

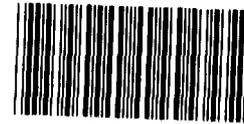
GAO

Report to the Honorable  
Jon Kyl, House of Representatives

June 1992

GSA  
TRANSPORTATION  
AUDITS

Contract Costs Can Be  
Reduced



146651

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**National Security and  
International Affairs Division**

B-214149

June 3, 1992

The Honorable Jon Kyl  
House of Representatives

Dear Mr. Kyl:

This report responds to your request that we examine certain aspects of the General Services Administration's (GSA) use of private companies to audit commercial transportation charges paid by federal departments and agencies. In 1989 GSA began requiring contractors to collect certain data from paid transportation bills, in addition to conducting their standard audit. You raised several questions about that requirement and asked the GSA Inspector General to review the matter. After you received the Inspector General's response, you asked us to look into the adequacy of it.

The Inspector General reported to you that he was unable to fully answer or resolve all the concerns you raised because the program manager had not yet implemented his plans to use the data. Therefore, as agreed with your staff, we independently examined the questions you had raised. Specifically, we assessed whether

- collecting the additional data was resulting in a more thorough audit,
- GSA was adequately verifying that the contractors were providing the required data and whether GSA was using it,
- the contractors were duplicating the Department of Defense's (DOD) data collection efforts, and
- GSA had a basis for establishing its fees for data collection.

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**Background**

GSA is responsible for auditing commercial transportation charges billed to the federal government. It has authority to audit charges before or after payment, or both, and to contract for commercial auditor services. In recent years, GSA has delegated most of the prepayment auditing authority to other agencies and has kept the postpayment audit authority for itself. For example, GSA has authorized DOD to audit its own bills before payment with the understanding that DOD will forward them to GSA for postaudit.

At the time of our review, GSA had under contract three prepayment auditors that agencies could use. It had five other contractors that it used for postpayment audits. For these audits, GSA used "first-audit contractors" to audit bills immediately after payment. "Second-audit

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contractors" audited bills that the first auditors had already examined to ensure that they had not overlooked overbillings.

Historically, compensation for postpayment auditing was based solely on a commission for each overcharge identified and collected. These commissions varied greatly depending on the mode of transportation and the contractor involved. In 1989 GSA negotiated new postpayment contracts in which it agreed to pay first-audit contractors a per-document-audited fee, called a transaction fee, in addition to the commission they received from collected overcharges. According to GSA, the primary purpose for adding fee payments to the first-audit contracts was to ensure that the first auditors examined all documents carefully. Also, GSA wanted data from the transportation documents (bills) to help it assess the quality of the prepayment audit and to monitor the payments government agencies were making for commercial transportation.

GSA pays a transaction fee after a contractor certifies that it has audited a bill and provided the data from it. The data differs depending on the mode of transportation paid for. Examples of data are the bill of lading number, passenger ticket number, transportation mode and carrier identification number, origin and destination, paying office, date and amount paid, symbol for the paying agency's appropriation, account number of the charge card used for payment, and the symbol for any previous contract auditor.

No transaction fees are payable to second-audit contractors. Their only compensation is the commission they earn on overcharges they identify.

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## Results in Brief

Although GSA stated that the primary purpose for adding transaction fee payments to the first-audit contracts was to ensure that the first auditors reviewed all documents carefully for overcharges, GSA does not know whether this has occurred. Many overcharges still are not identified until the second audit. GSA's own statistics show that since October 1989 (the beginning of transaction fees in postpayment audits), more than 20 percent of the overcharges were not identified until the second audit. Moreover, fees—not commissions—represent the greater part of the compensation paid under these contracts. From October 1989 to the end of calendar year 1991, fees represented more than 75 percent of the payments GSA made to first auditors.

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GSA has not adequately verified that contractors are providing the required data and that the data is useful. The agency had hoped to use the data to assess the performance of the auditors who examined the transportation bills before payment and to obtain information about agency transportation expenditures and carrier overcharge patterns. However, GSA has not examined most of the data and has therefore, neither used it as expected nor been able to ensure that the contractors are providing it.

DOD, as part of its own traffic management programs, has already captured nearly all the same data that GSA is requiring from its contractors. The bills from which DOD collected this data represent more than 80 percent of the bills that GSA audited. Therefore, for the most part, GSA's data collection is a duplication of effort.

GSA established its pay schedule for transaction fees by comparing various fees specified in its prepayment audit contracts. In these contracts, contractors are paid one fee to audit charges before payment and another fee if the contracting agency asks for data in addition to the audit service. GSA used the difference between these two fees as the fee to be paid for data collection under the first-audit contracts. However, the difference between the fees in the prepayment contracts was not applicable to data collection alone.

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## Transaction Fee Payments Have Not Been Shown to Ensure Thorough First Audits

GSA offered to pay contractors transaction fees to audit bills and collect certain data on them as an incentive to review all documents more carefully and to identify more overcharges. However, GSA has no support to show that these fee payments have motivated the auditors to be more thorough. GSA's own statistics show that on the bills reviewed in both a first and second audit, more than 20 percent of the overcharge amounts were not identified until the second audit. For example, from October 1989 through December 1991, GSA collected \$10.2 million in overcharges related to motor carrier payments. About 22 percent of this amount was not identified until the second audit. For whatever reason, the first auditor, who was paid a fee to audit these bills, missed the overcharges. Were these overcharges identified during first audit, GSA would have paid only a 3.9-percent commission rate. As it was, GSA had to pay the contractors a 26-percent commission rate, the rate for a second audit of motor carrier bills.

Audits of domestic household goods presented a similar example. Twenty-eight percent of the overcharge amounts were not identified until

the second audit, in which the commission rate was more than twice that of the first audit.

Whether the percentage of overpayments missed in the first audit decreased when transaction fees were initiated is not known, because GSA had not developed comparative percentages from previous contracts. Even if such data were available, fee payments would not necessarily have been the sole reason for any change. New contractors with new qualifications could have had as much influence as a change in the compensation method.

Considering the high amounts of overcharges overlooked by the first auditors, it is doubtful that adding transaction fees to first-audit contracts has led to more thorough audits. Nevertheless, GSA continues to make these payments. From the beginning of the contracts (October 1989) to the end of calendar year 1991, fees represented more than 75 percent of the payments made under the contracts. GSA has spent less than 25 percent of the monies paid to first auditors specifically for commissions, or something directly related to overcharges.

Table 1 compares first-audit fee payments with first-audit commission payments for overcharges and lists the payments by the type of billing document.

**Table 1: Comparison of First-Audit Fee Payments With First-Audit Commission Payments** (October 1989 Through December 1991)

Mode of transportation	Fee		Commission		Total payment
	Payment	Percent	Payment	Percent	
Motor freight	\$1,140,788	78.6	\$311,214	21.4	\$1,452,002
Rail freight	4,225	28.9	10,419	71.1	14,644
Water freight	5,122	91.2	492	8.8	5,614
Air freight	65,274	96.2	2,602	3.8	67,876
Pipeline	1,992	74.9	668	25.1	2,660
Domestic household goods	134,105	26.1	380,574	73.9	514,679
Foreign household goods	210,970	48.7	222,321	51.3	433,291
Passenger	2,732,828	86.6	421,910	13.4	3,154,738
<b>Total</b>	<b>\$4,295,304</b>	<b>76.1</b>	<b>\$1,350,200</b>	<b>23.9</b>	<b>\$5,645,504</b>

Source: GSA Office of Transportation Audits.

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When we discussed this data with GSA program officials, they had no supporting documents to show that the audits were more thorough. They did, however, express concern that we had compared fee payments with commission payments to assess the effectiveness of the new 1989 contracts. They believed that we were incorrectly taking the position that fee payments were made solely in exchange for data collection. According to these officials, fee payments are primarily made in exchange for audits and are not contingent on data collection.

We disagree with the GSA program officials. Even though the audit contracts do not specifically define the term "transaction fee," their requirements indicate that payment of this fee is contingent on data collection. Specifically, the contracts provide that

"The first postpayment audit contractor shall capture the following information from each document received for audit and furnish same not later than 10 calendar days following the completion of each account to GSA in a to be prescribed media and format."<sup>1</sup>  
(p. 34, paragraph H.1.)

"The contractors shall submit an account month statement indicating the number of bills audited along with any cost for the 'per transaction cost.'" (p. 63, paragraph I.21.)

Supplementing the contracts are instructions explaining how the auditors must prepare their invoices to bill GSA for the transaction fees.<sup>2</sup> These instructions provide that

". . . Standard Form 1034, Public Voucher for Purchases and Services other than Personal. . . is to be used for invoicing the Government for 'per transaction costs.'" (p. H-3.)

These instructions make it clear that the contractor must

"Enter [a] description of services rendered as 'Bills audited during the month of (enter Month and Year) as documented by the attached magnetic tape submission.'" (p. H-6.)  
[Underlining added.]

Wording in the contracts and the GSA invoicing instructions leads us to believe that the transaction fees are conditional on the contractors' furnishing data and, therefore, are not simply fees paid in exchange for audits. In fact, some contractors expressed concern that they could even

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<sup>1</sup>The required information is listed in the contract.

<sup>2</sup>G.S.A. Post Payment Audit Guide, December 1, 1989.

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collect the data required by GSA for the fee offered. Also, the method used to establish the fee—the difference between the fee for auditing and the fee for auditing and collecting data on prepayment audit contracts (see table 3)—suggests that data collection was the primary reason for the fee.

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## GSA Makes Little Use of the Data

GSA believed that the data provided by the contractors might also help GSA check on the quality of its prepayment audit contractors and provide a means of overseeing the government's commercial transportation payments. For example, the data might show that an overcharge was missed during the preaudit, which agency was making transportation payments and for how much, what type of transportation was used, which routes were traveled, and which carriers were overcharging.

In his December 27, 1990, letter to you, the GSA Inspector General reported that GSA had still not fully developed an automated system to retrieve the information the contractors were loading onto its system. The data, therefore, was available only for ad hoc inquiries. The Inspector General pointed out that although the GSA audit officials said that the collected information was valuable, there was no way to evaluate this assessment because the system was not functional and reports were nonexistent.

We found only one use that GSA had made of the collected data. The agency used it to identify the various federal agencies making commercial transportation payments and to find out how much they were paying and whether they were conducting prepayment audits. GSA was under congressional direction to encourage and help agencies preaudit their bills, but before October 1989 the agency was unaware of who was making commercial transportation payments and could benefit from a preaudit. With the information provided by the audit contractors, GSA knew to whom it should promote the use of the preaudit contractors.

GSA had not, however, used the data to assess prepayment auditor quality or agency traffic management performance. For example, GSA planned to use this data to advise government traffic and travel managers who negotiated with carriers for reduced freight rates and passenger air fares about the government's shipping and travel patterns. We found that the data had only limited use, however, because it was outdated and represented shipments made or travel taken more than a year previous to the audits.

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Although the data may also have given GSA the opportunity to improve its oversight of carrier overcharge patterns, GSA was not using that data for this purpose. Moreover, that information was already available from other sources, such as the payment agencies themselves and GSA's own overcharge processing and accounting system.

GSA program officials defended the need for transaction fees; they believed that any contractor attempting to bid on these contracts would have problems surviving financially on commissions alone. The officials said that heavy investment was necessary to obtain all the tariffs and tenders required to audit government bills, and they presumed that most contractors did not already have these tariffs and tenders for use in conducting their normal business. The officials also believed that inadequate cash flow could be a problem for the contractors because GSA does not pay contractors for their work until it collects the overcharges.

That GSA would have problems obtaining audit services without offering a transaction fee is questionable. We were unable to establish that contractors had been reluctant to bid on GSA audit work before the 1989 provision.

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## **GSA Does Not Adequately Verify That Contractors Provide the Required Data**

By the end of calendar year 1991, GSA had paid more than \$4 million for 27 months of data. However, the agency was not certain that the contractors had provided the data as required under the terms of the contract or that the data was useful to GSA. Often GSA paid a single contractor as much as \$100,000 for a single month's data, with only minimal verification of it.

We reviewed a May 1991 invoice for the work a contractor had performed and checked GSA's verification of the quality of the collected data. The invoice showed that the contractor had collected data on 508,340 passenger transportation billing documents and 124,509 freight bills. Under the GSA-established fee schedule, the contractor was therefore due \$161,947.52 (\$0.25 for each passenger bill and \$0.28 for each freight bill).

GSA's only examination of the data was a verification that the contractor's magnetic tapes containing the data included the number of invoiced records and that, on the basis of a statistical sampling of records, each record contained data. GSA did not verify that (1) the number of invoiced records was the same as the number of billing documents GSA had given the contractor for audit, (2) the data conformed to the terms of the

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contract, or (3) the data provided information on which GSA could make analyses or draw meaningful conclusions. Had GSA reviewed the data, it could have seen that some data was unlikely to provide any useful information for GSA's oversight purposes.

In table 2, we list examples of problems we identified concerning data that GSA paid for. The examples are from the previously cited invoice.

**Table 2: Problems With the Data on an Invoice Provided to GSA in May 1991**

Data element	Comment
Bill of lading and ticket number	<p>Many bill of lading and ticket numbers were duplicates. Of the 124,509 bill of lading records, 777 had the same numbers. Of the 508,340 ticket records, 2,117 had duplicated numbers. Sometimes, the same ticket number was shown three or more times, and each of the corresponding tickets had the same data.</p> <p>Consequently, not only was GSA paying for the same data more than once, it did not know whether the data base it had received represented a true universe of the records under audit. Also, GSA had no procedure to decide whether the contractor had billed for data collection for the same billing document in a previous month.</p>
Carrier account code	<p>Of the 1,293 different codes listed for motor carrier records, 181 were not readily identifiable motor carrier, surface freight forwarder, or cartage company codes. Most of these 181 codes were air carrier, water carrier, or other transportation mode codes. Thus, any data purporting to show payments by mode would be misleading. Moreover, since GSA's data entry instructions were not clear as to which carrier's code—origin or billing—was to be used, use of the data was meaningless to GSA in identifying the carriers overcharging most often.</p>
Origin/destination	<p>Records for air passenger tickets almost never showed each destination in a traveler's multideestination itinerary. Consequently, GSA could not use the data to show an accurate representation of the government's travel patterns.</p>
Date paid	<p>Even though the data was supposed to show payments made in a single month, it showed payments made in different months. For example, this invoice purported to show payments made in October 1990. Yet, individual records indicated that payments were made in August, September, and October 1990, and January and February 1991. Because this invoice covered payments made in more than 1 month, GSA would have had to look at several months of data to be certain that it was not paying for the same data twice. It had not, however, validated any of the data to ensure against duplicate payments.</p>
Agency location code	<p>More than half of the codes for the agency making the transportation payment on passenger ticket records were missing, making it impossible for GSA to know which agency was paying the transportation charges.</p>

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## Data Collection Effort Mostly Duplicates Work Done Previously by DOD

DOD, under its own traffic and travel management programs, has already captured most of the data that GSA requires its first audit contractors to collect. DOD traffic represents more than 80 percent of the bills furnished to the contractors. The Military Traffic Management Command (MTMC), a component of the U.S. Transportation Command, has a freight bill data collection program called the Freight Information System. This system collects paid freight bill data on computer tapes from the various military transportation payment centers, and the tapes are readily available to GSA.

MTMC also has a data collection program called the Worldwide Household Goods Information System for Traffic Management, which captures data on paid bills for household goods shipments. Moreover, MTMC has a passenger data collection program called the Statistical Passenger Data Collection Cost program in which travel contractors provided MTMC data on airline, bus, and rail tickets issued.

Each of these programs provides substantially the same data that GSA has requested from its audit contractors. Missing payment data, of course, is available at any of the military payment centers that capture data for MTMC's data collection programs.

GSA officials told us that GSA and DOD were developing a system to send and receive transportation bills by Electronic Data Interchange. The system is planned for implementation in October 1992.

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## DOD Had a Basis for Data Collection Fees

At the time GSA solicited its first-audit contracts, it had negotiated several contracts for prepayment audit services. The prepayment audit contracts provided for two types of services. The first was a basic auditing service in which the contractor would review each transportation billing document, identify overcharges, and as appropriate, request refunds. The second was an enhanced service in which, in addition to performing the basic auditing service, the contractor would perform other duties.

Duties for the enhanced service might include processing the bills in an electronic data interchange format, converting them to microform or electronic media, and capturing up to 20 data elements from each document received for audit. The contractors agreed to perform the required services on a fee-per-document basis: the amount of the fee depended on the type of billing document (motor freight, rail freight, water freight, air cargo, pipeline, domestic household goods, foreign household goods, or passenger); the location where the audit was to be performed

(contractor site or government-furnished facility); and the type of service required (basic audit or basic audit plus enhanced service).

GSA used the difference between the basic auditing service and the enhanced auditing service as the foundation for establishing the transaction fees for the 1989 first-audit contracts, even though the difference was not applicable to data collection alone. At the time it sent out its request for proposals, GSA decided to offer only half of this difference for the majority of the modes. At the preproposal conference some prospective bidders questioned the pay scale, and GSA subsequently, but before the offers were due, doubled most of the fees and lessened the amount of data it required from each document.

The differences between the two types of fees in the prepayment contracts, the original fees, and the fees GSA eventually established, are listed by mode of transportation, in table 3.

**Table 3: The Basis for Data Collection Fees Compared With the Fees That Were Originally and Eventually Established**

<b>Mode of transportation</b>	<b>Difference between fees in prepayment contract</b>	<b>Fees originally prescribed in the solicitation</b>	<b>Fee as eventually established</b>
Motor freight	\$0.29	\$0.14	\$0.28
Rail freight	0.29	0.15	0.29
Water freight	0.29	0.15	0.29
Air freight	0.29	0.20	0.39
Pipeline	0.29	0.15	0.29
Domestic household goods	0.14	0.07	0.14
Foreign household goods	0.14	0.07	0.14
Passenger	0.29	0.13	0.25

GSA officials said that the fees were reasonable in comparison with what the agency would have had to pay to obtain the same service from government sources, such as the Federal Prison Industries. The officials said that the Federal Prison Industries was the only alternative to obtaining the data under the audit contracts and, therefore, they did not attempt to find what the private sector may have charged for the same services. Moreover, they did not attempt to find out whether the fees were high enough for an audit contractor to recover its costs.

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GSA program officials noted that the October 1989 contracts expire on September 30, 1992. Data collection requirements may be discontinued, provided an alternate source of data is available. However, whether GSA will continue a commission and transaction fee payment system and how the fee, if any, will be determined is still under review by GSA's Office of Transportation Audits and Services Contracts Division. The decision will be reflected in the solicitation for the new postpayment audit contract.

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## Recommendations

We recommend that the Administrator of GSA, when contracting for future postpayment audit services, not request or pay for data collection services unless GSA can show that collecting data on every billing document has made the audits more thorough and that the data already collected by DOD is not adequate for oversight purposes. If GSA determines that some data collection is necessary, it should establish adequate controls over data collection payments.

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## Scope and Methodology

Our review focused on contract solicitation number FCGX-SI-89008-N issued by GSA on May 24, 1989, and the postpayment audit contracts awarded later that year. We also reviewed the GSA prepayment audit contract awards made earlier in 1989.

We performed our review at the Office of the Inspector General, GSA, Washington, D.C.; the Services Contracts Division, Federal Supply Service, GSA, Arlington, Virginia; the Office of Transportation Audits, Federal Supply Service, GSA, Washington, D.C.; and the Directorates of Passenger Traffic and Inland Traffic, MTMC, Falls Church, Virginia.

We interviewed GSA officials and reviewed documents relating to contracting and audit contract administration procedures. We reviewed the correspondence and supporting materials prepared by GSA's Office of Inspector General concerning various transportation audit contracts and discussed the Inspector General's work with his staff. We also interviewed MTMC officials to discuss their data collection programs.

At our request, the GSA Office of Transportation Audits provided us with magnetic tapes containing contractor-prepared passenger and motor freight data, which we used to assess the completeness and usefulness of the data GSA collected. Transportation Audits officials also provided us data showing the expenses they had incurred under the postpayment audit contracts.

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As requested, we did not obtain official agency comments on this report. We did, however, discuss our findings with GSA officials and incorporated their views where appropriate. We conducted our review from February 1991 through March 1992 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Chairmen of the House Committee on Government Operations and Senate Committee on Governmental Affairs and the Administrator of GSA. Copies will also be made available to other interested parties upon request.

Please contact me on (202) 275-4141 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix I.

Sincerely yours,



Richard Davis  
Director, Army Issues

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# Major Contributors to This Report

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