

GAO

Report to the Chairman, Subcommittee on
Oversight of Government Management,
Committee on Governmental Affairs, U.S.
Senate

June 1992

DEFENSE TRANSPORTATION

Ineffective Oversight Contributes to Freight Losses



146910

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**National Security and
International Affairs Division**

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June 18, 1992

The Honorable Carl Levin
Chairman, Subcommittee on Oversight
of Government Management
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

In response to your request, we reviewed Department of Defense (DOD) efforts to prevent losses of government property in transit. We found that the systems for identifying, reporting, and recovering lost freight and for monitoring carriers' performance need improvement to adequately protect in-transit defense property. We recommended that DOD take a number of actions to improve the quality of the transportation system. Unless a high priority is given to improving transportation practices, defense property will remain vulnerable to loss.

As arranged with your office, unless you publicly release this report earlier, we plan no further distribution until 30 days after the date of the report. At that time, copies of the report will be sent to other appropriate congressional committees; the Director, Office of Management and Budget; and the Secretaries of Defense, the Army, the Navy, and the Air Force. We will make copies available to others on request.

Please contact me on (202) 275-8412, if you or your staff have any questions. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Donna M. Heivilin
Director, Logistics Issues

Executive Summary

Purpose

In June 1990, a private citizen reported that for \$200 he had purchased Army communications equipment worth more than \$450,000 from a commercial warehouse that sells unclaimed and misdirected freight. Although the shipment had been destined for an Army depot, depot officials were not aware that the equipment had been shipped and did not realize it was missing until the individual offered to sell it back to the U.S. government.

Concerned about this incident, the Chairman of the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, asked GAO to review Department of Defense (DOD) efforts to prevent losses of government property in transit. Specifically, GAO's objectives were to (1) determine the extent that defense property is lost in transit, (2) review DOD's "astray freight" program, and (3) identify factors that contribute to deficiencies in transporting DOD property.

Background

DOD spends over a half-billion dollars a year to transport government property throughout the continental United States, mostly by motor carrier. Protecting government property while in transit is a collective effort of the shipping and receiving activities, commercial carriers, the Defense Finance and Accounting Service, and the Military Traffic Management Command (MTMC), which is responsible for managing the use of DOD's inland commercial carriers. MTMC analyzes reports of transportation discrepancies, monitors the overall performance of carriers, and administers a program to locate and reroute lost or, as MTMC calls it, "astray" freight.

Results in Brief

Although DOD filed claims against carriers for \$15 million worth of lost or damaged property in fiscal year 1990, GAO's analysis as well as striking examples of how freight was lost indicates that losses were greater and could be many times greater. DOD does not adequately protect its in-transit property because the systems for identifying, reporting, and recovering lost freight and for monitoring carriers' performance are in disarray. DOD does not always know when freight is missing, and installations do not consistently or correctly report transportation discrepancies, such as undelivered and astray freight. In addition, the astray freight program has been neglected for the last several years, and as a result, recoveries of lost freight have declined steeply. Even when DOD files claims for lost freight, carriers are generally liable for only a fraction of the freight's value.

Finally, DOD continues to use some carriers that have lost an excessive amount of freight.

DOD and its Inspectors General have not given these transportation problems the attention and scrutiny that GAO believes is warranted. DOD has not identified many of the transportation deficiencies GAO cites in the report as a significant material weakness requiring corrective action. Unless a high priority is given to improving this area, defense property will remain vulnerable to loss, theft, and neglect.

Principal Findings

Reporting and Recoupment of In-transit Losses Are Low

During the last 2 years, the Defense Finance and Accounting Service (or its predecessors) collected a relatively small amount—\$3 million each year—for claims resulting from lost or damaged freight, even though during fiscal year 1990 defense property documented as lost or damaged was worth \$15 million. The true extent of losses is unknown because of insufficient documentation and controls. DOD installations have not reported all discrepancies and have often reported them incorrectly. Twenty-five percent of the claims submitted in fiscal year 1990 could not be processed because of inaccurate or incomplete data. In addition, DOD has recovered only a small amount of many valid claims because MTMC limits carriers' liability to a certain amount per pound. Generally, a common carrier is liable for the actual value of any goods lost or damaged while in its custody. A released-value rate limits the carrier's liability and is sometimes considerably less than the actual value of the goods. For example, because one carrier's liability was \$2.50 per pound of freight that weighed 1,084 pounds, the carrier was liable for less than 1 percent of the value of lost military electronic equipment worth \$1.8 million.

Furthermore, GAO could not confirm that 5 of 220 sampled shipments (about 2 percent) had been delivered. GAO estimated that the value of the unconfirmed shipments would exceed at least \$4 million for the one quarter of fiscal year 1991 sampled. For a full year, defense property losses would be far greater than what is presently being reported.

Recoveries of Astray Freight Decline

Since the early 1980s, astray freight recoveries have dropped steeply. DOD recovered less than \$9 million worth of property between 1986 and 1990, compared with \$113 million between 1980 and 1985. Member installations' participation in the astray freight program and confusion over reporting requirements since 1986 have contributed to the decline in recovered property; only 37 (or 9 percent) of the 415 member installations submitted reports of astray freight in fiscal year 1990. Program officials generally visit only motor carrier terminals to look for lost freight, but defense property was also recovered from an air carrier's warehouse. For example, in November 1990, warehouse personnel found a shipment of .45 caliber pistols that had been left there for over 2-1/2 years. When they discovered the shipment, 15 of the 22 pistols were missing and presumed stolen. GAO also found abandoned freight in a vacant lot near a DOD installation. The freight, a steam pressure jet cleaner valued at \$2,741, was reportedly left behind because the carrier could not fit the entire shipment in its trailer. GAO was told that the cleaner probably would not have been there the next day. The intended DOD receiver had incorrectly reported that the shipment had been received; thus, it was not reported missing. In another instance, a DOD employee who was driving to work noticed a flatbed trailer containing five mine-clearing launchers (valued at \$7,000 each) alongside a road. The shipment had required expedited service, since it was needed for Operations Desert Shield/Storm. However, when the official found the freight—nearly 2 months later—she discovered that the carrier had not delivered the freight because of mechanical trouble. The freight had not been reported as late or missing.

Carriers Often Exceed Loss and Damage Limits

Although DOD has defined limits for freight loss or damage, DOD allows many carriers to exceed the limits without penalty. Of 289 carriers that DOD had filed claims against in fiscal year 1990, 129 (or about 45 percent) had exceeded the limits. One carrier that received over \$12 million in revenue from DOD in fiscal year 1990 had lost or damaged \$1.3 million worth of property. The carrier was paid for over 75 percent of the undelivered shipments, and the carrier went bankrupt the next year, making recovery of all outstanding claims unlikely.

Self-certification of Deliveries May Result in Payments for Undelivered Freight

For many years, the government has permitted carriers to certify the delivery date and condition of their shipments. Self-certification is permitted because the U.S. government believes that the systems for identifying and reporting undelivered property are a sufficient check and balance. GAO noted that carriers had erroneously certified delivery dates

for 96 (or about 45 percent) of the 215 delivered shipments GAO sampled. Certifying erroneous delivery dates can result in early payment and significant losses to DOD in some cases. In July 1990, for example, MTMC disqualified a carrier that had, among other things, falsely certified delivery of 41 shipments of freight worth \$3.8 million. The carrier was paid at least \$74,809 for the undelivered shipments. MTMC later recovered the DOD freight from the carrier and spent another \$115,395 and 480 staff hours to reship the freight.

Lack of Coordination and Direction Contributes to Transportation Deficiencies

Varying levels of cooperation and participation from the defense installations have contributed to the ineffectiveness of MTMC's key oversight programs, particularly transportation discrepancy reporting and carrier performance monitoring. In addition, MTMC and the Defense Finance and Accounting Service have not effectively communicated on trends and weaknesses in the transportation system. Furthermore, MTMC has not routinely analyzed information from all available sources, provided feedback to defense installations, or recommended corrective action to DOD.

Recommendations

GAO recommends that DOD improve the quality of the transportation system by (1) identifying freight mismanagement as a significant material weakness, (2) ensuring the implementation of sound transportation practices throughout the defense transportation network, and (3) fostering a corporate culture that places a high value on protecting government property. In addition, the DOD Inspector General should place more emphasis on identifying weaknesses in transporting defense property. GAO makes other recommendations for improving the monitoring of freight shipments to help prevent losses of in-transit DOD property in chapters 2, 3, 4, and 5.

Agency Comments

DOD generally agreed with GAO's findings, conclusions, and recommendations and plans to take corrective actions to ensure that defense property is more effectively monitored, including revitalizing its astray freight program through improved guidance and a training program, considering revisions to its carrier liability policy, and regularly exchanging carrier performance information between the Defense Finance and Accounting Service and MTMC. In addition, the DOD Inspector General has planned an audit of freight shipment deliveries. DOD provided some clarifications, and GAO has incorporated changes where appropriate.

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Abbreviations

DOD	Department of Defense
GAO	General Accounting Office
MTMC	Military Traffic Management Command
TDR	Transportation Discrepancy Report

Introduction

The Department of Defense (DOD) spends over one-half billion dollars a year to transport government property throughout the continental United States, mostly by motor carriers. The Military Traffic Management Command (MTMC) is responsible for overseeing the movement of this property. MTMC determines how cargo is to move and sets up controls to ensure that carriers meet certain requirements. MTMC evaluates transportation activities and recommends improvements to the Office of the Secretary of Defense and the Joint Chiefs of Staff.

To help prevent the loss and damage of freight and determine trends and weaknesses in the transportation system, MTMC established and administers several programs, including the Joint Military Astray Freight Program, which was originated in 1950 as a joint effort between the American Trucking Association and DOD. Astray freight is occasionally missing pertinent documentation, such as the address label or billing data, or is illegible. The program divides the continental United States into geographical areas. In 1990, 413 installations were members of the program; these installations were aligned into 66 committees. Quarterly, each committee member reports to the appropriate chairperson the number and value of astray freight shipments recovered.

MTMC also manages several quality control programs, including the freight carrier performance and carrier qualification programs. The carrier performance program requires MTMC and the shippers to police the performance of carriers. The carrier qualification program screens carriers before they are allowed to transport DOD freight.

Objectives, Scope, and Methodology

In June 1990 a private citizen reported that for \$200 he had purchased over \$450,000 worth of Army communications equipment from a commercial warehouse that sells lost/unclaimed property. The equipment had been destined for war reserve stock at an Army depot. Depot officials, however, were not aware that the equipment had been shipped and did not realize it was missing until the individual offered to sell it back to the U.S. government.

As a result of this incident, the Chairman, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, asked us to review DOD efforts to prevent losses of government property in transit. Specifically, we were asked to (1) determine the extent that defense property is lost in transit; (2) review DOD's astray freight program, which is

designed to recover misdirected government property; and (3) identify contributing factors to losses of DOD property in transit.

We reviewed DOD's policy, procedures, and reporting requirements for identifying trends in loss and damage, recovering astray freight, and monitoring carrier performance. We also reviewed MTMC's role and responsibilities as single manager of the DOD cargo loss and damage reporting and analysis system at its headquarters in Falls Church, Virginia, and area offices in Bayonne, New Jersey (Eastern Area), and Oakland, California (Western Area).

To understand the transportation process and estimate the amount of property lost in transit, we took a random, statistical sample of 220 paid government bills of lading from MTMC's freight information system data base. We limited our scope to motor carrier movements with transportation charges of \$200 or more and selected shipments during the first quarter of fiscal year 1991, which provided us with the most current information available. Our estimates are made at the 95-percent confidence level.

We verified with the receiving activity whether each of the 220 shipments had been delivered without loss or damage and on time through the following process: (1) We compared the actual date of delivery, which we obtained from the receiving activity, with the date that the carrier certified delivery (data base date), on which payment is based. (2) When the dates differed, we obtained a copy of the original bill of lading and the carrier's proof of delivery. (3) When the receiving activity did not have a record of freight delivery, we asked the carrier for proof of delivery and the shipper for any transportation discrepancy reports on that particular shipment. (4) When neither the receiving activity nor the carrier could provide evidence of delivery, we asked the supply office to search for receipts to obtain this information.

We also analyzed transportation discrepancy reports (TDR) for fiscal year 1990 and obtained information on how they were handled at the installation level. We noted instances of misdirected shipments and ascertained the reason for the misshipments.

On the basis of geographic distribution and traffic volume, we selected five military installations, one from each of the services and the Defense Logistics Agency, to visit: the Defense Distribution Region East, New Cumberland/Mechanicsburg, Pennsylvania; the Naval Supply Center,

Jacksonville, Florida; the Marine Corps Logistics Base, Albany, Georgia; Tooele Army Depot, Tooele, Utah; and Kelly Air Force Base, San Antonio, Texas. At the defense activities, we obtained information on how shipments were initiated, received, and verified; examined the effectiveness of the astray freight program; and reviewed the activities' procedures for assessing carrier performance.

To observe how the astray freight program operates, we visited over 30 carriers' terminals, accompanied by program members or chairpersons from the military installations. In addition, we randomly selected and contacted 33 astray freight committee members and/or chairpersons to obtain their views of the program.

We visited the Defense Finance and Accounting Service, Indianapolis, Indiana, and Denver, Colorado, to gain an understanding of the freight bill payment and claims resolution process.

We conducted our review from May 1991 to February 1992 in accordance with generally accepted government auditing standards.

DOD's Freight Losses Are Unknown

Defense freight losses may be significantly greater than DOD recognizes because DOD does not always know when freight is missing and does not have accurate or reliable information on the extent of in-transit losses. DOD claims data shows \$15 million worth of defense property was lost or damaged during fiscal year 1990. However, many property losses do not result in claims because of insufficient documentation. Other losses do not result in claims simply because DOD does not know the property is lost. Even when DOD files a claim for lost freight, carriers are generally liable for a fraction of the freight's value. Finally, DOD collects only a small amount of the value of lost or damaged property due in part to its collection procedures.

In addition, installations have serious record-keeping deficiencies. Poor shipping and receiving practices contribute to the inability to track shipments, increase reliance on carriers to police themselves, and make it difficult to document a claim against the carrier when loss or damage occurs.

DOD Does Not Know the Extent That Defense Property Is Lost in Transit

MTMC's data base does not present an accurate picture of in-transit losses. Perhaps the best information currently available on losses is claims data, which in fiscal year 1990 showed \$15 million in lost or damaged government property. About 3,000 (or 0.2 percent) of the 1.4 million shipments made during fiscal year 1990 resulted in claims against the carrier. This number, however, does not include (1) claims that could not be processed due to inadequate documentation or incorrect completion of the discrepancy reports or (2) freight lost in transit that DOD may not know is missing. For example, a major carrier that went out of business in late December 1990 waited nearly 2 months before reporting to MTMC that its warehouse held 5,891 pieces of government freight valued at \$6 million. However, during the same period, DOD filed claims against the carrier for \$4,197.

Our analysis of freight shipments shows that neither DOD nor the carrier could confirm delivery of 5 (or 2 percent) of the 220 sampled shipments. The receiving activity confirmed delivery of 167 shipments (74 percent); the carrier confirmed 48 shipments (24 percent). The 5 unconfirmed shipments had not been reported as missing by DOD.

The inbound freight traffic officials we contacted could immediately and satisfactorily verify 73 (or 44 percent) of the 167 confirmed deliveries by the government bill of lading number. The Defense Traffic Management

Regulation requires each activity to set up a file of consignee copies of government bills of lading. We found it difficult to obtain verification for the remaining 94 (56 percent) deliveries. We contacted numerous officials at the receiving office before reaching one that could provide a response, and we frequently waited several days for the official to locate the receipt record. In several instances the official could locate the receipt record only by the transportation control number rather than the government bill of lading number. In addition, 10 military installations were not listed in MTMC's Customer Activities Directory, and we had to contact them through other means.¹

Common difficulties we encountered in obtaining proof of delivery for the 48 shipments confirmed by the carrier included the following:

- The carrier required a purchase order number or contract number rather than a government bill of lading number to locate the shipment.
- The carrier that got paid for delivering the freight was not on MTMC's approved list of motor carriers or could not be reached at the listed phone number.
- While the Defense Traffic Management Regulation requires that the receipt record show time, date, and checker's name; frequently, only the consignee's initials and date were annotated at a random location on the delivery receipt document. In addition, we could not validate the consignee's signature (initials) in many instances.

On the basis of the sample of freight shipments, we determined that 5 (or 2 percent) of 220 shipments could not be confirmed as having been delivered. We estimated that the value of potential defense property losses would exceed at least \$4 million for the one quarter in fiscal year 1991 that we sampled. This analysis indicates that property losses are greater than what is being reported and that installations have serious record-keeping and documentation deficiencies.

¹This directory, which MTMC periodically updates, contains the names and phone numbers of contact points at each installation it serves.

Unreliable Information Hinders Analysis of Lost and Damaged Property

MTMC's data base on transportation discrepancies is inaccurate because installations (1) are not reporting all types of transportation discrepancies and (2) are not furnishing correct information. The data base has not functioned as it should for several years, making it difficult to analyze the data. For example, MTMC could not obtain the total number and value of transportation discrepancies reported during fiscal year 1990 from the data base. We were told that the data base may need to be reprogrammed to provide the analytical information it was designed to compute. In addition, MTMC has not input the data in a timely manner.

After receiving a shipment, the receiver examines it for any apparent discrepancy, such as a variation in the quantity or condition of material received. When material is lost or damaged, the delivery document is to be annotated by the receiver and signed by the driver. A call is to be made to the carrier's terminal to request an inspection to confirm the loss or damage. At this point, the receiving activity gathers all supporting evidence and prepares a transportation discrepancy report (TDR). When carrier responsibility is indicated, the original TDR and supporting documents are forwarded to the Defense Finance and Accounting Service² for claim action.

According to MTMC and installation officials, discrepancies that may disrupt the timely movement of freight are frequently not reported, and a claim is not filed against the carrier. Some transportation officials consider it a waste of time to document discrepancies such as excessive transit time, misdirected freight, poor loading/unloading techniques, and easily resolved shortages because they do not believe that MTMC uses the information to take action against carriers that are performing poorly. However, without documentation, MTMC cannot effectively evaluate carriers' performance.

MTMC officials told us that many TDRs are incorrect or incomplete; one MTMC official estimated that 20 percent of the TDRs had been incorrectly completed and that another 10 percent could not be processed and had to be returned to the installation for additional information. In addition, the Defense Finance and Accounting Service reported that 25 percent of the TDRs submitted for claims action could not be processed due to insufficient information.

²On January 20, 1991, the Defense Finance and Accounting Service was created to consolidate many of the financial functions performed separately by the services. The Service is composed of a headquarters in Washington, D.C., and several finance centers located throughout the United States.

The TDR data base could be used to try to match overages, shortages, and astray freight from different installations and, as a result, redirect property to the intended customer or cancel a claim. A MTMC headquarters official stated that MTMC has rarely matched errant shipments, perhaps because installations have not reported freight overages. For example, the Defense Depot, Memphis, Tennessee, did not report an overage when it erroneously received a shipment of aircraft structural panels worth \$60,000, even though the documentation showed the shipment did not belong there. The Defense Finance and Accounting Service was able to locate the shipment only because the carrier could provide a delivery receipt.

Limiting Carrier Liability May Inadequately Protect DOD Property

Even when losses are identified and documented and a claim is filed against the carrier, DOD may be reimbursed for a relatively small amount of the property's value. MTMC has limited the carrier's liability to a fraction of the value of many lost or damaged shipments. This practice may leave government property vulnerable to theft and loss.

Beginning in the late 1970s, Congress passed a number of laws that reduced the amount of transportation regulation. The major thrust of the laws was to increase reliance on the marketplace to control rates and services. The Motor Carrier Act of 1980, for example, provided carriers greater freedom to set transportation rates and encouraged competition among carriers.

In government transportation, special rates have evolved to meet specific situations; the most prevalent include all-commodity, released-value, and full-value rates. Released-value rates and full-value rates are based upon the degree of liability (commodity value) the carrier assumes. Generally, a common carrier is liable for the full value of any goods lost or damaged while in its custody. A released-value rate limits the carrier's liability and is sometimes considerably less than the actual value of goods. As a result of this limited liability, the carrier usually gives the shipper a lower rate. According to a Defense Finance and Accounting Service official, shipments moving under low released-value rates may not adequately protect DOD against theft because the carrier may not furnish the same care and protection. In addition, MTMC has not studied whether the rate actually results in overall lower transportation charges and is an acceptable risk for moving DOD freight.

For motor transportation governed by MTMC's Freight Traffic Rules Publication No. 1A (Freight Traffic Rules), when all other selecting factors

are equal, the carrier that offers the greatest cargo protection will be selected as the lowest cost carrier. Yet the Freight Traffic Rules direct that carrier liability for all commodity "freight all kinds" shipments will not exceed \$1.75 or \$2.50 per pound. A MTMC official told us, however, that the \$1.75 or \$2.50 per pound valuations are minimum as well as maximum valuations. Even so, these Freight Traffic Rules have had the effect of removing carrier liability as a selection factor, reducing carrier competition. Typically, carriers do not offer greater cargo protection than the specified \$1.75 or \$2.50 per pound for all commodity shipments. During fiscal year 1990, these shipments comprised about 80 percent of DOD freight shipments.

The Defense Finance and Accounting Service, Denver, Colorado (until January 1991, the Air Force Accounting and Finance Center), expressed concern that released valuation may unnecessarily limit reimbursement for lost or damaged DOD freight. Although aggregate data on the effect of using released valuation throughout DOD is not available, the Denver center has been tracking the difference between property value and released valuation for several years. According to the data, during fiscal years 1989-91, the carriers were liable for about 11 percent (\$2 million of \$18.5 million) of the property value of lost Air Force shipments, due to using released valuation. (Air Force claims represent a small portion—12 percent—of the total dollar value of all DOD claims.) On expensive items that do not weigh very much, the use of released valuation can result in extremely low compensation. For example, because one carrier's liability was \$2.50 per pound of freight, the carrier was liable for \$2,710, or 1,084 pounds of lost military electronic equipment worth \$1,828,456. Had this shipment not been subsequently recovered, the carrier would have been liable for less than 1 percent of the value of the shipment. Furthermore, air and small package carriers have varying maximum liabilities, such as \$100 per package or \$0.50 per pound, that may not adequately protect DOD against loss and damage. For example, DOD filed 91 claims totaling \$11,436 against one small package carrier in fiscal year 1990 for property worth \$193,444.

In March 1991, because of concerns about this problem, the Marine Corps requested that its shipper installations establish local criteria for determining whether certain shipments should be given added protection. For an additional charge, such as \$0.40 cents per \$100, the shipper can purchase additional coverage.

When the shipment's value significantly exceeds the carrier's liability, the government is not adequately protected against property loss and damage. MTMC officials told us they were planning to study the costs, benefits, and feasibility of insuring cargo at full value. As of December 1991, the study had not begun.

Recoupment of Lost or Damaged Shipments Is Low

During the last 2 years, the Defense Finance and Accounting Service collected a relatively small amount—\$3 million each year—on claims for lost and damaged defense property. The reported value of lost and damaged property, however, was \$15 million in fiscal year 1990. Collections were low because (1) released valuation limited carrier liability, (2) claims lacked sufficient documentation or evidence, (3) carriers protested claims, (4) property was recovered, or (5) the carrier went bankrupt or no longer did business with the government, making the claim highly unlikely of being collected.

When claims lack sufficient documentation or evidence, DOD cannot begin the process to recoup property value. According to several installation and Defense Finance and Accounting Service officials, poor documentation is a major hindrance to the government's ability to support claims.

DOD collects most claims by deducting the amount owed from a carrier's future freight bill. During 1990, about 68 percent of claims paid was collected through deductions of future freight bills, and the balance, 32 percent, was paid voluntarily by the carrier.

When MTMC suspends carriers from doing business with the government, however, the government cannot use these deductions for reimbursement. One carrier that was disqualified for 18 months had outstanding freight loss and damage claims of \$109,068; the value of the property was \$237,089. Another carrier had outstanding freight loss and damage claims of \$64,206; the actual value of the property, however, was about \$1.8 million. In both instances, the carrier is liable for the amount of the claim and not the full value of the property loss.

We believe that if MTMC informs the Defense Finance and Accounting Service when it is considering suspending a carrier, the Service could accelerate collection procedures. Accelerated actions could include placing a hold on freight bills or immediately deducting the claim from a current payment. Such actions could increase the likelihood that the government would be reimbursed the amount owed.

Recommendations

We recommend that the Commander, Military Traffic Management Command,

- determine whether DOD is adequately protected when shipping items that significantly exceed carriers' liability and develop criteria for determining when transportation officials should use additional coverage;
- amend the Freight Traffic Rules (and provide similar measures in publications governing all motor traffic and other transportation modes, such as air) to eliminate maximum released valuation;
- ensure that the TDR data base computer program functions as intended and that installations report transportation discrepancies to enable MTMC program managers to analyze trends and weaknesses in the transportation system and make recommendations for improvements to DOD; and
- inform the Director, Defense Finance and Accounting Service, that MTMC plans to disqualify or suspend a carrier so that the Service can accelerate collection procedures.

DOD Comments

DOD agreed with our recommendations and stated that it would direct MTMC to develop an automated system to permit quicker responses to DOD installations on transportation discrepancies and inform the appropriate finance center prior to a carrier disqualification or suspension. In addition, DOD will consider revising the carrier liability policy. However, DOD stated that without limited carrier liability (released valuation), some carriers may not be willing to participate in the movement of defense freight. We noted that a number of carriers presently move freight for the Defense Logistics Agency at actual value. We recognize that released-value rates are not unique to DOD. However, we are concerned about DOD's practice of setting released value for a mix of commodities that vary greatly in value. Carriers typically set released-value rates only for specific commodities or for items of extraordinary value.

Low Priority Attributed to Astray Freight Program Contributes to Losses

Recoveries of lost defense property have declined over the past 6 years, largely due to defense installations' low participation in the military astray freight program. During fiscal year 1990, for example, only 37 defense installations (or 9 percent) of the 413 member installations submitted astray freight reports to MTMC. The benefit of this program has been proven in the past by the amount and value of freight that program members have located and returned to the defense supply system. While a more active astray freight program should increase recoveries of misdirected DOD property, freight will continue to go astray for various reasons, including poor shipping and receiving practices at the installations. Furthermore, astray DOD property has been inadvertently sold to the public.

Low Participation in the Military Astray Freight Program

Participating installation officials who are members of the astray freight program are assigned to make quarterly visits (or telephone calls) to certain carrier terminals to help solve astray freight problems. The members are to provide the carrier with posters that list toll-free telephone numbers of the astray freight contact point. Once astray freight is identified, the committee members are to arrange to return it to the government supply system. While emphasis of the program has been on visiting motor carrier terminals, astray freight members are required to visit terminals of all modes, including air, water, and rail.

Confusion over the program's existence and reporting requirements and the perception that the program is a low priority have contributed to low involvement by the installations. Transportation officials' primary priorities are shipping and receiving freight, not inspecting carriers' warehouses for lost freight. In addition, many participants expressed frustration with the program: they believed that MTMC had taken no action on reports they had submitted and they had received little recognition for their efforts to recover government property. Finally, many carriers were unaware that the program exists and thus have not reported unidentified or misdirected freight to astray freight officials.

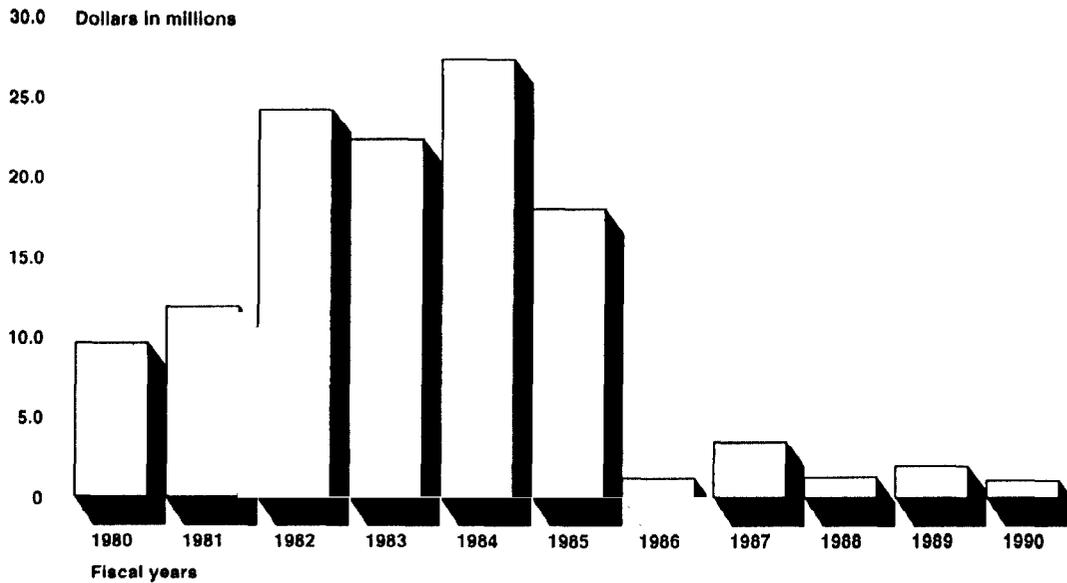
Recoveries of Property Have Dropped Steeply in Recent Years

The astray freight program reported recoveries of less than \$9 million in government property from 1986 to 1990—a sharp decline from earlier years. During fiscal years 1980-85, \$113.2 million worth of government property was recovered. Low participation in the program has contributed to the recent decline. (See fig. 3.1.)

**Chapter 3
Low Priority Attributed to Astray Freight
Program Contributes to Losses**

The Naval Supply Center at Jacksonville, Florida, which recently reactivated its program, recovered over \$100,000 of government property in just its first 2 months. Following our visit, the Naval Supply Center, noting the value of the program, added transportation personnel primarily to conduct astray freight inspections

Figure 3.1: Value of Property Recovered by the Joint Military Astray Freight Committees From Fiscal Years 1980 Through 1990



One installation official stated that the program is not getting the attention it deserves from all levels in the transportation system. About one-third of the 26 members and 7 chairpersons we interviewed stated that they had insufficient time to conduct inspections and follow up on errant shipments. Others stated that the responsibilities of their primary jobs take precedence over committee duties, leaving little time to make astray freight inspections. Generally, visits or telephone calls to query about astray freight take a few days each quarter or can be combined with related job functions.

While astray freight officials generally visited only motor carrier terminals, we found that visiting other types of terminals could be beneficial. For example, in November 1990, warehouse personnel found a shipment of .45 caliber pistols at an air carrier's warehouse that had been there for over

2-1/2 years. When the shipment was discovered, 15 of the 22 pistols were missing and presumed stolen. The carrier was unable to explain or account for the loss. No astray freight officials had previously visited the warehouse. Air carriers are not required to report astray freight.

MTMC is currently redistributing the membership to better cover all carriers. However, MTMC does not have a systematic way for assessing when and where new committees should be added or deleted. For example, our analysis of 1990 freight volume data showed that 373 installations were not represented by an astray freight committee. Of those installations, 10 spent from \$1 million to \$5 million on transportation and one spent over \$10 million. This type of data could help MTMC decide where to add committees.

Significant Recoveries of Freight Possible Through Astray Freight Program

The astray freight program can serve as a valuable tool in recovering lost freight. Often, program officials are the only people looking for freight that has not been reported missing or that has been abandoned by carriers.

Attentive astray freight program members have discovered freight that carriers have abandoned. The astray freight official at Tooele Army Depot stated that he found unattended government freight at truck stops and vacant lots on several occasions. We accompanied the official on one such visit and found a pallet, clearly labeled as defense property, en route to the New Cumberland Army Depot, Pennsylvania. The pallet, one of 16 in the shipment, contained a steam pressure jet cleaner valued at \$2,741. The pallet was apparently left behind because the carrier could not fit the entire shipment in its trailer and would probably not have been there the next day had it not been recovered, according to the astray freight official (see fig. 3.2). In following up on the shipment, we found that the consignee had incorrectly reported that the entire shipment had been received. Thus, the pallet was not reported missing.

Figure 3.2: Astray Freight Discovered in Open Area



In another instance, a program official from Fort Benning, Georgia, found a flatbed trailer containing five mine-clearing launchers³ (valued at \$7,000 each) and collateral material alongside a road (see fig. 3.3). The shipment had originated at the Marine Corps Logistics Base, Albany, Georgia, and required expedited service, since it was needed for Operations Desert Shield/Storm. The shipment should have been delivered to Port Hueneme, California, by December 16, 1990. However, when the official found the freight—nearly 2 months later (Feb. 4, 1991)—she discovered that the carrier had not delivered the freight because of mechanical trouble. In addition, the consignee had not reported the freight as late or missing.

³The launcher system is used to clear lanes by projecting and then detonating an explosive charge in a mine field.

**Figure 3.3: Mine-clearing Launchers
Found Alongside a Road**



Source: U.S. Marine Corps.

We found other cases in which freight had not been reported as missing or had not been found for years. For example:

- A warehouse operator stored several carriers' government freight, valued at more than \$348,000, for about 5 months before reporting the freight to MTMC. Defense investigators impounded the freight, which the consignee had not reported as missing.
- A Navy shipment of computer equipment valued at over \$100,000 shipped from Glenview, Illinois, to South Weymouth, Massachusetts, in July 1986 was not discovered or reported missing until nearly 2-1/2 years later (Nov. 1989). No discrepancy was noted on the carrier's proof of delivery, and the consignee had not reported a shortage.

**Factors That
Contribute to the Need
for an Astray Freight
Program**

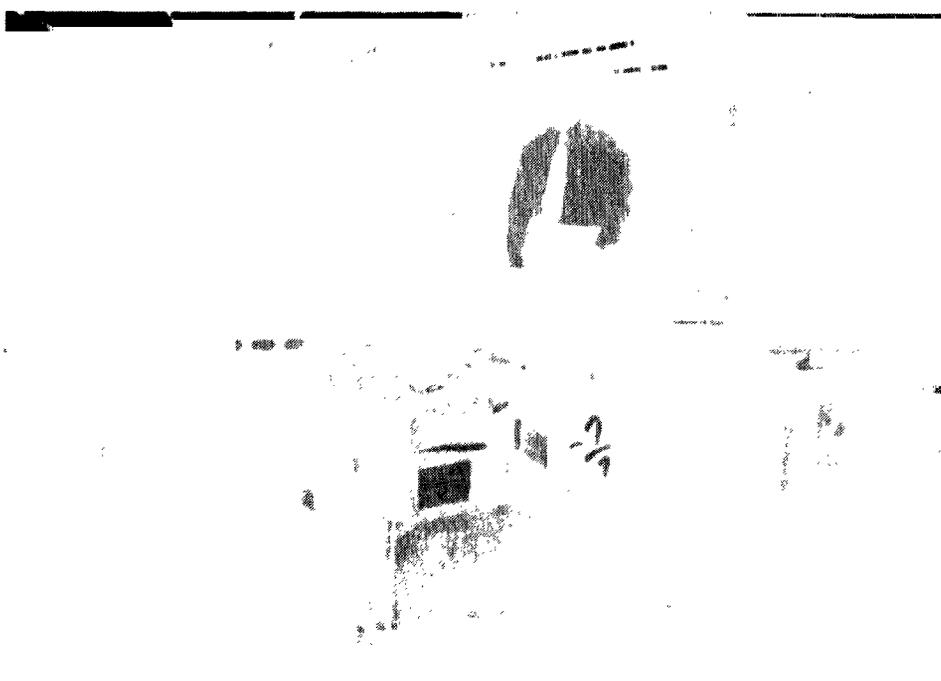
The astray freight program has been effective in locating and rerouting shipments that had not previously been reported missing. A shipment may go astray for various reasons: the shipper failed to properly prepare the bill of lading or failed to ship the articles listed on it, the consignee failed to properly in-check the shipment from the carrier, or the carrier lost the shipment. In addition, the consignee does not always know that freight will be arriving because sometimes a copy of the government bill of lading is not forwarded to the receiving activity. Furthermore, the carrier may hold freight at its terminal because the freight lacks any identifying marks and the address label is absent or illegible or the freight becomes separated from the shipping documents, which can jeopardize the carrier's proof of delivery.

**Address Label Is Missing or
Illegible**

Occasionally, freight is discovered in a carrier terminal without identifying marks, addresses, or sufficient documentation. MTMC's TDR data base indicates that over the last 3 years, 363 (or 12.7 percent) of 2,855 pieces of freight without identifying marks had been found at carrier terminals. This freight was worth \$1 million.

Boxes from a palletized unit are sometimes astray because they are not individually marked with any outbound identification, such as an address label. For example, 20 boxes of freight may be "shrink-wrapped" (wrapped in plastic) with the address label and documentation attached only to the outer wrapping. If the carrier inadvertently knocks a box or boxes loose from the pallet during transit or breaks a pallet down to fit freight into a trailer, the loose boxes then become vulnerable to loss or theft. (See fig. 3.4.)

Figure 3.4: Boxes Knocked Loose From Pallet



Carriers are required to move the shipment as a unit. At one installation we visited, we observed and were told that the carrier is not held accountable for breaking apart palletized units. In addition, we were told that it may not be cost-effective to place labels on every box. For example, since some pallets arrive shrink-wrapped from a vendor and the entire pallet is immediately shipped to another destination, it would not make sense to break it apart to add labels. In other instances, however, we observed and were told that freight became dislodged because the pallet was not evenly constructed, resulting in loose boxes on top of the unit. We were told that palletized units are more commonly used to transport freight to or from defense depots, which are currently being consolidated under the Defense Logistics Agency.

Shipment Documentation Is Missing

Freight shipments must be described on bills of lading in a uniform and consistent manner that can be recognized and accepted by all carrier and transportation personnel. When a piece of freight is omitted from the bill of lading, it is susceptible to theft. The TDR data base shows that over the last 3 years 537 of 2,855 (or 18.8 percent) pieces of freight had evidently been erroneously shipped without being listed on a government bill of lading or had become separated from billing documentation during transit.

In several instances, bills of lading excluded items that had been shipped. For example, one carrier held at a warehouse 59 items for which government bills of lading had not been issued. Installation officials found that the items had been either inadvertently omitted from the bill of lading or erroneously given to the carrier for delivery.

We noted in a previous report that shipments received from overseas commands had often arrived without the required prior notification or accompanying documentation.⁴ The employees who received the shipments had counted and recorded their contents. Since the employees had created the only record of the shipment, the property was vulnerable to theft and loss.

In addition, we traced a \$3,500 jet engine part we purchased at a commercial warehouse for about \$50 and found that there was no record that it had been shipped on a bill of lading. This defense item should not have been for sale. The transportation official speculated that the item was erroneously placed on a truck at the shipper installation without being listed on the bill of lading.

Advance Shipment Notification Is Lacking

Although a copy of the bill of lading should generally be forwarded to the receiving activity with or in advance of a shipment, most of the transportation officials we interviewed have not always received copies. If they do not know a shipment is arriving, they cannot know if freight is missing. The Continental United States Freight Management System, which is under development (see ch. 5), should help alleviate this problem, since the system would electronically transmit bills of lading to receiving activities.

Officials at Tooele Army Depot said that they rarely know when shipments from Defense Distribution Region East are en route because they do not receive advance copies of the bills of lading. The transportation official at Defense Distribution Region East stated that they routinely give carriers copies of bills of lading. Several transportation officials stated that they never give carriers the consignees' copies of bills of lading because of concern that the copies will not arrive with the shipment. Their policy is to use express mail or facsimile to expedite the document.

⁴Internal Controls: Theft at Three Defense Facilities in Utah (GAO/NSIAD-91-215, Aug. 22, 1991).

Lack of Clear Guidance Hinders Program

MTMC has not regularly provided guidance or procedures to assist astray freight officials in reporting and recovering lost or misdirected freight. In addition, it has provided confusing guidance. For example, MTMC's change to the reporting requirements in 1985 led to a misconception about the existence of the program. That is, MTMC advised committee members that it was no longer necessary to provide the committee chairperson with summary reports on quarterly astray freight visits. The message created confusion among astray freight participants and lowered participation for at least 6 years. The astray freight program manager told us that the message was misinterpreted to mean that astray freight visits or reports were no longer necessary. The message meant to convey that reports should be prepared using a new report form. It was not until July 1991 that MTMC headquarters sent a new message to clarify the 1985 change to the reporting requirements.

Program officials do not even agree on what constitutes astray freight. A joint service regulation defines an astray shipment as a shipment or portion of a shipment that is found in a carrier's possession or is delivered to a government installation or agency, but billing is not available, or a shipment that is being held for any reason except transfer. Some program members have not reported misdirected property if it has immediately been returned to the transportation system. Although misdirected property should be reported, some officials told us that they considered the discrepancy resolved if freight was immediately returned and thus have not reported it.

Guidance on Program Duties Is Vague

The primary reference for program members is a 1987 DOD/GSA (General Services Administration) Joint Military Astray Freight Committees booklet, which lists committee members and chairpersons but does not provide instructions on how to handle astray freight problems or when to report astray freight problems. Thus, the actions of program members at several installations varied, and the results of their actions were not always reported, as the following indicates.

- Program members at the Defense Distribution Region East, New Cumberland, Pennsylvania, stopped quarterly visits to carriers' terminals. They did resume visits to one carrier after receiving anonymous calls from a former carrier employee and state police reports about abandoned freight. Program members are much more active at Mechanicsburg, Pennsylvania (which is a 15-minute drive from New Cumberland and in the

same region). In 1990, they submitted 286 reports that documented more than \$179,000 in recovered property.

- MTMC's data base shows no recoveries of astray freight in 1990 by the Marine Corps Logistics Base, Albany, Georgia, even though the inspector stated that he visits 19 different carriers as part of regularly assigned duties to look for both lost or misdirected freight and household goods.
- The Naval Supply Center, Jacksonville, Florida, was not aware of the astray freight program until March 1991. At that time, the Center was tasked by MTMC headquarters to recover freight when a nearby carrier went out of business. The carrier's terminal had not previously been visited by astray freight officials.

Guidance Lacking on Recovering DOD Property From Commercial Warehouses

MTMC does not have specific procedures to cover how program members should handle freight discovered at commercial warehouses. A commercial warehouse stores and sells freight that the carrier cannot deliver because the customer refuses delivery, the property is damaged, or the consignee cannot be identified. The property is then sold for a small amount of its value.

Even though program members have filled out TDRs on freight found in a commercial warehouse, they have not taken action to return it to the defense supply system because they did not think they had the authority to do so. Several program members incorrectly believed that if a claim had been filed, the freight became the property of the carrier, which could then legitimately sell the freight. However, government property may not be sold, and the title may not be disposed of except as provided by law. The government does not lose its property to the carrier because government officials are neglectful or inactive. Even if the missing property is later found, the government may reimburse the carrier for any claim paid in return for the property.⁵

We noted several instances where freight clearly labeled as government property had been sold at a fraction of its cost from a commercial warehouse. For example, we purchased a \$3,500 jet engine inner combustion case, chemical-biological gas mask canisters, a canvas bag, and field cable wire for \$97.81 at a commercial warehouse. Other astray

⁵In some instances, the carrier may be entitled to the property, but only if (1) the government was reimbursed by the carrier for the shipment's actual value, and (2) the title is transferred by the U.S. government under proper authority.

defense property for sale included an M-60 engine crankshaft valued at \$6,000 but priced at \$900. None of the items should have been for sale.

Lack of Training and Recognition Hampers Program Effectiveness

We noted that program members came from a variety of backgrounds and as a result were not familiar with all the transportation functions required of the program. In addition, astray freight officials perceived that MTMC was not responsive to their reports of lost freight.

These officials noted that training would help to improve the program. Although MTMC sponsors freight workshops several times a year, astray freight or TDR programs are not covered in depth. The Defense Finance and Accounting Service, Denver Center, conducts semiannual workshops on TDR claims preparation and documentation. Since the workshops are intended to improve discrepancy reports for claims action, a session on the astray freight program is limited to one hour.

The absence of training or instructions on how to put astray freight back into the transportation system is a problem because astray freight members come from a variety of transportation-related positions, such as equipment inspector; over, short and damage clerk; transportation clerk; and household goods inspector. Some committee members have not developed the expertise to handle astray freight properly through their job experiences. Installation officials generally focus on those functions that keep freight flowing, not on whether the freight was received intact without loss or damage.

Several astray freight officials stated that because they receive no recognition for their efforts and see no action on their reports, they do not give the program a high priority. One program administrator noted that until about 3 years ago, MTMC sent letters to installations recognizing significant astray freight recoveries by program members. The Defense Logistics Agency recently revived this practice and is now recognizing individuals who recover large amounts of astray freight through letters to installation commanders. In addition, the MTMC astray freight program manager now highlights astray freight officials' significant accomplishments in a transportation newsletter.

Many Carriers Are Unaware of Program's Existence

Many of the carriers we visited did not know the astray freight program existed. Although many motor carriers that move DOD freight are required to inform the transportation official at the closest military installation when the carrier has defense shipments that cannot be delivered, carriers are not specifically required to report astray freight.⁶

Some carrier officials did not know whom to contact or how to obtain shipping information from DOD. Some carriers held government freight for extended periods without contacting appropriate government officials. A Defense Logistics Agency official stated that when carriers hold freight for lack of billing information, the freight becomes vulnerable to theft and abuse.

To increase the awareness of the astray freight program, MTMC's Western and Eastern area offices each initiated a toll-free telephone "hotline" for carriers several years ago. The hotline operators primarily refer calls, which average 1 to 4 a month, to the appropriate installation. However, between November 1990 and April 1991, the hotline at the Eastern Area office was not working. The hotline numbers were also on posters that MTMC distributed to carrier terminals several years ago; however, we observed only one poster at one of the carrier terminals we visited, and the telephone number was incorrect.

When a carrier cannot match the freight with the shipment (shipper error) or loses the government bill of lading (carrier error) for a shipment, the carrier sometimes holds the freight until billing information is obtained. One carrier in Jacksonville, Florida, had held seven pieces of freight for over 6 months because billing information was not with the freight. During that time, the carrier had not contacted a nearby military installation for assistance, and DOD had not called or requested information about the freight.

Another carrier held freight for approximately 2 months before notifying a nearby military installation. The carrier had received a load of batteries destined for multiple consignees, but the carrier could not sort the freight because the documentation had become commingled. Only one of the five intended consignees had reported the batteries as missing.

⁶Motor carriers that move DOD freight are governed by MTMC's Freight Traffic Rules or by guaranteed traffic agreements. While the motor Freight Traffic Rules include a provision for reporting astray freight to DOD, not all of the guaranteed traffic agreements contain such a provision.

MTMC's Revitalization Efforts

Several months after we began to review the astray freight program, MTMC stated its intentions to revitalize the program in a July 1991 message to the area commands. At that time MTMC clarified reporting instructions and requested that chairpersons assign terminals to committee members, consolidate area information, and submit quarterly reports. MTMC asked committee members to visit or call each assigned terminal quarterly and to report all astray freight. As a result, the astray freight committees have become more active than they previously were. For example, the committees reported that from July to September 1991 they had returned to the defense supply system 572 shipments valued at \$758,000. In addition, MTMC plans to

- emphasize the importance of chairpersons' active participation in the program and role as key liaisons with MTMC headquarters and the area commands,
- require the area commands to host annual meetings for all astray freight chairpersons within their area of responsibility,
- publish astray freight matters of interest in a defense newsletter and magazine,
- expand astray freight coverage by adding new installations to the program,
- provide installations current astray freight posters for placement at carriers' terminals, and
- consider hiring a consultant to develop a training package to improve the TDR process.

MTMC is in various stages of implementing these initiatives. The annual meeting was conducted on January 9, 1992; about 10,000 posters have been ordered but are not yet available for distribution to the installations; and the astray freight program manager has requested \$10,000 for the preparation of a training package and has recognized significant accomplishments by astray freight members in a newsletter. Also, in November 1991, the astray freight program manager requested the purchase of a computerized list of all the general freight warehouses and terminals, including address, telephone number, and other related information. We believe that these initiatives will promote the importance of and need for the program and improve the program's coverage and capability.

Recommendations

To improve the transportation discrepancy report system and the astray freight program, we recommend that the Secretary of Defense direct

- top management at DOD installations to place more emphasis on participating in the astray freight program and the transportation discrepancy reporting system and ensuring that proper shipping and receiving procedures are practiced, including accurate preparation and transmission of the government bill of lading;
- the Director, Defense Logistics Agency, to determine the cost-effectiveness of labeling each box in a pallet or, at a minimum, labeling the boxes, such as the boxes on the top tier, that may become vulnerable to loss; and
- the service secretaries to automatically include the toll-free number for reporting astray freight on the government bills of lading.

Although DOD's recent initiatives should greatly improve the astray freight program, we recommend that the Commander, MTMC, take the following actions:

- Institute a training program that includes all the elements of identifying, recovering, and monitoring government freight. Training should include (1) a clarification of the astray freight definition, (2) methods for targeting carriers for inspection of terminals and warehouses and for tracing and recovering freight, (3) historical data on freight recovered through the program, and (4) fraudulent practices and potential abuses in the transportation system.
- Systematically assign astray freight committees and members to carriers on the basis of data such as freight volume and the number of carrier terminals and warehouses in the area and on transportation discrepancy reports.
- Regularly update the astray freight manual to include specific policy, procedures, and guidance on identifying, recovering, and reporting astray government property.
- Direct the Staff Judge Advocate and the Joint Military Astray Freight Committee program manager to codevelop procedures and regulations on the identification and recovery of DOD freight from commercial warehouses.
- Require that all commercial carriers under contractual obligation to DOD inform the transportation official at the closest military installation when they have astray freight.

DOD Comments

DOD stated that it agrees with our findings and recommendations and has placed renewed emphasis on the Joint Military Astray Freight Program and plans to develop a training program and improve its guidance. DOD discovered freight of high value and substantial quantities at carrier terminals, totaling \$5.7 million in the first quarter of fiscal year 1992. This represents a significant increase over the amount recovered in fiscal year 1990 (\$1 million) and fiscal year 1991 (\$1.7 million). In addition, the Defense Logistics Agency plans to study its labeling procedures.

Ineffective Oversight of Carrier Performance Results in Inadequate Protection of DOD Property

DOD has not consistently or effectively monitored carriers' performance. Although DOD has defined limits for freight loss or damage, DOD allows many carriers to exceed the limits without penalty. In addition, DOD relies heavily on carriers to certify freight delivery. Yet many carriers certified erroneous delivery dates, indicating that they might not have known when freight was actually delivered. Also, in 1990, DOD initiated the carrier qualification program to ensure that DOD uses quality carriers, but we believe that the program will have limited usefulness.

Carriers Not Monitored on Ability to Deliver on Time Without Loss or Damage

The carrier performance program is designed to ensure that DOD shippers get the best available service from commercial freight carriers. The Defense Traffic Management Regulation specifies key indicators for monitoring carrier performance; establishes minimum levels of satisfactory performance, such as loss and damage; transit time; compliance with regulations; overcharge limits⁷; and prescribes procedures for refusal to use any carrier that fails to maintain a minimum level of satisfactory performance.

To monitor carrier performance, MTMC primarily depends on service failure reports received from the installations. MTMC officials estimated, however, that only about 10 percent of the installations actively participate in the carrier performance program, that is, keep an accurate record of carrier service failures and report problems to MTMC. When installations do report service failures, they generally document only the three types of service failures that they have disqualification authority over, that is, failure or refusal to pick up shipments and inadequate equipment. During fiscal year 1990, for example, just 64 of 802 (about 8 percent) installations in the continental United States participated in the carrier performance program. The installations placed 158 carriers on the nonuse list (for up to 60 days) because the carriers failed or refused to pick up shipments or had inadequate equipment. Installations generally do not document whether the shipments were delivered on time or without loss or damage.

Under the Defense Traffic Management Regulation, MTMC headquarters and area commands are required to evaluate carrier performance every

⁷MTMC is required to monitor the accuracy of carrier billings and periodically report carrier overcharges. In a report entitled DOD Commercial Transportation: Savings Possible Through Better Audit and Negotiation of Rates (GAO/NSIAD-92-61, Dec. 27, 1991) GAO reported that local transportation officials had not been informed of carriers' overcharges; consequently, overcharges are not considered and remedial action taken. MTMC stated that in fiscal year 1992 it would implement a system to ensure timely notification of local transportation officials when overcharges are detected.

6 months relative to all elements, which include service failures reported by the installations, transportation discrepancy reports, loss and damage claims, and serious incident reports.⁸ However, they do not conduct the required evaluations or measure the carriers' performance because of the high number of carriers used. The Western Area office stated that it would be unrealistic to evaluate all DOD carriers. DOD used 2,505 motor carriers in fiscal year 1990, of which half transported fewer than 5 shipments, and half were paid less than \$3,000. A MTMC headquarters official stated that MTMC does not have the time or the means to thoroughly check the performance of each carrier before deciding on the route for government freight. Thus, MTMC stated it monitors carriers on an exception basis.

**Loss and Damage Limits
Exceeded**

Although many carriers exceeded the established loss and damage limits, no carriers were penalized as a result. Satisfactory performance for moving freight is stated in terms of claims experience: carriers cannot lose or damage more than 5 percent of their total shipments or more than 2 percent of the total DOD shipment revenue.

Using these limits, we analyzed the 289 carriers DOD had filed claims against in fiscal year 1990. Using carrier revenue data for the same year, we noted that about 44.6 percent (129 of 289) of the carriers were above the limits. Of the 129 carriers, 21 had lost or damaged property worth over \$100,000. One of DOD's largest carriers, which received over \$12 million for transportation services in fiscal year 1990, had loss and damage claims (\$1.3 million) equal to 11 percent of its total DOD-earned revenue, greatly exceeding the 2-percent threshold. The carrier was paid nearly \$1 million for the delivery of the material, and the carrier went bankrupt the next year, making recovery of all outstanding claims unlikely. According to a Defense Finance and Accounting Service official, the government rarely collects claims from a bankrupt carrier, since it is not a secured creditor. Had claims data been scrutinized, DOD might have taken action, such as accelerating claims collection or limiting the use of that carrier to preclude future losses.

MTMC officials responsible for evaluating carrier performance stated that they do not monitor the claims experience performance element or hold

⁸MTMC modified the carrier performance program, effective November 25, 1991, to require MTMC headquarters to perform an in-depth review of those carriers that have accumulated 12 performance actions within a 6-month period. The performance actions primarily refer to service failures that are reported by the installation or the area command, according to MTMC.

carriers accountable for exceeding the limits. One official stated that claims data is not current, readily available, or easily translated into meaningful measurements. For example, the official stated it is not clear whether a carrier's claims experience should be based on the cost to repair/replace the damaged/missing item or on the amount of the claim filed against the carrier. The claim against the carrier can be significantly less than the value of the property if released valuation is used. Using any dollar value other than the value of the lost or damaged freight would be meaningless.

Regarding the currentness of the claims data, we randomly selected 540 claims filed during fiscal year 1990 and compared the shipping date and the claim date. Eighty percent of the claims were filed within 6 months; 18 percent were filed between 6 months and 1 year; and 2 percent were filed 1 year later. We believe that the claims data, though somewhat dated, can be very useful as an indicator of a carrier's performance and should be used to evaluate carrier performance.

Administration of Carrier Performance Program Is Fragmented

The Carrier Performance Program applies to all commercial carriers and modes of transportation that are used to move DOD freight. However, MTMC solicits fixed rates for moving freight between two designated shipping points or regions on about half of the shipments. For this type of shipment, MTMC uses guaranteed traffic agreements,⁹ which include additional and generally stricter carrier performance standards. These agreements require a higher percentage of on-time deliveries (90 to 95 percent) than other types of motor freight (85 percent). In addition, a guaranteed traffic shipper focuses more on the timeliness of deliveries. Since many guaranteed traffic carriers are required to maintain a pool of equipment at the DOD installations, service failures (for example, failure or refusal to pick up or inadequate equipment) are eliminated. However, guaranteed traffic agreements contain a range of carrier performance standards and carrier liability provisions,¹⁰ lack procedures for monitoring loss and damage, and do not always specifically state that freight must be delivered without loss or damage or that the carrier should inform the closest military installation of astray freight. Furthermore, MTMC's carrier

⁹Guaranteed traffic is a system for selecting carriers to transport volume DOD freight to, from, or between certain installations for a specified period of time.

¹⁰The services' and the Defense Logistics Agency's agreements specify varying levels of carrier liability, ranging from \$2.50 per pound per shipment, to \$20 per pound or not more than \$100,000 per shipment, to actual value of the shipment.

performance program manager is not responsible for monitoring guaranteed traffic; rather, the shipping installation is responsible. However, installation officials focus primarily on transit time and do not believe it is their responsibility to monitor all of the performance elements, including loss and damage.

No Standard Agreement or Procedures for Implementing Guaranteed Traffic Agreements

MTMC has not developed a standard guaranteed traffic agreement or policies and procedures for implementing the agreements. We were told, however, that MTMC is presently drafting a standard agreement. Developing a standard agreement is critical to the implementation of the new freight management system (see ch. 5) to allow automated tracking.

In addition, the installations did not always implement the agreements as specified. The Navy installation we visited, for example, was not aware that its guaranteed traffic agreement had carrier performance standards that differed from the standards cited in the Defense Traffic Management Regulation and thus did not request the necessary data to monitor performance. The Marine Corps installation we visited does not request transit time data or verify delivery. Instead, it relies on transportation discrepancy reports for feedback on carrier performance.

DOD Relies on Carriers to Self-certify Delivery

Since 1973, the government has permitted carriers to certify that shipments have been delivered in good order. At the time self-certification was approved, DOD, among other agencies, believed that the following safeguards would be sufficient to satisfy the requirements of the government:

- the carrier's certificate of delivery;
- the carrier's delivery receipt, a copy of which is given to the government consignee (also known as proof of delivery);
- the receiving report system; and
- the loss and damage reporting system.

In addition, the agencies estimated that consignees could notify the paying office of any deficiencies in a shipment after 7 days. Even if a few undelivered shipments were paid for, the government could still deduct the amount on future bills of that carrier. Presently, a carrier can certify delivery and send the certification along with a voucher to the finance center for payment. Because the finance center does not verify that the freight was delivered, the carrier can be paid without having delivered the

freight. The government therefore relies heavily on proper receiving practices and prompt reporting of loss and damage through the TDR system to identify problems.

We compared the delivery dates on certified bills of lading, which carriers submit to the finance center for payment, with the carriers' proof of delivery receipt. Our analysis showed that carriers certified erroneous delivery dates on 96 (or about 45 percent) of the 215 shipments that we sampled. Shipments were delivered as much as 18 days before and 35 days after the delivery date certified by the carrier. Carriers that had performed poorly were more likely to have certified erroneous delivery dates.¹¹ That is, 56 (or 58 percent) of the poor performers and 40 (or 42 percent) of the good performers had certified delivery dates that erred by 1 to 35 days. These figures indicate that carriers either have inadequate controls to know when shipments are actually being delivered or are falsely certifying delivery dates in some cases to expedite payment. Over 50 percent of MTMC's transportation fraud case work load over the past 2 years involved falsification of the government bill of lading with intent to defraud the government.

Certifying early delivery to expedite payment can result in significant losses to DOD. For example, in July 1990, MTMC disqualified a carrier for, among other things, certifying delivery of 41 shipments it had not delivered. The carrier admitted falsifying the government bills of lading because the company needed the money (at least \$74,809) to repair vehicles, pay employees, and "keep the company going." The carrier said it had intended to deliver the property in about a month, when it was in better financial condition to do so. DOD recovered 1,098 pieces of freight valued at \$3.8 million. Also, DOD required an additional \$115,395 and 480 hours to reship the property.

Usefulness of Carrier Qualification Program Is Limited

The Carrier Qualification Program—effective December 24, 1990—will take years to implement because MTMC has initially been slow to process carriers. Guaranteed traffic carriers that fail to meet the qualification standards under the program are not removed from DOD traffic routes but are expected to meet the qualification standards upon expiration of their agreement. In addition, the requirement for a carrier to hold a \$100,000 bond—a key component of the program—has been temporarily waived

¹¹We defined poor performing carriers as those that had been suspended from moving DOD freight six or more times in the last 3 years and/or had exceeded the limits for loss and damage claims experience.

pending its review. According to a MTMC official, the bond has unduly hindered responsible carriers from qualifying to move DOD freight, due in part to the cash outlay requirement of about \$3,000. The original intent of the bond was, among other things, to prevent "paper" companies (that is, companies that exist in name only) and financially strapped companies from carrying DOD freight and reduce the number of carriers DOD uses. In addition, the bond would serve as a mechanism for DOD to recover some losses should the carrier be unable to perform, for example, through default or bankruptcy. Finally, once a carrier is qualified, there is no provision to periodically reexamine its qualifications.

On April 2, 1992, DOD proposed changes to the rules to reduce the financial burden of small established carriers that do business with DOD. Carriers are no longer required to submit financial statements with their initial submission. A carrier is required to provide data showing, among other things, that the carrier (1) does not have an unsatisfactory safety rating from any government transportation agency and (2) has \$150,000 of cargo insurance and \$750,000 of public liability insurance for nonhazardous shipments from an insurance underwriter with a C or better rating.

**Slow Qualification Process
Hinders Program's
Effectiveness**

MTMC requires that motor carriers with rates on file at MTMC be approved under the program within 2 years. The current guaranteed traffic agreements, which typically run 18 months, do not specifically require carriers to be qualified under the program; however, when guaranteed traffic agreements come up for renewal, the provision will be added to the new agreement, according to MTMC officials. Presently, if guaranteed traffic carriers fail to meet the qualification standards but are providing good service, they are not removed from DOD traffic routes. DOD believes that using the next higher cost carrier would be too costly. Once the carrier's solicitation expired, the carrier would be required to meet all standards.

During the first 6 months of the program, MTMC processed 120 of 2,505 carriers. Although the pace of processing should increase, it could take well over 2 years to qualify all carriers. In addition, MTMC has randomly selected carriers for qualification. The 120 carriers processed represent less than 10 percent of DOD freight charges during fiscal year 1990. Had MTMC selected carriers for processing based on usage, that is, the top 120 carriers that move DOD freight, the processed carriers would have represented about 75 percent of DOD freight charges.

Bond Requirement Suspended

Because the requirement to hold a \$100,000 bond has kept responsible carriers from qualifying to carry DOD freight, according to a MTMC official, MTMC suspended the requirement, effective September 9, 1991, pending a review. Motor carriers that have already obtained a performance bond may either maintain or cancel their bonds. When MTMC proposed changes to the regulations in April 1992, it proposed using a sliding scale. Carriers that have done business in their own name with DOD for 3 years or more will be required to submit a performance bond in the amount of 2.5 percent of their total DOD revenue for the previous 12 months, not to exceed \$100,000 and not less than \$25,000. For example, a carrier that earned up to \$1,000,000 for moving DOD freight would be required to hold a \$25,000 bond (\$1,000,000 multiplied by 2.5 percent), which costs about \$725. Using fiscal year 1990 carrier usage data, we calculated that 65 of 2,505 DOD carriers would be required to hold a bond over \$25,000 and up to \$100,000. Of the 65, 19 carriers would be required to hold a \$100,000 bond. The balance, 2,440 (about 97 percent), of DOD carriers would be required to carry a \$25,000 bond.

For new carriers, the bond amount proposed would be based on the territory that the carrier wished to serve. For example, a carrier wanting to move freight in just one state would be required to hold the lowest bond amount; for four or more states, the highest bond amount would be required. Once a carrier has been doing business with DOD for 3 years, its bond requirement would change from area of service to revenue. MTMC's proposal does not specifically require periodic reviews of a carrier's participation to increase the bond amount if it increases participation in moving DOD freight. In addition, according to a Defense Finance and Accounting Service official, it is not clear how the bond would actually be used, since MTMC has not established procedures for its implementation.

According to trucking association officials, the \$100,000 performance bond requirement could affect some carriers' ability to compete for DOD freight movement. However, they stated that most carriers would prefer to compete with reputable carriers and that the carrier qualification program would weed out some companies that offer unrealistically low rates. The carriers that offer such rates do so to fill space in a trailer on a return trip even if they do not make a profit. Carriers frequently go out of business because they do not accurately project their costs to move freight. Between January 1989 and October 1991, 143 carriers that had previously moved DOD freight went out of business or bankrupt.

Recommendations

To provide better protection against loss and damage, we recommend that the Commander, Military Traffic Management Command, take the following actions:

- Ensure that carriers are assessed on all performance elements in either the Defense Traffic Management Regulation or the guaranteed traffic agreement, whichever is applicable; that all available information, such as loss and damage claims data and transportation discrepancy reports, is used in making the assessment; and that local transportation officials receive feedback on the extent that carriers perform satisfactorily.
- Require the carrier performance program manager to (1) evaluate all modes of freight traffic, including guaranteed traffic; (2) develop standard performance criteria, particularly on-time delivery requirements, and loss and damage limits, that are applicable to all freight traffic and are in the best interest of the government; (3) periodically verify that carriers certify correct delivery dates; and (4) amend the Defense Traffic Management Regulation to reflect the requirements in this recommendation.
- Revise the proposed Carrier Qualification Program regulation to include a requirement that a carrier qualified under the carrier qualification program be recertified if its participation level changes, for example, if the carrier increases the number of routes or regions covered.

DOD Comments

DOD agreed that the carrier performance program is not functioning as intended and said it would reemphasize the need for installations to participate, particularly to report those shipments that are late, lost, or damaged. Due to the large number of carriers and shrinking resources, however, DOD stated it is infeasible for them to evaluate all carriers' performance. In addition, it did not believe that loss and damage claims are conclusive evidence of a carrier performance problem. We continue to believe that loss and damage claims are an indicator of performance that should be monitored. DOD plans to monitor carriers on an exception basis until it can streamline the process. We believe that an aggressive carrier performance program is vital to ensuring that defense property is adequately protected. DOD also stated it would implement performance bond collection procedures by January 1993.

Prevention and Correction of Transportation Deficiencies Lack Coordination and Direction

MTMC manages several programs intended to identify and report lost and damaged U.S. government property, as discussed in chapters 2, 3, and 4. However, the key oversight programs designed to prevent losses and the Defense Finance and Accounting Service operate independently, and MTMC program managers do not regularly exchange information that could indicate trends and weaknesses in the transportation system. Furthermore, DOD has not included significant transportation deficiencies in its report on internal control weaknesses, under the Federal Managers' Financial Integrity Act.

Uncoordinated MTMC Programs Hinder Monitoring of Freight Shipments

The two MTMC program managers responsible for implementing the loss prevention programs—one manager for astray freight and transportation discrepancy reporting and another for carrier performance and carrier qualification—operate within separate MTMC headquarters directorates and do not routinely coordinate their efforts to take advantage of information that would indicate trends and weaknesses in the transportation system. In addition, MTMC and the Defense Finance and Accounting Service do not work together to provide early warning information that would indicate poor carrier performance. For example, MTMC does not routinely obtain information from the Defense Finance and Accounting Service about carriers' performance, such as those carriers that consistently overcharged or did not pay amounts owed.

In several instances, entire shipments have been abandoned or left at storage centers for extended periods. For example, six freight shipments abandoned at a storage facility for about 5 months by three different carriers were reported by the storage operator. The freight, valued at over \$348,000 (for five of the six shipments for which a value could be determined), consisted of 12 utility trailers, 4 dolly transporters, 4 mine clearance launchers, 1 communication trailer, and 2 radar sets. No one knew these items were missing until the storage operator reported that they were missing. This situation could have been discovered through effective monitoring.

Automated Freight Management System Not Likely to Correct All Deficiencies

DOD is developing automated systems to improve various facets of transportation and freight tracking. The freight management system, for example, would allow the finance center to suspend payments to carriers if freight was not delivered. To be effective, however, the system requires the full participation and cooperation of all parties in the transportation network, including every shipper, receiver, carrier, and vendor. DOD

officials told us that fully implementing the system could take years. Even then, they doubted that everyone in the network would have the capability to use the system. In addition, many of the problems we cited in this report, for example, the failure of installation officials to follow the established procedures when shipping and receiving defense property, will not be corrected through automation. The present transportation discrepancy reporting system will remain the primary vehicle for identifying and documenting undelivered property.

Transportation Deficiencies Not Identified As Material Weakness Under the Financial Integrity Act

Under the Federal Managers' Financial Integrity Act, the Secretary of Defense is required to review DOD's internal accounting and administrative controls to provide reasonable assurances that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation and that internal management controls emphasize prevention and correction of specific problems. DOD has not identified many of the transportation deficiencies we cite in our report as material weaknesses requiring corrective action.

Recommendations

We recommend that the Secretary of Defense and the DOD Inspector General emphasize the importance of identifying weaknesses in transporting DOD property and taking corrective action. In addition, we recommend that the Secretary of Defense include these transportation deficiencies in the Federal Managers' Financial Integrity Act report. Finally, we recommend that the Secretary of Defense direct the Commander, Military Traffic Management Command, and the Director, Defense Finance and Accounting Service, to regularly exchange information to identify trends and weaknesses in transporting DOD freight.

DOD Comments

DOD generally agreed with our findings and recommendations and stated that at the time of the GAO audit loss prevention was not well coordinated, leading to slow action on poor carrier performance. DOD stated it has reported numerous transportation-related deficiencies in the past and will review the weaknesses included in this report. In addition, the Inspector General has planned an audit of freight shipments for fiscal year 1993. Furthermore, DOD stated that once the automated MTMC and Defense Finance and Accounting Service systems are on-line, a continuous exchange of information will occur.

Comments From the Department of Defense



PRODUCTION AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-8000

May 1, 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the February 28, 1992, General Accounting Office (GAO) draft report, "DEFENSE TRANSPORTATION: Ineffective Oversight Contributes to Losses," (GAO Code 398079), OSD Case 8913. The DoD generally agrees with the report.

The DoD agrees that its in-transit property systems designed to identify, report, and recover lost freight require revitalization. The program to monitor carriers' performance must also be improved. Prompted in part by this report and increased Command concern, there has been renewed Department-wide emphasis in the Joint Military Astray Freight Program. This has led to a significant improvement in lost freight recovery, with over \$5.7 million recovered in the 1st quarter, FY 1992.

The Department has provided clarification regarding several of the report findings. Of concern is whether the DoD is adequately protected when shipping high-value items. The use of released value rates for insuring cargo in-transit is also an industry practice, not unique to DoD freight shipments. Without released valuation, some carriers may not be willing to participate in the movement of Defense freight, thereby reducing competition and increasing rates. Additionally, comprehensive scheduled performance evaluations of all carriers is infeasible with ever decreasing budgets and resources. The DoD is, therefore, selectively evaluating carriers on an exception basis, when warranted.

Specific DoD comments addressing the report findings and recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the GAO draft report.

Sincerely,

David J. Berteau
David J. Berteau
Principal Deputy

Enclosure

See p. 17

See p. 40

GAO DRAFT REPORT - DATED FEBRUARY 28, 1992
(GAO CODE 398079) OSD CASE 8913

"DEFENSE TRANSPORTATION: INEFFECTIVE OVERSIGHT
CONTRIBUTES TO LOSSES"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

FINDING A: The DoD Does Not Know The Extent That Property Is Lost In Transit. The GAO observed that perhaps the best information currently available on losses is claims data--which, in FY 1990, represented \$15 million in lost or damaged Government property. The GAO reported that about 3,000 (or .2 percent) of the 1.4 million shipments made during FY 1990 resulted in claims against the carrier. The GAO found, however, that the number does not include (1) claims that could not be processed due to inadequate documentation or incorrect completion of the discrepancy reports, or (2) freight lost in transit that the DoD may not know is missing.

The GAO sampled 220 FY 1991 shipments from the Military Traffic Management Command information system data base and found that the DoD could not confirm delivery of five (or 2 percent) of the shipments, while the receiving activity confirmed delivery of 167 shipments and the carrier confirmed delivery of 48 shipments.

The GAO reported that inbound traffic officials could verify immediately and satisfactorily 73 of the 167 confirmed deliveries by the Government bill of lading number, but found it difficult to obtain verification for the remaining 94 deliveries. For the 48 shipments confirmed by the carrier, the GAO cited several difficulties in obtaining proof of delivery, as follows:

- the carrier required a purchase order or contract number, rather than a Government bill of lading number to locate the shipment;
- the carrier that got paid for the delivery was not on the Command's approved list of motor carriers, or could not be reached at the listed phone number; and
- incomplete consignee information on the receipt record.

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The GAO concluded its analysis indicated that property losses are greater than what is being reported and that installations have serious record keeping and documentation deficiencies. (p. 2, p. 4, pp. 15-18/GAO Draft Report)

DoD Response: Concur. The policies and procedures governing freight traffic management functions within the continental United States are defined in the Defense Traffic Management Regulation. The Defense Traffic Management Regulation prescribes administrative procedures that govern the use of basic forms, including the Government bill of lading, for the procurement of commercial transportation services on behalf of the DoD. Most DoD cargo is moved under the provisions of Government bills of lading or under special procedures approved by the Military Traffic Management Command, as the program manager for transportation discrepancy reporting and analysis. The DoD uses the Government bills of lading as a contractual document, together with waybills, to verify the quality and condition of cargo delivery, as well as tracking loss or damage. While carriers may operate with different internal procedures to track cargo, the waybill remains the only document that verifies delivery and the Government bill of lading authorizes payment. The Defense Traffic Management Regulation further prescribes shipper and carrier responsibilities regarding documenting cargo movement. At present, much of the documentation is manually developed and subject to error. Fielding of the Continental United States Freight Management System, currently being implemented, will streamline the reporting and shipment notification process by electronically notifying the receiver of shipment arrival times. Based on system generated management reports, the receiver will have the means to initiate prompt tracing action should the shipment not arrive in a reasonable time frame. The Continental United States Freight Management System is currently being field tested at five DoD transportation sites. The first phase, including advanced notification and confirmation of shipment receipt, will be fully operational by October 1994.

FINDING B: The Military Traffic Management Command Data Base Is Inaccurate. The GAO found that the Military Traffic Management Command's data base on transportation discrepancies is inaccurate, because installations (1) are not reporting all types of transportation discrepancies, and (2) are not furnishing correct information. The GAO observed the data base has not functioned as it should for several years, noting that the Command could not obtain the total number and value of

transportation discrepancies reported during FY 1990 from the data base.

The GAO reported that, according to Command and installation officials, discrepancies that may disrupt the timely movement of freight frequently are not reported, and a claim is not filed against the carrier. According to the GAO, some transportation officials consider it a waste of time to document discrepancies, because they do not believe that the Command uses the information to take action against poor performing carriers. The GAO pointed out, however, that without such documentation, the Command cannot evaluate carrier performance in an effective manner.

The GAO explained that when material is lost or damaged, the receiving activity is to gather all supporting documentation and prepare a transportation discrepancy report. The GAO reported, however, that according to Military Traffic Management Command officials, many of the transportation discrepancy reports are incorrect or incomplete. The GAO also reported that the Defense Finance and Accounting Service reported that 25 percent of the discrepancy reports submitted for claims action could not be processed, due to insufficient information.

The GAO explained that the discrepancy report data base could be used to try to match overages, shortages, and astray freight--and thereby redirect property to the intended customer or cancel a claim. The GAO reported that, according to a Command official, the Command rarely has matched errant shipments--perhaps because installations have not reported freight overages. The GAO concluded that unreliable information in the Military Traffic Management Command data base hinders the analysis of lost and damaged property. (pp. 2-3, p. 15, pp. 18-20/GAO Draft Report)

DoD Response: Concur. The DoD agrees that inaccurate data in the transportation discrepancy data base is primarily a result of inaccurate or incomplete information received from the installations. The Military Traffic Management Command is expanding its efforts to make all installations aware of the significance of the Joint Military Astray Freight Program and correct transportation discrepancy reports through an aggressive information campaign, as discussed in the DoD response to Finding I. The local commands will now attempt to match overage, shortage, and astray freight reports to redirect shipments to the intended customers, if required. Also, Transportation Discrepancy Reports will be reviewed as part of carrier qualification evaluation actions.

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FINDING C: The Effect Of Limiting Carrier Liability. The GAO reported that, in the late 1970s, the Congress passed a number of laws reducing the amount of transportation regulations, which was intended to increase reliance on the marketplace to control rates and services. The GAO further reported that, in Government transportation, special rates have evolved to meet specific situations, including all-commodity, released-value, and full-value rates.

The GAO explained that released-value and full-value rates are based on the degree of liability (commodity value) that the carrier assumes. The GAO further explained that a released-value rate limits carrier liability, which is sometimes considerably less than the actual value of goods. The GAO noted that, as a result of such limited liability, the carrier usually gives the shipper a lower rate.

The GAO reported the Defense Finance and Accounting Service expressed concern that released valuation unnecessarily may limit reimbursement for lost or damaged DoD freight. According to the GAO, the Service has been tracking the difference between property value and released valuation for several years, which indicates that during FY 1989 through FY 1991, carriers were liable for about 11 percent of the property value of lost Air Force shipments, due to using released valuation. The GAO pointed out that on expensive items, which do not weigh very much, the use of released valuation can result in extremely low compensation. The GAO cited one example where the carrier was liable for less than one percent of the value of lost Military equipment worth \$1.8 million.

The GAO observed that when the shipment's value significantly exceeds the carrier's liability, the Government is not adequately protected against property loss and damage. The GAO noted that, according to Military Traffic Management Command officials, a study is planned of the costs, benefits, and feasibility of insuring cargo at full value. The GAO reported that as of December 1991, the study had not begun. Overall, the GAO concluded that the practice of limiting carrier liability may leave Government property vulnerable to theft and loss. (pp. 2-4, p. 15, pp. 21-24/ GAO Draft Report)

DoD Response: Concur. Released valuation is practiced in industry and is not unique to the DoD. The DoD accepts limitations in carrier liability for loss and/or damages primarily as a mechanism for obtaining lower carrier rates. For some high value shipments, rates would be exorbitant or carriers

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would refuse to accept the shipment without released valuation. Released value is one of the factors used by the DoD in selecting the lowest cost carrier when routing Military cargo shipments. All other selection factors being equal, the carrier that offers, through the terms of its tender, the greatest cargo protection to DoD shippers will be selected as the lowest cost carrier. Commodities identified as DoD-unique in the DoD tender preparation instructions are assigned standard released value as a reasonable amount to which the commodity can be released.

The Defense Traffic Management Regulation allows full valuation when required. To use full valuation, the shipper must obtain specific authority from the chief transportation officer of its shipper service and annotate the Government bill of lading accordingly. The Government, being a self-insurer, normally ships material subject to released rates at the highest valuation which produces the lowest rate. This is based on the unique position of the DoD, both as an agency for the conduct of the national defense and as an agency that influences the expenditure of public monies. The Military Traffic Management Command Freight Rules Publication allows carriers to submit both full or reduced valuation rates. Thus, DoD shippers have the option of using full valuation for Freight All Kinds. As a matter of policy, the Defense Logistics Agency utilizes full valuation on a majority of its guaranteed traffic shipments.

The Military Traffic Management Command made a preliminary valuation analysis during January/February 1992. The analysis found that there were indications the DoD was reducing transportation costs through the use of released value rates, but the magnitude of the savings could not be estimated, due to the lack of a controlled data set. The analysis found the unrecovered \$11.2 million loss and damage claim reported by the Air Force in FY 1989 through the first half of FY 1991 may have been an acceptable trade-off if using released value rates resulted in more than a 10 percent reduction in Air Force transportation costs. The Military Traffic Management Command is conducting test solicitations to determine commodity mix and valuation levels for DoD shipments. Once the data is obtained, a trade-off analysis will be completed by fourth quarter FY 1992 to recommend release valuation policy for DoD shipments. In the interim, the Military Traffic Management Command is advising all shippers that they have the option to ship at higher value.

FINDING D: The Recoupment Of Lost Or Damaged Shipments Is Low.
The GAO found that during the last two years, the Defense Finance and Accounting Service collected a relatively small amount on claims for lost and damaged DoD property (\$3 million

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each year). The GAO pointed out, however, that the reported value of lost and damaged property was \$15 million in FY 1990. According to the GAO, the collections were low because (1) released valuation limits carrier liability, (2) claims lacked sufficient documentation or evidence, (3) carriers protested claims, (4) property was recovered, or (5) the carrier no longer did business with the Government, making it unlikely that the claim would be collected.

The GAO reported that the Military Traffic Management Command collects most claims by deducting the amount owed from a carrier's future bill--with about 68 percent of the 1990 paid claims collected that way. The GAO explained, however, that when the Command suspends carriers from doing business with the Government, the Government cannot use those deductions for reimbursement. The GAO observed that if the Command informs the Defense Finance and Accounting Service when it is considering suspending a carrier, the Service could accelerate the collection procedures, such as placing a hold on freight bills or immediately deducting the claim from the current payment. The GAO concluded that such actions could increase the likelihood that the Government would be reimbursed the amount owed. (pp. 2-3, p. 15, pp. 24-25/GAO Draft Report)

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DoD Response: Concur. With the exception of claims for recovered property, the Defense Finance Centers collect reimbursement for claims against carriers for lost or damaged property based on the documentation and recommendations submitted by the Military Traffic Management Command. The Defense Finance Centers deduct claims for the amount owed from a carrier's future bill. The Military Traffic Management Command decision to suspend a carrier is based on an analysis of carrier performance. By placing a carrier in nonuse, the DoD is protecting its interest by preventing the carrier from perpetuating a problem and subjecting future shipments to possible loss/damage and mishandling. The GAO recommendation for the Commander Military Traffic Management Command to inform the Defense Finance Centers before a carrier is suspended or disqualified will be implemented. (Also see the DoD response to Recommendation 4.)

FINDING E: Low Participation In The Military Astray Freight Program. The GAO reported that, in order to help prevent transportation loss and damage of freight, and to determine trends and weaknesses in the transportation system, the Military Traffic Management Command developed and administers several programs--including the Joint Military Astray Freight Program. The GAO found, however, that recoveries of lost DoD property

Appendix I
Comments From the Department of Defense

have declined over the past 6 years, largely due to low participation in the astray freight program. The GAO reported, for example, that during FY 1990, only 37 installations (or 9 percent) of the 415 member installations submitted astray freight reports to the Command. According to the GAO, recoveries reported under the program were less than \$9 million between 1986 and 1990--a sharp decline from earlier years.

The GAO reported that confusion over the existence of the program and its reporting requirements, as well as the general perception that the program is a low priority, has contributed to low participation. The GAO explained that the primary priorities of transportation officials are shipping and receiving freight, not inspecting carrier warehouses for lost freight. The GAO also reported that many participants expressed frustration with the program, believing (1) that the Military Traffic Management Command had taken no action on reports they had submitted and (2) that they had received little recognition for their effort to recover Government property. The GAO further pointed out that many carriers are unaware that the program exists, and thus do not report unidentified freight to astray freight officials.

The GAO found that program officials generally visit only motor carrier terminals to look for lost freight, but DoD property was also recovered from an air carrier warehouse. The GAO discussed an example from November 1990, when warehouse personnel found a shipment of pistols that had been left there for over 2-1/2 years. The GAO noted that when the shipment was discovered, 15 of the 22 pistols were missing and presumed stolen.

The GAO acknowledged that the Military Traffic Management Command currently is redistributing the membership to better cover all carriers. The GAO found, however, that the Command does not have a systematic way for assessing when and where new committees should be added or deleted. (p. 2, pp. 4-5, pp. 27-31/GAO Draft Report)

DoD Response: Concur. At the time of the GAO audit (May 1991-December 1991), the DoD was not emphasizing the established programs designed to prevent loss or damage of its freight. That was especially true regarding the previously successful Joint Military Astray Freight Program. For example, in 1985 the DoD recovered over \$17 million in astray freight. That figure slipped to approximately \$1 million in 1990, due in large part to competing demands on labor-intensive monitoring requirements. However, as a result of renewed Department-wide

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Appendix I
Comments From the Department of Defense

emphasis, the program has resulted in the recovery of \$1.7 million in 1991 (\$800,000 in 4th quarter, 1991) and over \$5.7 million in the 1st quarter FY 1992.

FINDING F: The Need For An Astray Freight Program. The GAO observed that the astray freight program can serve as a valuable tool in recovering lost freight. The GAO pointed out that program officials often are the only people looking for freight that has not been reported missing or that has been abandoned by carriers. The GAO discussed several examples where attentive astray freight program members discovered freight that carriers had abandoned for various reasons. The GAO concluded that significant recoveries of freight are possible through the astray freight program.

The GAO explained that there are various reasons why a shipment may go astray. As examples, the GAO reported that (1) the shipper may fail to prepare the bill of lading properly or fail to ship the listed articles (2) the consignee may fail to properly in-check the shipment from the carrier, or (3) the carrier may lose the shipment. In addition, the GAO reported that the receiver does not always know that freight will be arriving, because sometimes a copy of the bill of lading is not forwarded to the receiving activity. The GAO further reported that the carrier may hold freight at its terminal, because the freight (1) lacks any identifying marks and the address label is absent or illegible, or (2) becomes separated from the shipping documents. The GAO observed that the astray freight program has been effective in locating and rerouting such shipments. (pp. 3-4, p. 27, pp. 31-39/GAO Draft Report)

DoD Response: Concur. As previously discussed, by October 1994, the Continental United States Freight Management System will be fully implemented and capable of providing consignees with an advance copy of the Government bill of lading electronically. Currently, only the U.S. Marine Corps Transportation Management System is capable of submitting advance shipment notification to its consignees. That Service-unique system establishes and maintains a due-in program and notifies the shipper when transit times have been exceeded. (Also see DoD response to Finding A.)

FINDING G: The Lack Of Clear Guidance Hinders The Astray Freight Program. The GAO reported that the primary reference for members of the astray freight program is a 1987 DoD booklet. The GAO found that the booklet lists committee members, but does not provide instructions on how to handle astray freight problems or when to report astray freight problems. The GAO

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discussed several examples indicating that the actions of program members vary at individual locations, and results of their actions are not always reported.

The GAO also found that, in addition to not providing regular guidance to astray freight officials, the Military Traffic Management Command also provided confusing guidance. As an example, the GAO discussed a June 1986 message issued by the Command, meant to advise members that reports were to be prepared using a new report form. Instead, the GAO reported that the message was misinterpreted to mean that astray freight visits or reports were no longer necessary. According to the GAO, the 1986 message created confusion among participants and lowered participation for at least 6 years. The GAO noted it was not until July 1991, that the Command sent a new message to clarify the reporting requirements mentioned in 1986.

The GAO further reported that program officials do not even agree on what constitutes astray freight. In this regard, the GAO reported that some members have not reported misdirected property, if it has been returned immediately to the transportation system. According to the GAO, such misdirected property should be reported.

Finally, the GAO found that the Command does not have specific procedures to cover how program members should handle freight discovered at commercial warehouses. The GAO reported that several members incorrectly believed that, if a claim had been filed, the freight became the property of the carrier. The GAO cited several instances where freight clearly labeled as Government property had been sold at a fraction of its cost from a commercial warehouse. The GAO pointed out that none of the items should have been for sale. The GAO concluded that the cited instances are indications that the lack of clear guidance has hindered the astray freight program. (p. 27, pp. 39-42/GAO Draft Report)

DoD Response: Concur. At the time of the GAO review, the Joint Military Astray Freight Program required renewed emphasis. New program implementation guidance is being developed and will be published in the DoD/General Services Administration Joint Military Astray Freight Program booklet no later than the 4th quarter, FY 1992. That new guidance will include descriptions and examples of what constitutes astray freight and provide specific procedures and guidance on how it is to be handled and reported. It will also include a description of chairperson duties and establishes the frequency of required meetings. A draft booklet currently is being coordinated within the Military

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Traffic Management Command and will be finalized for publication to meet the 4th quarter FY 1992 target date.

FINDING H: Need For Astray Freight Program Training And Recognition. According to the GAO, members of the astray freight program come from a variety of backgrounds and, thus, were not familiar with all the transportation functions required of the program. The GAO reported that the officials said training would help improve the program. The GAO noted that, although freight workshops are held several times a year, astray freight or transportation discrepancy report programs are not covered in depth. In addition, the GAO reported that semiannual workshops on discrepancy report preparation conducted by the Defense Finance and Accounting Service are intended to improve the reports for claims action--therefore, a session on the astray freight program is limited to one hour.

The GAO also reported that several astray freight officials said that, because they receive no recognition for their efforts and see no action on their reports, they do not give the program a high priority. The GAO acknowledged that the Defense Logistics Agency and the Military Traffic Management Command recently have instituted actions to increase individual recognition. Overall, the GAO concluded that the lack of training and recognition has hampered astray freight program effectiveness. (pp. 43-44/GAO Draft Report)

DoD Response: Concur. The renewed emphasis in the Joint Military Astray Freight Program, together with the publication of the more detailed booklet (discussed in the DoD response to Finding G) will significantly improve the effectiveness of the Program. Further, the Program will continue to be briefed and discussed in detail at the freight and traffic workshops, as well as emphasized during the Military Traffic Management Command staff assistance visits.

FINDING I: Many Carriers Are Unaware That The Astray Freight Program Exists. According to the GAO, many of the carriers it visited did not know that the Astray Freight Program exists. The GAO explained that while many motor carriers are required to inform the transportation official at the closest military installation when the carrier has DoD shipments that cannot be delivered, some carriers are not required to report astray freight. The GAO found that some carrier officials did not know whom to contact or how to obtain shipping information from the DoD, and some carriers held Government freight for extended periods without contacting Government officials. The GAO noted that, according to a Defense Logistics Agency official, when

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carriers hold freight for lack of billing information, the freight becomes vulnerable to theft and abuse.

The GAO reported that, several years ago, in order to increase the awareness of the astray freight program, the Military Traffic Management Command Western and Eastern Area offices each initiated a toll-free "hotline" for carriers. The GAO found, however, that between November 1990 and April 1991, the Eastern Area "hotline" was not working, and information on the program provided through posters to the carriers generally was not displayed.

The GAO also reported that when a carrier cannot match the freight with the shipment, or loses the Government bill of lading, the carrier sometimes holds the freight until billing information is obtained. The GAO discussed two examples where the carrier had delayed notifying the nearby military installation. (pp. 44-46/GAO Draft Report)

DoD Response: Concur. On behalf of the DoD, the Commander, Military Traffic Management Command, developed and administers the Joint Military Astray Freight Program, which is designed to prevent loss or damage of DoD cargo. The Military Traffic Management Command Western and Eastern Area Commands implement the program, which includes frequent visits to major carrier terminals to locate astray freight, as well as the training of carriers in all elements of identifying, recovering and monitoring Government freight. The Military Traffic Management Command recently developed a special 16-hour training program and will present the program to its North Central Committee in May 1992. Additionally, 10,000 astray freight posters have been ordered and will be distributed by the Command to all DoD carrier warehouses and terminals nation-wide. The poster will provide carriers with telephone numbers and instructions for reporting astray freight found in their area. To assist and educate DoD astray freight committee members in the correct preparation of Transportation Discrepancy Reports, poster copies of this report have been sent to their offices and activities.

FINDING J: Revitalization Efforts Of The Military Traffic Management Command. The GAO reported that, in a July 1991 message (which was several months after the review of the astray freight program was begun), the Military Traffic Management Command stated its intentions to revitalize the program. The GAO reported that, at that time, the Command clarified reporting instructions and requested that chairpersons (1) assign terminals to committee members, (2) consolidate area information, and (3) submit quarterly reports. The GAO further

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reported that the Command also asked committee members to visit or call each assigned terminal quarterly and to report all astray freight. The GAO found that, as a result of the Military Traffic Management Command actions, the astray freight committees have become more active than they were previously--reporting that, from July to September 1991, 572 shipments, valued at \$758,000, had been returned to the DoD supply system.

In addition, the GAO reported that the Command developed plans to institute several initiatives to revitalize the astray freight program. The GAO observed that the Command is in various stages of implementing those initiatives. The GAO concluded that the Command initiatives will promote the importance of and need for the program, as well as improve the coverage and capability of the program. (pp. 46-48/ GAO Draft Report)

DoD Response: Concur.

FINDING K: Basis For The Carrier Performance Program. The GAO reported the carrier performance program is designed to ensure that DoD shippers get the best available service from commercial freight carriers. The GAO noted that the DoD regulation specifies key indicators for monitoring carrier performance, establishes minimum levels of satisfactory performance, and prescribes procedures for refusal to use any carrier that fails to maintain a minimum level of satisfactory performance.

The GAO also reported that, to monitor carrier performance, the Military Traffic Management Command primarily depends on service failure reports received from the installations. The GAO noted, however, that according to Command officials, only about 10 percent of the installations actively participate in the carrier performance program. The GAO further noted that, when they do report service failures, the installations generally document only the three types of failures however which they have disqualification authority over--i.e., failure or refusal to pick up shipments and inadequate equipment. The GAO concluded, however, that installations generally do not document whether the shipments were delivered on time or without loss or damage.

The GAO pointed out that, under the DoD regulation, carrier performance is to be evaluated every 6 months. The GAO found, however, that because of the high number of carriers used, the offices do not conduct the required evaluations or measure carrier performance. The GAO noted a Command headquarters official stated that the Command does not have the time or means

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to check the performance of each carrier in a thorough manner before deciding on the route for Government freight. The GAO concluded, however, that the data is available and should be analyzed to identify trends and weaknesses in the transportation system. (pp. 51-53/GAO Draft Report)

DoD Response: Concur. The DoD agrees that the Carrier Performance Program is not functioning as intended, nor has the level of participation been adequate. The Department will aggressively reemphasize the need for installations to participate in the Program and report service failures, particularly for those shipments that are late, lost, or damaged. Files will also be maintained to record each reported incident so that a carrier's performance can be evaluated on a case by case basis. Although the Defense Transportation Management Regulation requires carrier performance evaluation every six months, the large number of carriers and shipments, combined with competing requirements and limited resources, make that requirement impractical. Rather, performance evaluations are made predominately on an exception basis, where much of the reporting criteria and requirements stem from unsatisfactory performance. A review is currently underway to determine if the regulation is realistic and what other procedures could be instituted to provide the necessary oversight. Results of the review are expected by the end of FY 1992.

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FINDING I: Carrier Ability To Deliver On Time, Without Loss Or Damage, Not Monitored. The GAO observed that the DoD has not monitored the performance of carriers either consistently or effectively. The GAO explained that the DoD had defined limits for freight loss or damage, with satisfactory performance stated in terms of claims experience--carriers cannot lose or damage more than 5 percent of their total shipments, or more than 2 percent of the total DoD shipment revenue. Using those DoD-determined limits, the GAO analyzed the 289 carriers that the DoD had filed claims against in FY 1990, and found that about 44.6 percent (129 of 289) of the carriers were above the limits. The GAO noted that 21 of the 129 carriers had lost or damaged property worth over \$100,000, and one of the largest carriers had loss and damage claims equal to 11 percent of its total DoD-earned revenue--greatly exceeding the 2 percent threshold.

The GAO reported that, according to Military Traffic Management Command officials responsible for evaluating carrier performance, they do not monitor the claims experience performance element or hold carriers accountable for exceeding the limits--noting that the claims data is not (1) current,

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(2) readily available, or (3) easily translated into meaningful measurements. The GAO selected 540 claims filed during FY 1990 and found 80 percent were filed within 6 months, and 18 percent between 6 months and 1 year. The GAO concluded, however, that although somewhat dated, the claims data still can be a very useful indicator of performance and should be used. (p. 5, pp. 51-55/GAO Draft Report)

DoD Response: Partially concur. On-time deliveries are monitored at the installation level. Claims data may be useful as an indicator of performance, but is not necessarily conclusive evidence that the carrier has major performance problems. The different time frames of the "loss and damage" and "payment" data bases also present a problem. Loss and damage is reported as discovered. However, the Military Traffic Management Command Freight Information System receives shipment history data captured during the Government bill of lading payment process. As a result, the latter information is usually unavailable until approximately 6 months after the shipment has been made. Therefore, manual manipulation would occur in order to match damage bills with shipments handled during the same time frame. The GAO finding was based on a limited sample that did not take into account subsequent carrier improvements. Care must be used when taking action against a carrier based on historical data. (i.e., 6 months to 1 year old.) This data has to be balanced with the number of shipments handled by the carrier. Also, if only one carrier serves a particular installation, the Military Traffic Management Command must make a judgement whether to work with the carrier to resolve the problem, or to initiate appropriate disciplinary action.

FINDING M: Administration Of The Carrier Performance Program. The GAO explained that the carrier performance program applies to all commercial carriers and modes of transportation used to move DoD freight, but agreements are negotiated directly with carriers on about half of the shipments. The GAO noted that those agreements include additional and generally stricter performance standards. The GAO further noted that the guaranteed traffic agreements (1) contain a range of carrier performance standards and carrier liability provisions, (2) lack procedures for monitoring loss and damage, and (3) do not always state specifically that freight must be delivered without loss or damage, or that the carrier should inform the closest Military installation of astray freight.

In addition, the GAO noted that the Military Traffic Management Command program manager is not responsible for monitoring guaranteed performance--instead, the shipping installation is

responsible. The GAO pointed out, however, that installation officials focus primarily on transit time--and, further, do not believe it is their responsibility to monitor all the performance elements.

The GAO further found that the Command has not developed a standard guaranteed traffic agreement or policies and procedures for implementing the agreements, although officials advised a standard agreement is being developed. The GAO concluded that developing a standard agreement is critical to implementation of the new Continental United States Freight Management System. Additionally, the GAO concluded that the installations did not always implement the agreements as specified. Overall, the GAO concluded that the DoD administration of carrier performance is fragmented. (p. 5, pp. 55-57/GAO Draft Report)

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DoD Response: Partially concur. Procedures are established in the Defense Traffic Management Regulation for monitoring loss and damage, but are not specifically mentioned in the guaranteed traffic agreements between shippers and carriers, nor do the agreements state that freight must be delivered without loss or damage. Although it is the common carrier's obligation, in accordance with Interstate Commerce Commission statutes, to deliver shipments in a reasonable time without damage, changes to guaranteed traffic agreements are necessary to underscore the statutory requirements. While the Military Freight Traffic Rules Publication Number 1A provides provisions and guidance on reporting of astray freight, a standardized guaranteed traffic agreement will help to provide a more comprehensive and consistent means to evaluate carrier performance. The Command expects to complete a standard agreement by the end of 1992.

FINDING N: Carriers Self-Certify Deliveries. The GAO reported the Government has permitted carriers to certify, since 1974, that shipments have been delivered in good order. The GAO explained that, at the time, it was believed several safeguards that were established would be sufficient to satisfy the Government requirements, while consignees could notify the paying office of any shipment deficiencies after 7 days. The GAO noted that, even if a few undelivered shipments were to get paid for, the Government could still deduct the amount of future bills of that carrier.

The GAO found that, presently, a carrier can certify delivery and send the certification, along with a voucher, to the finance center for payment. The GAO concluded, however, that because the finance center does not verify the freight was delivered, the carrier can be paid without having delivered the freight.

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The GAO observed, therefore, that the Government relies heavily on proper receiving practices and prompt reporting of loss and damage through the transportation discrepancy report system to identify problems.

The GAO compared the delivery dates on the certified bill of lading with the carrier's proof of delivery receipt and found that carriers certified erroneous delivery dates on 96 of the 215 shipments sampled (or 45 percent). The GAO found that poor performing carriers were more likely to have certified erroneous delivery dates. The GAO concluded that the cited deficiencies indicate that carriers either (1) have inadequate controls to know when shipments actually are being delivered, or (2) are falsely certifying delivery dates--in some cases to expedite payment.

The GAO pointed out that certifying early delivery to expedite payment can result in significant losses to the DoD. The GAO explained that, in July 1990, the Military Traffic Management Command disqualified a carrier that had, among other things, falsely certified delivery of 41 shipments of freight, worth \$3.8 million. The GAO reported that the carrier was paid at least \$74,809 for the undelivered shipments. The GAO further reported that, although the Command later recovered the DoD freight from the carrier, it resulted in spending another \$115,395 and 480 staff hours to reshipe the freight. (pp. 5-6, p. 51, pp. 57-59/ GAO Draft Report)

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DoD Response: Concur. Based on a December 1969 study conducted under the auspices of the Joint Financial Management Improvement Program, the Government permitted carriers to self-certify delivery of shipments. At the time that the Congress changed the law in 1974 to allow carriers to self-certify delivery, the DoD was directed to comply with self-certification. The primary function of the finance centers is to pay the bills. They have no practical way to verify delivery dates. Therefore, the Government must rely on the integrity of the carrier. Since installations do not always know when a shipment is scheduled to arrive, they cannot always report it lost. Prompt reporting of loss and damage has no affect on carriers certifying prior to delivery. Also, some overages or shortages occur at origin, rather than from carrier error. For shipments internal to the U.S. Marine Corps, the Corps Transportation Management System is currently capable of electronically transmitting shipment receipt information from the receiving installation to their finance center for the purpose of verifying receipt prior to payment. When the Continental United States Freight Movement System is fully implemented in 1994, shipment information will

be prepositioned at those receiving activities that have this capability. Shipment suspense files will be established and exception reports generated when a shipment does not arrive by the scheduled delivery date for appropriate tracing action. Once a shipment is received, receipt data will be reported by the receiver. Such information will be used to ensure positive confirmation of receipt or, in the case of lost or damaged shipments, reported to the Defense Finance and Accounting Service for timely offset action.

FINDING O: Usefulness Of The Carrier Qualification Program Is Limited. According to the GAO, the Carrier Qualification Program, which became effective in December 1990, will take years to implement because (1) the program initially excluded carriers under guaranteed traffic agreements, and (2) is slow to process other carriers. The GAO noted that, according to Military Traffic Management Command officials, when guaranteed traffic agreements come up for renewal, the carriers will have to qualify under the program, and the provision will be added to their agreement at that time.

The GAO reported that, during the first 6 months of the program, the Command only processed 120 of 2,505 carriers. The GAO observed that, while the pace of processing should increase, it still could take well over 2 years to qualify all carriers. The GAO also noted that the Command has randomly selected carriers for qualification and the 120 carriers processed represent less than 10 percent of freight charges during FY 1990. The GAO pointed out that, had the Command selected carriers based on usage, the processed carriers would have represented about 75 percent of freight charges.

The GAO concluded that the usefulness of the Carrier Qualification Program is limited, because the requirement for a carrier to hold a \$100,000 bond has been waived temporarily, pending its [the GAO] review. The GAO explained that the original intent of the bond was, among other things (1) to prevent "paper" companies and financially strapped companies from carrying DoD freight, and (2) to serve as a mechanism for the DoD to recover some losses, should the carrier be unable to perform. The GAO noted that, according to a Command official, the bond unduly hindered responsible carriers from qualifying to move DoD freight, due in part to the cash outlay requirement of about \$3,000. The GAO reported that the Command is considering revising the requirement to allow a sliding scale cash outlay, and also to be based on the territory that the carrier wishes to serve. The GAO pointed out, however, that the Command proposal does not include a provision to change the bond amount, if a

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carrier increases its participation in moving DoD freight. In addition, the GAO reported that, according to a Defense Finance and Accounting Service official, it is not clear how the bond would actually be exercised--since the Command has not established procedures for its implementation. (p. 51, pp. 59-63/GAO Draft Report)

DoD Response: Partially concur. The Carrier Qualification Program does not exclude carriers under guaranteed traffic. Rather, if a carrier was providing good service overall, they would not be removed from the guaranteed traffic routes if they failed to meet total qualification standards. This procedure was established due to the cost the DoD would have incurred by having to use the next higher cost carrier if the guaranteed carrier was disqualified. Once the guaranteed traffic solicitation expires, carriers will be required to meet all standards. The qualification program is relatively new, and definable progress has been slow. However, as more processing experience is gained, the backlog is expected to diminish quickly. To avoid any appearance of partiality, the Command selected carriers at random for qualification. Also, concern for retention of small responsible carriers was considered. The bond issue was reviewed and changes submitted for April 1992 publication in the Federal Register, with industry comments required by May 1992. All comments will be considered before the amended program is enacted. Further, bond collection procedures are now being established, and should be implemented no later than January 1993.

FINDING P: Need For Coordination And Direction For Prevention And Correction Of Transportation Deficiencies. The GAO found that the two Military Traffic Management Command managers responsible for implementing the loss prevention programs operate within separate Command directorates and do not coordinate their efforts routinely in order to take advantage of information that would indicate trends and weaknesses in the transportation system. The GAO also found the Command and the Defense Finance and Accounting Service do not work together to provide early warning information that would indicate poor carrier performance. The GAO pointed out that, in several instances, entire shipments have been abandoned or left at storage centers for extended periods of time but no one knew the items were missing.

The GAO acknowledged that the DoD is developing automated systems to improve various facets of transportation and freight tracking. The GAO noted the Continental United States Freight Management System would allow the finance center to suspend

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payments to carriers, if freight is not delivered. The GAO pointed out, however, that the system depends on the full participation and cooperation of all parties to be effective, and could take years to fully implement. In addition, the GAO noted that many of the problems it found will not be corrected through automation, such as not following established procedures.

The GAO observed that the DoD and the Inspector General have not given the transportation problems the attention and scrutiny that is warranted. In addition, the GAO pointed out that, since the inception of the Federal Managers' Financial Integrity Act program in 1983, the DoD has not identified any of the transportation deficiencies reported by the GAO as a material weakness requiring corrective action. Overall, the GAO concluded that, unless a high priority is given to improving the transportation area, DoD property will remain vulnerable to loss, theft, and neglect. (p. 3, p. 6, pp. 65-67/GAO Draft Report)

DoD Response: Partially concur. At the time of the GAO audit, loss prevention was not well coordinated, leading to slow action on poor carrier performance. Referencing previous GAO reports, the DoD has, in the context of the Federal Managers' Financial Integrity Act, reported numerous freight transportation-related control problems in the Department's Annual Statement of Assurance to the President and Congress. Most of the reported weaknesses reference previous GAO reports as one of the source documents used as a basis for reporting the weakness. A review of the DoD FY 1991 Annual Statement of Assurance reveals three control problems in the freight shipment area. All three are reported as open items, with corrections in process. The FY 1990 Annual Statement reported three transportation related weaknesses, which were reported as resolved. As a final reference, the FY 1989 Annual Statement contained one weakness which was reported as resolved in FY 1989. The findings contained in this GAO report will be considered for review in the upcoming DoD Annual Statement of Assurance.

* * * * *

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Commander, Military Traffic Management Command, determine whether the DoD is protected adequately when shipping items that significantly exceed a carrier liability, and develop criteria for determining

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when transportation officials should use excess valuation.
(p. 26/GAO Draft Report)

DoD Response: Concur. The Department will soon direct the Military Traffic Management Command to develop a recommended valuation policy for DoD shipments once the Command completes its test solicitation analysis in the fourth quarter, FY 1992. Since the Military Departments are responsible for individual funding of their transportation costs, actual choice of valuation remains at the Service level.

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RECOMMENDATION 2: The GAO recommended that the Commander, Military Traffic Management Command, amend the Freight Traffic Rules to eliminate maximum released valuation--and provide similar measures in publications governing all motor traffic and other modes, such as air. (p. 26/GAO Draft Report)

DoD Response: Concur. The DoD agrees with the intent of the GAO recommendation. However, the Freight Traffic Rules do not specifically solicit maximum valuation rates. Rather, the intent of the rule was to establish the lower limit for release valuation. Unfortunately, industry has interpreted that rate to also be their maximum threshold rate. Exact methods of obtaining full value rates in comparison to release value rates will be incorporated into the test solicitation analysis (discussed in the DoD response to Recommendation 1). In the interim, the Military Traffic Management Command is advising shippers of the options available for shipping at a higher value.

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RECOMMENDATION 3: The GAO recommended that the Commander, Military Traffic Management Command, ensure that the transportation discrepancy report data base computer program functions, as intended, and that installations report transportation discrepancies to enable the Military Traffic Management Command program managers to analyze trends and weaknesses in the transportation system and make recommendations for improvements to the DoD. (p. 26/GAO Draft Report)

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DoD Response: Concur. The Military Traffic Management Command is enhancing its Transportation Discrepancy Report data base program through the development of an automated prototype, which will allow the Military Traffic Management Command Program Management Office direct access to all transportation discrepancy reports. That will permit a quicker response to inquiries. The program is expected to be on-line by the end of FY 1992.

RECOMMENDATION 4: The GAO recommended that the Commander, Military Traffic Management Command, inform the Director, Defense Finance and Accounting Service, before the Command disqualifies or suspends a carrier, so that it can accelerate collection procedures. (p. 26/GAO Draft Report)

DoD Response: Concur. By the fourth quarter FY 1992, the Commander, Military Traffic Management Command, will be directed to inform the Director, Defense Finance and Accounting Service, the Commanding Officer Navy Material Transportation Office, and the United States Marine Corps Transportation Voucher Certification Branch, Albany, Georgia, before the Military Traffic Management Command disqualifies or suspends a carrier. The new procedure does not, however, infer that the Military Traffic Management Command will delay suspension or disqualification until deductions for reimbursement can be obtained.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct top management at DoD installations to place more emphasis (1) on participating in the Astray Freight Program and the Transportation Discrepancy Reporting System, and (2) in ensuring that proper shipping and receiving procedures are practiced, including accurate preparation and transmission of the Government bill of lading. (p. 48/GAO Draft Report)

DoD Response: Concur. As the responsible agency, the Military Traffic Management Command has placed renewed emphasis on the Joint Military Astray Freight Program and the Transportation Discrepancy Reporting System, as evidenced by the recent changes incorporated in its booklet. Additional attention has been also given to astray freight throughout the Command, and particularly at workshops and conferences attended by both Service and industry transportation representatives. The Defense Logistics Agency recently implemented several initiatives to revitalize the Joint Military Astray Freight Program and use of the Transportation Discrepancy Reporting System. The Defense Logistics Agency transmitted a message in October 1991, to its Continental United States depot transportation offices, providing the background, objectives, benefits, and necessity for the Astray Freight Program. That message also addressed the importance of accurate and timely discrepancy reporting. The Department is seeing an increased awareness in astray freight by representatives in the field, as evidenced by recent discoveries of high value and unusual quantities of misrouted freight at carrier terminals. That is particularly noteworthy in an environment of ever decreasing personnel strengths and shrinking

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budgets, where many installations are not sufficiently equipped to participate fully in the Astray Freight Program.

RECOMMENDATION 6: The GAO recommended that the Secretary of Defense direct the Director, Defense Logistics Agency, to determine the cost effectiveness of labeling each box in a pallet or, at a minimum, labeling the boxes--such as the boxes on the top tier--that may become vulnerable to loss. (pp. 48-49/GAO Draft Report)

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DoD Response: Concur. The Secretary of Defense will direct the Services and the Director, Defense Logistics Agency, to complete and forward a study recommendation by December 1992, which assesses the operational impact and cost effectiveness of increasing the number of labels affixed to palletized shipments. The study will be reviewed to determine if a change in labeling procedures is appropriate.

RECOMMENDATION 7: The GAO recommended that the Secretary of Defense direct the Service Secretaries to include the toll-free number for reporting astray freight automatically on the Government bills of lading. (p. 49/GAO Draft Report)

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DoD Response: Partially concur. The Department does not agree with putting a toll-free number on all Government bills of lading. Not all shipments are made on a Government bill of lading. If a parcel is not separated from the Government bill of lading, there is sufficient information on the document to locate the consignee. The members of the astray freight committees make periodic visits to carrier terminals, where they ask carriers to contact them for assistance if they discover suspected U.S. Government freight that cannot be moved because it lacks documentation. Additionally, the toll-free hotline numbers for reporting astray freight vary based on the Military Traffic Management Command areas of responsibility. The Command provides toll-free numbers to all carriers and is printing a sufficient quantity of astray freight information posters, which include toll-free numbers, to distribute to all carriers.

RECOMMENDATION 8: The GAO recommended that the Commander, Military Traffic Management Command, institute a training program that includes all the elements of identifying, recovering, and monitoring Government freight. The GAO further recommended that the training include (1) a clarification of astray freight definition, (2) methods for targeting carriers for selecting and inspecting terminals and warehouses, and tracing and recovering freight, (3) historical data on freight recovered through the program, and (4) fraudulent practices and

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potential abuses in the transportation system. (p. 49/GAO Draft Report)

DoD Response: Concur. As previously discussed (see DoD response to Finding H), Headquarters, Military Traffic Management Command, has developed a 16-hour Transportation Discrepancy Report and Joint Military Astray Freight training program, based on the GAO recommendations identified in this report and other known weaknesses. It will first be presented to the Joint Military Astray Freight Program North Central Committee in May 1992.

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RECOMMENDATION 9: The GAO recommended that the Commander, Military Traffic Management Command, systematically assign astray freight committees and members to carriers on the basis of data such as freight volume and the number of carrier terminals and warehouses in the area and on Transportation Discrepancy Reports. (p. 49/GAO Draft Report)

DoD Response: Concur. Based on discussions during regularly scheduled meetings between the Command's two program managers responsible for implementing the loss prevention programs, the Military Traffic Management Command is currently updating and assigning astray freight committee members to carriers, based on (1) freight volume data, (2) number of carrier terminals and warehouses, and (3) frequency and types of Transportation Discrepancy Reports filed. Those assignments are further discussed at the committee meetings.

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RECOMMENDATION 10: The GAO recommended that the Commander, Military Traffic Management Command, regularly update the astray freight manual to include specific policy, procedures, and guidance on identifying, recovering, and reporting astray Government property. (pp. 49-50/GAO Draft Report)

DoD Response: Concur. The Commander, Military Traffic Management Command, updated the Joint Military Astray Freight Program booklet to provide more specific policy and procedures and to better define duties and responsibilities. Each astray freight chairperson is required to update his/her committee membership at least annually. The booklet is being staffed within the Military Traffic Management Command and will be distributed in the fourth quarter, FY 1992. It will be updated annually thereafter.

RECOMMENDATION 11: The GAO recommended that the Commander, Military Traffic Management Command, direct the Staff Judge Advocate and the Joint Military Astray Freight Committee program

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manager to co-develop procedures and regulations on the identification and recovery of DoD freight from commercial warehouses. (pp. 49-50/GAO Draft Report)

DoD Response: Concur. The Commander, Military Traffic Management Command, is directing his Staff Judge Advocate and the Astray Freight Committee Program manager to develop rules and guidance for recovering DoD freight from commercial warehouses. Regulatory guidance will be developed no later than September 1992. The regulatory draft will be staffed by January 1993, and forwarded to the Office of the Secretary of Defense for approval no later than March 1993.

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RECOMMENDATION 12: The GAO recommended that the Commander, Military Traffic Management Command, require that commercial carriers of all modes under the contractual obligation to the Command be required to inform the transportation official at the closest military installation when they have astray freight. (pp. 49-50/GAO Draft Report)

DoD Response: Concur. The Military Traffic Management Command motor and rail Freight Traffic Rules Publications currently require carriers to report astray freight to the Military Traffic Management Area Command serving their geographical location. Carriers are further advised to contact the nearest military installation should they be unsuccessful in obtaining forwarding instructions from the area command. Similar astray freight reporting requirements will be included in any follow-on rules publication.

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RECOMMENDATION 13: The GAO recommended that the Commander, Military Traffic Management Command, ensure (1) that all carriers are assessed on all performance elements in either the Defense Traffic Management Regulation or the guaranteed traffic agreement, whichever is applicable, (2) that all available information, such as loss and damage claims data and transportation discrepancy reports, is used in making the assessment, and (3) that local transportation officials receive feedback on the extent that carriers perform satisfactorily. (p. 63/GAO Draft Report)

DoD Response: Concur. The Military Traffic Management Command has already increased its efforts to assess carriers on the performance elements within the applicable regulatory requirements. The Carrier Performance Program, as it is presently structured, is a very labor-intensive program, which requires streamlining so that each installation and the Command can more easily evaluate and assess carrier performance. The

necessity for semiannual visits to all carriers will be reconsidered, since the Command is not presently resourced to conduct an in-depth analysis of such frequency on all carriers. Until an overhaul of the program can be made, the Military Traffic Management Command is conducting its performance evaluations predominately on an exception basis; for example, based on (a) excessive installation non-use actions, (b) reports of service failures, (c) letters of concern, (d) Transportation Discrepancy Reports, (e) adverse Department of Transportation safety ratings, or (f) receipt of other indications that the carrier is experiencing problems that could affect the safe and timely transport of DoD shipments. Once unsatisfactory performance is surfaced, all available information on a carrier is considered to support corrective action.

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RECOMMENDATION 14: The GAO recommended that the Commander, Military Traffic Management Command, designate a single carrier performance manager to (1) oversee all modes of freight traffic, including guaranteed traffic, (2) develop standard performance criteria, particularly on-time delivery requirements, loss and damage limits, and carrier liability, that are applicable to all freight traffic and are in the best interest of the Government, (3) periodically verify that carriers certify correct delivery dates, and (4) amend the Defense Traffic Management Regulation to reflect the requirements in this recommendation. (pp. 63-64/GAO Draft Report)

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DoD Response: Partially concur. The Military Traffic Management Command has a single freight carrier performance manager. All modes are governed by the established program and include guaranteed traffic. The agreements are different for guaranteed traffic, because they are tailored to fit the needs of the customer. That is why they are negotiated. Although the removal authority has been delegated to another office, guaranteed traffic is still under the Carrier Performance Program as a whole. The Defense Logistics Agency has received delegation authority from the Military Traffic Management Command to remove carriers from guaranteed traffic tenders due to service failures. The Military Traffic Management Command program manager is advised when carriers are removed from a guaranteed traffic solicitation and these removals are considered when assessing a carrier's overall performance. Standard performance criteria, including on-time delivery, and loss and damage limits are already established and published in the Defense Traffic Management Regulation. Carrier liability standards are not a part of carrier performance evaluations. The Department does not consider it possible to verify that all

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carriers certify correct delivery dates on all shipments without assistance from improved automation systems. The Department corrective action to this recommendation will include provisions for periodic carrier performance evaluations.

RECOMMENDATION 15: The GAO recommended that the Commander, Military Traffic Management Command, revise the Defense Traffic Management Regulation, to include a requirement that a carrier qualified under the carrier qualification program be recertified, if its participation level changes--for example, if the carrier increases the routes or regions covered. (pp. 63-64/GAO Draft Report)

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DoD Response: Partially concur. While the Department agrees that carriers should be recertified when its partnership level in DoD traffic changes, the requirement is already stipulated in Title 32, Code of Federal Regulation, Part 619. Since the Defense Traffic Management Regulation only applies to DoD components, carriers are not bound by its provisions. Alternatively, the Code of Federal Regulation applies to both the DoD and the carrier industry.

RECOMMENDATION 16: The GAO recommended that the Secretary of Defense and the DoD Inspector General emphasize the importance of identifying weaknesses in transporting DoD property and taking corrective action. (pp. 6-7, p. 68/GAO Draft Report)

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DoD Response: Concur. The Department concurs that it is necessary to continue placing importance on identifying and correcting weaknesses in transporting DoD cargo. The numerous initiatives previously discussed in this GAO report, combined with the efforts of the Office of the Inspector General, DoD, will ensure that increased controls are maintained on DoD shipments. An Inspector General, DoD, audit of freight shipments is being planned for FY 1993.

RECOMMENDATION 17: The GAO recommended that the Secretary of Defense include transportation deficiencies in the Federal Managers' Financial Integrity Act report. (pp. 6-7, p. 68/GAO Draft Report)

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DoD Response: Partially concur. The Department has reported deficiencies in the past and in that context, will review the weaknesses included in this GAO report. As previously discussed (see the DoD response to Finding P), the DoD is aware of the significance of control weaknesses detailed in this GAO report. The DoD will closely examine the Military Traffic Management Command in-transit property management system over the next

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fiscal year, through the implementation of the Federal Managers' Financial Integrity Act by the United States Transportation Command. (The United States Transportation Command now has official oversight responsibility for the Military Traffic Management Command.) Identified control weaknesses will be reported in the next DoD Annual Statement of Assurance.

RECOMMENDATION 18: The GAO recommended that the Secretary of Defense direct the Commander, Military Traffic Management Command, and the Director, Defense Finance and Accounting Service, to exchange information regularly to identify trends and weaknesses in transporting DoD freight. (p. 68/GAO Draft Report)

DoD Response: Concur. The Military Traffic Management Command and the Defense Finance and Accounting Service have been and will continue to exchange transportation management information regularly. Once the Military Traffic Management Command and the Defense Finance and Accounting Service automated systems are on-line, continuous exchange of information will occur automatically. The replacement Defense Finance and Accounting Service transportation bill payment system now under development, will have the ability to create history files that will identify: (a) transportation offices that have a track record of submitting incorrect data and, (b) carriers that have a history of overcharging the Department. The Military Traffic Management Command, under its pre-audit program, presently has a system in place to identify carriers with a history of overcharging.

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