

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**BILLING OF HOUSEHOLD GOODS
ACCESSORIAL CHARGES**

Report No. 98-034

December 10, 1997

Department of Defense

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Acronyms

| | |
|-------|--|
| DFAS | Defense Finance and Accounting Service |
| EDI | Electronic Data Interchange |
| FAR | Federal Acquisition Regulation |
| GAO | General Accounting Office |
| GBL | Government Bill of Lading |
| HHG | Household Goods |
| MTMC | Military Traffic Management Command |
| PPSOs | Personal Property Shipping Offices |
| SF | Standard Form |
| TOPS | Transportation Operational Personal Property Standard System |
| WHIST | Worldwide HHG Information System for Transportation |



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**



December 10, 1997

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS
COMMANDER IN CHIEF, UNITED STATES
TRANSPORTATION COMMAND
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
COMMANDER, MILITARY TRAFFIC MANAGEMENT
COMMAND
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Billing of Household Goods Accessorial Charges
(Report No. 98-034)

We are providing this report for your information and use. The Commander, Military Traffic Management Command, requested that we perform this audit. This report contains no findings or recommendations; therefore, written comments were not required, and none were received.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. John A. Gannon, Audit Program Director, at (703) 604-9176 (DSN 664-9176) or jgannon@dodig.osd.mil, or Mr. Hassan A. Soliman, Audit Project Manager, at (703) 604-8868 (DSN 664-8868) or hsoliman@dodig.osd.mil. See Appendix G for the report distribution. The audit team members are listed inside the back cover.

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Report No. 98-034
(Project No. 7LB-5012)

December 10, 1997

Billing of Household Goods Accessorial Charges

Executive Summary

Introduction. The Commander, Military Traffic Management Command (MTMC), requested that we perform an audit of accessorial charges associated with the movement of household goods* to assist MTMC in its efforts to reengineer the personal property traffic management program. MTMC administers the personal property traffic management worldwide. Civilian employees and Service members of DoD who are required to make permanent change of stations moves are entitled to move an authorized amount of household goods at Government expense. Services needed to complete the shipment of household goods, other than the line-haul service, are accessorial services. Examples of accessorial services are packing and unpacking, preparing an appliance for shipping, and storage-in-transit. The line-haul service is the actual transportation of the household goods using motor vans.

The MTMC estimates that the annual DoD-wide household goods shipment volume is between 600,000 shipments and 650,000 shipments. During FY 1995, DoD spent approximately \$1.6 billion for the transportation and storage of household goods for its civilian and military personnel. Of that amount, an estimated \$432 million was paid for accessorial charges. For the 10 sites selected by MTMC for the audit, the total of the accessorial charges was \$7.72 million, and the average value of the accessorial charges was \$733 per bill. As of November 1996, there were 141 personal property shipping offices and joint personal property shipping offices.

Audit Objectives. The audit objectives were to evaluate the process of submitting bills for household goods accessorial charges for payment, and to evaluate procedures used to conduct prepayment reviews of billed accessorial charges. Additionally, we evaluated the adequacy of the management controls related to the audit objectives.

Audit Results. The process of submitting bills for household goods accessorial charges for payment was effectively managed. Prevention and detection of billing errors and mischarges were significantly enhanced by subjecting those bills to prepayment audit. The low average billing error was estimated at \$8.61 (1 percent) per bill for the 10 MTMC selected sites. Further improvements in the accuracy, reliability, and timeliness of the accessorial charges bills should result from alternative efforts by

* Household goods are personal property items associated with the home and its residents, which may include clothing, baggage, furnishings, and furniture.

the Defense Finance and Accounting Service (DFAS) and MTMC, and from reviewing bills by the personal property shipping offices. Efforts of DFAS and MTMC, including using after-payment verifications and prepayment investigative audits in an electronic data interchange environment, are commendable as they enhance the accuracy of billing particularly through the inherent deterrence of reviewing the billed charges. The low error rate identified by the audit should not be a deterrent to the implementation and use of electronic data interchange, and reengineering the acquisition of the household goods movement services.

Our report did not include formal recommendations because the MTMC personal property reengineering team, in coordination with DFAS, was in the process of solidifying several actions aimed at improving the personal property management program, in general, and the billing of the applicable charges, in particular. The attributes of all three alternatives discussed in this report should be considered by the MTMC reengineering team, including the examination of the scope of the proposed prepayment investigative audit contract to ensure adequacy of the audit coverage and the criteria for evaluating contractor performance.

Management controls at DFAS, MTMC, joint personal property shipping offices, and personal property shipping offices were adequate in that we identified no material management control weaknesses in the review of carriers' billing of household goods accessorial charges (see Appendix A).

Management Comments. We provided a draft of this report on October 27, 1997. Because this report contains no findings or recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Part I - Audit Results

Audit Background

The Commander, Military Traffic Management Command (MTMC), requested that we perform an audit of accessorial charges associated with the movement of household goods (HHG) to assist MTMC in its efforts to reengineer the personal property traffic management program. Because the administration of accessorial charges is part of its HHG reengineering efforts, MTMC requested that we evaluate the current accessorial bill paying process. MTMC also requested that Service members be interviewed to corroborate deficiencies in the billing process.

Our efforts in this audit support two of six DoD strategic goals reflected in the May 1997 Quadrennial Defense Review. The first goal relates to the soldier's quality of life. It states, "Recruit and retain well-qualified military personnel and provide them with equal opportunity and a high quality of life."

The second DoD strategic goal to benefit from the audit efforts relates to reengineering DoD. It states,

Fundamentally reengineer the Department and achieve a 21st Century infrastructure by reducing costs and eliminating unnecessary expenditures while maintaining required military capabilities across all DoD mission areas. Employ modern management tools and exploit the Revolution in Business Affairs.

Our audit efforts also support the goal of streamlining logistics infrastructure reflected in the June 1996 Department of Defense Logistics Strategic Plan through assisting MTMC in its efforts to reengineer the personal property movement program. The MTMC efforts directly contribute to achieving the two planned objectives of implementing most successful business practices and increasing outsourcing. As discussed later in the audit report, the MTMC efforts embraced many of the best procedures used in private industry when private sector employees are relocated, in addition to using a private firm to conduct prepayment audits of the billed charges.

HHG Shipments. Civilian employees and Service members of DoD who are required to make permanent change of stations moves are entitled to have an authorized amount of HHG moved at Government expense. MTMC estimates that annually, DoD makes between 600,000 HHG shipments and 650,000 HHG shipments (our 10 MTMC selected sites included 10,529 shipments). This makes DoD the largest shipper of HHG in the country. During FY 1995, the latest period for which figures were available, DoD spent approximately \$1.6 billion for the transportation and storage of HHG for its civilian and military personnel. Of that amount, an estimated \$432 million was paid for

accessorial charges, and the balance was for line-haul charges. Accessorial charges include charges for packing, loading, unloading, delivering, and unpacking of HHG. The line-haul or transportation of the HHG is paid based on location, weight, and mileage.

MTMC Efforts to Control Accessorial Charges. In addition to reengineering the personal property program, and as a fundamental part of the reengineering efforts, MTMC is contemplating the employment of an audit firm to review billed accessorial charges before payment. Also, MTMC has made reducing categories of accessorial charges a key part of its effort to reengineer the HHG traffic management program. The MTMC rate solicitation document dated November 1995, contains approximately 110 accessorial service categories. The HHG carrier associations resisted MTMC efforts to reduce the number of accessorial service categories because of concerns that carriers would be unable to recover the cost of the infrequently rendered services if the categories were consolidated. If the pilot program is successful, MTMC would have an excellent basis to simplify the introduction of electronic data interchange (EDI) in the modernized billing and payment process. See Appendix C for a more detailed discussion of the MTMC pilot program.

Audit Objective

The audit objectives were to evaluate the process of submitting bills for household goods accessorial charges for payment, and to evaluate procedures used to conduct prepayment reviews of billed accessorial charges. Additionally, we evaluated the adequacy of the management controls related to the audit objectives. See Appendix A for a discussion of the scope, methodology, and management control program. See Appendix B for a summary of prior coverage.

Reengineering HHG Accessorial Charges

The process of submitting bills for household goods accessorial charges for payment was effectively managed. Prevention and detection of billing errors and mischarges were significantly enhanced by subjecting those bills to prepayment audit. The low average billing error was estimated at \$8.61 (1 percent) per bill for the 10 selected sites. Further improvements in the accuracy, reliability, and timeliness of the bills for accessorial charges should result from alternative efforts by the Defense Finance and Accounting Service (DFAS) and MTMC and from reviewing bills by the personal property shipping offices (PPSOs). Efforts of DFAS and MTMC, including the use of after-payment verifications and prepayment investigative audits in an EDI environment, are commendable as they enhance the accuracy of billing particularly through the inherent deterrence of reviewing the billed charges.

Billing and Payment Process for Accessorial Charges

Guidance. DoD Regulation 4500.34, "DoD Personal Property Traffic Management Regulation, Policy and Responsibilities," (DoD Regulation 4500.34) October 1991, prescribes uniform policies and procedures for the movement and storage of personal property, including responsibilities of the parties involved in the accessorial charges billing process. DoD Regulation 7000.14, "DoD Financial Management Regulation, Disbursing Policies and Procedures," volume 5 (DoD Regulation 7000.14) May 1996, prescribes policies and procedures for certifying and supporting disbursement of public funds, and requires that funds be disbursed if transactions are legal, proper, and substantiated. See Appendix D for further guidance on reviewing HHG bills.

Billing and Payment Process. The personal property shipping offices or the joint personal property shipping offices (hereafter collectively called PPSOs¹), HHG carrier, Service member, and the DFAS are parties to the process of billing and paying HHG accessorial charges.

PPSOs. The PPSOs provide the carrier with a Government bill of lading (GBL)² and approve specific accessorial services, such as storage-in-transit and third party services. Third parties are contractors hired by carriers to perform services that could not be performed by the carrier's employees. DD Form 619, "Statement of Accessorial Services Performed," and DD Form 619-1, "Statement of Accessorial Services Performed, SIT [Storage-in-Transit] Delivery and Reweigh," are used to substantiate the authorization and receipt of the claimed accessorial services. DoD Regulation 4500.34 requires the PPSO to review those forms. After the PPSOs review and approve specific accessorial charges, they return the forms to the carrier, which uses the PPSOs approval to support the bill. Copies of those documents are retained in the PPSOs.

Carrier. The HHG carrier performs the required services and obtains required approval from PPSOs and the Service member's signature using the DD Forms 619 and 619-1, indicating the receipt of the services rendered. After delivering the HHG to the Service member or to a storage facility, the carrier claims the incurred costs by sending the Standard Form (SF) 1113, "Public Voucher for Transportation Charges," and the statements of accessorial charges performed to the DFAS paying office specified in the GBL. The carrier also provides the PPSOs and the Service member with copies of the statements of accessorial services performed.

Service Member. The Service member is required to verify the accuracy of the information on the statements of accessorial services performed before signing the forms.

DFAS. The DFAS paying offices perform preliminary reviews of the billed accessorial charges. Those reviews include verifying that the SFs 1113 are supported by the proper documents, such as the statements of accessorial services performed, GBL, weight tickets, and a memorandum copy of all previously paid bills if the carrier was submitting a supplemental bill. After a

¹ The difference between a PPSO and a joint PPSO is that the PPSO is operated by one Military Department and supports fewer customers, while the joint PPSO is operated by more than one Military Department and supports a large number of customers.

² The GBL serves as the document authorizing the HHG shipment.

Reengineering HHG Accessorial Charges

preliminary review, DFAS sends the bills to an audit firm under contract with the General Services Administration for prepayment audit that consists of an administrative and rate review.

Prepayment Audits. The prepayment audit contract is limited in the scope of work. The contract requires that the audit firm verify that all bills submitted are complete and properly supported with required documentation and that correct tariffs, tenders, or other applicable rates are used. The contract also requires that the audit firm ensures that all extensions and computations of charges are correct. In addition, the audit firm is responsible for preparing statements showing errors and mischarges for DFAS use. However, the audit firm is not required to verify the receipt or reasonableness of the services rendered. While limited to perfunctory analysis, the audit scope was an effective deterrent to billing errors and mischarges.

Effectiveness of Prepayment Audit

The process of submitting bills for household goods accessorial charges for payment was effectively managed. Prevention and detection of mischarges and billing errors were significantly enhanced by subjecting those bills to prepayment audits. To test the effectiveness of the prepayment audit, we reviewed a statistically selected sample (425 bills) of paid accessorial charges and mailed questionnaires to selected Service members. We also ascertained billing errors that the prepayment audit firm identified, and reviewed the criteria for selecting bills for audit.

Review of Statistically Selected Sample of Paid Accessorial Charges. The errors identified in our stratified random sample of 425 bills were not significant. Table 1 shows the specific errors identified in the sample with reported accessorial charges of \$742,611. Billing errors in the packing and unpacking category and the excessive distance and stair carry category were higher than billing errors in the other categories. For the 10 sites selected, we projected that an estimated 14 percent of the 10,529 bills in the universe contained errors. However, the total of the errors was statistically projected to be \$90,609 (\$8.61 per bill error x 10,529 bills in the sample universe, see Table A-2 for all projections.) This totaled a 1-percent error in the sampling universe, valued at \$7.72 million.

Another error projected was the data entries error attributable to the inaccuracy of the data entries by DFAS paying offices. MTMC used the DFAS-entered

data to update its Worldwide HHG Information System for Transportation (WHIST) database, which we used to select our sample. We projected that about 17 percent of the records contained errors, with a gross value of \$423,376.

Table 1. Billing and Database Errors in Sample Original Bills for Domestic Inbound¹ Shipments

| <u>Accessorial Category</u> | <u>Amount Audited</u> | <u>Net (Undercharges) Overcharges</u> |
|------------------------------------|-----------------------|---------------------------------------|
| Packing and unpacking | \$ 477,334 | \$(1,409) |
| Storage-in-transit | 28,450 | (148) |
| 4 other categories | <u>8,690</u> | <u>(160)</u> |
| Subtotal | \$514,474 | \$(1,717) |
| Excessive distance and stair carry | 11,276 | 814 |
| Shipment from storage warehouse | 13,836 | 373 |
| Extra pickup and delivery | 2,084 | 212 |
| Auxiliary service | 1,472 | 192 |
| 8 other categories | <u>28,072</u> | <u>100</u> |
| Subtotal | 56,740 | 1,691 |
| Net billing errors | | (26) |
| Subtotal | \$ 571,214 | |
| Three vouchers not found | 4,245 | |
| Net data entry error ² | <u>167,152</u> | |
| Total | \$ 742,611 | |

¹Inbound shipments are shipments received by a PPSO as contrasted with shipments leaving the same PPSO. Domestic shipments are shipments within the continental United States, as contrasted with shipments to and from a location overseas, that were excluded from our review.

²After payment, DFAS creates a special data file consisting of paid vouchers for MTMC use. Because that data entry function was not subject to edit, errors were not discovered. Data entry errors overstated the universe for accessorial charges that we used in our review.

Service Members Responses to Confirmation Letters. To validate our audit results, we sent confirmation letters to Service members whose bills we sampled in our review. The purpose of the confirmation letters was to provide an independent test that accessorial charges were reasonable and services billed were received. Each confirmation letter contained a copy of the Service member's DD Form 619 and DD Form 619-1 and a short questionnaire. Recipients were asked to confirm receipt of the billed services and provide us

Reengineering HHG Accessorial Charges

with information to assess applicable management controls. Each question addressed a management control prescribed in DoD Regulation 4500.34 and DoD Regulation 7000.14.

Response to Confirmation Letters. We mailed confirmation letters to 348 of the 425 Service members included in our sample. We were unable to locate correct addresses for 77 Service members. Of the 348 confirmation letters mailed out, 154 responses were received. Our analysis of the responses received validated that at the 10 sites included in our review, the errors and mischarges were not significant.

The small number of the confirmation letters sent and the low response rate (36 percent) do not satisfy requirements for statistical sampling projection. Table 2 summarizes the answers received to questions on the reasonableness of the charges, receipt of services, and related management control measures.

**Table 2. Responses of Service Members to Confirmation Letters
Domestic Inbound Shipments**

| <u>Question</u> | <u>Yes</u> | <u>No</u> | <u>Did not Answer</u> |
|---|------------|-----------------|-----------------------|
| 1. Did the carrier's agent give you a copy of the form you signed? | | | |
| DD Form 619 | 133 | 13 | 8 |
| DD Form 619-1 | 77 | 19 | 58 |
| 2. Does the enclosed form accurately match your file copy? | | | |
| DD Form 619 | 114 | 26 ¹ | 14 |
| DD Form 619-1 | 62 | 16 ² | 76 |
| 3. Were the services listed performed? | 131 | 12 ³ | 11 |
| 4. Did the agent ask you to sign a blank DD Form 619 or DD Form 619-1 form? | 14 | 134 | 6 |
| 5. Was shipment inspected by a person from the PPSO? | 65 | 72 | 17 |

¹ Includes 12 invalid "No" responses

² Includes 11 invalid "No" responses

³ Includes 3 invalid "No" responses

Review of Service Members Responses. As shown in Table 2, the majority of the respondents provided favorable responses. The number of the unfavorable responses was not significant enough to conclude that a material management control problem existed. Also, our reviews of the “No,” or unfavorable responses, showed that the Service members sometimes provided invalid responses because they misinterpreted the data in the DD Form 619 and DD Form 619-1, misunderstood the second question, and did not describe the nature of the anomalies. Also, the effect of the “no” errors reported was negligible. We will provide the details of the confirmation letters to MTMC.

Other Prepayment Audit Results. Results similar to those disclosed by our stratified, random sample were identified by an audit firm under contract to the General Services Administration. The statistics compiled by DFAS, Indianapolis, disclosed that the audit firm detected net overcharges of \$849,000, which was 1 percent of \$84.7 million audited during 7 months in FY 1996. DFAS, Norfolk, reported that the audit firm detected net overcharges of \$307,000, which was 0.2 percent of \$149.6 million audited during FY 1996. However, those figures reflected errors in the billed line-haul and accessorial charges combined. Supporting details of audit results were unavailable for review. A more accurate determination of errors in accessorial charges paid by those two DFAS locations could not be made.

Criteria Used to Select Bills for Audit. The criteria for selecting bills for audit were not risk-based and, therefore, would not reflect the areas most vulnerable to errors and mischarges. DFAS, Indianapolis, requested an audit of all supplemental bills with amounts between \$100 and \$5,000, and all original bills with line-haul charges for fewer than 500 miles. DFAS, Norfolk, attempted to send as many bills as possible to the audit firm. Personnel at the two DFAS locations we visited were unable to show the rationale for the selection criteria. Although we attributed the low error rate to the effectiveness of the prepayment audits, the potential for examining fewer bills with the same results or better may be possible if a risk-based criteria were used for selecting bills for audit. For instance, packing and unpacking and excessive distance and stair carry accessorial charges appear to be a valid selection criteria. Nevertheless, DFAS, Indianapolis, stopped sending bills to the audit firm for prepayment audit in October 1996, in anticipation of using EDI in reviewing carriers billing, and because the audit firm did not return the audited bills to DFAS promptly. DFAS was concerned that delays in receiving the audited bills may cause delays in making payments to the carriers, thus making the Government liable for payment of interest charges. Data on interest paid for late payment of HHG transportation bills were unavailable for our review at DFAS, Indianapolis. However, our review of the 425 stratified, randomly

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selected bills, including \$1.9 million for line-haul and accessorial charges paid during the last 6 months of FY 1996, disclosed that the interest paid on late payments was only \$127.

DFAS EDI and MTMC Reengineering Efforts

Although prepayment audits have been effective, DFAS and MTMC took additional measures to improve the effectiveness and efficiency of reviewing carrier bills. For instance, the scope of those audits did not include reviewing the reasonableness or the receipt of the billed accessorial services. Also, as discussed, there were concerns about the timeliness of the audits. Thus, as part of the ongoing efforts and initiatives to use EDI and to reengineer the personal property movement program, several approaches have been planned including a DFAS plan for after-payment verification and a MTMC plan for prepayment investigative audits. We reviewed the DFAS and MTMC plans and found strengths and weaknesses in both plans. As part of our analysis, we examined other alternatives to increasing the efficiency of reviewing carrier bills. One of the alternatives envisioned a review of the billed accessorial charges by the PPSOs. See Appendix E for a detailed comparison of those alternatives for reviewing billed accessorial charges. The following is a summary discussion of the alternatives presented to assist DFAS and the MTMC personal property reengineering team in pursuing the goals of providing quality service at optimum cost.

DFAS Plans for After-Payment Verifications of Accessorial Charges.

Within its efforts to use EDI in billing, reviewing, and paying HHG accessorial charges, DFAS, in coordination with MTMC, is planning to pay EDI-billed accessorial charges without review, then randomly select some of those bills for after-payment verification.

DFAS Initial Plans. The DFAS initially planned to use EDI for billing, prepayment auditing, and paying HHG transportation charges. Under the EDI concept, the PPSOs would provide DFAS with an electronically transmitted GBL reflecting the incurred line-haul and accessorial charges. The carriers would also send their bills to DFAS through EDI. The DFAS automated transportation payment system would then perform a prepayment audit comparing the carrier's bill to the GBL transmitted by the PPSOs. However, DFAS was unable to implement its EDI concept for reviewing the accessorial

charges because the PPSOs claimed that they did not have enough resources to enter all the accessorial cost data into the Transportation Operational Personal Property Standard System (TOPS) for transmission to DFAS.

Concerns of the PPSOs about the volume of the accessorial charge categories may not be justified. Our stratified, randomly selected sample of 425 paid original domestic bills disclosed that, on the average, only three accessorial categories were used per bill. Only 18 categories were used in all 425 bills, with the packing and unpacking category attributable to 84 percent of the billed costs in the sample. Realizing that its initial plans would not be implemented because of the large number of the accessorial categories, DFAS envisioned verifying the accessorial bills after payment.

After-Payment Audit Plan. The DFAS developed, in coordination with MTMC, an alternative plan to verify accessorial bills after payment. The verification would be conducted either by DFAS or by a private audit firm. DFAS developed a plan whereby the carrier would be allowed to submit its original bills for line-haul and accessorial charges directly to DFAS using EDI. Under that approach, DFAS would perform an automated prepayment audit on only the line-haul charges and pay the accessorial charges without review. However, to ensure availability of supporting documentation for those bills, which contained accessorial charges submitted and paid through EDI, carriers would be requested to provide supporting documentation for randomly selected bills. As of September 1997, DFAS had not decided whether its personnel would conduct the verification or whether it would contract out that function. In addition, DFAS had not determined what actions would be taken when support was unavailable or inadequate. DFAS planned to implement its new procedures in October 1997; however, delays were encountered and a revised implementation date has not been set. The after-payment verifications will apply to HHG shipments nationwide, excluding an estimated 19,000 annual shipments from Florida, North Carolina, and South Carolina that are in the MTMC pilot program. If prepayment audits of the MTMC pilot program become the norm nationwide, it is envisioned that DFAS after-payment verifications will cease.

Attributes of DFAS After-Payment Verifications. The DFAS and the MTMC personal property reengineering team may want to consider the following attributes of the DFAS after-payment verification plan.

- After-payment verifications would allow the use of EDI to process HHG transportation bills, which would expedite payments and reduce potential interest charges for late payment.

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- Identification of potential overpayments in the prepayment audit process could result in DoD retaining the funds and put them to better use elsewhere.
- Additional personnel resources may be needed if DFAS were to perform the verifications.
 - The DFAS personnel would need to be trained to conduct the reviews.
 - The DFAS would be unable to verify or certify actual receipt of the billed services at distant locations.
 - The scope of the verification would be limited to ensuring the carrier has support for billed charges. Accuracy of the supporting documents could not be reviewed.
- Details of who would conduct the review and actions taken when support for billed charges was missing were not known.
- Supplemental bills would continue to be handled manually.
- After-payment verification would not be as strong a deterrent against errors and mischarges. The length of elapsed time before verification occurred and settlement completed was unknown.
- Existing TOPS capability to capture incurred accessorial charges would not be used.

See Appendix E for a compendium of the DFAS plan.

MTMC Plans for Prepayment Investigative Audits. In recognition of the need to substantially improve the quality of service during permanent change of duty stations, the MTMC was engaged in a pilot program to reengineer the acquisition of HHG shipping services. The MTMC initiative included more comprehensive prepayment audits of an investigative nature.

MTMC Reengineering Pilot Program. The MTMC pilot program embraced many of the best procedures used in private industry when private sector employees are relocated. Two of the pilot program features were to use Federal Acquisition Regulation (FAR) based contracts to acquire the transportation services, and to use a private firm to conduct prepayment audits of the billed charges.

FAR Contracts. A main feature of the pilot program was to change the acquisition vehicle from using a noncompetitive GBL³ method to competitively awarding contracts based on guidance set forth in the FAR. The pilot program would be applied to 50 percent of the HHG shipments from DoD installations in Florida, North Carolina, and South Carolina. The other 50 percent of the HHG shipments would be administered under the existing system. The pilot program results would be evaluated through comparison with the existing non-competitive system results. As of October 1997, the pilot program with its reengineered acquisition approach was on hold pending a decision by the Comptroller General of the United States regarding a protest by a small business carrier.

Prepayment Investigative Audits. Another feature of the MTMC pilot program was to use an audit firm to conduct prepayment investigative⁴ audits of the billed line-haul and accessorial charges. The audit firm that would be awarded the contract would also provide quality assurance and management information services. The following three paragraphs present the objectives, scope, and anticipated attributes of that audit.

Audit Objectives. The primary objectives of the prepayment investigative audit were to ensure that the services billed were actually performed and the costs billed were reasonable and correctly calculated.

Audit Scope. Information about the scope of the proposed audit services was unavailable because as of October 1997, MTMC was in the process of refining the statement of work for the contract solicitation. The contract would cover all estimated 19,000 shipments in the pilot program. As MTMC envisioned, the successful audit firm would interface through EDI with the carriers, DFAS, and MTMC. Bills would be submitted by the carriers to the audit firm that would verify the rates and bill computations, the reasonableness of the bill, and that the services billed were actually received.

³ Under GBL, carriers submit documents to MTMC to qualify for conducting business with the Government. At the same time they bid a set of rates as percentages of a fixed baseline. After bids from all carriers are published, carriers can lower their rates to match any lower bid (this is called a "me too" bid). Finally, rates are given to the PPSOs that will distribute the shipments almost equally among qualified carriers who bid the same rate. Carriers can refuse to accept a shipment, thus making it difficult for the PPSOs to complete the move.

⁴ MTMC considered the prepayment audit to be an investigative audit because the contractor would determine whether the billed services were rendered and reasonable using investigative techniques, such as contacting the Service member and using bench marks.

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Bench marks⁵ would be used to verify the reasonableness of billed charges and the Service member would be contacted to confirm that the billed services were received. After audit, bills would be forwarded electronically to DFAS for payment. DFAS would certify the availability of funds and MTMC would electronically authorize payment.

Anticipated Attributes of Prepayment Investigative Audits. The MTMC anticipates that prepayment investigative audits would have several substantial advantages over the current prepayment audits as discussed below.

- HHG shipment costs could decrease because the audits would address the receipt and reasonableness of billed services.
- The audit firm under contract would be responsible for resolving any billing related problems, thus relieving Government personnel from that task.
- Quality assurance measures would increase and management information services envisioned would provide feedback to DFAS and MTMC on the nature and magnitude of errors allowing for corrective measures when needed.
- HHG carriers would be paid promptly.
- Independent observations would be recorded that would provide MTMC with a basis for subsequent analyses and permit further improvements and expansion to its system.

As of October 1997, MTMC had not finalized details of the audit scope and the associated cost. Further, the MTMC plan to audit all pilot program shipments did not consider a risk-based approach. We believe that MTMC could proceed with the existing plan and could revise the audit selection criteria to be risk-based, depending on the audit results during the pilot program years. Additionally, because MTMC certification of the billed charges would be dependent on the quality of the audit service rendered, the statement of work needs to include performance standards to ensure adherence to strict quality controls by the audit firm. Such standards may include requirements to establish review procedures and criteria, report identified errors and associated

⁵ Bench marks for HHG are statistics accumulated by the HHG audit firm about previous shipments that could be used to predict the accessorial charges that could be incurred under various scenarios. Such statistics could be used to test the reasonableness of billed charges.

bills in details that are useful to Government managers, and specify minimum qualifications of the review staff. See Appendix E for a compendium of the MTMC plan.

Prepayment Reviews of Accessorials by the PPSOs. An alternative method to reviewing billed charges involves reviews of accessorial charges by the PPSOs. As envisioned, the PPSOs receive the bill for transportation charges and its attachments from the carrier; review the billed charges on a random, risk-based approach; then forward the bill electronically to DFAS for administrative review and payment. That alternative would require MTMC and the Services to closely collaborate on matters of implementation, design of tests, reporting of results, and supervision of the prepayment review function.

Random, Risk-Based Review. Under the random, risk-based approach, three elements would contribute to optimizing the use of available resources. The elements are establishing a value threshold for bills targeted; subjecting those bills to random selection for review; and focusing on reviewing the significant categories susceptible to billing errors and mischarges, such as the packing and unpacking category of accessorial charges.

Establishing a Value Threshold. Considering that the cost of reviewing a bill should not exceed the expected amount of the error, only bills meeting certain thresholds should be reviewed. A reasonable threshold would be determined based on an estimated error rate and an estimated cost to review a bill. For example, if the expected error rate is 5 percent and the estimated average cost to review a bill is \$10, an internal control measure could be instituted to select accessorial charge bills of at least \$200 (\$10 divided by 5 percent error rate) for review to cover the cost of audit. The average accessorial charge per bill in our universe was \$733 and the median was \$537. Table 3 shows the sample errors, by billing strata, that indicate that 76 percent of the errors value was in accessorial bills valued between \$501 and \$3,000.

Table 3. Distribution of Errors Amounts by Accessorials Billing Strata

| <u>Billing Strata</u> | <u>Error Amount (percent)</u> |
|-----------------------|-----------------------------------|
| Up to \$100 | 1 |
| \$101 to \$300 | 2 |
| \$301 to \$500 | 2 |
| \$501 to \$1,000 | 16 |
| \$1,001 to \$3,000 | 60 |
| \$3,001 to \$5,000 | 4 |
| \$5,001 to \$7,000 | 9 |
| More than \$7,000 | 6 |

Random Selection of Bill for Review. If the error rate is low, and the resources of PPSOs are not sufficient, bills meeting a dollar threshold should be selected for review on a random basis and then examined. For example, the basis for the random selection could be days of the week, carriers, order of shipment occurrence, or a fixed number or percentage of bills received during a predetermined period. Random selection of bills is a proven cost-effective method of establishing internal controls, detecting errors and deterring mischarges.

Focus on Specific Accessorial Categories. The third element for selecting bills for review would focus efforts on those categories with a higher susceptibility to errors. For example, the sample data showed that the packing and unpacking category accounted for 84 percent of the billed accessorial charges and of the 400 bills that included packing and unpacking services, 36 bills included errors. While the amount of the net errors, by category, was not significant, this type of information was not envisioned under the DFAS or MTMC plans. A risk-based approach would allow management to focus on specific categories where costs are significant and the errors or mischarges occur and to take appropriate corrective actions. To control the risk and reduce DoD exposure to overpayments or underpayments because of errors or mischarges, the test parameters (carrier, category of expense, or dollar value) need to be changed periodically to prevent the test parameter from being manipulated.

Attributes of PPSO Review of Accessorial Charges. The PPSO review of the billed accessorial charges offers the following attributes.

- The PPSO staff have knowledge about the services rendered and have quick access to the Service member and the carrier to address any concerns, which would serve as a deterrent against billing errors and mischarges.
- The potential for altering the DD Forms 619 and 619-1, after a Service member had signed the forms, would be eliminated because the forms would be handled by the PPSOs and DFAS.
- The TOPS capability to capture the claimed accessorial charges entered by the PPSOs would be used to assist in automating the review process.
- If the PPSOs perform the prepayment audits and enter shipment data in TOPS, MTMC and the Services would have the benefit of readily available shipment data with which to make decisions and analyze problems or trends.
- The reviews could be completed faster, because the reviews would be spread among all PPSOs instead of concentrating the review at an audit firm or at DFAS. That would result in faster payment and avoidance of potential late payment interest charges.
- The PPSOs personnel have the authority to certify bills for payment.
- The PPSOs alternative is flexible enough to be implemented on a trial basis at selected installations.
- If a random, risk-based approach were to be adopted, estimates of error rates and the cost to review a bill would have to be revalidated at reasonable intervals. While revalidation is valuable, it represents an additional task that need to be accomplished.
- The PPSOs would have increased work load, and some further training for PPSOs personnel would be required.
- The scope of the PPSOs review would need to be clarified in DoD Regulation 4500.34, which merely states that the PPSOs shall review the DD Form 619.

See Appendix E for a compendium of the alternative that allows a PPSO review of billed accessorial charges.

Conclusion

The process of submitting bills for payment of household goods accessorial charges was effectively managed. The low error rate in billing the accessorial charges was attributable to the prepayment audits conducted. Greater containment of billing errors and better economy could be achieved if DFAS, MTMC, and the PPSOs develop and implement a random, risk-based approach for conducting prepayment audits or after-payment verifications. The review should test the reasonableness and the receipt of the charged services. That approach would involve selecting bills meeting a predetermined threshold; focusing on the significant accessorial categories susceptible to errors, such as the packing and unpacking category; and performing the audit when the expected error amount exceeds the cost to review the bill. Any of the three alternatives for auditing carrier bills would achieve the benefits associated with reviewing carrier bills, including deterrence against mischarging, and providing other management information. To be useful, all alternatives require close coordination among DFAS, MTMC, and the Services.

The report did not include formal recommendations because the MTMC reengineering team, in coordination with DFAS, was in the process of solidifying several actions aimed at improving the personal property management program in general, and billing of the applicable charges in particular. The attributes of all three alternatives discussed in this report should be considered by the MTMC reengineering team, including examination of the scope of the proposed prepayment investigative audit contract to ensure adequacy of the audit coverage and the criteria for evaluating contractor performance.

Part II - Additional Information

Appendix A. Audit Process

Scope

Work Performed. We performed the audit at DoD organizations with responsibilities for reviewing and processing bills for HHG accessorial charges. The organizations included two DFAS paying offices, Indianapolis and Norfolk, that were responsible for paying bills for transportation related services; the Marine Corps Transportation Certification Branch, Albany, Georgia; and 10 PPSOs that MTMC judgmentally selected. MTMC selected the 10 PPSO sites to benefit from the combination of our audit results with those of a customer assessment survey conducted by a private firm. We reviewed:

- DoD policies, procedures, and practices for reviewing, approving, and paying bills for HHG accessorial charges, dated between October 1991 and May 1996, to determine adequacy of guidance;
- supporting documents, such as the public voucher for transportation charges, statements of the accessorial services performed, and the GBL, for the accessorial charges paid during the last 6 months of FY 1996, to determine accuracy of the billed charges;
- MTMC rate solicitation guide dated November 1995, to review the rates and calculations of the billed charges;
- the General Services Administration and DFAS management reports on results of the prepayment audits conducted during FY 1996 by the audit firm, to determine the effectiveness and adequacy of the contract audit coverage;
- MTMC and DFAS management reports dated between November 1996 and July 1997, including DFAS and MTMC EDI plans for managing and reviewing the accessorial charges, to determine the scope of those EDI plans; and
- draft solicitations and other management reports such as joint working group minutes, dated between June 1995 and August 1997, on the MTMC pilot program to reengineer personal property shipments, to determine the nature and status of the pilot program, especially issues related to conducting prepayment investigative audit of the accessorial charges.

We also obtained an overview of the Army Hunter Air Field Pilot Program to reengineer personal property. Data used for selecting the statistical sample was provided by MTMC from its WHIST. Copies of bills selected for review were obtained from the DFAS paying offices and the Marine Corps Transportation Certification Branch. Those bills were paid in the last 6 months of FY 1996.

Limitation to the Audit Scope. Our audit was limited to a review of 10 of 141 PPSOs (see Table A-1) that MTMC selected. Therefore, the audit results represent only the audit work completed at those 10 sites and are not projectable to the other 131 PPSOs locations. Our statistical sample covered only original bills that were paid during the last 6 months of FY 1996, for domestic HHG shipments, whereby personal property was moved aboard vans (service code 1A) and in containers (service code 2A). We did not statistically review supplemental bills because MTMC could not provide data on the paid supplemental bills.

Table A-1. Sites Selected for Review and Sample Size of Accessorial Bills Reviewed

| <u>Sites</u> | <u>Sample Size</u> |
|---|--------------------|
| Camp Lejeune, North Carolina | 42 |
| Camp Pendleton, California | 23 |
| Fairchild Air Force Base, Washington | 21 |
| Fort Benning, Georgia | 39 |
| Fort Riley, Kansas | 15 |
| Joint PPSO, Fort Lewis, Washington | 107 |
| Joint PPSO, San Antonio, Texas | 117 |
| Naval Administration Unit, Scotia, New York | 11 |
| Naval Supply Center, Pensacola, Florida | 40 |
| Shaw Air Force Base, South Carolina | <u>10</u> |
| Total | 425 |

Methodology

We reviewed DoD, DFAS, MTMC, and the Services policies and procedures for reviewing and approving bills for HHG shipment and storage services. We interviewed personnel at MTMC regarding policies and procedures for managing the HHG traffic management program and the ongoing effort to reengineer the program. We also interviewed personnel at DFAS paying offices and the PPSOs regarding procedures for reviewing bills submitted for payment.

Appendix A. Audit Process

Additionally, we interviewed personnel at the General Services Administration concerning prepayment audits of bills. We used statistical sampling to review paid accessorial charges.

We reviewed statements of accessorial service performed supporting the SF 1113 to determine whether the amounts billed by the carriers were properly supported. In addition, we performed rate reviews using MTMC rate solicitation guide, to determine whether the carriers used the appropriate rates in billing the accessorial charge, and verified the computations. We sent confirmation letters to 348 of the 425 Service members included in the sample to determine whether they received the services paid for. We also determined whether Service members handled the DD Forms 619 and 619-1 according to guidance in DoD Regulation 4500.34. We received responses from 154 Service members. Finally, we performed a limited review of DFAS and MTMC plans to review billed accessorial charges.

Use of Computer-Processed Data. To achieve the audit objective, we relied on computer-processed data in the WHIST database to identify the universe of paid accessorial charges. We performed limited desk reviews to determine the reliability of MTMC data. Those tests included comparing the data on the paid bill with the data reported by the system, such as the payment date, the total paid, the accessories paid, and whether the database captured both original and supplemental payment bills. DFAS, Indianapolis, entered the Army and Air Force paid accessories data for MTMC use in the WHIST database, but did not perform data entry edit checks. That resulted in overstating the audit universe and the information provided by WHIST on the volume of accessorial charges. Data entry errors overstated the auditable sample amount by about \$167,000. However, our rate and computational error projections were based on the amount paid (not the erroneously entered amount) and the number of bills in the universe. Therefore, the data entry errors did not materially affect our audit conclusions. We also determined that WHIST did not capture paid Army and the Air Force supplemental bills. Our audit results are qualified to the extent that we reviewed only the original bills in our statistical sample. To the extent that we reviewed MTMC computer-processed data, we concluded that they were sufficiently reliable to meet our audit objectives as applied to the original paid bills.

Sampling Purpose. Audit tests in the statistical sample were aimed at verifying whether billing, reviewing, and paying of the accessorial charges included errors and mischarges. The statistical sampling plan estimates two types of errors in accessorial charges for inbound household goods shipments. The first error measure originates from carrier computational mistakes. The second error

measure represents differences between shipment vouchers and the MTMC database. The sample results provide data to evaluate the number of errors, percent of the population in error, and total dollars involved for inbound accessorial charges.

Universe Represented. The universe of the accessorial charges included paid original bills for the inbound domestic HHG shipments made using motor vans and containers, for 10 sites selected by MTMC for the last 6 months of FY 1996. MTMC requested that other services such as unaccompanied baggage and locally procured HHG shipment services not be included. The accessorial charges universe consisted of 10,529 bills totaling \$7.72 million.

Sampling Design. A stratified sample was designed by accessorial dollar amount to project the number of MTMC records and carrier charges in error and the dollar amount associated with those errors. The sample contained 425 inbound bills from the universe of 10,529 bills. Of the 425 bills, 32 bills were a census stratum from all accessorial charges in the universe above \$5,000. The census stratum is the sixth stratum that contains all the high dollar items in the universe. All of those items were selected for review. To integrate the six strata, weights accounting for the different strata sizes were applied in the statistical analysis. However, some sample items were not analyzed in the audit. Three bills could not be located at DFAS. For each of the analyses on database or carrier computational errors, the three missing sample items were assumed to have no errors. The impact of that assumption was to lower the percent in error. However, the assumption should have little or no impact on the count of errors or the error amount projected. Selection was made from the inbound shipment universe to facilitate interviewing the Service members who were eventually stationed near the destination PPSOs.

Confidence Interval and Statistical Projections. The values in Table A-2 represent the number of errors, percent of errors, and total dollars involved with inbound shipment errors, as described above. Separate analyses were made for total carrier charges, packing and unpacking charges, excessive distance and stair carry charges, and database errors.

Appendix A. Audit Process

**Table A-2. Confidence Interval and Statistical Projections
of Errors Involved with Inbound Shipment Accessorial Charges
(April through September, FY 1996)**

| <u>Projected Errors</u> | <u>90-Percent Confidence Interval</u> | | |
|--|---------------------------------------|-----------------------|--------------------|
| | <u>Lower Bound</u> | <u>Point Estimate</u> | <u>Upper Bound</u> |
| Carrier total computational errors | | | |
| Errors in universe | 1,105 | 1,484 | 1,864 |
| Percent in error | 10.5 | 14.1 | 17.7 |
| Total gross amount in error | \$58,689 | \$90,609 | \$122,529 |
| Percent of amount in error | 0.76 | 1.17 | 1.59 |
| Carrier packing and unpacking errors | | | |
| Errors in universe | 420 | 729 | 960 |
| Percent in error | 4.7 | 6.9 | 9.2 |
| Total gross amount in error | \$18,960 | \$43,440 | \$67,920 |
| Percent of amount in error | 0.25 | 0.56 | 0.88 |
| Carrier excessive distance and stair carry errors | | | |
| Errors in universe | 151 | 379 | 607 |
| Percent in error | 1.4 | 3.6 | 5.8 |
| Total gross amount in error | \$10,969 | \$29,410 | \$47,851 |
| Percent of amount in error | 0.14 | 0.38 | 0.62 |
| MTMC database errors | | | |
| Errors in universe | 1,337 | 1,760 | 2,183 |
| Percent in error | 12.7 | 16.7 | 20.7 |
| Total gross amount in error | \$314,385 | \$423,376 | \$532,687 |
| Percent of amount in error | 4.07 | 5.48 | 6.90 |

Confidence Interval Statement. With 90 percent confidence, the universe of inbound accessorial charges for the first half of FY 1996 had errors in the specific analysis from each lower bound to each upper bound, respectively. However, the point estimate was the most likely amount in error.

Use of Technical Assistance. We obtained assistance from our Quantitative Methods Division in designing the sample plan, selecting the sample, and evaluating the sample results. We also obtained assistance from our Management Information Systems Directorate to access the MTMC WHIST and to convert data files.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from November 1996 to September 1997 in accordance with

auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the General Services Administration. We also contacted private companies. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of management controls in place at DFAS paying offices, MTMC, and the PPSOs as they pertain to reviewing, approving, and certifying bills for HHG accessorial charges before payment. Because we did not identify a material weakness, we did not assess management's self-evaluation of those controls.

Adequacy of Management Controls. The management controls at DFAS paying offices, MTMC, and the PPSOs were adequate in that we identified no material management control weaknesses over the bills we reviewed.

Appendix B. Summary of Prior Coverage

No reports directly related to the review of billed accessorial charges of HHG were issued in the last 5 years. However, the General Accounting Office (GAO) and the Inspector General, DoD, issued four audit reports related to the HHG transportation charges. Those reports covered MTMC efforts to reengineer the personal property transportation program, benefits of prepayment audits of carrier bills, management of the DoD HHG shipment program, and using short-term and long-term storage of HHG.

General Accounting Office

GAO Report No. NSIAD-97-49 (OSD Case No 1261), “Reengineering the DoD Personal Property,” November 1996. The report focuses on assessing the DoD and industry plans for reengineering the personal property program. Congress was concerned that the MTMC pilot program may have an adverse impact on small HHG movement businesses. The report states that the MTMC proposal to reengineer the program would enable DoD to embrace the concept of best value to the Government, while the industry proposal provided for selecting contractors based on price and does not provide for an up front assessment of quality. GAO believed that the MTMC proposal provided a greater opportunity than the industry proposal to achieve the program goals and that the pilot program should not be delayed any further. GAO stated that if Congress still had concerns about the impact on small business, the two plans could be run as pilot programs. DoD agreed with the GAO analysis, but disagreed with conducting two pilot tests concurrently.

GAO Report No. NSIAD-92-61, (OSD Case No. 8810), “DoD Commercial Transportation: Savings Possible Through Better Audit and Negotiation of Rates,” December 1991. The report focuses on the prepayment audit of transportation bills. One of the two objectives addressed in the report is determining whether DoD was preventing excess payments to commercial carriers through prepayment audits. Prepayment auditing had saved nearly \$10 million since 1988; however, the General Services Administration data showed that some overcharges were not identified during those audits. Moreover, DoD did not provide feedback to transportation officials at local installations to make them aware of overcharging so that corrective actions could be taken to prevent future overcharges. GAO recommended that units performing prepayment audits test the effectiveness of those audits by

comparing the results with the post-payment audit results for those bills, and by developing a system for ensuring the timely notification of local installation transportation officials when the auditing organizations detected overcharges. DoD concurred with the prepayment audit recommendation.

Inspector General, DoD

Inspector General, DoD, Report No. 97-175, “Management of the DoD Personal Property Shipment and Storage Program,” June 1997. The report states that improvements are needed in the management systems and in controls used to manage the worldwide DoD Personal Property Shipment and Storage Program. DoD guidance clarifying roles and responsibilities for the Program was not established. As a result, the total cost of the Program reported by MTMC in FY 1995 was understated, MTMC could not fully comply with DoD policies for evaluating the Program, and MTMC had not met the information reporting requirements of the Under Secretary of Defense for Personnel and Readiness. Additionally, MTMC was unable to establish accurate performance measures for the Program. The report recommended completion of transportation and personal property management policies to clarify the roles and responsibilities for DoD organizations. The Deputy Under Secretary of Defense for Logistics proposed an alternative action using the reengineering task force to address the needed improvements.

Inspector General, DoD, Report No. 97-092, “Household Goods Storage,” February 1997. The report states that the limited review of three personal property shipping offices showed that long-term and short-term storage were appropriately used to store member’s HHG. However, MTMC did not collect and maintain cost and statistical data that DoD Components required. The report expresses the concern that short-term storage cost, except for the Navy, were not visible to MTMC or the Military Departments because they are contained within the Military Departments costs for HHG transportation. However, MTMC was involved in a pilot program to reengineer the personal property shipping program. The report states that if the pilot program is properly implemented, the reengineering efforts could correct the noted deficiencies. No recommendations were offered because the MTMC HHG reengineering team was addressing the reported issues.

Appendix C. Pilot Programs to Reengineer the DoD Personal Property Program

Because of the importance to Service members and their families, DoD has long been concerned about the quality of its program to transport, store, and manage the HHG for its Service members and employees who are required to make permanent change of station moves. Some of the concerns related to poor service from movers, excessive incidence of loss or damage to Service members' property, and high claims costs to the Government. In June 1994, to improve the quality of service, the U.S. Transportation Command tasked MTMC to reengineer the personal property program as a quality-of-life initiative. The primary goals of the reengineering efforts are to improve the quality its civilian and military personnel receive from DoD contracted movers; simplify the total process, including a reduction in the accessorial service categories; and base the program on the characteristics of business processes of world-class customers and suppliers. To reengineer the DoD personal property program, two separate reengineering pilot programs were initiated. The first program was managed by MTMC, and the second was managed by the Army at Fort Stewart, Georgia.

MTMC Reengineering Personal Property Initiative. The FY 1996 National Defense Authorization Act directed the Secretary of Defense to initiate a pilot program to reengineer the movement of HHG. Congress was concerned about the quality of service moving and storage companies provided to DoD members. Congress, DoD, and the HHG moving industry recognized the need to reform the current system in order to improve the quality of service to Service members and their families. As a result, a joint working group was convened and details of the MTMC personal property reengineering pilot program were discussed.

Congressional Concerns. In September 1996, Congress directed the Secretary of Defense to prepare a report on the pilot program and to include comments from industry in that report before implementing the program. After reviewing the report, Congress expressed its misgivings that the MTMC pilot program did not adequately address the concerns of small moving companies. The FY 1996 Defense Authorization and Appropriations Conference reports also tasked GAO to monitor the MTMC and the Army pilot programs to reengineer the DoD Personal Property Program. The GAO will examine MTMC and DoD actions related to contracting and contract administration for the pilot test, and will observe the impact those actions may have on the small business sector of the commercial moving industry. Subsequently, in the

Appendix C. Pilot Programs to Reengineer the DoD Personal Property Program

FY 1997 National Defense Authorization Act, Congress directed the Secretary of Defense to establish a working group of industry and military representatives to develop an alternative pilot program.

Joint Working Group. On June 10, 1996, MTMC convened a joint working group of HHG moving industry representatives and military representatives to ensure that the concerns of industry, including small businesses, were heard. The working group met six times between June 10 and September 16, 1996. On October 1, 1996, MTMC reported the findings of the working group to the U.S. Transportation Command. That working group came to a consensus on many issues, including the use of full value replacement for damaged or lost HHG items up to \$63,000 per shipment, and increased opportunities for small business.

Details of MTMC HHG Pilot Program. The MTMC proposed to conduct a pilot program to reengineer HHG movement and anticipated awarding a contract in January 1997. The pilot program was to run for 1 year with two 1-year options. MTMC and industry would monitor the program during the first year. Of the military personal property shipments from installations in Florida, North Carolina, and South Carolina, 50 percent will be randomly selected and moved under the pilot program. The remaining 50 percent of the shipments from the same tri-state area will be moved under the current program, to provide means of comparison of the two systems. DoD tasked the U.S. Transportation Command to evaluate the test. As of September 14, 1997, the implementation of MTMC pilot program was suspended pending a decision of the Comptroller General of the United States on a protest by a small business HHG carrier.

The MTMC pilot program is a significant departure from an outmoded method of conducting business. One of the main features of the pilot program is the ability to award multiple FAR-based contracts for the movement of the HHG instead of the current GBL method of awarding HHG movement business. Under a FAR-based contract, carriers will not be able to refuse to provide DoD with service as they can under contract using the existing GBL system. Also, Service members will be reimbursed the full replacement value of damaged or lost HHGs, and will have access to a toll-free telephone number to inquire about the status of their shipments. Fewer accessorial categories is also a feature of the MTMC pilot program. Finally, hiring a private audit firm to conduct prepayment investigative audits of bills for accessorial charges will deter errors and mischarges and will permit DoD funds recouped by audit to be used elsewhere in the Department.

Hunter Army Airfield Pilot Program. The Army sponsored pilot program at Hunter Army Airfield, Fort Stewart, Georgia, started in November 1996 and is proceeding on schedule. That program embraces a concept well accepted and

Appendix C. Pilot Programs to Reengineer the DoD Personal Property Program

used by American industry. It includes hiring a relocation firm to manage the outbound HHG shipments of airfield personnel as a one stop, one office, total relocation service. That approach is revolutionary in DoD and is designed to make personnel moves easier and similar in quality of service to that experienced by private industry. The traffic management office at Hunter Army Airfield will notify the relocation service of a Service member's permanent change of station location and the date pickup is required. The relocation firm will arrange pickup, storage, and delivery dates for the Service member. The pilot program could reduce the number of accessorial charges from more than 110 categories to about 10 categories.

Appendix D. Guidance for Reviewing the Billing of Household Goods Accessorial Charges

Public Law 99-627. Public Law 99-627 amended Title 31, United States Code, Section 3726, as relates to payment for transportation bills, permits prepayment audits of transportation bills. Within the authority of this law and under a contract with the General Services Administration, a prepayment audit firm is under contract to perform administrative and rate reviews of the bills provided by DFAS.

DoD Directive 4500.34. DoD Directive 4500.34, “DoD Personal Property Shipment and Storage Program,” April, 1986, states that the Commander, MTMC, is responsible for the overall management of the personal property shipment and storage program. The Directive also requires MTMC to provide policy and furnish technical guidance, including traffic management cost data and statistics, to DoD Components, as required. Additionally, the Directive requires MTMC to collect and maintain statistics and other data required for information analysis and effective management of the personal property shipment and storage program. The day-to-day management of individual shipment and storage transactions is accomplished by the PPSOs within the Services as described in DoD Regulation 4500.34.

DoD Regulation 4500.34. DoD Regulation 4500.34 prescribes uniform policies and procedures for the movement and storage of personal property, including responsibilities of the parties involved in the process of billing the accessorial charges.

DoD Regulation 7000.14. DoD Regulation 7000.14 requires that funds be disbursed if transactions are legal, proper, and substantiated. Transactions requiring payment shall be evidenced by a signed document that is a complete record of the transaction. The document is to be certified or verified by a person who, in the regular line of duty, has knowledge of the fact or facts certified. The Regulation also requires that the applicable functional areas, such as transportation, have complete responsibility for ensuring that payments are proper and that bills have complete and accurate data.

Appendix E. Alternatives for Reviewing Billed Accessorial Charges

| Attribute | DFAS Plans for After-Payment Verifications | MTMC Plans for Prepayment Investigative Audits | PPSOs Prepayment Reviews |
|--|---|---|---|
| Funds recovered from identified errors | Funds recovered would be lost to DoD because errors or mischarges identified by the General Services Administration postpayment audits would be collected and deposited to the U.S. Treasury | Funds recovered would accrue to DoD for use as funds put to better use elsewhere. | Funds recovered would accrue to DoD for use as funds put to better use elsewhere. |
| Review criteria | Unavailable for assessment. | Not risk-based. All bills would be reviewed. | Risk-based. Would optimize use of PPSOs' resources. |
| Deterrence | Weak deterrence. Time span between payment and audit could be too long to deter errors or mischarges. | Strong deterrence. Carriers would know investigative audit is done by specialists. MTMC could deny future business to carriers repeatedly committing errors or mischarging. | Strong deterrence. Opportunity to alter key forms after PPSOs' approval would be eliminated. PPSOs would spot and resolve mischarges quickly, and could deny future business to carriers repeatedly committing errors or mischarging. |
| Use of EDI | Limited. EDI would be used only for reviewing line-haul in original bills. Accessorials and supplemental bills would be reviewed manually. TOPS capability to capture accessorial data would be used minimally. | Unrestricted. The audit firm would be required to have the capability to interface electronically with DoD and the carriers' automated systems. | Unrestricted. Existing TOPS capability to capture accessorial data would be used. |

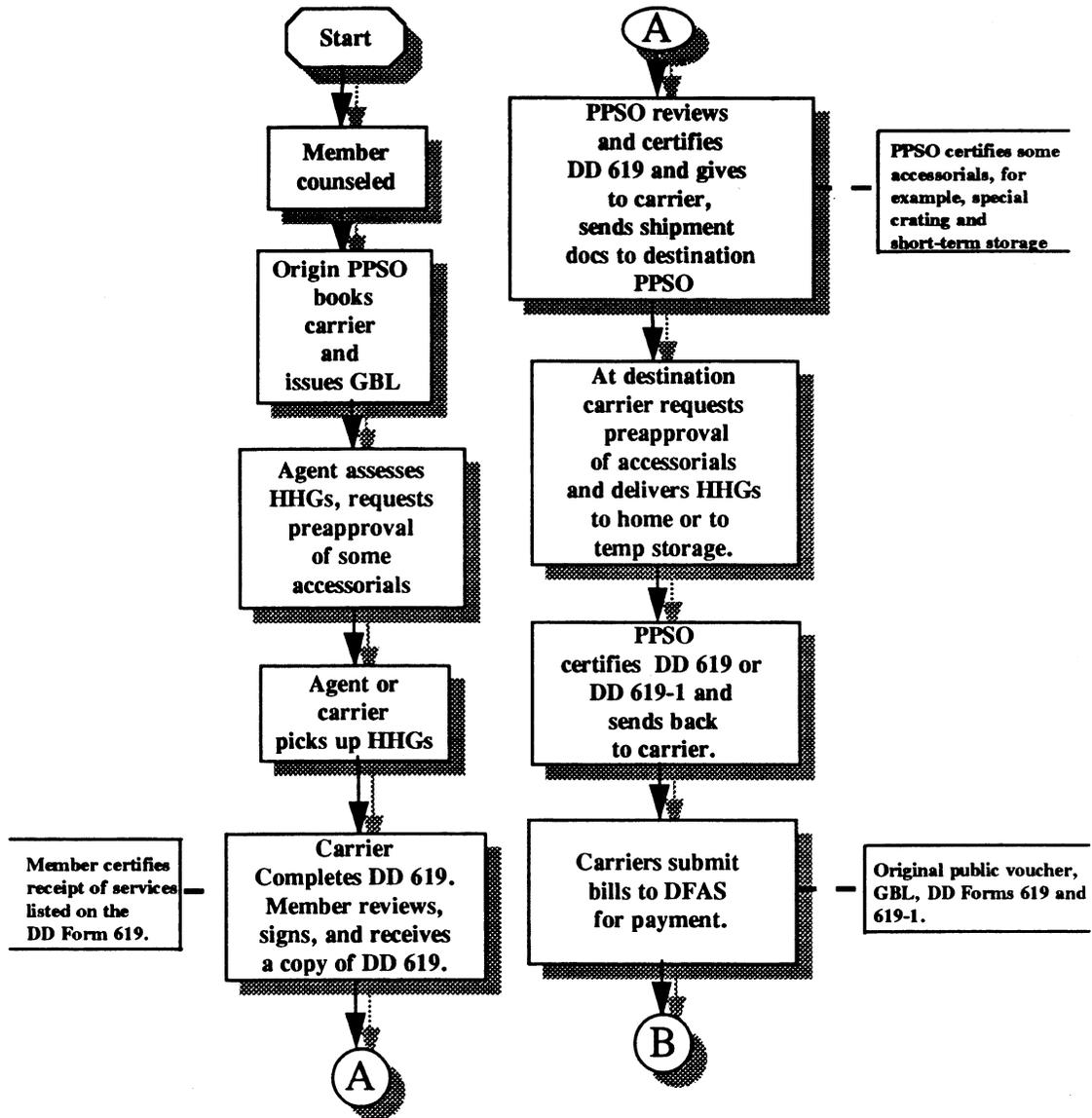
Appendix E. Alternatives for Reviewing Billed Accessorial Charges

| Attribute | DFAS Plans for After-Payment Verifications | MTMC Plans for Prepayment Investigative Audits | PPSOs Prepayment Reviews |
|--|---|--|---|
| Verification of receipt of billed services | Restricted. DFAS would be unable to verify that the services were performed. | Limited. The prepayment audit firm would contact the Service member for verification. | Unrestricted. The PPSOs have the advantage of being near the location where the services were performed, thus would know whether accessorial services were authorized or performed. |
| Speed of payment | Prompt. Payments are made without review. | Prompt. Time to complete review would be stated in the contract | Prompt, depending on staffing and use of automated systems. Reviews would be spread among all PPSOs. |
| Certification for payment | Fully authorized. Certification provided by PPSOs on the GBL for Line-haul and total accessorial charges. | Restricted. Audit firm could not directly certify bills for payment. MTMC would certify bills relying on audit firm's management controls. | Fully authorized. Certification authority is provided under DoD regulations. PPSOs personnel arrange the shipment and could determine whether accessorial services were performed. |
| Experience of reviewer | Limited qualifications. DFAS has stopped conducting in-house prepayment audits partly due to downsizing. | Fully qualified. The audit firm would have the capability to conduct full reviews. | Fully qualified. Experience depends on PPSOs staffs. Civilian employees have extensive experience, while the military personnel, although cross-trained, rotate frequently. |
| Additional burden on reviewer | Undetermined. DFAS has not decided whether to conduct the after-payment reviews in-house or to contract them out. | None. Review would be under contract. | Some burden. Potentially, prepayment reviews require additional resources that could be provided by resources freed by MTMC pilot program. |
| Sufficiency of review | Insufficient. Limited to verifying availability of support after bills have been paid. | Indeterminable. MTMC was preparing the statement of work. The statement of work should be specific to allow for adequate review. | Indeterminable. Regulations pertaining to the scope of prepayment reviews by PPSOs were unclear. Clarification of the scope of the work would be needed. |

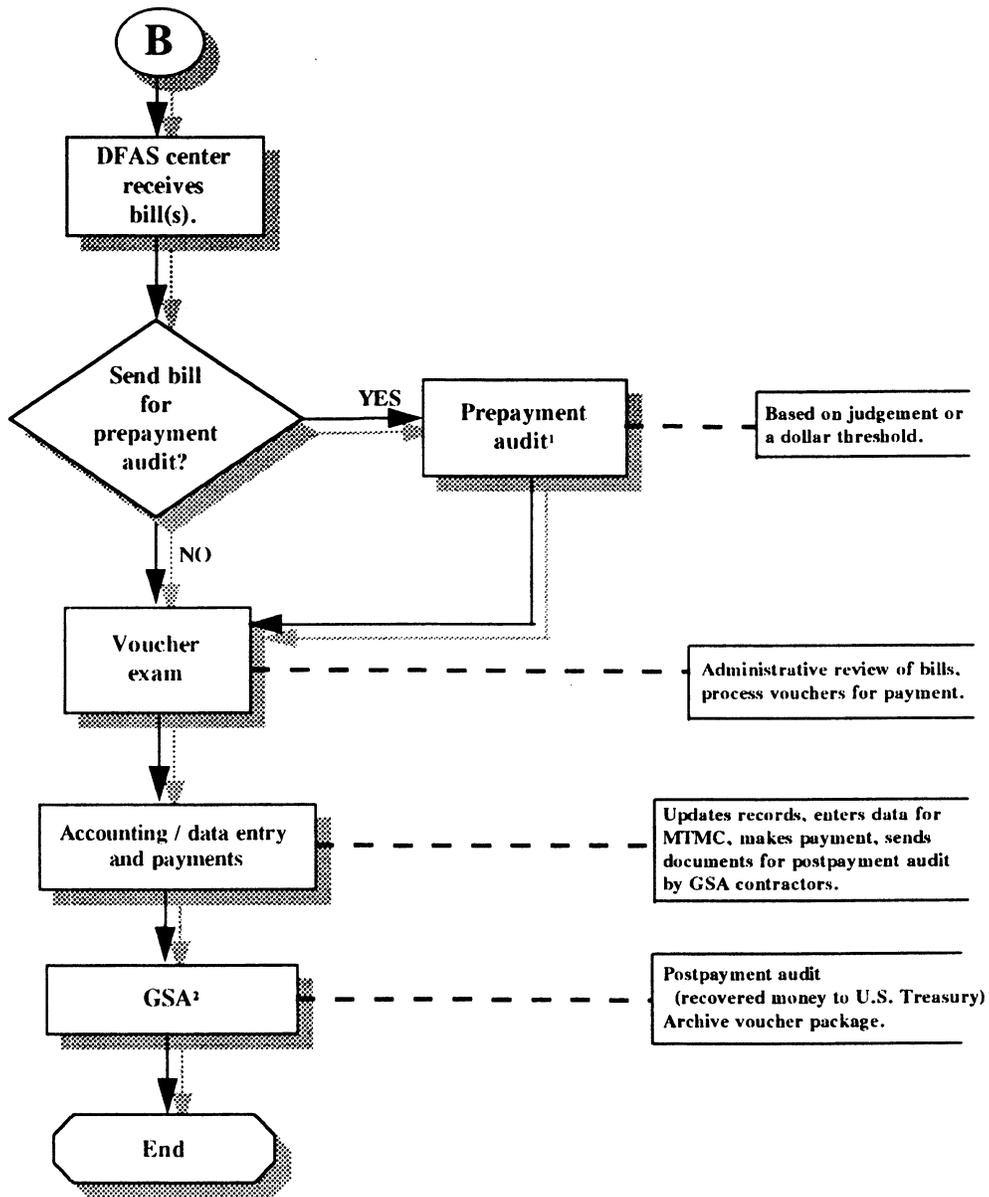
Appendix E. Alternatives for Reviewing Billed Accessorial Charges

| Attribute | DFAS Plans for After-Payment Verifications | MTMC Plans for Prepayment Investigative Audits | PPSOs Prepayment Reviews |
|---|---|--|--|
| Resolving carrier errors | A DFAS responsibility. | Prepayment audit firm will assist in resolving errors. | To be determined; however, it could be a PPSO responsibility. |
| Availability of shipment and error data | Limited. DFAS would continue providing shipment data to MTMC, but error data would be of limited use due to constrained verification scope. | Available. MTMC and the PPSOs would receive better feedback on shipment and billing errors. | Readily available. The TOPS capabilities would be used and current shipment and error data would be easily visible to MTMC and PPSOs. |
| Cost | Unavailable for assessment. However, additional DFAS resources would be required. | Undetermined. MTMC did not do a cost benefit analysis. | Unavailable for assessment. |
| Ease of implementation | Indeterminable. Sufficient details were unavailable. | Difficult. Although sufficient details were unavailable, the process of contract solicitation, award, and administration would be elaborate. | Easiest to implement. The participants are familiar with the subject, and TOPS is still in use. However, adjustments would be needed. Also, this approach could be tried on a pilot basis. |

Appendix F. Billing and Prepayment Audit Process for Accessorial Charges



Appendix F. Billing and Prepayment Audit Process for Accessorial Charges



¹ Identifying errors in prepayment audits conserves DoD funds and allows using those funds within DoD

² Identifying errors in postpayment audits results in collection to the U.S. Treasury and does not allow DoD to use those funds.

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Deputy Under Secretary of Defense for Logistics
Assistant Deputy Under Secretary of Defense (Transportation Policy)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
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Assistant Secretary of the Navy (Financial Management and Comptroller)
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Other Defense Organizations

Director, Defense Contract Audit Agency
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Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Appendix G. Report Distribution

Unified Commands

Commander in Chief, United States Transportation Command
Commander, Military Traffic Management Command
Director, Joint Staff

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Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
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Chairman and ranking member of each of the following committees and subcommittees:

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, Criminal Justice,
Committee on Government Reform and Oversight
House Committee on National Security

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