

April 30, 2003



Logistics

International DoD Air Freight
Tenders
(D-2003-085)

Department of Defense
Office of the Inspector General

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Acronyms

AMC	Air Mobility Command
CRAF	Civil Reserve Air Fleet
GSA	General Services Administration
MRM	Management Reform Memorandum
MTMC	Military Traffic Management Command
USTRANSCOM	U.S. Transportation Command



INSPECTOR GENERAL
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April 30, 2003

MEMORANDUM FOR COMMANDER, U.S. TRANSPORTATION COMMAND

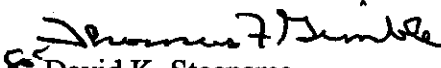
SUBJECT: Report on International DoD Air Freight Tenders (Report No. D-2003-085)

We are providing this report for review and comment. U.S. Transportation Command and the Departments of the Army and Air Force provided comments. We considered management comments on the draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The U.S. Transportation Command comments were partially responsive. We request additional comments on Recommendations 1.a. through 1.i., 2.a. through 2.c., and 3.a. As a result of management comments, we revised Recommendations 1.e. and 1.f. and added Recommendations 1.j., 1.k., and 2.d. We request that the Commander, Air Mobility Command and the Commander, Military Traffic Management Command provide comments by June 30, 2003.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to audls@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Dennis E. Payne at (703) 604-8907 (DSN 664-8907) or Mr. Albert L. Putnam at (703) 604-8779 (DSN 664-8779). See Appendix B for the report distribution. The team members are listed inside the back cover.


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Office of the Inspector General of the Department of Defense

Report No. D-2003-085

(Project No. D2002LH-0126)

April 30, 2003

International DoD Air Freight Tenders

Executive Summary

Who Should Read This Report and Why? Logistics officials responsible for the oversight, control, and payment of DoD freight shipments should read this report. The report discusses the benefits of standardizing international air freight tenders, which are used for transporting DoD freight.

Background. The DoD transportation mission involves many transportation communities and assets, services, and systems owned by, contracted for, or controlled by DoD. The U.S. Transportation Command serves as the manager of the transportation community and is supported by the Military Traffic Management Command, the Military Sealift Command, and Air Mobility Command.

Results. Air Mobility Command and Military Traffic Management Command have standardized freight tenders for most modes of transportation but need to standardize international air freight tenders to protect the interests of DoD. Our review of 12 of 76 international DoD air freight tenders revealed that transportation officers did not have the necessary tools to perform a best value analysis of air tenders before selecting carriers to transport air freight. DoD also lacked adequate visibility over the usage of international air freight tenders. Air Mobility Command could provide tools and increase visibility by prioritizing the establishment of standard rules for international air freight tenders, posting information to a Web site, and incorporating additional information on both domestic and international tenders in the new transportation routing system. Standardizing the international air tenders could also help DoD avoid unnecessary transportation and other costs. In addition, by improving the international tender review process, Air Mobility Command could ensure that international air freight tenders are from qualified carriers and do not compete with mandatory transportation services. Further, DoD could more fully implement a single automated billing and payment process and achieve the expected benefits of DoD Management Reform Memorandum No. 15 if Air Mobility Command required carriers to use PowerTrack for international air tenders to the maximum extent possible. Improving controls will correct the material management control weaknesses identified by the audit. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The U.S. Transportation Command generally concurred with the recommendations to standardize international air freight tenders, establish a process for electronically entering international air freight tender information into the new transportation routing system, and direct carriers to use PowerTrack. The U.S. Transportation Command partially concurred with posting information to a Web site and improving the international tender review process. Although not required to comment, the Army agreed with the recommendations and the Air Force agreed with most of the recommendations. In response to the recommendation that the Air Mobility Command comply with its policy that international air tenders

should not compete with certain channel flights, which are a type of mandatory transportation service, the Air Force stated that international air tenders should be allowed as alternatives when the Air Mobility Command channel flights are unavailable to meet mission requirements. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

The U.S. Transportation Command comments were not fully responsive. Planned completion dates were not provided for establishing a process for standardizing international air freight tenders and establishing a process for entering international air freight tender information into the new transportation routing system. The U.S. Transportation Command agreed to direct carriers to use PowerTrack, stating the draft guidance already required the use of PowerTrack. However, the draft guidance needs to be revised to specify the situations in which carriers will be required to use PowerTrack, as carriers cannot always use PowerTrack until DoD fully implements that system. U.S. Transportation Command comments were not fully responsive regarding posting information to a Web site. The U.S. Transportation Command stated that a matrix of international air tenders is posted to the Air Mobility Command's Web site and updated monthly and that the actual international air tenders do not need to be posted to the Web site as paper copies can be used. Relying on paper copies violates the principles of electronic commerce and DoD Management Reform Memorandum No. 15. The U.S. Transportation Command generally agreed with the recommendation on improving the international tender review process, stating that the actions had already been taken or were not needed. However, the review process had not been fully implemented. In addition, review actions are needed to ensure that international air tenders do not compete with mandatory transportation services and that transportation officers have the necessary tools to perform a best value analysis before selecting carriers to transport air freight. We request that the Commander, Air Mobility Command and the Commander, Military Traffic Management Command comment on this report by June 30, 2003.

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Background

The DoD transportation mission involves many transportation communities and assets, services, and systems owned by, contracted for, or controlled by DoD. The entire infrastructure supports the transportation needs of DoD in peace and war. The U.S. Transportation Command (USTRANSCOM) serves as the manager of the transportation community and is supported by the Military Traffic Management Command (MTMC), the Military Sealift Command, and the Air Mobility Command (AMC).

Selecting Best Value Transportation Services. It is DoD policy to procure transportation and related services using a best value process. A best value analysis takes into account numerous factors, including quality of the service, cost, service provisions, claims experience, provider availability, and PowerTrack® usage. DoD acquires transportation and related services through a variety of flexible procurement instruments, including offers to provide services (tenders) and Federal Acquisition Regulation-based contracts. Tenders can be either negotiated or voluntary. Voluntary tenders are unsolicited offers of transportation services submitted by commercial carriers to AMC or MTMC for approval.

Air Transportation Services. AMC is the single manager for air mobility and provides air transportation services with DoD aircraft and through Federal Acquisition Regulation-based contracts and tenders with U.S. commercial air carriers. For example, AMC provided channel airlift transportation over established worldwide routes using both commercial aircraft under Federal Acquisition Regulation-based contracts and DoD aircraft.

Management Reform Memorandum No. 15. The 1997 Secretary of Defense “Quadrennial Defense Review” directed DoD to revolutionize its business practices. As a result, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued Management Reform Memorandum (MRM) No. 15 on July 7, 1997. The objective of MRM No. 15 was to reengineer and streamline DoD commercial transportation documentation, billing, collection, and payment processes. The specific reengineering goals included the following:

- reducing infrastructure costs,
- eliminating DoD-unique documentation and processes,
- reducing data requirements,
- improving data accuracy,
- developing a single documentation and billing process for all modes of transportation,
- employing best commercial practices,

-
- maintaining readiness capability, and
 - increasing the use of electronic commerce.

In an effort to meet the MRM No. 15 objectives, DoD announced on March 31, 1999, the conversion to U.S. Bank's PowerTrack for the payment of commercial transportation freight charges.

PowerTrack Service. PowerTrack provides DoD with the means to completely reengineer transportation documentation, accounting, and payment processes. PowerTrack is a commercial on-line freight payment and transaction tracking system developed by U.S. Bank. PowerTrack provides carriers and DoD transportation officers with on-line access to shipment data; matches freight bills of lading and corresponding invoices; processes payments to carriers; and provides relatively real-time analytical reporting tools. PowerTrack is intended to electronically interface with DoD accounting systems. In addition, PowerTrack stores DoD transportation data and reduces the need to maintain DoD-unique documentation.

Standardization of Freight Tenders. AMC and MTMC have standardized domestic¹ air, motor, pipeline, rail, and tank-truck tenders. According to a MTMC official, as of March 2003, MTMC had not standardized barge tenders. In addition, as of March 2003, AMC had not standardized international² air freight tenders. MTMC officials stated that, in general, barge tenders were guaranteed traffic or negotiated tenders, which were awarded based on solicitations. The international air tenders were not based on a solicitation process; they were voluntary offers by air carriers.

Standardization of Air Freight Tenders. AMC standardized domestic air freight tenders, but as of March 2003, AMC had not standardized international air freight tenders. There were 1,368 domestic tenders as of October 1, 2002, and 76 international tenders as of August 26, 2002. Shipments via domestic air tenders totaled \$64 million from April 1 through September 30, 2002. The value of shipments via international air tenders for FY 2002 was not available because DoD did not track information on the usage of international air tenders.

Domestic Air Freight Tenders. "AMC Freight Traffic Rules Publication No. 5" (Publication No. 5), January 15, 1999, defines the standards, rules, and accessorial charges³ for domestic air tenders, which are used for transporting DoD freight within the continental United States. Publication No. 5 defines the domestic air transportation needs of DoD, provides the procedures to ensure that air freight carriers have both the willingness and the capability to meet those needs, and provides the standardization necessary to achieve an automated system

¹Domestic generally means the continental United States (normally excluding Alaska and Hawaii).

²International generally means outside the continental United States.

³Accessorial charges are for services provided by carriers in addition to transportation of freight and include pickup and delivery on weekends and holidays and handling hazardous materials and oversized freight.

for routing DoD air freight. Publication No. 5 requires that air carriers use PowerTrack for domestic freight tenders. In addition, “MTMC Standard Tender Instruction Publication No. 364-C” (Publication No. 364-C), September 1, 2000, provides guidance to air carriers for submitting domestic tenders in a standard format on MT Form 364-R, “Department of Defense Standard Tender of Freight Services” (Form 364-R).

International Air Freight Tenders. AMC had proposed guidance to standardize international air freight tenders in an updated draft of “AMC Freight Traffic Rules Publication No. 5” (Draft Publication No. 5). Draft Publication No. 5 was posted to the MTMC Web site in March 2001 and air carriers were given 60 days to comment, but the guidance had not been finalized as of March 2003.

Objectives

The overall audit objective was to determine the effectiveness of procedures and controls over DoD freight shipments paid through PowerTrack. Specifically, for this report we evaluated the international air tender submission and approval process and reviewed the management control program as it related to the audit objective.

We did not evaluate the effectiveness of established payment procedures and the controls over delivery of freight shipments because PowerTrack data was not readily available for analysis of freight shipments using data mining methodology. Therefore, the audit work on those objectives was terminated. In September 2002, the Assistant Deputy Under Secretary of Defense (Transportation Policy), USTRANSCOM, the Defense Manpower Data Center, and U.S. Bank signed an agreement for electronic long-term data storage and distribution capabilities. The Defense Manpower Data Center will provide a single, central data repository of PowerTrack data. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program.

Other Matters of Interest

Although barge tenders were not standardized, we did not evaluate the barge tender submission and approval process. According to a MTMC official, as barge tenders expire, they are being replaced with Federal Acquisition Regulation-based contracts.

Management of International Air Freight Tenders

Transportation officers did not have the necessary tools to perform a best value analysis of air tenders before selecting and approving carriers to transport air freight. DoD also lacked adequate visibility over the usage of international air tenders. In addition, some international air tenders were not from qualified carriers and competed with mandatory transportation services. Further, DoD could more fully implement a single automated billing and payment process in accordance with MRM No. 15.

The problems with international air freight tenders occurred because AMC had not standardized international air tenders. AMC also had not required all tender information to be entered into DoD transportation routing systems or required carriers to provide data on tender usage. In addition, AMC had not adequately reviewed international air tenders before approval. Further, AMC had not required that the PowerTrack automated payment system be used for carrier billings and payments.

As a result, DoD may be incurring unnecessary transportation and other costs. In addition, DoD may not have effectively planned and used Federal Acquisition Regulation-based contracting and channel flights as alternatives to international air tenders and may not be achieving the expected benefits of MRM No. 15.

Use of International Air Freight Tenders

For international shipments, the available shipping options include international air freight tenders, Federal Acquisition Regulation-based contracts, and AMC channel flights. Available shipping options are based on a shipment's weight, origin, and destination. In general, international air freight tenders can be used for international shipments over 150 pounds.

Shipping Options Within the Continental United States. For air shipments within the continental United States, a General Services Administration (GSA) small package contract⁴ must be used for shipments weighing 150 pounds or less. For air shipments over 150 pounds, domestic air tenders may be used. International air tenders cannot be used.

⁴As of December 2002, there were four GSA small package contracts in place.

Shipping Options for Alaska, Hawaii, and Puerto Rico. Air shipments between the continental United States and Alaska, Hawaii, or Puerto Rico must be made using a GSA small package contract if the shipment weighs 150 pounds or less and may be made using international air tenders if the shipment weighs over 150 pounds. Air shipments between Alaska, Hawaii, or Puerto Rico and most international locations must be made using a Worldwide Express contract⁵ if the shipment weighs 150 pounds or less and may be made using international air tenders if the shipment weighs over 150 pounds. Figure 1 shows the transportation options for air shipments to and from Alaska, Hawaii, and Puerto Rico.

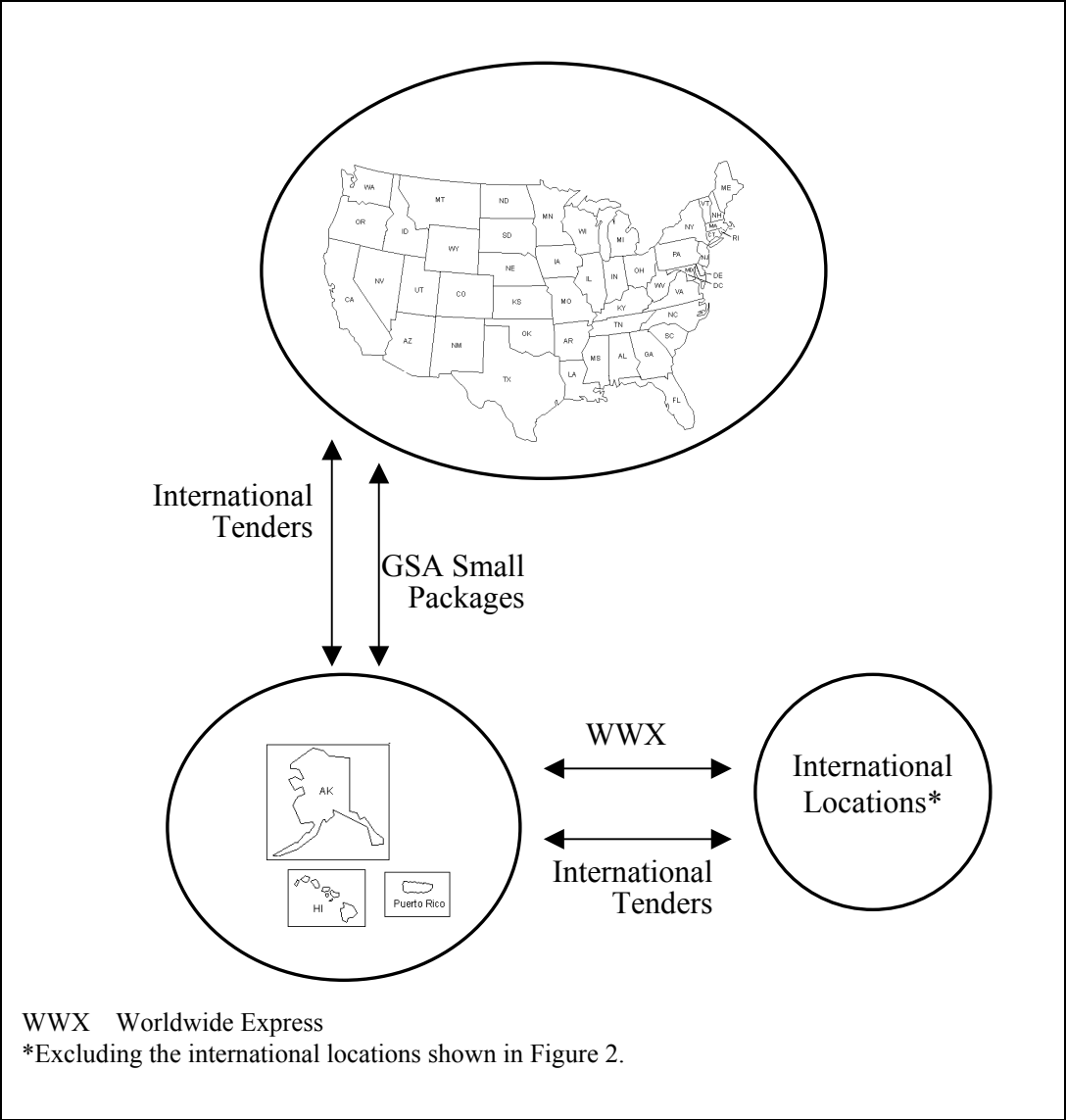


Figure 1. Shipping Options for Alaska, Hawaii, and Puerto Rico

⁵As of December 2002, there were three Worldwide Express contracts in place.

Shipping Options for Six Locations With Daily Channel Flights. The six locations with daily channel flights are Frankfurt, Germany; Inchon, Korea; Kuwait; Prince Sultan Air Base, Saudi Arabia; Ramstein Air Base, Germany; and Seoul, Korea. Air shipments between the six locations and the United States (including Alaska, Hawaii, and Puerto Rico) must be made using a Worldwide Express contract if the shipment weighs 150 pounds or less and using a channel flight if the shipment weighs over 150 pounds. International air tenders cannot be used. In November 2001, AMC notified air carriers that offers of service to the six locations would have to be eliminated from international air tenders by December 31, 2001. Figure 2 shows the transportation options for air shipments to and from the six locations.

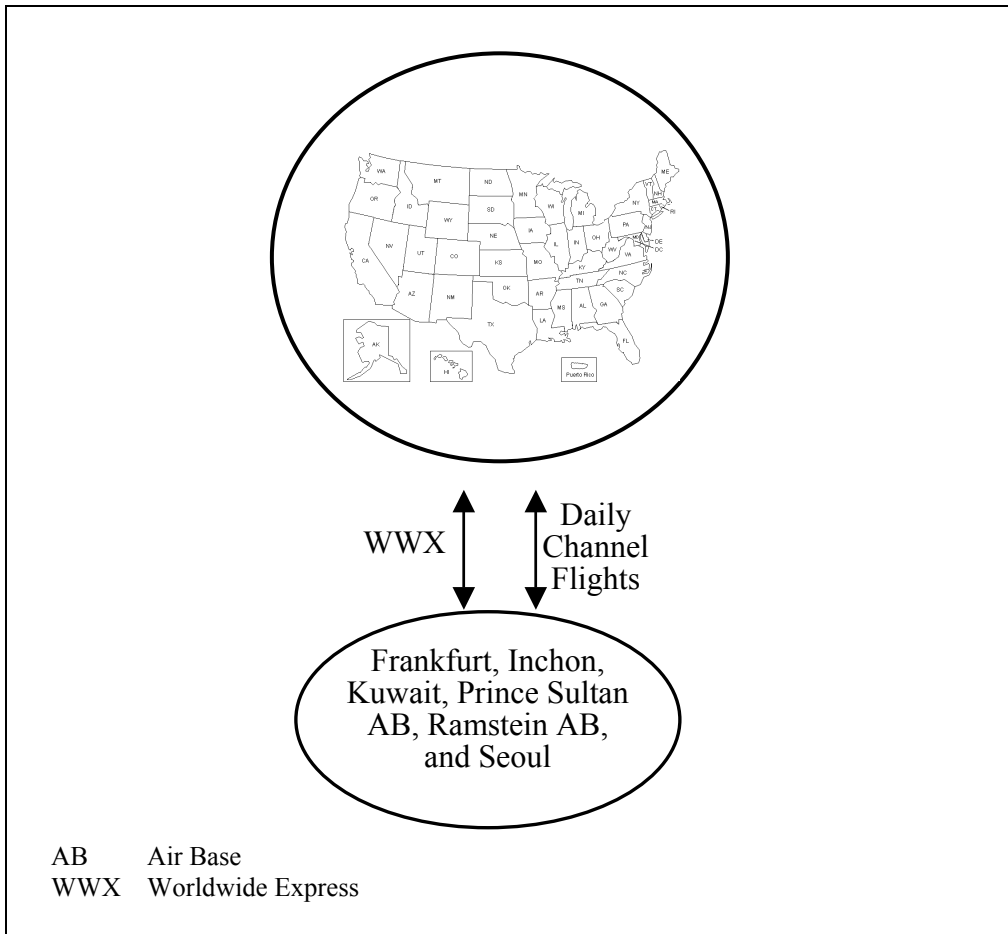


Figure 2. Shipping Options for Six Locations With Daily Channel Flights

Shipping Options for Other International Locations.⁶ For air shipments to and from other international locations, which weigh 150 pounds or less, the Worldwide Express contracts must be used. For air shipments over 150 pounds, international air tenders or channel flights may be used, although the channel flights are not operated on a daily basis. Figure 3 shows the transportation options for air shipments to, from, and between other international locations.

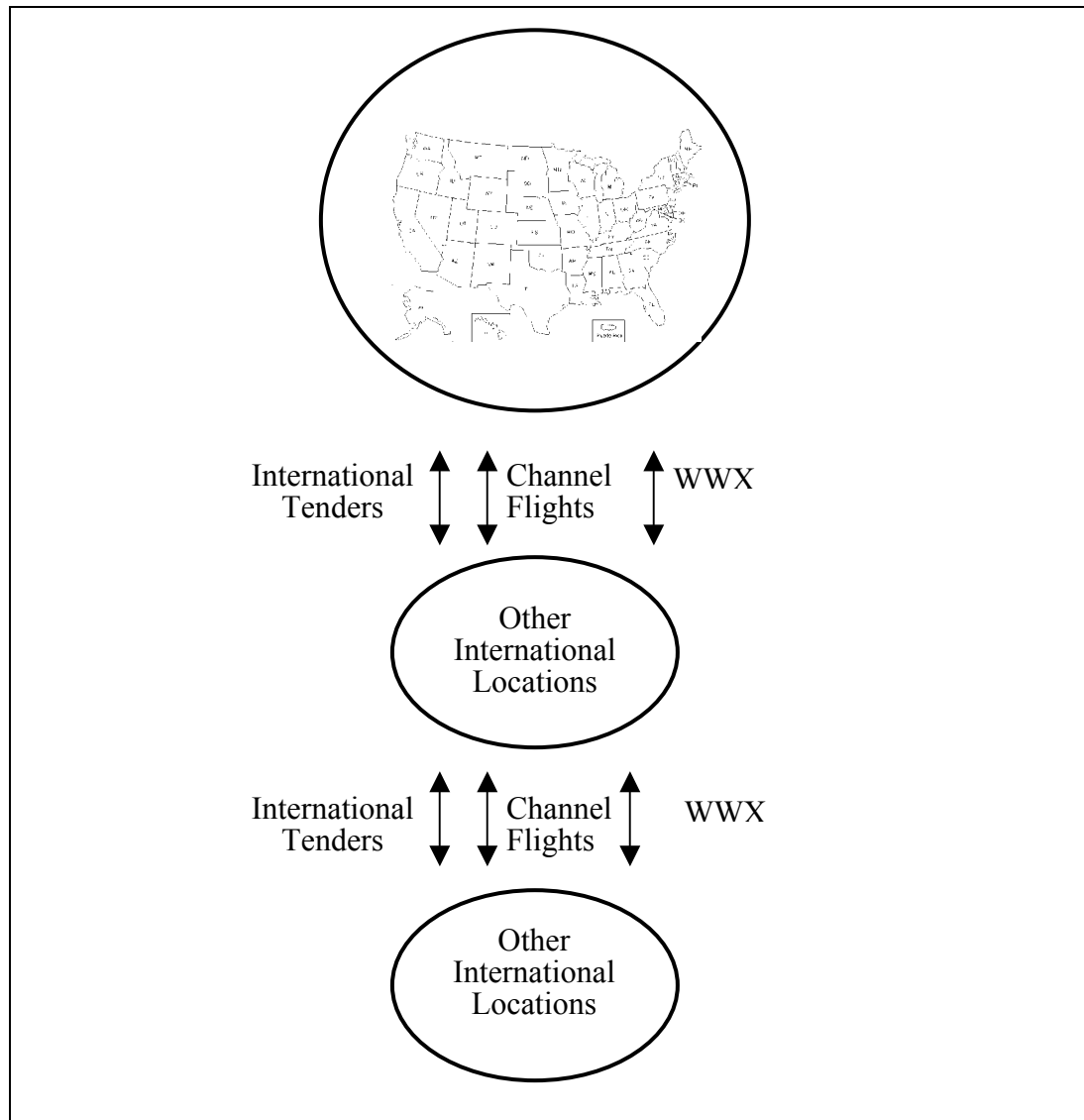


Figure 3. Shipping Options for Other International Locations

⁶Other international locations are international locations excluding Alaska, Hawaii, Puerto Rico, and the six international locations with daily channel flights. Shipping options among those six locations are the same as between other international locations, shown in Figure 3.

Selection of International Air Freight Tenders for Review

According to AMC files of international air tenders, as of August 26, 2002, 12 air carriers had filed 76 international air freight tenders. We judgmentally selected and analyzed one tender for each carrier. Table 1 shows the locations served by the 12 tenders reviewed, which were filed on Optional Form 280, "Uniform Tender of Rates and/or Charges for Transportation Services." Publication No. 5 requires that tenders offering transportation "within the contiguous United States," which excludes Alaska, Hawaii, Puerto Rico, and Canada, be filed on Form 364-R. Although the criteria for tenders is clear, the GSA small package and Worldwide Express contracts define domestic as including Alaska, Hawaii, and Puerto Rico. AMC officials stated that Alaska and Hawaii are gray areas because they are defined as international locations for tenders but are defined as domestic locations for the contracts. However, because AMC had allowed all 12 of the tenders to be filed on Optional Form 280 and had included them in the AMC files of international air tenders, it was appropriate to include all 12 tenders in our sample.

Table 1. Locations Served by the 12 Tenders

No. of Tenders	Locations Served	
	Origin	Destination
1	1. Continental U.S.	Continental U.S.
1	2. Continental U.S., AK, & HI	Continental U.S., AK, & HI
1	3. Continental U.S. & Canada	Continental U.S. & Canada
1	4. Continental U.S.	Hawaii
1	5. Continental U.S.	AK, HI, & PR
1	6. Continental U.S., AK, HI, & PR	AK, HI, & PR
1	7. Continental U.S., AK, HI, & PR	International Locations
1	8. Continental U.S., Canada, AK, HI, & PR	International Locations
1	9. Continental U.S.	International Locations
1	10. U.S.	International Locations
2	11-12. International Location(s)	International Locations
AK	Alaska	
HI	Hawaii	
PR	Puerto Rico	

Best Value Analysis of and Visibility Over Air Freight Tenders

The transportation officers did not have the necessary tools to perform a best value analysis of air freight tenders before selecting carriers. Also, DoD lacked adequate visibility over the usage of international air tenders. In addition, some international air tenders were not from qualified carriers and competed with mandatory services provided by Federal Acquisition Regulation-based contracts and the six channel flights. Further, DoD had not fully implemented a single automated billing and payment process in accordance with MRM No. 15. The goals of MRM No. 15 include increasing the reliance on electronic commerce, reducing data requirements, and developing a single documentation process.

Best Value Analysis of Air Tenders. The transportation officers did not have the necessary tools to perform a best value analysis of air tenders before selecting carriers. The tools were lacking for both international and domestic air shipments.

Best Value Analysis of International Air Tenders. A best value analysis takes into account quality of the service, cost, and service provisions. Necessary tools for a best value analysis include both electronic and comparable data.

Electronic information for the best value analysis for international air tenders was not available to transportation officers. Transportation officers had to obtain the information from either:

- price quotes obtained from the air carriers, or
- a manual computation based on paper copies of the tenders obtained from AMC or the carriers.

In contrast, for domestic air tenders, transportation officers generally had electronic access to information on tenders. The lack of electronic information on international air tenders is contrary to MRM No. 15.

Comparable information for the best value analysis of international air freight tenders was not readily available to transportation officers. In contrast, for domestic air tenders, transportation officers had access to comparable information on tenders. The domestic air tender information was comparable because the tenders were governed by Publication No. 5 and Publication No. 364-C, which standardize domestic air tenders. Because the information on domestic air tenders was comparable, transportation officers could generally obtain and rely on computer-generated comparisons of tenders. In contrast, the information for international air tenders was not readily comparable because it was not standardized by DoD. The individual carriers varied in their:

- computation of dimensional weight,
- levels of service,

- types of accessorial charges,
- exceptions to delivery commitments,
- unique publications that governed tenders, and
- delivery zones.

Computation of Dimensional Weight. Individual air carriers defined how dimensional weight was computed. Dimensional weight was used to compute transportation costs by taking into account the amount of space a shipment would take up in relation to the actual weight of the shipment. For domestic tenders, Publication No. 5 states that transportation costs for a shipment will be based on the greater of the actual weight or dimensional weight. Publication No. 5 also provides that dimensional weight is computed with the following formula:

$$[\text{Length (in inches)} \times \text{Width (in inches)} \times \text{Height (in inches)}]/194$$

However, there was no standard way to compute dimensional weight for international air tenders. Without a standard way to compute dimensional weight, transportation officers had to make multiple computations to determine which carrier provided the best value. Table 2 shows the multiple formulas used by the 12 tenders reviewed to compute dimensional weight.

Table 2. Computation of Dimensional Weight per Tenders	
<u>Formula for the Computation of Dimensional Weight</u>	<u>No. of Tenders</u>
No formula	2
$[\text{Length (in inches)} \times \text{Width (in inches)} \times \text{Height (in inches)}]/166$	2
$[\text{Length (in inches)} \times \text{Width (in inches)} \times \text{Height (in inches)}]/194$	2
$[\text{Length (in cm)} \times \text{Width (in cm)} \times \text{Height (in cm)}]/6000$	1
$(\text{Greater of Length, Width, and Height})^3/139$	1
$(\text{Greater of Length, Width, and Height})^3/166$	2
$(\text{Greater of Length, Width, and Height})^3/194$	1
Two different computations depending on destination and origin:	
$[\text{Length (in inches)} \times \text{Width (in inches)} \times \text{Height (in inches)}]/166$	
$[\text{Length (in inches)} \times \text{Width (in inches)} \times \text{Height (in inches)}]/194$	1
cm centimeter	

Using the above formulas results in various dimensional weights. For example, a package with a length of 15 inches, width of 10 inches, and height of 8 inches would have dimensional weights varying from 6.19 to 24.28 pounds if you use inches for the formulas with no given unit of measurement.

The lack of a standard formula for dimensional weight is contrary to MRM No. 15. Goals of MRM No. 15 include reducing data requirements and developing a single documentation process. AMC addressed that issue in Draft Publication No. 5, which will require dimensional weight for an international shipment to be calculated on the basis of one pound for each 166 cubic inches, as follows:

$$[\text{Length (in inches)} \times \text{Width (in inches)} \times \text{Height (in inches)}]/166$$

Levels of Service. DoD allowed carriers to define the levels of service in international air tenders rather than providing a standard definition. For domestic air tenders, Publication No. 5 provides a standard definition of levels of service, including priority, overnight, second-day, and deferred service. However, all 12 of the international air tenders reviewed defined the levels of service differently than Publication No. 5. In addition, the computation of transit times varied. One tender computed the transit time from booking to delivery. Another tender computed the transit time from pickup to delivery. Further, as shown in Table 3, some tenders lacked or had incomplete definitions of the levels of service.

Table 3. Definitions of Levels of Service per Tenders

<u>Definition of Levels of Service</u>	<u>Number of Tenders</u>
No definition	1
Complete	2
Incomplete because no definition of delivery time, transit time, or locations where delivery would be made by noon versus 5 p.m.	9

The lack of defined levels of service is contrary to MRM No. 15. AMC addressed that issue in Draft Publication No. 5, which will require a standard definition of levels of service, including next-flight-out, express, standard, and deferred service.

Types of Accessorial Charges. DoD allowed carriers to define the types of accessorial charges in international air tenders rather than providing standard definitions. For domestic air tenders, Publication No. 5 provides standard accessorial charges. However, the 12 international air tenders defined accessorial services differently than Publication No. 5. Accessorial charges that are not allowed for domestic tenders but which were offered in the international air tenders included:

- storage fees,
- special delivery surcharges,
- airway bill preparation fee charges,

- multi-piece shipment surcharge,
- carrier-incurred expenses, and
- pickup and delivery surcharge for locations more than 25 miles from the airport selected by the carrier.

The lack of standard definitions of accessorial charges is contrary to MRM No. 15. AMC addressed that issue in Draft Publication No. 5, which will provide standard accessorial charges for international air tenders.

Exceptions to Delivery Commitments. Carriers determined the exceptions to the delivery commitments contained in the international air tenders. For domestic tenders, Publication No. 5 provides that carrier delivery commitments apply except in limited circumstances, such as acts of God, acts of Governments, floods, fires, epidemics, quarantine restrictions, strikes, freight embargoes, and unusually severe weather. However, 10 of the 12 international air tenders reviewed defined exceptions to delivery commitments differently than Publication No. 5, as shown in Table 4.

Table 4. Exceptions to Delivery Commitments per Tenders

<u>Exceptions to Delivery Commitments</u>	<u>No. of Tenders</u>
No exceptions	6
Similar to Publication No. 5	2
More exceptions than allowed by Publication No. 5	4

Exceptions to delivery commitments that are not allowed for domestic tenders but which were in international air freight tenders included:

- non-compliance with delivery or special instructions provided by the shipper,
- any weather conditions,
- mechanical delay of aircraft or other equipment,
- perils of the air, and
- loss or suspension of license.

The lack of defined exceptions to delivery commitments is contrary to MRM No. 15. AMC addressed that issue in Draft Publication No. 5, which will provide limited exceptions to delivery commitments. The exceptions include acts of God or of the public enemy, acts of the Government, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, and unusually severe weather.

Unique Publications Governing Tenders. DoD allowed carrier-unique publications to govern international air tenders rather than a standard DoD publication. In addition, carriers were not required to attach their unique publications to the international air tenders. Therefore, unless the carrier-unique publications were obtained from the carriers, transportation officers did not have the necessary information to perform a best value analysis. For domestic tenders, Publication No. 5 and Publication No. 364-C provide standard rules and state that carrier-unique publications are not allowed. However, 9 of the 12 international air tenders reviewed referenced carrier-unique publications, as shown in Table 5.⁷ One of the nine tenders stated that another tender was the governing publication.

Table 5. Carrier-Unique Publications per Tenders

<u>Governed by Carrier-Unique Publication</u>	<u>Number of Tenders</u>
No	3
Yes, but publication not attached to tender	7
Yes	2

Allowing carrier-unique publications to govern international air tenders is contrary to MRM No. 15. AMC addressed that issue in Draft Publication No. 5, which will provide that international air tenders may not be made subject to any carrier-unique publications.

Delivery Zones. Carriers, rather than DoD, defined delivery zones. Delivery zones were included in 7 of the 12 tenders reviewed. However, each tender defined delivery zones differently. There were from 5 to 12 zones defined in the 7 tenders. For example, China was listed as zone nine, zone four, and twice as zone F. The Czech Republic was listed as zone four, zone five, zone J, and twice as zone F. Two of the tenders did not deliver to those areas and a third did not deliver to China.

The lack of standard delivery zones could make it difficult for transportation officers to perform a best value analysis. MTMC addressed that issue in Draft Form 364-R, which will provide for standard international delivery zones.

Best Value Analysis of Domestic Air Shipments. Transportation officers did not have the necessary tools to perform a best value analysis of domestic air tenders before selecting carriers. Of the 12 tenders reviewed, 3 tenders included domestic rates. Because domestic rates were included in international air tenders, the domestic rates were not stored in DoD transportation routing systems. Therefore, the automatic computation of estimated costs for domestic shipments would exclude the domestic rates included in international air tenders. The three tenders that included domestic rates also included security

⁷Although we reviewed the tender that was the governing publication of one tender in our sample of 12 tenders, we did not include the governing publication in counting tenders in our sample.

services.⁸ An AMC official stated that the transportation routing system could not accept information on security services; therefore, a decision was made to allow the three tenders to be filed on Optional Form 280, rather than on Form 364-R, as required by Publication No. 5. Of the three tenders that included domestic rates, one included shipments within the United States, including Alaska and Hawaii. AMC considered tenders that offered both domestic and international air transportation to be hybrid tenders. AMC allowed hybrid tenders to be filed as international tenders rather than requiring air carriers to submit domestic rates in domestic tenders and international rates in international tenders.

Visibility Over the Usage of International Air Tenders. DoD lacked adequate visibility over the usage of international air tenders. Usage data was not available from DoD systems and only some carriers were willing to provide data on usage of international tenders.

Data From DoD Systems on Usage of International Air Tenders. AMC, MTMC, the U.S. European Command, the U.S. Pacific Command, USTRANSCOM, and the Services were unable to provide data on usage of international air tenders. According to officials from the Services, data on international air tenders is captured in various computer systems; however, the officials stated that the data was not complete. A USTRANSCOM official suggested that we could obtain the data from each of the more than 500 DoD transportation offices. However, given the number of individual transportation offices, that method of data collection would have been inefficient and ineffective. In addition, it would not have provided DoD any lasting visibility. In contrast, data on domestic tender usage was available from DoD transportation routing systems.

Data From Carriers' Records on Usage of International Air Tenders. In January 2000, June 2001, and July 2001, AMC sent memorandums to the air carriers requesting information on the usage of international air tenders. The information requested included origin, destination, weight, number of pieces, and cost. However, AMC was only partially successful in obtaining data from carriers. In contrast, for other transportation requirements, AMC requires carriers to provide usage data as a condition of using the carriers' services. For example, the terms of the GSA small package contracts and Worldwide Express contracts require the carriers to provide detailed monthly reports.

Tenders From Qualified Carriers. Some international air tenders were not from qualified Civil Reserve Air Fleet (CRAF) carriers. CRAF carriers augment DoD airlift capability with civil aircraft, aircrews, and support structure during times of national emergency. To provide incentives for carriers to commit aircraft to the CRAF program and to assure DoD of adequate airlift reserves, AMC awards peacetime airlift contracts to the air carriers that offer aircraft to the CRAF program. The peacetime contracts are awarded on a fiscal year basis. In addition, AMC requires that international air tenders be from CRAF carriers. Of the 12 carriers with international air tenders, 10 were qualified CRAF carriers.

⁸Security services include constant surveillance over a shipment during movement and records showing the chain of custody.

Two international air tenders, one effective starting in February 2002 and one in May 2002, were not from FY 2002 qualified CRAF carriers. AMC officials stated one carrier's parent was a qualified CRAF carrier in FY 2002. However, AMC prohibited another CRAF carrier from transferring an interest in an international air tender to a firm that was not a qualified CRAF carrier, stating that interests in contracts generally cannot be transferred. Therefore, using similar logic, a tender from a subsidiary that is not a qualified CRAF carrier should not be approved, even if the parent is a qualified CRAF carrier.

Competition With Contracts and Channel Flights. International air tenders competed with mandatory services provided by Federal Acquisition Regulation-based contracts and channel flights. The Federal Acquisition Regulation-based contracts are the GSA small package and Worldwide Express contracts.

Competition With Worldwide Express Contracts. One international air tender competed with mandatory services provided by Worldwide Express contracts. DoD mandates the use of Worldwide Express contracts for air shipments weighing 150 pounds or less. The Worldwide Express contractors agree to provide DoD transportation services over all routes available to commercial customers. However, AMC officials stated that, based on information in the tenders and Worldwide Express contracts, they could not determine whether the tenders competed with Worldwide Express contracts because the contracts did not include a listing of all transportation routes available to commercial customers. For example, the Worldwide Express contracts included a listing of routes from the United States to international locations and from Germany, Japan, and Korea to the United States. But the contracts did not include a listing of routes between international locations and from international locations other than Germany, Japan, and Korea to the United States. To obtain transportation routes available to commercial customers, but not listed in the contracts, transportation officers had to call a toll-free telephone number. Comparing the two tenders with information obtained by calling the toll-free telephone number showed that the tenders potentially competed with the Worldwide Express contracts.

One international air tender, which was for shipments from Turkey to worldwide locations, including Egypt, did not compete with Worldwide Express contracts. The tender applied to shipments up to 70 kilograms (154.322 pounds). A Worldwide Express contractor offered commercial transportation from Turkey to Egypt. The transit time for the contractor's commercial service was 6 days, compared with a 3-day transit time offered in the tender. Therefore, we concluded that the tender did not compete with the Worldwide Express contract.

Another international air tender, which included shipments between worldwide locations, including between Germany and Egypt, competed with a Worldwide Express contract. The tender applied to shipments weighing 1 kilogram (2.2046 pounds) and over. A Worldwide Express contractor offered commercial transportation from Germany to Egypt. Therefore, the tender, which included a door-to-door transit time of 3 to 5 days, competed with a Worldwide Express contract, which offered a 3-day transit time.

Competition With GSA Small Package Contracts. International air tenders competed with mandatory services provided by GSA small package contracts. The GSA small package contracts are considered the best value to the Government, making DoD a mandatory user of the contracts. Of the 12 international air tenders reviewed, 1 tender competed with the GSA small package contracts. The tender provided service within the United States, including Alaska and Hawaii. That tender was for shipments of all weights and included overnight and second-day service. The GSA contracts also provided overnight and second-day service within the United States, including Alaska and Hawaii. AMC officials indicated that the tender involved gray areas because Alaska and Hawaii are considered domestic locations for the GSA small package contracts but international locations for air tenders.

Competition With Daily Channel Flights. An international air tender competed with mandatory services provided by channel flights for one of the six locations with daily flights. In June 2001, AMC notified air carriers of an initiative to return DoD freight to the channel airlift system. In November 2001, AMC notified air carriers that the six locations served by daily channel flights (the six channel routes) must be eliminated from international air tenders by December 15, 2001. However, of the 12 international air tenders reviewed, 1 tender competed with a channel route. That tender included door-to-door service from Florida, Georgia, and Alabama to worldwide locations, including Riyadh, Saudi Arabia. Riyadh is less than 50 miles from Prince Sultan Air Base, which is a reasonable delivery distance for a carrier that offers door-to-door service. Therefore, we concluded that the tender competed with one of the six channel routes. AMC officials stated that the tender did not compete with the channel route because the channel route offered service to Prince Sultan Air Base and the tender offered door-to-door service to Riyadh.

Implementation of a Single Automated Billing and Payment System. DoD could more fully implement a single automated billing and payment process in accordance with MRM No. 15. Shipments made via domestic tenders must be billed through PowerTrack but shipments made via international tenders are not required to use PowerTrack. When PowerTrack is not used, carriers submit bills to the Defense Finance and Accounting Service. One of the goals of MRM No. 15 is to create a unified billing process for all transportation modes, which is expected to create annual savings from e-commerce efficiencies and a reduction in Defense Finance and Accounting Service processing workload. Although PowerTrack cannot be used as the single billing process until international transportation officers receive PowerTrack, PowerTrack can and should be used for shipments originating in the United States.

Requirements for International Air Freight Tenders

AMC had not standardized international air tenders. AMC also had not required that tender rate information be entered into DoD transportation routing systems or required carriers to provide data on tender usage. In addition, AMC had not adequately reviewed international air tenders before approval. Further, AMC had

not required that the PowerTrack automated payment system be used for carrier billings and payments.

Standardizing International Air Tenders. AMC had not standardized international air tenders, although AMC and MTMC did issue guidance standardizing other transportation modes. There was no guidance in effect on international air tenders and, although AMC and MTMC have taken initial steps to standardize international air tenders, significant progress still needed to be made.

Responsibilities for Standardizing International Air Tenders. AMC is responsible for standardizing international air tenders. MTMC was involved in the standardization efforts because a MTMC transportation routing system would need modification to accept data on international air tenders. In addition, to standardize international air tenders, MTMC needed to revise Publication No. 364-C and Form 364-R. Further, MTMC, due to experience in writing publications for other modes of transportation, assisted AMC in writing Draft Publication No. 5, which included proposed rules for standardizing international air tenders.

Standardization of Other Modes of Transportation. AMC and MTMC standardized tenders for other transportation modes. Although carriers had reservations with the standardization efforts, AMC and MTMC were able to overcome carriers' concerns and standardize domestic air, motor, pipeline, rail, tank-truck, and all modes of guaranteed traffic. AMC officials stated that domestic air tenders were standardized in 1999. The standardization protected the interests of DoD by imposing standard rules and limitations. Carriers filed standardized air tenders on Form 364-R, which was governed by Publication No. 364-C. In addition, standard tenders were also governed by a separate publication based on the mode of transportation. For example, Publication No. 5 governs domestic air tenders.

Guidance for International Air Tenders. AMC had not standardized international air tenders requirements. Although carriers had to file international air tenders on Optional Form 280, there was no DoD publication that governed Optional Form 280 or the terms and conditions contained in attachments to Optional Form 280. Therefore, carriers were free to impose their own rules and limitations on attachments to Optional Form 280. International air tenders could also be subject to carrier-unique publications, which carriers referenced in the tenders but were not required to attach to the tenders. In order to protect the interests of DoD, AMC should impose standard rules and limitations on international air tenders.

Steps Taken To Standardize International Air Tenders. AMC and MTMC have taken steps to standardize international air tenders. According to an AMC official, AMC, in conjunction with MTMC, developed Draft Publication No. 5, which included standard rules and limitations for international air tenders. Draft Publication No. 5 was posted to the MTMC Web site on March 12, 2001, and air carriers were given 60 days to comment. MTMC also revised Form 364-R to include international air tenders, which was published on its Web site on July 2, 2001. In August 2001, AMC and MTMC met with carriers to hear

carriers' concerns about the standardization of international air tenders, including the definition of the levels of service, guidance on oversized freight, and assessorial charges for next-flight-out service. According to AMC officials, delays occurred in standardizing international air tenders because:

- higher priority projects, such as implementing PowerTrack and a Web-based transportation routing system, took precedence;
- approval from the American National Standards Institute for computer codes for international air tenders had to be obtained; and
- rating international shipments, accommodating foreign currency, and developing international codes similar to ZIP Codes were problematic.

AMC officials also stated that they wanted the transportation routing system owned by MTMC to be modified before international air tenders were standardized. However, as a first step AMC should standardize international air tenders so comparable information would be available. The comparable information can be made available later electronically through a MTMC transportation routing system.

Progress Toward Standardizing International Air Tenders.

Significant progress was still needed to standardize international air tenders. In May 2002, a MTMC official stated he expected international air tenders to be standardized in FY 2002; however, as of August 2002, MTMC and AMC officials had not met for a year. AMC, in coordination with MTMC, should protect the interests of DoD by standardizing international air tenders. Necessary actions include finalizing Draft Publication No. 5 and Draft Form 364-R. In addition, MTMC needs to revise Publication No. 364-C.

Requiring Tender Rate Information in Electronic Format. AMC had not required that information on tender rates and accessorials (tender rate information) be entered into DoD transportation routing systems. In addition, AMC had not required carriers to provide data on international air tender usage.

Entering Data Into DoD Transportation Routing Systems. AMC had not required that air tender rate information be entered into DoD transportation routing systems for international tenders and tenders with domestic security services. In contrast, AMC required complete tender rate information to be entered electronically for other domestic air tenders. Transportation officers generally had electronic access to domestic air tender information, including rates and other provisions. Because the domestic air tender information was electronic, DoD transportation routing systems could automatically determine which tenders could provide the needed transportation services. In addition, DoD transportation routing systems could provide transportation officers a listing of domestic air tenders and estimated costs for use in selecting a carrier. In contrast, for international air tenders and tenders with domestic security services, the information entered electronically into DoD transportation routing system was the carrier's name, address, point of contact, standard carrier alpha code, tender number, tender effective date, and tender expiration data. According to AMC officials, for international air tenders and tenders with domestic security services,

transportation officers had to obtain estimated costs from either the air carriers or a manual computation based on paper copies of the tenders.

AMC officials stated there are impediments to requiring electronic input of information on international air tender rates and tenders with domestic security services. AMC officials stated that before international air tender rate information could be input electronically, tenders had to be standardized. In addition, a MTMC-owned transportation routing system needed to be modified to accept standard information on international air tenders and information on domestic tenders with security services. In August 2002, MTMC notified AMC that the MTMC transportation routing system was scheduled for replacement and that funding for changes to that system was frozen. Therefore, international air tender rate information and information on domestic tenders with security services could not be electronically available until the replacement system was selected and implemented.

Pending system replacement, AMC could still take steps to ensure tender rates are available electronically. For example, AMC posted the GSA small package and Worldwide Express contracts to its Web site. Likewise, AMC could post the international air tenders and domestic tenders with security services. The Web site could contain an index of the tenders by geographic location to aid transportation officers in finding tenders that meet their transportation needs. That would allow DoD to come closer to meeting the MRM No. 15 goal of reducing the reliance on paper processes and increasing the reliance on electronic commerce. Once MTMC implements its replacement transportation routing system, international air tender rate information and information on domestic tenders with security services can be entered and made available to transportation officers in an electronic format. However, MTMC needs to ensure that information can be entered electronically into the replacement system.

Requiring Carriers to Provide Data on Tender Usage. AMC had not required carriers to provide data on tender usage. Specifically, AMC did not require that the provisions of international air tenders include a requirement that the carriers provide periodic data on usage. In contrast, for other transportation requirements, AMC requires carriers to provide usage data as a condition of using the carriers' services. For example, the terms of the GSA small package and Worldwide Express contracts require the carriers to provide detailed monthly reports. Pending replacement of the MTMC transportation routing system, AMC should require that the provisions of international air tenders include a requirement that the carriers provide periodic data on usage.

Reviewing International Air Tenders Before Approval. AMC had not adequately reviewed international air tenders before approval. AMC should improve its review process to ensure international air tenders comply with the existing criteria. In addition, AMC should develop additional criteria for reviewing international air tenders to ensure that international air tenders do not compete with mandatory transportation services and do not include domestic rates.

Complying With Existing Criteria. AMC had not adequately reviewed international air tenders before approval to ensure that the tenders complied with

the existing criteria. Specifically, AMC did not ensure that international air tenders complied with both the international and domestic criteria.

International Criteria. AMC did not ensure that international air tenders complied with the international criteria. AMC officials stated that international air tenders were reviewed to ensure that the tenders complied with the following three criteria.

- Tenders did not compete with Worldwide Express contracts.
- Tenders did not compete with the six channel routes that have daily flights (Frankfurt, Inchon, Kuwait, Prince Sultan Air Base, Ramstein Air Base, and Seoul).
- Tenders were from a qualified CRAF carrier.

However, AMC approved tenders that competed with Worldwide Express contracts and the six channel routes. AMC also approved tenders from carriers that were not qualified CRAF carriers. Therefore, AMC needed to improve its review process. Specifically, AMC should adequately review international air tenders before approval to ensure the tenders do not compete with Worldwide Express contracts. AMC should also review approved tenders and request revision of all tenders that compete with Worldwide Express contracts. In addition, AMC should adequately review international air tenders before approval to ensure the tenders do not compete with the six channel routes. AMC should also review approved tenders and revoke all tenders that compete with the six channel routes. Further, AMC should adequately review international air tenders before approval to ensure the carriers are qualified CRAF carriers. AMC should revoke the tenders when a carrier is no longer a qualified CRAF carrier. At a minimum, AMC should review approved tenders each fiscal year to ensure all international air tenders are from qualified CRAF carriers.

Domestic Criteria. AMC did not ensure that international air tenders complied with domestic criteria. Publication No. 5 requires that tenders that offer transportation within the continental United States be filed on Form 364-R. However, AMC approved 3 of the 12 international tenders reviewed even though the tenders were filed on Optional Form 280 and included domestic rates. One tender provided for transportation within the continental United States. AMC should have required that tender to be filed on Form 364-R, as required by Publication. No. 5. Two tenders provided for transportation within the continental United States and between the continental United States and international locations, including Alaska, Hawaii, and Canada. For example, one tender provided for transportation:

- within the continental United States,
- within Canada, and
- between the continental United States and Canada.

AMC should not have approved the two tenders that included both domestic and international rates. AMC should have required the domestic portion to be filed on Form 364-R, as required by Publication No. 5, and required the international portion to be filed on Optional Form 280, in accordance with AMC criteria.

Developing Additional Criteria. AMC criteria did not include ensuring that international air tenders do not compete with the GSA small package contracts and do not include domestic rates. Specifically, AMC should adequately review international air tenders before approval to ensure the tenders do not compete with the GSA small package contracts. AMC should also review approved tenders and revoke all tenders that compete with the GSA small package contracts. In addition, AMC should review international air tenders before approval to ensure the tenders do not include domestic rates. AMC should also review approved international air tenders and revoke all tenders that include domestic rates.

Requiring the Use of PowerTrack for Billing and Payments. AMC had not required that the PowerTrack automated payment system be used for carrier billings and payments to the extent possible. PowerTrack has been deployed to transportation officers in the United States and, therefore, could be used for all shipments originating in the United States. AMC should require carriers to use PowerTrack for all international shipments originating in the United States.

AMC should require carriers to use PowerTrack as PowerTrack is deployed to transportation officers outside the United States. For example, when PowerTrack is deployed to transportation officers in Europe, AMC should require carriers to use PowerTrack for all shipments originating in Europe; when PowerTrack is deployed to transportation officers in Japan, AMC should require carriers to use PowerTrack for all shipments originating in Japan.

Costs and Benefits

DoD may be incurring unnecessary transportation and other costs. In addition, DoD may not have effectively planned and used Federal Acquisition Regulation-based contracting and channel flights as alternatives to international air tenders and may not be achieving the expected benefits of MRM No. 15.

Transportation and Other Costs. For domestic air tenders, Publication No. 5 protected the interests of DoD by imposing standard rules and limitations. However, for international air tenders there was no guidance that protected the interests of DoD. For example, DoD may be incurring unnecessary transportation and other costs because carriers were not required to:

- aggregate total shipments;
- be liable for all loss, damage, undue delay, or missed deliveries unless caused by acts of God;
- bill for the actual level of service performed;

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- bill at the lowest rate when a specific level of service was not requested;
 - certify that the shipment was delivered;
 - determine mileage based on the shortest highway distance as determined by a standard publication; and
 - report astray freight.

Aggregating Total Shipments. DoD may be incurring unnecessary transportation costs because AMC did not require carriers to aggregate total shipments for international tenders and bill based on the aggregate weight. However, for domestic air tenders, Publication No. 5 requires that carriers aggregate total shipments and bill based on the aggregate weight. Publication No. 5 requires aggregation for all shipments:

- from the same origin,
- to the same destination,
- on the same day, and
- for the same level of service.

Of the 12 international tenders reviewed, 10 did not address aggregating shipments. One tender addressed aggregating shipments but the method for billing for aggregate shipments was unclear. Another tender addressed aggregating shipments but imposed fees and other limitations not allowed by Publication No. 5.

Aggregating shipments reduces transportation costs because the shipping costs per pound generally decrease as the weight increases. For example, based on one tender's rates, 10 shipments of 500 pounds each from Michigan to Ottawa, Canada, would cost \$15,912 without aggregation; if aggregated, the cost would be \$11,934.

AMC addressed that issue in Draft Publication No. 5, which will require the carrier to aggregate all shipments from the same origin point to the same destination consignee, for the same level of service tendered at the same time on the same day. Weight will be adjusted and billed at the applicable rate for the total weight of those shipments.

Carrier Liability. DoD may be incurring other costs because AMC did not require carriers to be liable for shipments. For domestic tenders, Publication No. 5 requires that carriers be liable for all loss, damage, undue delay, or missed deliveries unless caused by acts of God. However, for 6 of the 12 tenders reviewed, the carriers imposed greater limitations to liability than allowed by Publication No. 5.

For example, the international tenders stated that the carriers were not liable for:

- compliance or noncompliance with delivery instructions,
- weather conditions,
- mechanical delay of aircraft,
- perils of the air,
- loss or suspension of license,
- any circumstances beyond the control of the carrier, and
- consequential, incidental, or special damages.

AMC addressed that issue in Draft Publication No. 5, which will require carriers to be liable except in limited circumstances.

Billing for Services Performed. DoD may be incurring unnecessary transportation costs because, for international air tenders, AMC did not require carriers to bill for the actual level of service performed. For domestic air tenders, Publications No. 5 requires that when a carrier has different levels of service at varying rates, the carrier will bill for the actual service performed. For example, for a domestic tender with both overnight and second-day service, if the transportation officer requested overnight service but the carrier did not deliver until the second day, AMC required the carrier to bill for second-day service. However, for 7 of the 12 tenders reviewed, the tenders had multiple levels of service and rates and all 7 tenders did not address billing for the actual service performed. For example, for one of the tenders reviewed, if the transportation officer requested overnight service for a 500-pound shipment but the carrier did not deliver until the second day, the carrier could bill \$1,555 for the overnight service. However, if the carrier had to bill for the actual second-day service, as provided by Publication No. 5, the carrier could only bill \$1,025.

AMC addressed that issue in Draft Publication No. 5, which will require carriers to bill for the actual level of service performed.

AMC imposed billing limits for GSA small package and Worldwide Express contracts. Those contracts provide that if the delivery is late, the transportation services are free. However, only 2 of the 12 international air tenders reviewed had a provision for free transportation services when a delivery was late, in which case the tenders required that DoD file a claim for a refund. One tender required that the delay be a controllable event,⁹ and the other tender did not allow for refunds for discounted shipments.

Billing at Lowest Rate. DoD may be incurring unnecessary transportation costs because when a specific level of service was not requested in the bill of lading, AMC did not require carriers to bill at the lowest rate in the

⁹The tender did not define a controllable event.

international air tender. For domestic tenders, carriers are required to bill at the lowest rate in the tender if a specific level of service is not requested. For example, if a domestic tender has both overnight and second-day service and the bill of lading does not specify the service requested, AMC requires the carrier to bill for second-day service. Of the 12 international air tenders reviewed, 7 offered multiple levels of service and rates. However, of the seven tenders that offered multiple levels of service and rates, five did not contain a provision requiring carriers to bill at the lowest rate if a specific level of service was not requested. In addition, the remaining two tenders specified that the highest level of service and rate will apply if no level of service is specified. For example, one tender stated that when the shipper does not indicate the type of service requested, the shipment will be rated and routed at “next-flight-out service.” The next-flight-out service costs significantly more than the general service offered in the tender. For example, a 1,000-pound shipment sent from the United States to Pakistan would cost \$9,760 for next-flight-out service versus \$4,740 for general service.

AMC addressed that issue in Draft Publication No. 5, which will require carriers to bill at the lowest rate in the international air tender if a specific level of service is not requested.

Certifying Delivery. DoD may be incurring unnecessary transportation costs because AMC did not require carriers to certify that the shipment was delivered before DoD paid the transportation costs. Publication No. 5 requires that carriers certify in PowerTrack that the shipment was delivered before DoD will pay the transportation costs. None of the 12 tenders reviewed required certification of delivery before payment. In addition, three generally required DoD to prepay the transportation costs. Another tender required that DoD pay the transportation costs whether or not the freight arrives at the destination. As a result, DoD may be paying for transportation of shipments that never reach the intended destination.

The lack of a requirement for carriers to certify that a shipment was delivered is contrary to MRM No. 15. One of the goals of MRM No. 15 is to improve data accuracy. Without requiring delivery certification, accurate data is not readily available to determine whether transportation charges are valid. In addition, not requiring the certification to be completed in PowerTrack is contrary to the MRM No. 15 goal of increasing the use of electronic commerce.

AMC addressed that issue in Draft Publication No. 5, which will require carriers to certify delivery before DoD will pay the transportation costs. In addition, Draft Publication No. 5 will require that the certification be made electronically using PowerTrack. Any certification of delivery before actual delivery could result in the disqualification or disbarment of the carrier from Government transportation programs and procurements.

Determining Mileage. DoD may be incurring unnecessary transportation costs because AMC did not require carriers to determine mileage based on the shortest highway distance using a standard publication. For domestic air tenders, Publication No. 5 requires the use of a standard publication to determine mileage. Table 6 shows the provisions for determining mileage in the tenders reviewed.

The provisions in two of the tenders were unclear. One tender stated that beyond charges¹⁰ would be based on weight and location but did not state how the charges would be computed or whether the charges would be based on mileage. Another tender stated beyond charges would apply but did not indicate how the charges would be computed.

Table 6. Determining Mileage per Tenders

<u>Tender Provision for Determining Mileage</u>	<u>No. of Tenders</u>
No provision; no mileage-based charges in tender	5
No provision; mileage-based accessorial charges in tender	1
Mileage determined by standard publication	4
Provisions unclear	2

Not requiring the use of a standard publication to determine mileage is contrary to MRM No. 15. One of the goals of MRM No. 15 is to develop a single documentation and billing process for all modes of transportation. However, without a standard publication to determine the shortest highway distance, a single documentation and billing process cannot be developed. Not requiring the use of a standard publication to determine mileage is also contrary to the MRM No. 15 goal of improving data accuracy.

AMC addressed that issue in Draft Publication No. 5, which will require the use of the Defense Table of Official Distances to determine the shortest highway distance.

Reporting Astray Freight. DoD may be incurring unnecessary costs because AMC did not require carriers to report astray freight, as required for domestic air tenders by Publication No. 5. MTMC is the program manager for the astray freight program and identifies astray freight. A MTMC report for January through April 2002 identified about \$6.5 million of astray freight. The international air tenders do not require carriers to report astray freight, which could cause DoD to incur millions of dollars in lost freight each year. For example, MTMC reported no astray freight at locations outside the United States. In addition, some tenders provided that the carriers can sell undelivered DoD freight after a certain time had elapsed.

AMC addressed that issue in Draft Publication No. 5, which will require carriers to telephone the MTMC Deployment Support Command at listed toll-free numbers to report astray freight.

Planning Alternatives to International Air Freight Tenders. DoD may not have effectively planned Federal Acquisition Regulation-based contracting and channel flights as alternatives to international air freight tenders.

¹⁰Beyond charges are charges for pickup and delivery services to and from airports when the origin and destination locations are beyond a certain distance from the airports.

Federal Acquisition Regulation-Based Contracts. AMC had contracted with CRAF carriers for less than plane-load freight transportation on scheduled flights. In addition, AMC had contracted with CRAF carriers for full plane-load freight transportation. However, given the lack of visibility over the usage of international air tenders, DoD did not know whether additional contracts should be planned for international shipments.

Channel Flights. In order to establish or change the frequency of channel flights, it is necessary to know the estimated amount of freight that requires air transportation. However, without data on the usage of international tenders, DoD did not know the amount of freight transported via international air tenders. Therefore, DoD could not accurately determine whether channel flights needed to be established or changed. U.S. European Command officials stated that there was only limited usage of international air tenders because of the channel routes and Worldwide Express contracts. U.S. Pacific Command officials stated that they know the location of U.S. Armed Forces in the Pacific Command theater and ensure that channel flights exist in order to sustain those forces. However, without data on the usage of international tenders there was no assurance that channel flights had been adequately planned.

Using Mandatory Transportation Services. DoD may not have effectively used Federal Acquisition Regulation-based contracting and channel flights as alternatives to international air freight tenders.

Federal Acquisition Regulation-Based Contracting. Use of the Worldwide Express contracts was mandatory for air shipments weighing 150 pounds or less. Services provided under the Worldwide Express contracts covered shipments from domestic¹¹ to international locations,¹² from international to domestic locations, and from international to international locations. However, AMC had approved an international air tender that offered services covered under the Worldwide Express contracts. Therefore, DoD may not have used existing contracts according to the contractual requirements. However, because no data was available on the usage of tenders, we could not determine whether international tenders were actually used to make shipments required to be made under Federal Acquisition Regulation-based contracts.

Channel Flights. AMC imposed restrictions on international tenders that competed with six channel routes. The six channel routes were used to maintain aircrew training, which is crucial in meeting wartime readiness requirements. Use of the routes was mandatory for air shipments weighing over 150 pounds. However, AMC approved a tender that competed with one of the six channel routes. Therefore, DoD may not have used the channel route according to AMC requirements. However, because no data was available on the usage of tenders, we could not determine whether international tenders were used to make shipments that were required to be made using channel flights.

¹¹The Worldwide Express contracts define domestic to include Alaska, Hawaii, and Puerto Rico.

¹²The Worldwide Express contracts define international to exclude Alaska, Hawaii, and Puerto Rico.

Achieving the Expected Benefits of MRM No. 15. DoD may not be achieving the expected benefits of MRM No. 15. One of the goals of MRM No. 15 is to create a unified billing process for all transportation modes. DoD was expected to achieve annual savings from e-commerce efficiencies and a reduction in Defense Finance and Accounting Service processing workload. However, without more fully using PowerTrack, DoD will not achieve those expected benefits. Although PowerTrack cannot be used as the single billing process until international transportation officers receive PowerTrack, DoD could receive additional benefits if PowerTrack was used to the maximum extent possible. Increased usage of PowerTrack could also help DoD achieve the expected benefits of reducing infrastructure costs and improving data accuracy.

Management Comments on the Finding and Audit Response

USTRANSCOM Comments. USTRANSCOM stated that although the audit report discusses 12 international air tenders, 6 of the 12 tenders selected for review were domestic tenders. As a result, the audit report reflects inaccurate comments relating to international tenders.

Audit Response. We selected our sample of 12 tenders from AMC files of international air tenders. We added a more detailed discussion of our sample selection to the report to clarify that the tenders were considered to be international air tenders by AMC. The 12 tenders were filed on Optional Form 280, which is the form for international air tenders. In contrast, Publication No. 5 requires domestic air tenders to be filed on Form 364-R. We also added Table 1, which shows the locations served by the 12 tenders in our sample.

The USTRANSCOM comments indicated that the first six tenders listed in Table 1 are domestic tenders. However, five of those six tenders offered international service not covered by Publication No. 5, which governs service “within the contiguous United States,” and excludes service to Alaska, Hawaii, and Puerto Rico. Therefore, those tenders, which offered service outside the continental United States, including service to Alaska, Hawaii, Puerto Rico, or Canada, are international tenders. In addition, because AMC had allowed all 12 of the tenders to be filed on Optional Form 280 and had included them in the AMC files of international air tenders, it was appropriate to include all 12 tenders in our sample.

The first tender listed in Table 1 offered only domestic service. Therefore, the tender should have been filed on Form 364-R to comply with Publication No. 5. However, the tender was filed on Optional Form 280 and was included in the AMC files as an international air tender. Therefore, it was appropriately included in our sample.

The second and third tenders listed in Table 1 offered both domestic and international service. Therefore, AMC should have required the carriers to file the domestic service on Form 364-R and the international service on Optional Form 280. However, because the tenders were filed on Optional Form 280 and

included by AMC as international air tenders, they were appropriately included in our sample.

The remaining nine tenders offered only international service and were appropriately filed on Optional Form 280.

Recommendations, Management Comments, and Audit Response

Revised and Added Recommendations. As a result of management comments, we revised draft Recommendations 1.e. and 1.f. to require that the inappropriate tenders be revoked instead of revised and modified the finding text accordingly. We also added Recommendation 1.j. to require that AMC disapprove international tenders that include domestic rates and Recommendations 1.k. and 2.d. to require that additional information on tenders be entered into the new transportation routing system. We request that management provide comments on the added recommendations in response to the final report.

1. We recommend that the Commander, Air Mobility Command:

a. Establish as a priority standard rules and limitations for international air freight tenders by finalizing the draft “AMC Freight Traffic Rules Publication No. 5” and including the following draft criteria in the final publication:

- (1) Standard formula for computing dimensional weight.**
- (2) Standard definitions of levels of service, including next-flight-out, express, standard, and deferred service.**
- (3) Standard accessorial charges allowed.**
- (4) Limited exceptions to delivery commitments, such as acts of God or of the public enemy, acts of the Government, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, and unusually severe weather.**
- (5) Prohibition of carrier-unique publications governing tenders.**
- (6) Standard delivery zones.**
- (7) Requirement that shipments from the same origin point to the same destination consignee, for the same level of service tendered at the same time on the same day, be aggregated and billed at the applicable rate for the total weight of the shipments.**
- (8) Limited exceptions to carrier liability.**

(9) Billing for the actual level of service performed.

(10) Billing at the lowest tender rate if a specific level of service is not requested.

(11) Carrier certification of delivery before DoD will pay for the transportation costs and carrier certification in PowerTrack, to the extent possible.

(12) Use of the Defense Table of Official Distances to determine the shortest highway distance.

(13) Requirement that carriers report astray freight.

USTRANSCOM Comments. USTRANSCOM concurred and agreed to include the 13 criteria in the finalization of Draft Publication No. 5.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive in that USTRANSCOM did not include a planned completion date. We request that management provide a planned completion date in response to the final report.

b. Develop an index of international air freight tenders and post the index along with international air freight tenders to the Web site until the new transportation routing system is implemented.

USTRANSCOM Comments. USTRANSCOM concurred with comment. USTRANSCOM stated that AMC maintains a matrix of international air tenders on its Web site. The matrix is updated monthly and lists the carrier, tender number, route, effective date, and expiration date of each approved tender. Until tenders can be rated electronically, posting tenders to a Web site will not provide transportation officers with any more information than currently available with paper copies.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive. Posting tenders to a Web site would allow transportation officers to electronically access up-to-date tender information. Further, having transportation officers rely on paper copies of tenders violates the principles of electronic commerce. One of the goals of MRM No. 15 was to increase the use of electronic commerce. The purpose of electronic commerce is to increase the efficiency of the DoD procurement process, reduce cost, and eliminate paper. We request that management provide additional comments in response to the final report that address complying with electronic commerce requirements until the tenders can be rated electronically.

c. Direct that information on international air freight tenders, including rates, be electronically entered into the new transportation routing system, once implemented.

USTRANSCOM Comments. USTRANSCOM concurred and stated that it will continue the automation effort, pending the development of the transportation routing system.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive in that USTRANSCOM did not include a planned completion date. We request that management provide a planned completion date in response to the final report.

d. Review international air freight tenders before approval to ensure that international air freight tenders:

- (1) Do not compete with Worldwide Express contracts.**
- (2) Do not compete with the six channel routes with daily flights.**
- (3) Are from qualified Civil Reserve Air Fleet carriers.**
- (4) Do not compete with General Services Administration small package contracts.**
- (5) Do not include domestic rates.**

e. Review existing international air freight tenders and revoke any tenders that:

- (1) Compete with Worldwide Express contracts.**
- (2) Compete with the six channel routes with daily flights.**
- (3) Are not from qualified Civil Reserve Air Fleet carriers.**
- (4) Compete with General Services Administration small package contracts.**
- (5) Include domestic rates.**

USTRANSCOM Comments. USTRANSCOM concurred with comment, stating that Recommendations 1.d.(1) through 1.d.(3) and 1.e.(1) through 1.e.(3) are already applied to international air tenders. USTRANSCOM also stated that international air tenders do not compete with GSA small package contracts and that domestic rates are not included in international air tenders.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive. One tender in our sample competed with the Worldwide Express contracts and another competed with one of the six channel routes. The first tender offered service for shipments weighing less than 150 pounds to a location served by a Worldwide Express contractor. Because the Worldwide Express contractor offered service that was as fast or faster than the international air tender, we concluded that the tender competed with the Worldwide Express

contract. The second tender offered service for shipments weighing less than 150 pounds to within 50 miles of a location served by daily channel flights, one of the six channel routes discussed in this report. Because 50 miles is a reasonable distance for a carrier that offers door-to-door service, we concluded that the tender competed with the daily channel flight.

In addition, 2 of the 12 carriers with international air tenders were not qualified CRAF carriers. Also, because Alaska, Hawaii, and Puerto Rico are included in the GSA small package contracts but are excluded from the domestic tenders according to Publication No. 5, international air tenders offering service between the continental United States and Alaska, Hawaii, or Puerto Rico compete with GSA small package contracts.

Lastly, of the 12 international air tenders reviewed, 3 included domestic rates. Two of the three tenders with domestic rates included security services, which AMC officials stated could not be entered into the transportation routing system. One of the three tenders with domestic rates included shipments within the United States, including Alaska and Hawaii. As a result of management comments, we added Recommendations 1.k. and 2.d. to require that information, including security services, be electronically entered into the new transportation routing system for both domestic and international air tenders.

We request that management provide additional comments in response to the final report that describe what additional review steps will be taken to ensure that international air tenders do not compete with Worldwide Express contracts or with the six channel routes. Comments should also describe what additional review steps will be taken to ensure that international air tenders are from qualified CRAF carriers, do not compete with GSA small package contracts, and do not include domestic rates.

f. Review international air freight tenders each fiscal year, revoke any tenders from carriers that are no longer qualified Civil Reserve Air Fleet carriers, and post to the Air Mobility Command Web site a notice that the tenders were revoked.

USTRANSCOM Comments. USTRANSCOM concurred with comment, stating that tenders are reviewed on submission. Tenders can only be revised to change the expiration data of a tender. When a carrier is removed from the CRAF program, the tender is void.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive. The August 26, 2002, AMC files of international air tenders included tenders from carriers that had not been members of the CRAF program since October 1, 2001. Therefore, we revised draft Recommendation 1.f. to require that tenders from carriers that are no longer qualified CRAF carriers be revoked and notice of the revocation be posted to the Web site. It is important for AMC to find a means to notify transportation officers when tenders are no longer valid because a carrier is no longer a qualified CRAF carrier. We request that management provide comments in response to the final report on the revised recommendation.

g. Direct all carriers to use PowerTrack for shipments originating in the United States.

USTRANSCOM Comments. USTRANSCOM concurred and stated that the Draft Publication No. 5 already covers the requirement.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive in that USTRANSCOM did not include a planned completion date for finalizing Draft Publication No. 5. We request that management provide a planned completion date in response to the final report.

h. Direct all carriers to use PowerTrack for shipments originating outside the United States as PowerTrack is implemented at sites outside the United States.

USTRANSCOM Comments. USTRANSCOM concurred and stated that AMC agreed to impose the requirement when the draft rules are finalized and when PowerTrack can include shipments originating outside the United States. The use of PowerTrack is mandated for all shipments covered by Draft Publication No. 5.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive. Draft Publication No. 5 mandates the use of PowerTrack for all shipments via air tenders. However, carriers cannot use PowerTrack for all shipments originating outside the United States until DoD implements PowerTrack at all DoD overseas locations. Therefore, Draft Publication No. 5 needs to be revised to require carriers use PowerTrack for shipments as PowerTrack is implemented overseas, rather than for all shipments via air tenders. We request that management provide additional comments in response to the final report that address how Draft Publication No. 5 will be revised to require the use of PowerTrack as it is implemented at sites outside the United States.

i. Review international air freight tenders on a periodic basis to ensure compliance with new policy.

USTRANSCOM Comments. USTRANSCOM concurred with comment, stating that tenders are reviewed at the time of submission. Tenders can only be revised to change the expiration date of a tender.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive. The 12 tenders we reviewed had been reviewed by AMC at the time of submission; however, we found that the tenders were not all in compliance with AMC policy. Therefore, we believe a periodic review is necessary to ensure that international air tenders comply with policies. We request that management provide additional comments in response to the final report that detail what additional steps, other than review at time of submission, will be taken to ensure that international air tenders are in compliance with policies.

j. Disapprove tenders filed on Optional Form 280, “Uniform Tender of Rates and/or Charges for Transportation Services,” that include domestic rates and require that domestic rates be filed on MT Form 364-R, “Department of Defense Standard Tender of Freight Services,” in accordance with “AMC [Air Mobility Command] Freight Traffic Rules Publication No. 5,” January 15, 1999.

k. Direct that information on domestic air freight tenders, including security services, be electronically entered into the new transportation routing system when it is implemented.

2. We recommend that the Commander, Military Traffic Management Command:

a. Establish standard rules for international air freight tenders by revising the “MTMC [Military Traffic Management Command] Standard Tender Instruction Publication No. 364-C,” September 1, 2000.

b. Establish standard rules for international air freight tenders by finalizing the draft MT Form 364-R, “Department of Defense Standard Tender of Freight Services,” and including standard international delivery zones.

USTRANSCOM Comments. USTRANSCOM concurred, stating that Publication No. 364-C and Form 364-R had been revised and staffed with AMC. Because the current transportation routing system is scheduled to be replaced about January 2004, a moratorium was placed on system changes; therefore, the revised rules cannot be incorporated into the current system.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive. USTRANSCOM did not include dates that the revised instruction and form will be issued and effective. In addition, standardization of international air freight tenders is not dependent on the transportation routing system. Standardization of international air tenders will protect the interests of DoD and result in comparable information being available to transportation officers. The comparable information can then be made available electronically when the new transportation routing system is implemented. We request that management provide additional comments in response to the final report that specifically address planned completion dates for implementing the revised instruction and form.

c. Establish a process for entering international air freight tender information electronically into the new transportation routing system.

USTRANSCOM Comments. USTRANSCOM concurred and stated that the first increment of the replacement transportation routing system will provide the capability to manage tenders. AMC and MTMC will coordinate the requirements for international air freight shipments.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive in that USTRANSCOM did not include a planned completion date. We request that management provide a planned completion date in response to the final report.

d. Establish a process for electronically entering domestic air freight tender information, including security services, into the new transportation routing system.

3. We recommend that the Commander, Air Mobility Command and the Commander, Military Traffic Management Command develop a plan of action, including milestones, for:

a. Interim actions that can be completed independently of the implementation of the new transportation routing system.

USTRANSCOM Comments. USTRANSCOM concurred and stated that AMC will notify MTMC and the air carriers that the international air tender standardization effort is being re-initiated. AMC will review and update Draft Publication No. 5 and ask MTMC to review it. The updated draft publication will be posted and the air carriers will be given 30 days to comment. AMC will address and resolve comments on the draft publication.

Audit Response. Although USTRANSCOM concurred, the comments were not fully responsive in that USTRANSCOM did not include a planned completion date. We request that management provide a planned completion date in response to the final report.

b. Actions that need to be completed to plan the new transportation routing system.

USTRANSCOM Comments. USTRANSCOM concurred and stated that the contract for the new transportation routing system is pending. The new system will be phased in incrementally, with fielding to users scheduled about January 2004.

c. Actions that need to be completed to implement the new transportation routing system.

USTRANSCOM Comments. USTRANSCOM concurred and stated that a contract for the new transportation routing system is pending. The contractor will develop a milestone plan for the time-phased development, testing, and evaluation of the new transportation routing system and will provide recommendations and alternatives to the Government for the milestone plan acceptance. The system will provide quantitative metrics, no later than 365 days after contract award, to evaluate tenders for domestic and international transportation.

Army Comments. Although not required to comment, the Army agreed with the recommendations.

Air Force Comments. Although not required to comment, the Air Force agreed with most of the recommendations. In response to Recommendations 1.d.(2) and 1.e.(2), the Air Force stated that tenders should be allowed as alternatives for the six channel routes served by daily AMC channel flights. The memorandum “Transportation Acquisition Policy,” January 1998, from the then-Under Secretary of Defense for Acquisition and Technology, states that the fundamental DoD transportation policy is that requirements shall be met, to the maximum extent possible, through the use of commercial transportation resources. In addition, DoD Directive 4500.9, “Transportation and Traffic Management,” January 26, 1989, requires the use of AMC airlift (AMC-owned or AMC-contracted airlift) for international movement of DoD freight when AMC airlift capability is available and meets mission requirements. However, when AMC airlift is not available to meet requirements, DoD components may arrange alternative transportation capability through AMC or directly with commercial carriers. That results in timely, expedited service when AMC channel service is saturated or unable to provide timely service. The Air Force further stated that any decisions based on tender usage must be based on the development of a viable process and must provide factual data on the use of tenders, including timeliness of delivery and weight airlifted.

Audit Response. The AMC decision to restrict international tenders that competed with the six channel routes was in accordance with National Security Decision Directive Number 280, “National Airlift Policy,” June 4, 1987. AMC stated that restrictions on international air tenders were necessary to maintain aircrew readiness and training. The directive states that both military and commercial airlift resources are equally important to ensure that airlift resources are able to meet defense mobilization and deployment requirements. In addition, the directive states that U.S. policies shall be designed to strengthen and improve military airlift and, where appropriate, enhance the mobilization base of the U.S. commercial air carrier industry. Further, the goal is to maintain peacetime military airlift resources to ensure airlift capability during wartime, contingencies, and emergencies. The directive also states that commercial air carriers will be relied on to provide airlift capability beyond that available through military airlift resources.

The scope of this audit did not include the adequacy of the AMC channel flights to the six locations or whether commercial service was needed. However, we agree with the Air Force that decisions on tender usage should be based on factual data. Therefore, the Air Force needs to develop factual data that documents any shortfalls of the AMC channel flights. If the factual data shows that any aspect of the AMC channel flights is not adequate, the Air Force should provide that data to AMC. AMC can then decide the best way to correct any shortfall in accordance with DoD Regulation 4500.9-R, “Defense Transportation Regulation,” Part II, “Cargo Movement,” December 2000, which describes the preferred methods of airlift. The first preference is airlift arranged, operated, or negotiated by AMC. The second preference is contracts with CRAF carriers. The third preference is arrangements, such as international air tenders, with CRAF carriers.

Appendix A. Scope and Methodology

The initial scope of this audit included a review of the effectiveness of procedures and controls over DoD freight shipments paid through PowerTrack. Specifically, we were to evaluate the tender submission and approval process, the effectiveness of established payment procedures, and the controls over the delivery of freight shipments. However, as a result of delays in obtaining PowerTrack data, which we needed to analyze the payment procedures and controls over delivery, we limited our scope to controls over the submission and approval process of international air freight tenders.

We reviewed National Security Decision Directive Number 280, DoD Directive 4500.9, and DoD Regulation 4500.9-R, which contain information on airlift policy. We also reviewed Publication No. 5 and Publication No. 364-C concerning the governing rules and preparation instructions for domestic air tenders. We also reviewed Draft Publication No. 5 for international air tenders. Those documents were dated from June 1987 through March 2001. Of the 76 international air tenders from 12 air carriers that were in effect as of August 26, 2002, according to AMC files of international air tenders, we judgmentally selected and analyzed one tender for each carrier. The 12 international air tenders were analyzed for compliance with AMC policies and procedures for approving international air tenders. The provisions of the 12 international air tenders were also analyzed and compared to the domestic air tender requirements in Publication No. 5 and Publication No. 364-C and the proposed requirements in Draft Publication No. 5 and Draft Form 364-R. The 12 international air tenders were further analyzed to determine whether the interests of DoD were protected and whether the international air tenders needed to be standardized. We performed audit work at AMC, MTMC, the Services, the U.S. European Command, the U.S. Pacific Command, USTRANSCOM, and Worldwide Express offices.

We performed this audit from April through December 2002 in accordance with generally accepted government auditing standards. We updated elements of this report based on management comments received in March 2003.

The project manager for this audit was a member of the working group that presided over the implementation of PowerTrack within DoD. His role in that group was generally limited to attending briefings at the O-6 and Board of Director levels as an observer/adviser. However, he had no direct vote as to the determination of management policies that would be implemented.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management and Infrastructure Management high-risk areas.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require 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 the Review of the Management Control Program. We reviewed the adequacy of management controls over the submission and approval process for international air freight tenders. We also reviewed management’s self-evaluation of those controls.

Adequacy of Management Controls. We identified material management control weaknesses for AMC, as defined by DoD Instruction 5010.40. AMC management controls over the submission and approval of international air freight tenders were not adequate to ensure that the interests of DoD were protected. Recommendations 1. and 3., if implemented, will correct the identified weaknesses and provide adequate controls over the submission and approval process for international air freight tenders. A copy of the report will be provided to the senior official responsible for management controls in AMC.

Adequacy of Management’s Self-Evaluation. AMC officials did not identify the management of the international air freight tender submission and approval process as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Prior Coverage

IG DoD Report No. D-2001-148, “Automated Transportation Payments,” June 22, 2003.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Defense Procurement and Acquisition Policy
Assistant Deputy Under Secretary of Defense (Transportation Policy)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Commands

Commander, U.S. Pacific Command
Commander, U.S. European Command
Commander, U.S. Transportation Command
Commander, Air Mobility Command
Commander, Military Traffic Management Command

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management,
Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and
International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental
Relations, and the Census, Committee on Government Reform

U.S. Transportation Command Comments



UNITED STATES TRANSPORTATION COMMAND
508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

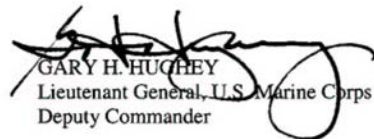
10 March 2003

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
DIRECTOR, READINESS AND LOGISTICS SUPPORT

FROM: TCDC

SUBJECT: Draft Audit Report on International DOD Air Freight Tenders (Project
NO. D2002LH-0126)

1. We appreciate the opportunity to comment on your draft report regarding International DOD Air Freight Tenders. After reviewing the draft report, we offer the attached responses to your recommendations.
2. Our POC is Mr Barry Smithey, barry.smithey@hq.transcom.mil, DSN 779-2848.


GARY H. HUGHEY
Lieutenant General, U.S. Marine Corps
Deputy Commander

Attachment:
DOD IG Response

Printed on recycled paper



**USTRANSCOM Response to Draft DOD IG Audit Report,
"International DOD Air Freight Tenders" (Project No. D2002LH-0126)
Dated December 23, 2002**

USTRANSCOM provides the following comments to the DOD IG draft audit report, "International DOD Air Freight Tenders," recommendations:

The audit states that 12 air carriers filed 76 international tenders, and the auditor selected and analyzed one tender from each carrier. However, six of the 12 tenders selected were domestic. As a result, the audit reflects inaccurate comments relating to international tenders.

RECOMMENDATION 1. We recommend that the Commander, Air Mobility Command (AMC):

a. Establish as a priority, standard rules and limitations for international air freight tenders by finalizing the draft "AMC Freight Traffic Rules Publication No 5-Rules and Accessorial Services Governing the Movement of Department of Defense Freight Traffic by Air Carrier, Air Forwarder, Air Taxi" and including the following draft criteria in the final publication:

RESPONSE: Concur. We agree the draft rules developed to include provisions for international air freight tenders should be finalized. Each of the 13 items listed in paragraph 1a of the audit report are currently included in the draft rules and will be included in the final rules.

b. Develop an index of international air freight tenders and post the index along with international air freight tenders to its website until the new transportation routing system is implemented.

RESPONSE: Concur with comment. AMC/DOY maintains a matrix of International tenders currently on file on their homepage. The matrix is updated monthly and lists the carrier, tender number, route, effective date and expiration date of each approved tender. Until tenders can be rated electronically, posting a website will not provide transportation officers with any more information than they currently have with paper copies.

c. Direct that information on international air freight tenders, including rates, be input electronically into the new transportation routing system once implemented.

RESPONSE: Concur. After AMC and MTMC standardize tenders, AMC will continue the automation effort, pending development of the transportation routing system.

d. Review international air freight tenders before approval to ensure that international air freight tenders:

- (1) Do not compete with the Worldwide Express contracts.

- (2) Do not compete with the six channel routes with daily flights.
- (3) Are from qualified Civil Reserve Air Fleet (CRAF) carriers.
- (4) Do not compete with General Services Administration (GSA) small package contracts.
- (5) Do not include domestic rates.

RESPONSE: Concur with comment. Rules for items 1-3 are applied to international air tenders today. International tenders do not compete with the GSA small package contract, a domestic program. Further, domestic rates are not a part of, nor listed as international tenders.

e. Review existing international air freight tenders and request revision of any tenders that:

- (1) Compete with Worldwide Express contracts.
- (2) Compete with the six channel routes with daily flights.
- (3) Are not from qualified Civil Reserve Air Fleet carriers.
- (4) Compete with General Services Administration small package contracts.
- (5) Include domestic rates.

RESPONSE: Concur with comment. AMC reviewed and revised International tenders in Dec 01 and eliminated competing routes. All new tender requests are reviewed under the revised ruling system, in place Apr 00, which ensures that International tenders follow rules for items 1-3. International air tenders do not compete with GSA small package contract, as International tenders do not move cargo from CONUS to CONUS. Thus, domestic rates are not included in International tenders.

f. Review international air freight tenders each fiscal year and request revision of any tenders from carriers that are no longer qualified Civil Reserve Air Fleet carriers.

RESPONSE: Concur with comment. Review of tenders occurs at time of submission and may be in effect for a period of not less than ninety days, and not more than two years. The expiration date is the only change allowed to a tender; otherwise, the carrier must submit a new tender for review and approval.

CRAF carriers have approved international air tenders. Upon carrier removal from the CRAF program, the tender is void.

Revised

Revised

g. Direct all carriers to use PowerTrack for shipments originating in the United States.

RESPONSE: Concur. The Draft Rules Publication already covers this requirement. Section 1, Item 19, PowerTrack, paragraph 1 indicates effective 30 Nov 00, carriers, even if otherwise qualified, which are not PowerTrack certified will not be eligible to carry any DOD freight.

h. Direct all carriers to use PowerTrack for shipments originating outside the United States as PowerTrack is implemented at sites outside the United States.

RESPONSE: Concur. AMC agrees to impose this requirement upon finalization of the draft rules and when PowerTrack can include shipments originating outside of the United States. Section 1, Item 19 PowerTrack, paragraph 1 of the Draft Rules Publication states that the Secretary of Defense has mandated the use of PowerTrack for most procurements of DOD transportation, including all procurements covered by this publication

i. Review international air freight tenders on a periodic basis to ensure compliance with new policy.

RESPONSE: Concur with comment. Review of tenders occurs at time of submission and may be in effect for a period of not less than ninety days, and not more than two years. The expiration date is the only change allowed to a tender; otherwise, the carrier must submit a new tender for review and approval.

RECOMMENDATION 2.a. Establish standard rules for international air freight tenders by revising the "MTMC Standard Tender Instruction Publication No. 364-C."

RESPONSE: Concur. Revised MTMC Standard Tender Instruction Publication No. 364-C was completed and staffed through the functional proponent at AMC. Rules cannot be incorporated into the current transportation routing system, Global Freight Management (GFM). There is currently a moratorium on GFM planned upgrades or engineering change proposals because MTMC is developing a new transportation routing system called Surface Transportation Management System (STMS). Fielding to users is scheduled on or about Jan 04.

RECOMMENDATION 2.b. Establish standard rules for international air freight tenders by finalizing the draft "Department of Defense Standard Tender of Freight Services MT Form 364-R" and including standard international delivery zones.

RESPONSE: Concur. Department of Defense Standard Tender of Freight Services MT Form 364-R has been drafted and staffed with the functional proponent of AMC. AMC implementation timeframe for revisions coincided with a time when no planned upgrades or engineering change proposals were being accepted to GFM. The new transportation routing system, STMS, will be phased in incrementally with fielding to the users scheduled on or about Jan 04.

RECOMMENDATION 2.c. Establish a process for entering international air tender rate information electronically into the replacement transportation routing system.

RESPONSE: Concur. STMS, increment one functionality, shall provide the capability to manage and modify long-term negotiated contracts, tenders or tariffs, and supplements with transportation. AMC and MTMC, with support of the STMS contractor, will coordinate International Air Freight Shipment requirements.

RECOMMENDATION 3: We recommend that Commander, AMC and Commander, MTMC develop a plan of action, including milestones for:

a. Interim actions that can be completed independently of the implementation of the new transportation routing system.

RESPONSE: Concur. AMC will notify MTMC and the air carriers that the International Tender Standardization effort is being re-initiated. AMC will review and update the draft publication and ask MTMC to perform a review as well. The draft rules will be posted for air carrier review with 30-days to comment. AMC will address and resolve issues with the draft regulation.

b. Actions that need to be completed to plan the new transportation routing system.

RESPONSE: Concur. The new transportation routing system, STMS, contract award is pending. It will be phased in incrementally with fielding to the users scheduled on or about Jan 04. There are no planned upgrades or engineering change proposals being accepted to the current transportation routing system, GFM.

c. Actions that need to be completed to implement the new transportation routing system.

RESPONSE: Concur. The STMS contractor shall develop a milestone plan for the time-phased development, test and evaluation of STMS in four increments and provide recommendations and alternatives to the Government for the milestone plan acceptance. The STMS contractor shall deliver the total STMS service no later than 365 days after contract award. Contract award is pending. The STMS shall develop, create, and provide quantitative metrics to evaluate, and monitor FAR-based contracts, tenders or tariffs for international and domestic transportation.

Selected Tender Numbers

Tenders selected by DOD IG auditors for the DOD IG Draft Report Project No. D2002LH-0126, International DOD Air Freight Tenders.

1. UPND 348 Sup 2 - United Parcel Service
2. PAFY 10001 - Pilot Air Freight / Domestic, Signature Service
3. NAWA 9002 Sup 2 - Northwest
4. NACG 9003 Sup 1 - Atlas Air (National Air Cargo agent)
5. NACG 9002 Sup 1 - Atlas Air (National Air Cargo agent) / Rules Tender
6. MAIT 6005 - Miami Air
7. LYNC 6016 - Lynden Air Cargo / Domestic, Signature Service
8. EWOA 9223 Sup 1 - World Airways (Emery agent)
9. EWCF 2002 Sup 1 -Emery Worldwide / Domestic, Constant Surveillance Service
10. DHLC 223 Sup 1 -DHL Airways
11. EVIA 002 - Evergreen International / Domestic, Signature Service
12. BNAF 800 Sup 12 - BAX Global / Domestic, Constant Surveillance Service
13. FDE 21 Sup 7 - Federal Express Corp. / Domestic (Expired), Same Day Service

*NACG 9002 was a rules tender that governed NACG 9003 and was not included in the sample of 12 tenders.

Department of the Army Comments

Final Report
Reference



REPLY TO
ATTENTION OF

DALO-FPT

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500



11 MAR 2003

MEMORANDUM THRU DEPUTY CHIEF OF STAFF, G-4
FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on International DoD Air Freight
Tenders (Project No. D2002LH-0126)--INFORMATION MEMORANDUM

1. This is in response to USAAA e-mail of 6 Jan 02 (Tab A), which asked for Office of the Deputy Chief of Staff, G-4 to review and comment to subject draft audit report.
2. We reviewed the draft report at Tab B and concur without comments.

2 Encls

WILLIAM P. NEAL
Associate Director of Force
Projection and Distribution

CF:
ASA (ALT)
DALO-ZXA

Enclosures
omitted

Mr. Suckfiel/614-4016

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Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

6 Mar 03

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ USAF/ILGD
1030 AIR FORCE PENTAGON
WASHINGTON DC 20330-1030

SUBJECT: DoD IG Draft Report, International DoD Air Freight Tenders, 23 Dec 02, (Project Code D2002LH-0126)

References: (a) Memo, USD/AQ, Subj: Transportation Acquisition Policy, 15 Jan 98
(b) DoDD 4500.9, Transportation and Traffic Management, 24 Jan 89

This is in reply to your Memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide comments on the subject draft report.

RECOMMENDATION 1. The USAF concurs with the recommendation to establish standard rules and processes for commercial international airfreight tenders, similar to those for domestic tenders. International tenders should be an available option to all destinations for shipments requiring expedited delivery. The use of tenders should not be excluded from six routes served by daily Air Mobility Command (AMC) channel flights. Traffic managers must have this viable option to support deployed forces. The fundamental DoD transportation policy is that requirements shall be met, to the maximum extent possible, through the use of commercial transportation resources (ref a). Reference b requires the use of AMC-owned or contracted airlift for the international movement of DoD cargo when AMC airlift capability is available and meets mission requirements. However, when AMC airlift is unavailable to meet travel requirements, DoD components may arrange alternative transportation capability through AMC, or directly with commercial carriers, consistent with DoD and Service traffic management policy (ref b). This results in timely expedited service to deployed forces when AMC channel service is saturated or unable to provide timely service direct to deployed forces, vice only to the overseas aerial port of debarkation, requiring further transport to deployed forces. Any decisions based on tender usage must be based on the development of a viable process and must provide factual data on the use of tenders, including timeliness of delivery and weight airlifted.

RECOMMENDATION 2. Concur with recommendations for the Military Traffic Management Command (MTMC).

RECOMMENDATION 3. Concur that the AMC and MTMC should establish a plan of action, with milestones, to standardize tender shipments discussed in the draft report.

Patricia L. Kelly

PATRICIA KELLY
Chief, Deployment & Distribution Div
Directorate of Logistics Readiness
DCS/ Installations & Logistics

cc:
ADUSD/TP
SAF/FMPF

Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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