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MAY 5 1976



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General W. H. Rogers  
Commander  
Air Force Logistics Command  
Wright-Patterson Air Force Base, Ohio 45433

Dear General Rogers:

This is the third letter on Foreign Military Sales (FMS) accessorial charges under assignment code 943267. Our initial letter, dated January 3, 1976, discussed a problem in billing transportation costs for FMS items moved by Military Airlift Command (MAC). This is similar to that letter, but we expanded the review and tested billings for all Air Force FMS channel shipments made by MAC during the period October 1, 1972, to October 31, 1975. In addition, we tested billings for all Air Force FMS shipments by Military Sealift Command (MSC) for the calendar years 1973 and 1974.

According to Air Force Accounting and Finance Center (Finance Center) records, the following types of charges have not been billed to the foreign countries:

| Type of Error           | No. of Shipments | Administrative | Packing Handling and Crating | COMUS Transp.     | Ocean Transp. and Handling | Material   |
|-------------------------|------------------|----------------|------------------------------|-------------------|----------------------------|------------|
| Coding in MAC shipments | 857              | \$ -0-         | \$ -0-                       | \$ Unknown        | \$157,301.71 <u>a/</u>     | \$ -0-     |
| Unconfirmed billings    | 32               | \$ Unknown     | \$ Unknown                   | \$ Unknown        | \$ Unknown                 | \$ Unknown |
| Coding in MSC shipments | 8                | \$ -0-         | \$ -0-                       | \$1,733 <u>b/</u> | \$ 16,725 <u>b/</u>        | \$ -0-     |

a/ Includes 14 shipments costing \$17,102.34 reported in our January 3, 1976 letter.

b/ Does not include one shipment because unit price is unknown.

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## MAC SHIPMENTS

Computer tapes containing 11,441 MAC channel shipments were mechanically matched with FMS billing history tapes at the Finance Center. This identified FMS shipments transported by MAC but not billed by the Finance Center during the 17 month period ended October 31, 1975. Our study did not include changes recorded in the Finance Center data bank after February 19, 1976. Records for 7,751 shipments matched billings and records for 1,690 shipments did not.

### Matched Shipments

We determined MAC transportation and port handling charges totaling \$137,301.71 had not been billed to the FMS country for 837 of the 7,751 matched shipments shown on Attachment 1. These shipments had delivery term, mode, and transportation bill codes which normally would not cause the Finance Center to bill these charges. Some of the 837 shipments may have been processed under unusual circumstances which justifies no accessional charges to the foreign country. The suppliers were:

| <u>Supplier</u> | <u>Number of Shipments</u> | <u>Percentage</u> |
|-----------------|----------------------------|-------------------|
| Air Force       | 440                        | 51                |
| USA/GSA         | 272                        | 32                |
| Contractor      | 128                        | 15                |
| Other Services  | <u>17</u>                  | <u>2</u>          |
| Total           | <u>837</u>                 | <u>100</u>        |

Causes of the above billing problems include (1) Air Logistic Center (ALC) personnel are not properly trained to use established coding procedures, (2) Air Force supply and transportation systems are not accounting for changes in transportation modes when the supplier is other than an ALC, and (3) FMS transportation charges are not being routinely audited to assure these types of errors are identified and corrected.

Your March 15, 1976 reply to our first letter report said that until you install a new procedure, your staff would review MAC transportation data monthly for selected FMS shipments made by USA, GSA, contractors, and the other services. The shipments your staff will review are those identified as delivery term code 4-FOB origin. Code 4 means the purchasing country will either ship the article from the United States itself or will have its freight forwarder ship it.

Three other types of shipments, codes 6, 7, and 8 were also improperly reported to the Finance Center. Code 6 means the Air Force pays transportation from the point of origin to the port of discharge. Code 7 means the Air Force pays transportation from the point of origin to the overseas inland destination and Code 8 means the Air Force pays transportation from the point of origin to the vessel at the port of exit including unloading, handling and storage aboard the vessel. Each of these codes require the purchasing country to reimburse the Air Force for these costs. Our analysis of the delivery term codes for the 857 shipments follows:

| <u>Code</u>                        | <u>Number of Shipments</u> | <u>Percentage</u> |
|------------------------------------|----------------------------|-------------------|
| 4-FOB Origin                       | 189                        | 22                |
| 6-FOB Overseas Port of Discharge   | 663                        | 77                |
| 7 & 8 - FOB Destination and Vessel | <u>5</u>                   | <u>1</u>          |
| Total                              | <u>857</u>                 | <u>100</u>        |

Thus, there are three times as many unbilled delivery term code 6 shipments than code 4s, now subject to a review by your staff and we think these should also be subjected to periodic review by your staff.

In addition to not billing all MAC transportation and port handling charges, we think COMUS transportation was not billed on 359 of the 857 shipments. These shipments had codings that did not direct the Finance Center to bill the country for COMUS transportation. These 359 shipments, identified by asterisk on Attachment 1, will have to be researched by the ALCs to find the extent of the problem.

We would appreciate an itemized list showing the amounts of MAC transportation and port handling charges rebilled for the 857 shipments and COMUS transportation charges rebilled for the 359 shipments.

We recommend the following:

1. Require your Transportation Director to routinely review FMS transportation charges.
2. Provide training to ALC transportation employees on how to use transportation coding procedures.
3. Include code 6-FOB Overseas Port of Discharge MAC Shipments in the interim review procedure agreed in your March 13, 1976 reply to us.

### Unmatched Shipments

For the 37 month period, 3,490 shipments on the MAC listing did not match the shipments in the Finance Center listing as being billed. Our review of 1,260 fiscal year 1973 unmatched shipments showed most of these shipments were for Grant Aid transactions for which the foreign countries receive free transportation. This explains why these shipments did not have transportation billings.

There were, however, 442 unmatched shipments in fiscal year 1973 that were for PMS transactions. Most of the shipments had logical reasons for not matching such as incorrect document numbers or split shipments which had been reported as billed. Of the 442 shipments, we identified 32 listed in Attachment 2, that should have included accessorial and material costs but they did not.

We submitted two of these 32 shipments to your International Logistics Office for investigation. Their reply of April 16 showed the shipments were redistributed orders that were supplied but not billed to the foreign country. The reply did not indicate the material or accessorial dollars to be billed, but stated computer controls were recently installed to ensure future billings of similar cases. Since we do not have complete information we recommend your staff determine if billings were made on the remaining 30 shipments.

We would appreciate the following information:

1. An itemized list showing the amount of accessorial and material costs rebilled for all 32 fiscal year 1973 shipments.
2. A description of controls implemented to eliminate the causes of the problem.

### MSC SHIPMENTS

During calendar years 1973 and 1974 there were 31 shipments of Air Force PMS items that used MSC vessels. MSC made 8 shipments to PMS countries during this period which were incorrectly identified as delivery term code 4 - FOB origin. These shipments should have been code 6 or 7 which means the PMS country is to reimburse the Air Force for MSC transportation charges. These 8 shipments are listed on Attachment 3.

The Air Force uses a transportation bill code to override the delivery term and code codes when planned transportation has changed. This code was not used to notify the Finance Center of a change in delivery term and code codes for 7 of the 8 shipments and \$16,458 was not billed. Complete information was not available at the Finance Center to price the remaining shipment.

Please provide us the following information:

1. An itemized list showing the amount of transportation costs rebilled for the 3 MOC shipments.
2. A description of the actions you plan to take to make sure erroneous codes are overridden at the ALCs, if different from actions indicated in your March 15, 1976 reply.

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If additional information is necessary, please contact me or Mr. Donald J. Keller at (313) 684-2107. We do not anticipate any further work on this review with the exception of possible follow-up based on your responses. We would like to thank you for the excellent cooperation from both you and your staffs.

Sincerely,

ROBERT W. HANLON

Robert W. Hanlon  
Regional Manager

Attachments  
as stated

cc: Ronald Keiper - APLC/ICQ (w/attach.)