



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS
DIVISION

FEB 23 1979

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AGC 00005

LTC Richard L. West
Comptroller of the Army

AGC 00305

Dear General West:

We have completed our survey of the payment for transportation of material to Saudi Arabia in connection with the presence of the U. S. Army Corps of Engineers in that country. The objective of our survey, conducted under assignment code 943330, was to determine whether adequate controls and procedures exist to assure that the United States Government does not absorb transportation costs which should be paid by the host country.

During the survey we noted one matter that we believe should be brought to your attention. This involves failure to use available billings in computing the amount of reimbursement due from Saudi Arabia for the cost of transporting merchandise to commissaries serving United States personnel engaged in the Corps' program. As discussed in more detail below, this problem should be resolved by the implementation of revised procedures we suggested to the appropriate Army officials during our survey.

BACKGROUND

A diplomatic agreement between Saudi Arabia and the United States for construction of military facilities (known as the Engineer Assistance Agreement) was signed on May 24, 1965. It has been the basis of the Corps involvement in Saudi Arabia. Under the agreement, the Corps is authorized to provide complete engineering and construction management services for the design and construction of specified facilities for the Saudi military forces.

In accordance with the Engineer Assistance Agreement, Saudi Arabia makes deposits to the Chase Manhattan Bank in the form of irrevocable letters of credit for the Corps' services and construction cost. The U.S. Treasury withdraws funds from this account and makes them available to the Corps.



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Other projects between Saudi Arabia and the United States are financed in accordance with Foreign Military Sales (FMS) financial procedures of the Department of Defense. The Defense Security Assistance Agency (DSAA) is responsible for directing and supervising program administration and implementation of the FMS program.

The Corps ships construction equipment and supplies to Saudi Arabia by commercial ocean and air transportation through a freight forwarder who operates under a Logistics Management Contract. Under this contract, the freight forwarder is responsible for assembling, crating and arranging for shipments. Payments for these commercial transportation services come directly from deposited funds made available by Saudi Arabia.

The Corps also uses the Military Airlift Command (MAC) and the Military Sealift Command (MSC) for shipments of cargo which are made on a reimbursable basis. The transportation costs for these reimbursable shipments are readily identified through use of specific transportation account codes (A215 and A820) which should be shown on the billing documents submitted to the U.S. Army Finance and Accounting Center (USAFAC) by MAC and MSC.

In addition, MAC and MSC handle the shipment of mail and commissary items for all U.S. personnel in Saudi Arabia. The transportation costs for these shipments had been charged to general transportation account codes which did not permit identification of those costs paid by the Army that should have been reimbursed from Saudi Arabian funds.

SURVEY RESULTS

Based on our test examination of shipments, we found that most of the transportation costs for shipments to Saudi Arabia either had been paid for by that country or action had been initiated to obtain reimbursement from Saudi Arabian funds. However, the computation of transportation costs for commissary shipments have been based on estimates rather than on reliable figures from actual billings of MAC and MSC.

In accordance with the terms of the FMS program, the U.S. Army Finance and Accounting Center (USAFAC) is responsible for the payment of transportation services and construction costs. Funds from this account are used to

Our tests showed that the Corps generally reimbursed the Army for transportation costs of shipments of cargo carried by MAC and MSC on a reimbursable basis. USAFAC received billings from MAC and MSC which it used to identify and bill the Corps for the amounts due. The payment vouchers then cited the Saudi Arabian funds which were used to make the proper reimbursements.

Commissary shipments are made by the Defense Personnel Support Center (DPSC), Philadelphia, Pa., and are transported by MAC and MSC. DPSC is billed by MAC and MSC for transportation costs of these shipments. DPSC pays these bills from their stock fund and in turn bills the military services a prorated share based on their total population in a specific geographical area. These transportation costs have been charged to general transportation account codes. The use of these codes does not permit separate identification of those transportation costs for shipments of commissary items to Saudi Arabia which are properly chargeable to the Army Operations and Maintenance Appropriation and those transportation costs which are paid by the Army with subsequent reimbursement to be made by Saudi Arabia.

We found that DSAA and USAFAC had taken actions to obtain reimbursement in the amount of \$3,266,331 for transportation costs of mail and commissary shipments made by MAC and MSC during the period July 1, 1976, through June 30, 1977. However, DSAA used estimated tonnages and costs of shipments to determine the transportation costs that the Army billed to Saudi Arabia rather than using the MAC and MSC billings which show the actual tonnage and cost information. In order to initiate billing action for transportation costs of commissary shipments to Saudi Arabia after July 1, 1977, DSAA furnished USAFAC with data also based on estimated costs. The amounts were \$3,155,545 and \$3,635,469 for the periods July 1, 1977, to June 5, 1978, and June 5, 1978, to May 25, 1979, respectively. MAC was designated by the Department of Defense to be the billing agent for shipments of mail to Saudi Arabia effective as of July 1, 1977.

We analyzed MSC billings for the period June 1977 through June 1978 and tonnage shipped by MAC for the period September 1977 through July 1978. We estimate, based on our analysis, that the transportation costs for the shipment of commissary items to Saudi Arabia were more than \$4.6 million annually. DSAA statistics indicate that approximately 64 percent of the commissary patrons in Saudi Arabia are

assigned to the Army Engineers construction projects. Based on this ratio, the Army should be reimbursed about \$3 million annually by the Saudi Arabian Government for transportation costs of commissary shipments.

During the course of our survey, we discussed a suggestion to identify correct amounts from available billings and to prorate the charges for the transportation costs of shipments of commissary items with responsible officials of DPSC, MAC, the Corps of Engineers and USAFAC. All agreed that our suggestion was logical and that necessary action would be taken to identify and bill the Saudi Arabian Government for its appropriate allocable share of the transportation costs based on billings from MAC and MSC rather than on estimates. The following are among the new procedures which we understand were effective upon receipt of a message from USAFAC dated October 12, 1978:

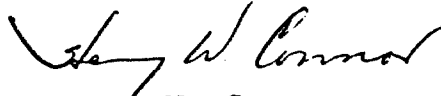
- a specific transportation account code (A811) was established for commissary shipments to Saudi Arabia,
- MAC and MSC will bill USAFAC directly for all commissary shipments to Saudi Arabia,
- USAFAC will analyze the billings to determine the correct amounts to bill Saudi Arabia and will consider the prevailing FMS rate for MAC shipments and the percentage of Engineer personnel in Saudi Arabia, and
- USAFAC will direct billings to the Engineers in Saudi Arabia.

Since the responsible agencies are aware of and have agreed to make collection of amounts due for past transportation costs of shipments and actions have been taken to assure collections of appropriate amounts in future years, we plan no additional reporting at this time. We do, however, request that you have the appropriate offices provide us with copies of billing and collection documents for the period November 1978 through June 1979 in order to evaluate the effectiveness of the new procedures.

We wish to thank the Army personnel contacted during our survey for the cooperation and courtesies extended to the audit staff. Please direct any questions you may have on

this report to me or Mr. B. W. Sewell, Assistant Director
of my staff on (202) 275-3637.

Sincerely yours



Henry W. Connor
Associate Director

cc: Secretary of Defense (ASD Comptroller)
Secretary of the Army (DAIG-AI)
Chief of Engineers (DAEN-ZA)
Director, LCD

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