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GSA Can Improve Traffic Management Practices

The General Services Administration needs to give civil agencies more assistance in traffic management matters. The potential for improvements and savings is great.

Large savings also can be realized in moving goods from vendors' plants to General Services Administration depots. Cost analyses are needed to identify the lowest overall transportation cost.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-114807

The Honorable Joel W. Solomon
Administrator of General Services

Dear Mr. Solomon:

This report identifies ways that your agency can improve the Government's traffic management practices.

The report contains recommendations to you on pages 6 and 12. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and the Chairmen of the House and Senate Committees on Appropriations, the House Committee on Government Operations, and the Senate Committee on Governmental Affairs.

Sincerely yours,

A handwritten signature in cursive script that reads "R. W. Gutmann".

for
R. W. Gutmann
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR
OF GENERAL SERVICES

GSA CAN IMPROVE TRAFFIC
MANAGEMENT PRACTICES

D I G E S T

By law, the General Services Administration (GSA) is responsible for providing traffic management services to all civil agencies. It also is responsible for prescribing policies and methods of procurement and supply.

Civil agencies generally are not coming to GSA for assistance in traffic matters. Consequently, GSA often does not know how well the agencies are performing or whether the lowest possible transportation costs are being obtained. GSA should be more aggressive in promoting its services. (See p. 2.)

GSA's investigations of traffic management operations in individual cases have shown that improvements will result in large savings. Reviews within four civil agencies concluded that correcting deficiencies identified would save \$2.3 million annually in administrative and transportation costs. (See p. 3.)

The potential for improvements and savings is great and the civil agencies need to be helped. Therefore, GSA must make sure it has the organizational structure to best assist them. (See p. 5.)

GSA should:

- Increase efforts to improve civil agency traffic management operations.
- Seek ways to get civil agencies to come to GSA for assistance.
- Study organizational alternatives for furnishing this assistance and then provide the required resources. (See p. 6.)

GSA also can improve practices for obtaining transportation on material going to its depots. It has not been making the type of analyses

needed to obtain the lowest transportation costs on procurement contracts. (See p. 8.)

GSA now uses Free on Board destination delivery terms almost exclusively. Under these terms, the vendor normally arranges for transportation and includes the cost in the price of the material. Free on Board origin delivery terms also can be used. Under the latter terms, the buyer (GSA) takes possession of the material at the vendor's plant and makes the arrangements for transportation. (See p. 8.)

The General Accounting Office estimates that GSA could save \$1.4 million annually if it were to increase the use of Free on Board origin delivery terms. The savings primarily result from taking advantage of special reduced rates available for moving Government property. (See p. 9.)

Additional savings are possible by defining delivery locations and consolidating shipments. Transportation costs are increased because GSA often does not specify the delivery point for a product when bid invitations are made. Bidders may include a larger factor for transportation in the bid than actually will be incurred. Transportation costs also are increased because most shipments to GSA depots are in less-than-truckload or less-than-carload lots, rather than in the more economical larger volumes. (See pp. 10 to 11.)

GSA should:

- Require that bidders on procurement contracts submit their bids on both Free on Board destination and Free on Board origin bases.
- Make the analyses needed to identify the lowest overall transportation cost and take the steps required to obtain them. (See p. 12.)

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ABBREVIATIONS

FOB	Free on Board
GSA	General Services Administration

CHAPTER 1

INTRODUCTION

The Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 471), established the General Services Administration (GSA). Section 201 of the act details GSA's transportation and traffic management responsibilities, which include:

- Prescribing policies and methods of procurement and supply of personal property and nonpersonal services, including such related functions as transportation and traffic management.
- Representing executive agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies.
- Providing traffic management services to any Federal agency upon its request.

How well certain aspects of these responsibilities are carried out is the subject of this report.

GSA's Federal Supply Service is responsible for traffic management. The Office of Transportation and Public Utilities assists civil agencies with the conduct of transportation and traffic management activities. The Office of Procurement selects the transportation delivery method for each GSA procurement contract.

In fiscal year 1977, the civil agencies, including GSA, spent \$24 billion for procuring goods and services. Transportation costs are not broken down separately; however, indications are that they are sizeable. For example, GSA includes a 7-percent markup for transportation on outbound shipments from its depots.

CHAPTER 2

GSA SHOULD GIVE CIVIL AGENCIES MORE ASSISTANCE

Civil agencies generally are not coming to GSA for assistance in traffic management matters, even in situations where Federal regulations require them to do so. As a result, GSA often does not know how well the agencies are performing or whether the lowest possible transportation costs are being obtained.

In individual cases where GSA has looked into traffic management operations in some depth, it has found that improvements will result in large savings. GSA reviewed operations in four civil agencies and concluded that correcting deficiencies identified would save \$2.3 million annually in administrative and transportation costs.

These reviews demonstrate that GSA needs to become more involved in civil agency transportation matters since the potential for improvements and savings is great. GSA must make sure it has the manpower, facilities, and organizational structure to best assist the agencies.

CIVIL AGENCIES ARE NOT PROVIDING REQUIRED INFORMATION OR SEEKING GSA ASSISTANCE

GSA is not receiving the information required to keep abreast of civil agencies' large shipment activity and help negotiate favorable rates. Also, agencies are not coming to GSA for assistance in traffic management matters.

Information on large shipments

The Federal Property Management Regulation directs civil agencies to obtain rate analyses from GSA for all procurements which will involve moving freight exceeding an aggregate of 100 tons. The regulation also requires civil agencies to submit monthly reports on all outbound shipments of 100 or more tons.

The purpose of these requirements is to enable GSA to negotiate the most favorable freight rates for the Government. The provisions also are intended to keep GSA aware of civil agencies' shipments, establish a foundation for negotiating better freight rates, and serve as a tool in representation proceedings before regulatory bodies.

Actually the civil agencies do not follow the regulations. GSA does not receive the monthly outbound shipment reports. It also receives few requests for negotiation action from the civil agencies. Therefore, GSA does not know where Government freight is moving or in what volume.

Obtaining GSA assistance

The Federal Property Management Regulation provides that civil agencies without transportation offices or those needing help on transportation matters shall obtain assistance from GSA.

Although this service is available, very few agencies have taken advantage of such service at any of the 10 GSA regional offices. For example, a traffic management official from GSA's region 3 in Washington, D.C., provided information indicating that only 13 offices were using GSA out of the 106 offices in the 48 civil agencies with which he has had contact.

We visited several agencies and asked why they were not coming to GSA regularly for assistance. Their responses were quite general and devoid of specific examples. The reasons included bad experiences in the distant past, too much red tape, poor service, lack of timeliness, and their own service is satisfactory.

GSA'S OWN REVIEWS SHOW CIVIL AGENCIES CAN IMPROVE

GSA's own reviews of selected civil agencies' traffic management activities have identified serious deficiencies which unnecessarily increase Government transportation costs by millions of dollars. In addition to the detailed reviews, GSA makes liaison visits and conducts training courses to assist agencies; however, these are being cut back.

Detailed reviews

In late 1976, GSA initiated a program for nationwide traffic management surveys of selected civil agencies by GSA specialists. The purpose was to perform an indepth analysis and evaluation of the traffic management function to determine whether (1) the traffic activities are so designed that they provide the required transportation support, and (2) the traffic functions are effectively, efficiently, and economically performed.

GSA has completed four of these surveys. In total, the surveys covered the headquarters offices of each of the four agencies, as well as 58 of the regional and other field offices. The survey reports include a total of 123 policy and procedural recommendations. According to the reports, implementing these recommendations could result in a monetary cost avoidance exceeding \$2.3 million annually in administrative and transportation costs at the specific offices visited.

Findings noted in the reports include the following:

- Failing to solicit bids on procurement contracts on both Free on Board (FOB) origin and FOB destination bases. (As discussed in chapter 3, a similar deficiency existed in GSA procurements.)
- Selecting other than the low cost carrier. For example, a sample of Government bills of lading at one agency showed that 23 percent of the shipments were not routed by the low cost carrier.
- Not contacting GSA to negotiate lower rates.
- Incorrectly preparing Government bills of lading.

The last of the reviews was completed in September 1977. GSA plans to initiate additional reviews in mid-1978.

Liaison visits

Agency visits by GSA traffic personnel are designed to identify and resolve onsite technical freight and traffic management problems and provide specific guidance on policy, traffic, and rulemaking changes or new procedures not fully understood by agency personnel. The visits generally take about a day.

As shown below, the number of visits have steadily decreased.

<u>Fiscal year</u>	<u>Planned visits</u>	<u>Actual visits</u>
1975	1,647	1,464
1976	1,531	1,190
1977	1,471	814
1978	1,060	630 (thru 5/31/78)

Training courses

GSA also has a program of seminars and workshops around the country to discuss various traffic and transportation subjects. These training courses also are being cut back.

<u>Fiscal year</u>	<u>Planned courses</u>	<u>Actual courses</u>
1975	409	398
1976	353	252
1977	377	285
1978	270	64 (thru 5/31/78)

In addition, GSA cosponsors an annual traffic management conference for all Government traffic managers and the carrier industry with the Department of Defense's Military Traffic Management Command.

ALTERNATIVES TO PRESENT GSA ORGANIZATIONAL STRUCTURE

To be responsive to the civil agencies, GSA must be organized to do this properly and efficiently.

Presently, GSA traffic management personnel are located in Federal Supply Service headquarters and each of the 10 regional offices. As with other operations, GSA's philosophy is to have each regional office provide service to the civil agencies within that region.

This structure has caused problems. For example, with the exception of region 3 in Washington, D.C., the regions do not maintain a complete tariff library. Without this information, selecting the lowest cost carrier becomes a difficult process. Also, much of the GSA regional traffic management personnel's time is concerned with matters relating to out-bound shipments from GSA's own depots.

Therefore, GSA must either strengthen its operations within the present structure or reorganize. One alternative would be to eliminate the 10 regional traffic management staffs and consolidate the traffic management activities in two new offices located on the east and west coasts.

This type of structure has proven successful in the Department of Defense. The Military Traffic Management Command has two area offices, one in New Jersey and the other in California. Both area offices maintain complete tariff

libraries, have experienced traffic management personnel, and are required to respond quickly to their customers.

Defense activities have to contact one of the area offices for rate and routing instructions on all single shipments exceeding five tons. The Defense activity is permitted to select the low cost carrier on smaller shipments but may use the area offices if it desires.

CONCLUSIONS

Basically, there are two things GSA must do for civil agencies in the traffic management area. First, GSA must persuade the civil agencies to come to it for assistance. Second, GSA must be in a position to provide the needed assistance.

GSA should be more aggressive in promoting its services and overcoming the reluctance of the agencies to use them. A strong selling point is the indepth reviews in which they showed four agencies how they could save a total of \$2.3 million annually.

These reviews demonstrate that the civil agencies need to be helped. Unfortunately, GSA seems to be cutting back rather than increasing its assistance. No indepth reviews are in process and the number of liaison visits and training courses are being decreased.

This situation needs to be reversed so the agencies can improve their operations. In addition to getting out into the agencies, GSA must make sure it can effectively service the agencies when they come to GSA for assistance in identifying or negotiating low transportation rates.

This means having complete tariff libraries, sufficient experienced and capable traffic management personnel, strong negotiating procedures, and ability to respond quickly. These attributes can be provided through enhancing the existing organizational structure or through a more centralized approach.

RECOMMENDATIONS

We recommend that the Administrator of General Services:

- Increase GSA efforts to improve civil agency traffic management operations.

--Seek ways to get civil agencies to come to GSA for assistance.

--Study organizational alternatives for furnishing this assistance and then provide the required resources.

AGENCY COMMENTS AND OUR EVALUATIONS

We furnished a preliminary draft of this report to officials of GSA's Federal Supply Service and obtained informal comments. The officials generally agreed with our findings and recommendations.

In mid-1978, GSA plans to reinstitute the comprehensive survey program designed to audit selected civil agencies and pinpoint traffic management deficiencies. The officials stated that they planned to change their coverage to emphasize managerial aspects rather than technical aspects of traffic management. In view of the large dollar savings previously identified in technical reviews, we believe a combination of both managerial and technical aspects would be a better course of action.

Officials recognize that many agencies are not coming to GSA for assistance. They plan to take a more forceful approach with the agencies. Also, the officials plan to continue training courses for civil agency personnel. They stated that although the number of courses is decreasing the number of participants is increasing.

Officials said that the number of liaison visits were being reduced because they were not productive and not cost effective. However, they had not made any detailed studies to support this position. We believe that visits can be helpful to agency personnel. Before deciding to continue the reductions, GSA should make a detailed analysis of costs and benefits to the Government as a whole. In making this analysis GSA should ask agency personnel for their views on the liaison visits' usefulness.

GSA officials stated that our recommendation to study organizational alternatives was very good. They stated that consolidating traffic management activities could provide economical benefits and improve operations. The officials cautioned, however, that any reorganization would be slow in developing because it would involve transfers of personnel and changes to overhead allocations.

CHAPTER 3

SAVINGS POSSIBLE ON SHIPMENTS

TO GSA DEPOTS

GSA has not been making the type of analyses needed to obtain the lowest transportation costs on procurement contracts. GSA now uses Free on Board destination delivery terms almost exclusively. GSA could save millions of dollars if it were to consider FOB origin delivery terms and take advantage of special reduced transportation rates available to the Government. GSA also can obtain reduced transportation rates under FOB destination terms.

The use of FOB origin delivery terms also would eliminate transportation costs as a factor in bid offerings. Often, exact destinations and quantities are not known at the time of invitations for bid, and bidders include a larger factor for transportation costs than actually will be incurred.

Additional savings are possible if GSA ordered material so that it would be delivered in truckload or carload volumes. Currently, most shipments are in more costly smaller volumes.

SELECTION OF DELIVERY TERMS

The Federal Procurement Regulations provide for selecting the delivery term which is most advantageous to the Government. The pertinent section follows.

"In the selection of appropriate delivery terms for inclusion in invitations, the delivery term ('f.o.b. origin,' 'f.o.b. destination,' etc.) shall be that which is most advantageous to the Government. Where alternative terms of delivery are feasible and may provide economy in transportation, invitations shall provide for alternative bases so that the contracting officer can, at the time of evaluation, select the delivery term which is most favorable to the Government."

Under FOB destination terms, the contractor normally arranges for transportation and includes the cost in the price of the material. Under FOB origin terms, GSA normally takes possession of the material at the contractor's plant and makes the arrangements for transportation. Although many invitations ask for bids on both delivery terms, bidders generally have offered only FOB destination prices.

POTENTIAL SAVINGS

GSA could save an estimated \$1.4 million annually in transportation costs by making analyses comparing FOB origin and FOB destination costs and taking advantage of lowest available transportation rates.

We analyzed a random sample of 150 shipments from commercial vendors to GSA depots in three GSA regions during September, October, and November 1976. With GSA's assistance, the actual transportation costs incurred by vendors under FOB destination terms were compared with the costs that would have been incurred if GSA had used FOB origin terms and received lowest available transportation rates.

The comparisons showed that GSA could have saved \$114,000 in transportation costs in the three regions during the 3-month period. If the 3 regions are representative of all 10 GSA regions, the estimated reduction in transportation costs nationwide would be \$1.4 million annually. The savings would be reduced somewhat by additional costs of freight rate determinations, bid evaluations, and Government bills of lading processing.

Savings primarily resulted from using section 22 freight rates. Section 22 of the Interstate Commerce Act (49 U.S.C. 22) permits commercial carriers to move Government property free or at special reduced rates. The following examples taken from the sample illustrate the type of savings possible.

--A contractor shipped 328 cartons of dishwashing soap (NSN-7930-281-4701) from Atlanta, Georgia, to the GSA depot at Edison, New Jersey. The soap weighed 16,830 pounds and was shipped via common carrier at a cost of \$631.13. If the soap had been shipped under available section 22 rates, the transportation costs would have been \$385.41, or a savings of \$245.72.

--A contractor shipped 160 desks (NSN-7110-602-0229) from Grand Rapids, Michigan, to the GSA depot at Middle River, Maryland. The desks weighed 7,680 pounds and were shipped via rail at a cost of \$367.10. If the desks had been shipped under available section 22 rates, the transportation costs would have been \$281.86, or a savings of \$85.24.

Similarly, GSA compared transportation rates available in 1975 for shipments of furniture. The comparison showed

that using section 22 rates would reduce transportation costs significantly. The reductions ranged from 4 to 52 percent, depending on the origin and destination of shipments. However, GSA decided not to pursue the matter further because it did not want to alienate bidders.

SECTION 22 RATES ALSO AVAILABLE
UNDER FOB DESTINATION TERMS

An agency also can take advantage of section 22 rates under FOB destination delivery terms. A method for assuring these rates on procurement contracts is "freight prepaid and charged back."

Under this method, the vendor prepays the freight using a commercial bill of lading and then adds the cost to the agency's invoice. The Army and Air Force Exchange Service has used this method successfully for many years. They require the vendor to annotate the commercial bill of lading with the statement: "Transportation is for the (name the specific Government agency) and the actual total transportation charges paid to the carrier(s) by the consignor or consignee are assignable to, and are to be reimbursed by the Government."

ZONE METHOD OF PROCUREMENT
INCREASES TRANSPORTATION COSTS

Transportation costs are increased because GSA often does not specify the delivery point for a product when bid invitations are made. GSA would not have to absorb the increased costs if it requested bids under FOB origin delivery terms.

Many invitations require that the vendor be ready to deliver his product under FOB destination terms anywhere within one of several zones. For example, one GSA zone arrangement divides the United States into three zones. Because a vendor does not know the destination or perhaps even the exact quantity to be shipped, he may include a factor for transportation in the bid that will cover the most expensive type of route and rate.

This has happened. We spoke to officials of an office furniture company that was awarded a contract to supply filing cabinets to GSA and other agencies in all three zones.

Officials stated that they computed transportation costs as if each shipment would consist of delivering one filing

cabinet to the farthest point from the company's plant. One official estimated that the company received \$5 million a year from GSA for transportation that actually cost the company \$3 million.

GSA should be able to reduce transportation costs by using FOB origin delivery terms. Under these terms bidders would not have to include transportation factors. Instead, GSA could arrange with carriers for transportation once exact destinations and quantities are known and pay only for the actual transportation provided.

TRUCKLOAD LOT SHIPMENTS WOULD REDUCE TRANSPORTATION COSTS

Most shipments to GSA depots are in less-than-truckload or less-than-carload lots. Because this is the least economical method, transportation costs are increased.

We sampled vendor shipments to GSA depots during 1 year and found that 75 percent of the deliveries were in less-than-truckload or less-than-carload lots. Presumably, vendors reflect the added cost of this delivery method in the total commodity price quoted to GSA.

GSA could reduce transportation costs by requesting deliveries in truckload or carload lots. This would reduce the overall number of shipments and enable GSA to take advantage of lower transportation rates.

However, GSA would have to determine the extent the reduced transportation costs may be offset by increased holding costs. This determination could be made by modifying the economic order quantity formula. Presently, the formula considers ordering, holding, and commodity costs, but does not include transportation costs as a separate factor. GSA apparently considers transportation costs to be part of the commodity's price.

WHY ANALYSES ARE NOT MADE

GSA generally does not make transportation cost analyses comparing FOB destination and FOB origin delivery terms. Procurement personnel said that they do not make the analyses because FOB destination delivery terms most often result in lower overall costs and minimize administrative workload and problems.

We do not agree with GSA. Our tests show that using FOB origin delivery terms and section 22 rates can reduce transportation costs. Furthermore, GSA may be overly concerned with administrative matters.

We checked with officials of the Department of Defense which uses FOB origin delivery terms extensively. They estimate that section 22 rates save them \$250 million a year in transportation costs. Their experience shows that administrative problems have been minimal and assuming responsibility for transportation has not significantly increased the administrative workload.

CONCLUSIONS

The preceding sections enumerate ways that GSA can improve operations and effect transportation savings in its procurements for GSA stocks. These include comparing FOB destination and FOB origin prices, obtaining special reduced rates, defining delivery locations, and consolidating shipments.

Comparisons should be required for invitations for bid on procurement contracts generating truckload or carload volumes as called for in the Federal Procurement Regulations. Certain invitations for bid on contracts generating less-than-truckload or less-than-carload volumes also should require both prices since our tests showed that some transportation savings were the result of using section 22 rates on less-than-truckload or less-than-carload shipments.

We recognize that improvements may increase GSA's workload and require greater coordination between procurement and transportation personnel. However, the potential for savings more than offsets the possible increased cost of administrative workload and coordination.

RECOMMENDATIONS

We recommend that the Administrator of General Services require that bidders on procurement contracts submit their bids on both FOB destination and FOB origin bases. We also recommend that the Administrator make the transportation cost analyses needed to identify the lowest overall transportation costs and take the steps required to obtain these lowest costs.

AGENCY COMMENTS AND OUR EVALUATIONS

In commenting on our draft report, GSA officials agreed that bids should be submitted on both an FOB destination and FOB origin basis when truckload or carload volumes are involved. They also agreed that transportation cost analyses should be performed. On smaller shipments, the officials stated that using FOB destination delivery terms and the method described on page 10 for taking advantage of section 22 rates should be explored.

The above comments indicate a positive attitude on our recommendations. If GSA implements the necessary actions, transportation cost savings should result.

CHAPTER 4

SCOPE OF REVIEW

We reviewed GSA's traffic management operations and compared them with the tenets of the Federal Property and Administrative Services Act of 1949. The review was primarily concerned with the assistance provided civil agencies and the methods used to obtain transportation on GSA procurements.

We interviewed officials, examined records, and obtained information at the Federal Supply Service and at each of the 10 GSA regional offices.

We also discussed GSA's assistance, performance, and requirements with officials of three independent agencies and nine civil departments. In addition, we discussed transportation delivery terms with officials of several Government contractors.

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