transportation after the NDTS agreement is terminated. However, the Navy did not provide sufficient data to support its computation. Therefore, we request that the Navy provide additional comments on the potential monetary benefits and supporting data.

2. We recommend that the Director, Defense Finance and Accounting Service, Cleveland Center, Transportation Payment Center, Norfolk, Virginia, in coordination with the Commander, Military Traffic Management Command, Eastern Area Command, strengthen internal controls by instructing pre-payment auditors and payment personnel to allow only carrier charges that are in accordance with the written provisions of the Northeast Dedicated Truck Service guaranteed traffic agreement related to mileage, stopoffs, and transportation protective services until the agreement is discontinued.

Management Comments. The Deputy Director for Finance, DFAS, agreed with the recommendation, and stated that the Transportation Payment Center in Norfolk initiated corrective action in May 1993, to strengthen internal controls to prevent payment of carrier overcharges. Pre-payment auditors and payment personnel were instructed to allow only carrier charges that are in accordance with the written provisions of the NDTS agreement related to stopoffs and transportation protective services. Corrective action to curtail excess mileage charges for underweight and hazardous material shipments was also implemented in a July 1, 1994, memorandum from the Director of the Transportation Payment Center in Norfolk, Virginia, to the MTMC Eastern Area Command.

Audit Response. The DFAS comments were responsive to the recommendation, but they did not provide a position on the potential monetary

benefits of $3.7 million. Accordingly, we request that the Deputy Director for Finance, DFAS, provide additional comments on the monetary benefits attributable to the recommendation.

Part III - Additional Information

Appendix A. Sampling Methodology

The universe of 19 dedicated motor carrier service agreements was developed by reviewing all GTAs in MTMC files that were in effect on March 1, 1993, and selecting those agreements that provided some type of scheduled freight service between two or more activities. We selected the two largest agreements based on estimated costs over the term of the agreements as an initial census stratum. For the initial term of the agreements, estimated costs of CTS and NDTS were $1.9 million and $2.9 million, respectively. Under the CTS agreement, we reviewed all 92 GBLs paid, with no need for statistical projections.

For GBLs paid under the NDTS agreement, our Quantitative Methods Division developed the statistical sampling plan and randomly selected a statistical sample of 254 GBLs from a total of 746 GBLs, valued at $2.8 million, paid from March 1, 1992, through February 28, 1993. Our audit projections are estimates based on the statistical sample selected and are limited to the universe of GBLs paid under the NDTS agreement.

Audit Results. Based on the underutilization and higher NDTS line-haul rates, we project that DoD paid $1,058,574 more in line-haul costs than would have been required under an alternative motor freight transportation agreement or tenders. We also project $569,944 in carrier overcharges due to mileage, stopoffs, and TPS. A statistical summary of the projected savings on GBLs paid under the NDTS agreement from March 1, 1992, through February 28, 1993, are in Table A.1.

Table A.1. Summary of Projected Savings on GBLs With Associated Confidence Intervals

Savings Category	Projected Savings	Margin of Error (percent)	95-Percent Confidence[1] Lower Bound	Upper Bound
Mileage Overcharges	$ 328,240	± 5.6	$ 309,814	$ 346,666
Stopoff Overcharges	227,530	± 9.3	206,344	248,716
TPS[2] Overcharges	14,174	± 24.7	10,668	17,680
Subtotal	569,944	± 5.8	536,635	603,253
Line-Haul Cost[3]	1,058,574	± 6.7	988,002	1,129,146
Total	$1,628,518	± 4.8	$1,608,611	$1,648,425

[1]Generally, the lower and upper bounds on the subtotal and total projections do not equal the sums of the bounds on their component projections because they are based on more statistical information than the components.
[2]Transportation protective services.
[3]Includes allowable stopoff costs of $75 each under NDTS agreement.

We also projected the number of GBLs with overcharges for scheduled stopoffs, TPS requested, and TPS overcharges. These projections are summarized in Table A.2.

Table A.2. Summary of GBL Projections

GBLs with:	Estimated No. of GBLs	Margin of Error (percent)	95-Percent Confidence Lower Bound	95-Percent Confidence Upper Bound
Scheduled Stopoff Overcharges	670	±03.6	647	692
TPS Requested	303	±12.6	266	339
TPS Overcharges	162	±19.9	131	192

Appendix B. Selected Elements of the NDTS Agreement

Contract Provision	NDTS Agreement
Primary Purpose	Transport high priority freight between Norfolk, Virgina, area and selected activities in the northeastern United States
Description of Routes	
Route 1	Norfolk, Virginia - Philadelphia, Pennsylvania - Baltimore, Maryland - Norfolk, Virginia
Route 2	Norfolk, Virginia - Brooklyn, New York - Staten Island, New York - Bayonne, New Jersey - Leonardo, New Jersey - Earle, New Jersey - Norfolk, Virginia
Route 3	Norfolk, Virginia - Dover Air Force Base, Delaware - Lakehurst, New Jersey - Earle, New Jersey - Norfolk, Virginia
Route 4	Norfolk, Virginia - Groton/New London, Connecticut - Quonset Point, Rhode Island - Newport, Rhode Island - Davisville, Rhode Island - Providence, Rhode Island - South Weymouth, Massachusetts - Boston, Massachusetts - Portsmouth, New Hampshire - Norfolk, Virginia
Route 5	Norfolk, Virginia - Portland, Maine - Brunswick, Maine - Bath, Maine - Norfolk, Virginia
Frequency of Round-Trips	
Route 1	5 per week
Route 2	2 per week
Route 3	5 per week
Route 4	6 per week
Route 5	2 per week
Notice Required for Schedule Changes	24 hours

Contract Provision	NDTS Agreement
Line-haul rates based on rate per mile per Household Goods Guide Pub 15, regardless of weight	
Route 1	$2.93 per mile
Route 2	$2.07 per mile
Route 3	$2.93 per mile
Route 4	$1.26 per mile
Route 5	$2.18 per mile
Stopoff Charges Allowed:	
Scheduled	None
Unscheduled	$75 per stopoff
Transportation Protective Services	$35 per trip
Mileage charge differentials for hazardous freight	None per agreement

Appendix C. Responsibilities for NDTS by DoD and Non-DoD Organizations

Responsibilities	NAVSUP[1]	NAVMTO[2]	MTMCHQ[3]	MTMCEA[4]	DFAS[5]	GSA[6]
Provides overall policy and budget approval for NAVMTO	X					
Defines transportation requirements, drafts NDTS agreement, and requests technical support for contracting services		X				
Provides contracting technical support:						
o Solicits bids			X			
o Negotiates agreement			X			
o Awards agreement			X			
o Modifies agreement			X			
Agreement Administration		X				
Provides carrier performance program:						
o Monitors performance			X			
o Initiates disciplinary action			X			
Provides carrier reimbursement:						
o Receives GBLs for payment					X	
o Performs GBL administrative					X	
Performs GBL pre-audits						
o Selects GBLs for pre-audit and postpayment audits					X	
o Prepayment audit of selected GBLs						
o GBLs $5,000 or greater				X		
o GBLs less than $5,000						X
Issues payment to carrier					X	
Performs GBL postpayment audits						X

[1]Naval Supply Systems Command
[2]Navy Material Transportation Office
[3]Military Traffic Management Command, Headquarters
[4]Military Traffic Management Command, Eastern Area
[5]Defense Accounting Office, Defense Finance and Accounting Service, Transportation Payment Center
[6]General Services Administration

Appendix D. UMMIPS Time Standards

Standards in Effect During Audit Period. DoD time standards for freight delivery under UMMIPS are contained in volume I, DoD 4500.32-R, "Military Standard Transportation and Movement Procedures (MILSTAMP)," March 15, 1987. The UMMIPS utilizes priority designator (PD) and TP codes to allocate supply and transportation resources among competing demands. The PD and TP codes are linked to standards which establish time limitations for material flowing through the supply and transportation pipelines. The PD is a code that identifies the relative priority of competing requisitions and is used by material management systems to allocate available stock among requisitioners. The TP is a number assigned to a shipment which establishes its movement precedence by air, land, or sea within the Defense Transportation System. These requirements are set out in Volume I of the MILSTAMP.

The UMMIPS utilizes 15 PD and 3 TP codes to identify the urgency of the material ordered. Table D.1. shows the current DoD transportation time standards and the associated PD and TP codes.

Table D.1. Current DoD Transportation Time Standards

Maximum Days in Transportation Pipeline	Priority Designator Code	Transportation Priority Code
3	01 - 03	TP-1
6	04 - 08	TP-2
13	09 - 15	TP-3

Revised Standards to be Implemented. Revised UMMIPS standards published in DoD 4140.1-R, "DoD Material Management Regulation," January 1993, introduced a new coding system and more stringent time standards. The revised standards utilize 7 required delivery date codes together with the 15 PD codes. TP codes were eliminated. The required delivery date is a code used to specify the amount of time each logistics system element has to meet the service level required by the customer. According to DLA, the revised standards were published and released in January 1993, but were not to be implemented until calendar year 1996. Table D.2. shows the revised DoD transportation time standards and their associated PD and required delivery date codes.

Table D.2. Revised DoD Transportation Time Standards

Maximum Days in Transportation Pipeline	Priority Designator Code	Required Delivery Date Code*
1	01 - 08	999, N, or E
4	01 - 08	555 or 777
4	01 - 15	444
10	01 - 15	Uncoded (blank)

*Explanation of Required Delivery Date Codes

999	Expedited handling requirement for nonmission capable overseas customers or continental United States customer deploying overseas within 30 days.
N	Expedited handling due to nonmission capable requirement for continental United States customers.
E	Expedited handling due to anticipated nonmission capable requirement for continental United States customers.
555	Expedited handling due to an exception to a mass requisition (multiple requisitions made at one time) cancellation.
777	Expedited handling required for other than the reasons given for 999, N, E, and 555 required delivery date codes.
444	Handling service for customers collocated with the storage activity or for locally negotiated agreements and if a specific date of delivery is indicated, handling to meet that date.
Uncoded	Routine handling.

Appendix E. Utilization of NDTS Truck Capacity

Route Number (A)	Direction (B)	Number of Trips (C)	Actual[1] Weight (Pounds) (D)	Percent[2] Weight Capacity Utilized (E)	Actual Cube (F)	Percent[3] Cube Capacity Utilized (G)
1	North	248	4,716,707	48	353,636	43
	South	253	3,505,950	35	233,625	28
	Subtotal	501	8,222,657	41	587,261	36
2	North	151	1,553,951	26	117,251	24
	South	129	537,104	10	36,989	9
	Subtotal	280	2,091,055	19	154,240	17
3	North	151	654,540	11	54,833	11
	South	144	752,742	13	51,629	11
	Subtotal	295	1,407,282	12	106,462	11
4	North	254	3,613,478	36	288,188	35
	South	253	3,074,472	30	209,836	25
	Subtotal	507	6,687,950	33	498,024	30
5	North	103	1,118,245	27	105,585	31
	South	102	655,809	16	63,076	19
	Subtotal	205	1,774,054	22	168,661	25
All	North	907	11,656,921	31	919,493	31
All	South	881	8,526,077	24	595,155	21
Total		1,788	20,182,998	28	1,514,648	26

[1]Per NAVMTO records for the 12-month period ending February 28, 1993.
[2]Maximum weight per truck load = 40,000 lbs. Percent = (D) divided by [(C) x 40,000)].
[3]Maximum cube per truck load = 3,284 sq. ft. Percent = (F) divided by [(C) x 3,284)].

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Eliminate excessive line-haul and stopoff costs by discontinuing the NDTS agreement.	Funds Put to Better Use. About $6.9 million of Navy Management Fund (MMF-X-N715), which is reimbursed by various customer funds, will be avoided over a 6-year Future Years Defense Program.
2.	Internal Control. Pay carriers for transportation services in accordance with the written agreement and avoid payment of carrier over-overcharges for mileage, stopoffs, and transporation protective services.	Funds Put to Better Use. About $3.7 million of Navy Management Fund (MMF-X-N715), which is reimbursed by various customer funds, will be avoided over a 6-year Future Years Defense Program.

Appendix G. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Deputy Under Secretary of Defense for Transportation Policy, Washington, DC

Department of the Army

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

Department of the Navy

Headquarters, Naval Supply Systems Command, Washington, DC
Navy Material Transportation Office, Norfolk, VA
Fleet Industrial Supply Center, Norfolk, VA
Naval Air Station, Norfolk, VA

Defense Organizations

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Depot, Norfolk, VA
Defense Accounting Office, Defense Finance and Accounting Service, Transportation Payment Office, Norfolk, VA

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Comptroller of the Department of Defense
Deputy Under Secretary of Defense (Acquisition Reform)
Deputy Under Secretary of Defense (Logistics)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

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

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Department of the Navy
Commander, Naval Supply Systems Command
Commander, Navy Material Transportation Office

Department of the Air Force

Auditor General, Department of the Air Force

Defense Organizations

Commander in Chief, U.S. Transportation Command
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange
Director, Joint Staff

Non-Defense Federal Organizations

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

Chairman and Ranking Minority Members of each of the following Congressional Committees and Subcommittees:

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

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Part IV - Management Comments

Department of Navy Comments

THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

AUG 24 1994

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON SELECTED DEDICATED MOTOR CARRIER SERVICE AGREEMENTS (PROJECT NO. 3LC-0034)

Ref: (a) DODIG Memorandum of 14 June 1994

Encl: (1) Department of the Navy Comments

We have reviewed the findings and recommendations provided by reference (a). Detailed comments are provided by enclosure (1), but in summary:

- We do not concur with the finding that the Northeast Dedicated Truck Service (NDTS) agreement is inadequate for the movement of high priority freight, and not cost-effective for the movement of low priority freight. NDTS has satisfied customer requirements for all freight by providing scheduled runs, dependable pick-up and deliveries, and intransit visibility. NDTS's average delivery time was within the high priority standards.

- While we agree there is a cost avoidance in discontinuing the NDTS, we calculate the cost avoidance as $2.1 million, not the $6.9 million claimed in the audit.

- We concur with the part of the first recommendation for discontinuance of NDTS. NDTS is being terminated due to force drawdown and supply consolidation as of 1 October 1994.

- We do not concur with the part of recommendation 1 to use a mode of transportation to move high priority freight that will meet the standards of the Uniform Material Movement and Issue Priority System. The Navy does not have adequate funds to pay for the movement of all Transportation Priority (TP) 1 material. Premium transportation will be used only for the most critical TP-1 material.

- We concur with the part of recommendation 1 to use alternative guaranteed traffic agreements of DoD standard tenders to transport low priority freight.

Nora Slatkin

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT OF 14 JUNE 1994
ON
SELECTED DEDICATED MOTOR CARRIER SERVICE AGREEMENTS
(REPORT NO. 3LC-0034)

Finding. Northeast Dedicated Truck Service

The Navy's Northeast Dedicated Truck Service agreement is inadequate for the movement of high priority freight and not cost-effective for movement of low priority freight. Additionally, internal controls over payment of Government bills of lading were inadequate. The conditions occurred because other modes of shipment were not used to meet delivery time standards of DOD's Uniform Military Movement and Issue Priority System, truck capacity was underutilized, line-haul rates were excessive, and pre-audits of billings did not ensure charges were in accordance with the provisions of the written agreement. As a result, high priority freight was not always delivered within time delivery standards, and DOD incurred excessive costs. DOD could realize a cost avoidance of approximately $6.9 million in line-haul and stopoff costs and $3.7 million in carrier overcharges over the six year Future Years Defense Program by discontinuing the Northeast Dedicated Truck Service agreement until the agreement is discontinued.

DON comment

1. **NON-CONCUR** with finding that Navy's Northeast Dedicated Truck Service (NDTS) agreement is inadequate for the movement of high priority freight and not cost-effective for movement of low priority freight. NDTS was designed to provide scheduled runs, with dependable and predictable delivery times, and a degree of intransit visibility between the Navy distribution hub in Norfolk, Virginia and Navy customers throughout the northeastern United States. NDTS implementation was consistent with a well established physical distribution principle of paying slightly higher transportation fees for extra services in order to avoid the enormous expense of building, stocking, and operating an additional distribution facility in close proximity to the customer. These services include scheduled pick-up and delivery (which does not necessarily permit maximum consolidation) as well as round trips. They are not available in normal line haul agreements such as Defense Depot (DD) Norfolk's Guaranteed Traffic (GT) agreement that was used by the DODIG for cost comparison with the NDTS agreement. While high priority shipments were not always delivered within time standards established by the Uniform Material Movement and Issue Priority

System (UMMIPS), ***NDTS's 46 hour average delivery time was well within the 72 hour UMMIPS standard.*** Finally, it is important to note that all customer feedback received has indicated complete satisfaction with the service provided. Customer comments, suggesting the service was inadequate, were noticeably absent from subject report. The extra services in the NDTS have built customer confidence in the system to such a high degree that they are willing to accept minimally slower transit times for all but the most critical Transportation Priority (TP)-1 shipments rather than request considerably higher priced premium transportation.

2. **a.** **NON-CONCUR** with the monetary finding of a cost avoidance of approximately $6.9 million ($1,058,574 annually) in line-haul and stop-off costs over the 6-year Future Years Defense Program. The DODIG based the cost avoidance on a sample comparison between actual NDTS line haul cost and DD Norfolk GT cost. This accounts for the transportation cost of low priority material only. The DODIG failed to include the cost of premium transportation needed to move high priority material (approximately 30 percent of all NDTS shipments) in order to meet UMMIPS standards. NAVMTO cost avoidance figures for the one year period of the sample show that NDTS provided a cost avoidance of $707,576 for movement of high priority material that would have had to move by premium transportation if NDTS had not existed. If the additional cost of using premium transportation ($707,576 per year) is subtracted from the DODIG's anticipated cost avoidance ($1,058,574), the total cost avoidance is actually $350,998 per year, or ***$2.1 million vice $6.9 million*** over the six year Future Years Defense Program.

b. In addition, the analysis used was not an "apples-to-apples" comparison. NDTS represents only a small piece of the QUICKTRANS system that is used to move Navy cargo throughout CONUS. Any comparison of costs associated with cargo movement must incorporate the aggregate costs of moving a box from its place of origin to its place of destination. Separately breaking out the NDTS segment of the QUICKTRANS system erroneously ignores the transportation cost of getting the box to Norfolk from San Diego for example.

3. DON defers to the Defense Finance and Accounting Service (DFAS) and the Military Traffic Management Command (MTMC) on the finding concerning inadequate controls over payment of Government Bills of Lading and the associated $3.7 million in carrier overcharges.

Recommendations

1. We recommend that the Commanding Officer, Navy Material Transportation Office, discontinue the NDTS agreement and use a mode of transportation to move high priority freight that will meet the standards of the UMMIPS, and use existing alternative motor guaranteed traffic agreements of DOD standard tenders to transport low priority freight.

DON comment

a. **CONCUR** with recommendation that the Commanding Officer, Navy Material Transportation Office, discontinue the Northeast Dedicated Truck Service agreement, however, for reasons different than stated in the report. As a result of force drawdowns, Navy supply system consolidations, and the evolution of comparable commercial services, NDTS shipment volume has declined to the extent that the system is deemed no longer economical. Accordingly, effective 1 October 1994, the NDTS system will be terminated.

b. **NON-CONCUR** with recommendation to use a mode of transportation to move high priority freight that will meet the standards of the UMMIPS. The six year decline of Navy's transportation budget has created an environment where Navy does not have adequate funds to pay for the movement of all TP-1 material. Accordingly, Navy use of premium transportation in CONUS is restricted to only the most critical TP-1 material; i.e., CASREP, NMCS/PMCS and work stoppage shipments. However, NDTS, in addition to satisfying the customer's delivery requirements, permitted the rapid movement of all high priority material throughout the northeast at a cost that was dramatically less than the premium transportation alternative.

c. **CONCUR** with the recommendation to use alternative guaranteed traffic agreements of DOD standard tenders to transport low priority freight. We will do this wherever guaranteed traffic agreements are available. Not all activities have sufficient volume to allow them to participate in the guaranteed traffic program. These activities will be instructed to use the most cost-effective method of transportation that will meet their requirements.

2. We recommend that the Director, Defense Finance and Accounting Service (DAFAS), Cleveland Center, Transportation

Payment Center, Norfolk, Virginia, in coordination with the Commander, Military Traffic Management Command, Eastern Area Command (MTMC), strengthen internal controls by instructing prepayment auditors and payment personnel to allow only carrier charges that are in accordance with the written provisions of the Northeast Dedicated Truck Service guaranteed traffic agreement related to mileage, stopoffs, and transportation protective services until the agreement is discontinued.

DON Comment

DON defers comment to DFAS and MTMC.

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/F

JUL 21 1994

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

SUBJECT: Draft Report on Selected Dedicated Motor Carrier Service Agreements (Project No. 3LC-0034)

Of the two recommendations made in the subject report, the Defense Finance and Accounting Service was assigned action on only recommendation number 2.

RECOMMENDATION 2: "We recommend that the Director, Defense Finance and Accounting Service, Cleveland Center, Transportation Payment Center, Norfolk, Virginia, in coordination with the Commander, Military Traffic Management Command, Eastern Area Command, strengthen internal controls by instructing pre-payment auditors and payment personnel to allow only carrier charges that are in accordance with the written provisions of the Northeast Dedicated Truck Service guaranteed traffic agreement related to mileage, stopoffs and transportation protective services until the agreement is discontinued."

We concur. The Transportation Payment Center in Norfolk initiated corrective action in May of 1993, during the course of the subject audit, to strengthen internal controls for the payment of carrier charges referenced in recommendation 2 of the subject report.

Pre-payment auditors and payment personnel were instructed to allow only carrier charges that are in accordance with the written provisions of the Northeast Dedicated Truck Service Guaranteed Traffic Agreement related to stopoffs and transportation protective services.

Corrective action to curtail excess mileage charges for underweight and hazardous material shipments was also implemented. This corrective action was initiated in a memo dated July 1, 1994, from the Director of the Transportation Payment Center in Norfolk to the Military Traffic Management Command, Eastern Area (MTMCEA) requesting disallowance of excess mileage charges for underweight and hazardous material shipments.

2

Our point of contact is Mr. Ray Sexton, DFAS-HQ/FC, on Commercial (703) 607-0528 or DSN 327-0528.

Michael E. Wilson
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Arlington, VA 22202-2884

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