

United States General Accounting Office

GAO

Report to the Honorable
Jerry Lewis, House of Representatives

May 1988

ARMY TRANSPORTATION

Alleged Overcharges on Rail Shipments to and From Ft. Irwin, California



136007

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**National Security and
International Affairs Division**

B-230507

May 13, 1988

The Honorable Jerry Lewis
House of Representatives

Dear Mr. Lewis:

As you requested, we reviewed your constituent's allegations that military units traveling to and from the U.S. Army National Training Center (NTC) at Fort Irwin, California, were frequently overcharged for the rail transportation of military equipment. Your constituent, formerly an internal review auditor at the NTC, alleged that in many instances the railroads were not billing the Army according to the negotiated rates and conditions. He further alleged that the installation transportation offices, particularly at the NTC, often were not identifying rail car substitutions when preparing the Government Bill of Lading (GBL). He provided documentation prepared while he was employed by the NTC's Internal Review Office showing a total of about \$3.3 million in overcharges on 33 one-way moves during fiscal years 1982 through 1986. Since the constituent left the NTC in 1986, the U.S. Army Forces Command (FORSCOM) Headquarters Internal Review Office has continued the audit. Reported overcharges now total more than \$4.4 million.

Our review substantiated the allegations.

Background

Military units traveling to and from the NTC generally ship several trainloads of military equipment for use during training exercises. When planning a round-trip move to the NTC, personnel at the home installation determine the number of rail cars that will be needed to ship the military equipment they plan to take along. This equipment is shipped under rates defined in "tenders of service" negotiated with the railroads by the Military Traffic Management Command (MTMC). The negotiated tenders include rates for each type of rail car used in the moves (for instance, flat cars, gondola cars, bi-levels, tri-levels) and the rules or conditions under which the rates are to be made available.

Installation planners request the cars from the rail carriers by type and size several weeks in advance of the shipment. Frequently, the carriers are unable to provide the specific cars requested. In such instances, the tenders may allow the carrier to substitute smaller cars for larger cars ordered (i.e., bi-levels for tri-levels, flat cars for bi-levels, or shorter flat

cars for longer ones). If the carrier substitutes cars, the cost to the government for these cars should not exceed the cost of the specific cars ordered.

In the most common example of substitution, the carriers are allowed to substitute three 60- to 68-foot flat cars for two 89-foot flat cars. If a carrier makes this substitution, the military customer should be charged only the cost of the two cars ordered. In contrast, if the military specifically orders 60- to 68-foot flat cars, it should be charged for each car at the full flat-car rate.

As cars are loaded, military personnel prepare GBLs covering the shipment. The GBLs list information on each car used in the move, including whether the car was provided as ordered or was substituted for a larger car. The GBL, which is the procurement document, should include all of the information required to enable the carrier to correctly bill the government. A one-way move can involve one or more GBLs, depending on the practice of the transportation office documenting the move. At the NTC, the transportation office normally prepares one GBL for each trainload.

Carriers submit their transportation bills, supported by the original copy of the GBL, to the U.S. Army Finance Center for payment. Prior to early 1987, the bills were paid by the Finance Center without prior review. In November 1986, 31 U.S.C 3726 was amended to give the General Services Administration (GSA) the authority to preaudit transportation bills for all government agencies. It also was given the authority to delegate this function to other agencies. In early 1987, at the request of the Department of Defense (DOD), GSA began auditing the bills for NTC moves before they were paid. GSA also continued to audit all transportation bills after payment. A flow chart tracing the GBL from inception to final payment is included as appendix I.

Overcharges for Rail Transportation

We reviewed the work of GSA's rail audit branch on moves that accounted for \$3.0 million, or about 90 percent, of the overcharges alleged by your constituent. These overcharges occurred because either the rail carriers had not correctly applied the negotiated rates when billing for transportation services or the military transportation offices had not correctly prepared the GBLs.

Although the responsible military commands have taken some actions, we believe that additional measures are necessary to ensure that overcharges do not continue.

Rail Carriers Did Not Bill in Accordance With the Applicable Tenders

GSA transportation auditors' work showed that erroneous billing by the rail carriers had resulted in overcharges of \$1.7 million, or about 57 percent of the \$3.0 million in alleged overcharges. In some cases, the rail carriers had simply used the wrong rates in billing the government. For example, on one round-trip movement between Fort Sill, Oklahoma, and the NTC, the carrier overbilled the government by more than \$217,000 because it had applied the round-trip rate to each half of the movement. In other instances, the carriers' billings did not take into consideration car substitution that was correctly shown on the GBLs. For example, on an outbound move from the NTC to Fort Hood, Texas, the carrier had overbilled the government by more than \$260,000 because the substitution of smaller cars for larger ones, although shown correctly on the GBLs, was not correctly reflected in the billing. Thus, the government paid for more cars than it should have under the terms of the tender.

Car Substitution Not Noted on Government Bills of Lading

Most of the remaining \$1.3 million in overcharges was attributable to the failure of installation transportation offices to correctly identify car substitution on the GBLs. For the military to be billed properly under the substitution rule, smaller cars substituted for larger cars must be identified on the GBLs. If cars are not identified on the GBLs as substitutes, they are billed by the carrier at the full per-car rate. During their audit, FORSCOM internal review auditors found a number of instances in which substituted cars had not been correctly identified, resulting in the Army's paying greater transportation charges than it should have paid. For example, on a one-way move from the NTC to Fort Hood, transportation office personnel failed to identify on the GBLs 60-foot and 53-foot cars substituted for 89-foot cars. As a result, the carrier overbilled the government about \$280,000 for substituted cars. These errors are particularly significant because they normally cannot be detected in GSA's audit of the bills. Only by reviewing all records relating to the move at the origin transportation office can substitution be detected.

Evaluation of Corrective Actions Taken on Reported Deficiencies

The Army has taken positive actions to correct the problems of overcharges on movements to and from the NTC. These include

- an audit of all carrier billings before they are paid,
- the issuance of detailed written instructions on GBL preparation, and
- the adoption of new internal control procedures at NTC.

Carrier Bills Are Audited Before Payment

To detect erroneous billings by the railroads before they are paid, the Army and GSA developed a procedure to conduct prepayment audits of all carrier billings for NTC moves. Under this procedure, GBLs received at the Army Finance Center and identified as relating to NTC moves are sent to GSA for prepayment audit. Bills that GSA finds to be correct are cleared for payment, while those with errors are returned to the carriers for revision before payment.

To determine how effective this prepayment audit procedure is in detecting billing errors, we reviewed selected moves to see if all GBLs were being identified by the Finance Center and forwarded to and audited by GSA. We found that GSA was not receiving all of the GBLs needed for prepayment audit.

Our review of three rotations (six one-way shipments) showed that fewer than one half of the GBLs involved had been identified by the Finance Center and forwarded for prepayment audit. For example, on a shipment from Fort Irwin to Fort Polk involving seven GBLs, only three had been submitted to GSA. While GSA found overcharges totaling \$58,000 on two of the three bills, overcharges totaling more than \$100,000 on three of the four bills that had not been preaudited were not detected until the FORSCOM Internal Review Office conducted a postpayment audit. It was not clear why the bills had not been identified at the Finance Center and submitted to GSA.

GSA does not know how many GBLs are issued for a specific move, so its auditors do not know whether they have received all of the GBLs needed for prepayment audit. In conducting its audits, GSA does not group the GBLs by rotation but instead audits them one by one. This audit on the basis of individual GBLs prevents the auditors from catching some errors in GBL preparation. For example, although most NTC moves involve some car substitution, not all GBLs do. Thus, if a single GBL does not show substitution, there is little cause for concern. However, if several GBLs are used on a move and none show substitution, more than likely one or

more of the GBLs are erroneous and more information is needed to determine whether substitution occurred.

We believe that, for the preaudit to be effective, it must be done by auditors who can review all the GBLs for each move. This would enable the auditors not only to know whether they are receiving all the bills but would help them to evaluate whether the GBLs correctly reflect the car substitution that has taken place.

Written Instruction Issued

In an attempt to ensure that rail car substitution on future moves is correctly identified on the GBLs, MTMC and FORSCOM issued additional written instructions on the preparation of GBLs to correctly reflect car substitution. These instructions more clearly define what information must be on the GBL to facilitate proper billing by rail carriers and to ensure that any subsequent audit to validate the accuracy of such billing can be readily accomplished.

The subject is also addressed in a draft regulation to be issued by MTMC, the agency responsible for publishing DOD regulations on transportation matters.

New Internal Control Procedures Adopted

We visited Fort Irwin, where most of the instances of failure to identify car substitution had occurred, and evaluated its procedures for preparing GBLs for outbound moves. We found that the Fort Irwin transportation office had developed a new internal control procedure for determining the number of substituted cars on outbound shipments based on the number of cars requested for inbound shipments. The procedure is basically a comparison of cars requested and furnished on the inbound shipment with those provided outbound. The assumption is that the inbound GBLs are accurate and that the same sizes and numbers of cars will be required outbound. For example, if 35 60- to 68-foot flat cars were requested and provided on the inbound shipment, the first 35 such cars loaded on the outbound shipment are identified as requested, and all other 60- to 68-foot cars are identified as substitutes.

Although this internal control procedure facilitates the accurate preparation of GBLs for outbound shipments, the procedure itself has not been established as a written standard operating procedure. Also, it requires close coordination between the transportation office and departing units to correctly identify cars added to or deleted from those used on the inbound shipment. For example, on occasion significantly fewer 60- to

68-foot rail cars are used on the outbound leg of a rotation than on the inbound leg because some equipment is left behind at the NTC. Unless the Fort Irwin transportation office is aware of the details of these changes, it cannot determine whether there has been a reduction in the number of 60- to 68-foot cars required to move specific items of equipment or in the number substituted for larger cars. Because 60- to 68-foot flat cars ordered to meet a need are priced at the full flat-car rate, while similar cars provided as substitutes for larger cars are priced at less than the full rate, correct identification of any cars added or deleted is essential to accurate billing.

Conclusions

The rail overcharges discussed in this report can generally be attributed to one of two causes—either improper billing by rail carriers or improper GBL preparation by the installation transportation officer.

With respect to GBL preparation, we believe that the written instructions issued by MTMC and FORSCOM—reinforced in a draft regulation to be issued by MTMC—should correct most of the deficiencies previously experienced.

We also believe that the internal control procedure adopted by Fort Irwin can help to ensure that the GBLs are accurately prepared. This procedure, however, is oral guidance. To provide continuity in case of personnel turnover, a written standard operating procedure covering the new internal control procedure at the NTC is needed. In addition to covering the procedures currently followed, the written procedure should require that transportation office personnel obtain information from the rotating units supporting the reasons for any significant changes in the numbers or types of cars used on the outbound shipments so that the cars in question can be properly evaluated for billing purposes.

In connection with improper carrier billings, we believe that the action taken by the Army and GSA to preaudit carrier bills before they are paid is a viable control to preclude or reduce the incidence of overcharges by carriers. However, the Army has not provided all of the GBLs to GSA for prepayment audit. Also, GSA does not have all of the information needed to facilitate a comprehensive audit.

In our opinion, for the preaudit to be effective, it must be done by auditors who can review or have access not only to all of the GBLs but also to related information on a specific move. GSA does not have ready access to the necessary information. An Army entity, on the other hand,

charged with the preaudit responsibility would have complete records showing the numbers and sizes of rail cars requested and provided, the GBLs involved, and what went on each car. Accordingly, this entity would be in a position to know when it gets all the GBLs it needs to do an effective audit and could evaluate whether the GBLs were correctly prepared.

Recommendation to the Administrator of General Services

To ensure that all GBLs relating to rotational moves are audited prior to payment and to enable the auditors to better evaluate the correctness of GBL preparation, we recommend that the Administrator of General Services delegate authority for the preaudit function to the Secretary of the Army, in accordance with administrative regulations.

Recommendations to the Secretary of the Army

If delegated by the Administrator of General Services to the Secretary of the Army, the preaudit function should be further delegated by the Secretary to an organizational entity with complete visibility over moves and the authority to obtain additional information as needed to resolve any questions on the accuracy of the preparation of GBLs. This should be an entity other than the office responsible for preparing the GBLs.

We also recommend that the Secretary of the Army direct that the internal control procedures adopted by the Fort Irwin transportation office for determining outbound substituted cars be placed in writing as standard operating procedures for Fort Irwin. In addition to covering the procedures currently followed, the written procedures should require the transportation office to obtain information supporting the reasons for any significant change in the number of cars used on the inbound and outbound shipments.

Agency Comments

We provided drafts of this report to the Secretary of Defense and to the Administrator of General Services for review and comment. In official oral comments, Defense officials agreed with our report and cited specific actions to be taken on our recommendations. They stated that GSA has apprised the Defense Department that it intends to grant the Department full prepayment audit authority within the next few months. Defense officials also said that this authority will be further delegated to the Secretary of the Army. They further stated that written instructions have now been issued to freight traffic personnel at Fort Irwin, outlining the procedures to be followed when preparing GBLs for rail movements of redeploying units. The Defense Department will

request Fort Irwin to incorporate these instructions into its standard operating procedures.

In commenting on the draft, the Acting Administrator of General Services agreed in principle with our recommendation to delegate prepayment audit authority to the Secretary of the Army. He pointed out that sound audit procedures require that some activity other than the procuring transportation office conduct the audit. We agree with this observation and have clarified our recommendation. He also pointed out that GSA is publishing a final rule that prescribes procedures, conditions, and limitations related to the delegation of authority to another agency to conduct prepayment audits. According to the Acting Administrator, this rule will be completed in the spring of 1988.

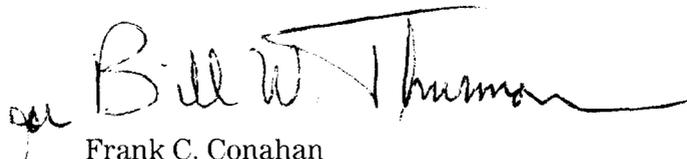
Objectives, Scope, and Methodology

The objectives of our review were to determine the validity of your constituent's allegations and to evaluate any actions taken to correct the reported deficiencies. In reviewing the allegations, we evaluated the work done by the FORSCOM internal review auditors and by GSA transportation auditors, who are responsible for auditing transportation bills for all government agencies. We also evaluated actions taken at various levels of command to correct the reported deficiencies.

We conducted our review from March through October 1987 in accordance with generally accepted government auditing standards.

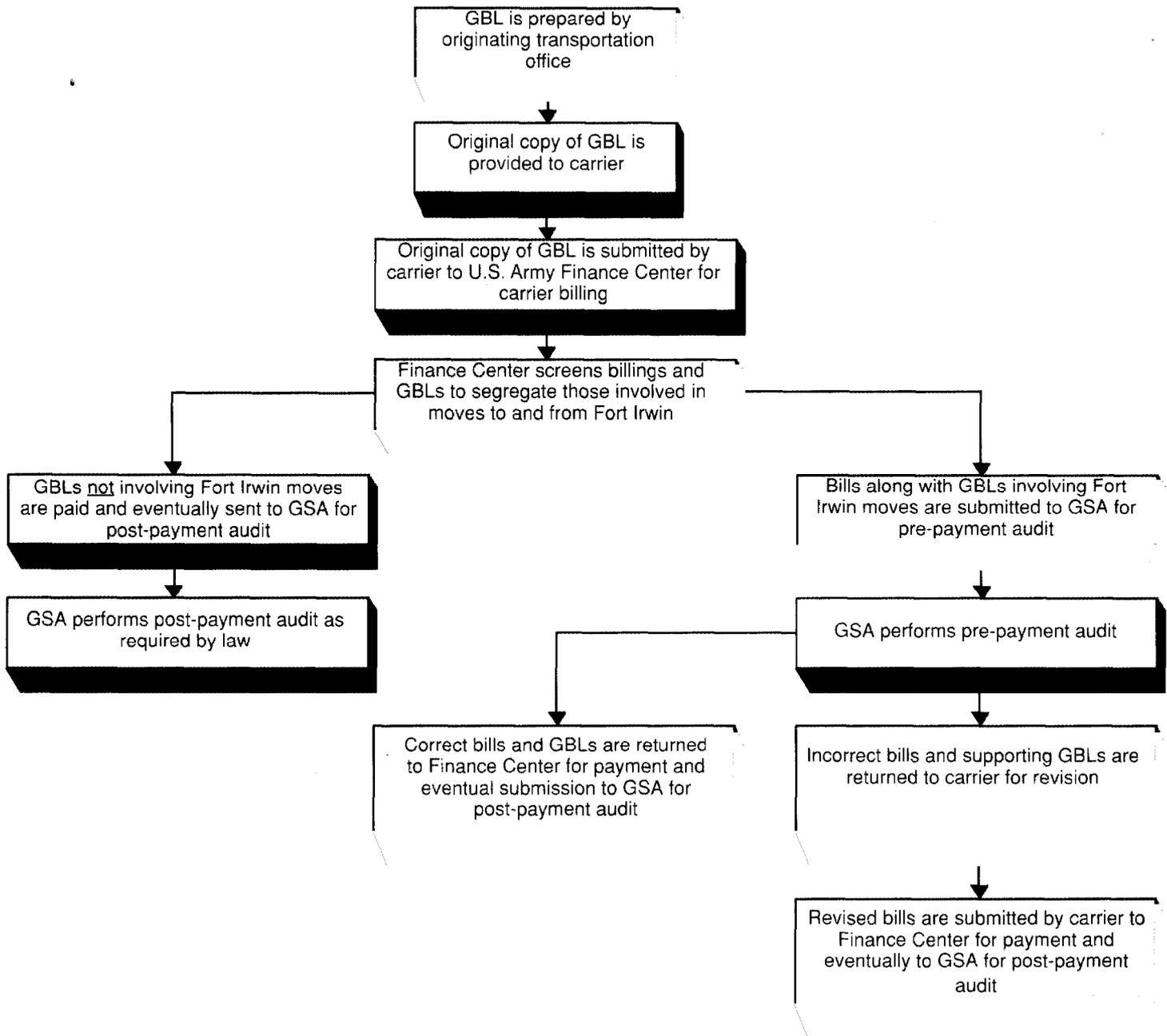
As agreed with your office, we plan no further distribution of this report until 30 days after the date of this letter. We will then release the report to the Secretary of Defense, the Administrator of General Services, and any other interested parties.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

Flow of Government Bills of Lading to GSA for Audit



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