



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

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FEBRUARY 10, 1982

The Honorable Caspar W. Weinberger
The Secretary of Defense



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The Honorable Alexander M. Haig, Jr.
The Secretary of State

Subject: U.S. Overpays For Suez Canal Transits (ID-82-19)

During our review of U.S. defense cooperation with Egypt, we became aware of apparent inconsistencies in the tolls U.S. warships are being assessed by the Egyptian Government for transiting the Suez Canal. As a result, we initiated a separate review of these tolls and have identified over \$600,000 in overcharges paid by the U.S. Embassy in Cairo from January 1, 1979, through August 31, 1981. We arrived at this figure by reconstructing the toll each vessel should have paid for a given transit and comparing this figure to the amount actually paid by the Embassy for the transit.

Based on our analysis of the Suez Canal toll data provided by the U.S. Embassy in Cairo and the U.S. Navy, we believe the overcharges primarily stem from inaccurate computations by the Suez Canal Authority and the absence of any verification of bills received by the U.S. Embassy. The tolls for some classes of U.S. ships which transit the Canal were overstated because the ships did not have Suez Canal Special Tonnage Certificates which attest to the net weight of a ship for Canal toll purposes.

NAVY OVERCHARGED
FOR SUEZ CANAL TOLLS

From January 1979 through August 1981, the U.S. Navy paid an estimated \$607,000 in excess toll charges for Suez Canal transits. During that period, 1/ Navy warships made about 130 transits of the Canal and paid total tolls of \$3.3 million. We computed the overcharges, which amounted to over 18 percent of the total payments, by comparing the actual tolls paid for each transit with the amount that should have been charged based on the size of the ship and the Canal toll formula. While we also found a few instances of undercharges, these accounted for an insignificant proportion of the total, and the \$607,000 in overcharges is the net amount.

1/ We limited our review to the period 1/1/79 through 8/31/81 since the Embassy in Cairo does not retain records for Canal transits prior to 1/1/79.

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Wide variances exist in tolls assessed ships of the same class which should, for Suez Canal toll purposes, be considered identical. ^{1/} For instance, the Knox-class frigates U.S.S. Aylwin and U.S.S. McCandless made southbound transits within the same 48-hour period in 1979, yet Aylwin was billed, and the Embassy paid, \$17,273, while McCandless was charged only \$7,812. (According to our computation, the correct fare was \$7,071 for each transit.) Large variances such as these are not confined to earlier years or to Knox-class frigates. In 1981, two C.F. Adams class guided missile destroyers, U.S.S. Barney and U.S.S. Sellers, were billed \$27,281 and \$7,375, respectively. (The correct fare should have been \$7,330 for each transit.) On a number of occasions, the fees which the same ship was billed for different transits vary considerably. For example, the U.S.S. Tattnall, in 1980, was assessed \$24,016 for a southbound transit and \$5,393 when it returned north, 6 weeks later. (The correct fare should have been \$5,133 each way.) The Suez Canal rate schedule was not altered during this period and no differentiation is made for the direction of the transit, indicating that in many cases the tolls assessed may be arbitrary. (Our comparisons are based exclusively on transit tolls and exclude other fees routinely assessed vessels, such as the cost of fuel, tugs, and canal pilots.)

SHIP WEIGHTS INACCURATE BECAUSE
SUEZ CANAL CERTIFICATES NOT AVAILABLE

The timely issuance of Suez Canal Special Tonnage Certificates is a key element in ensuring that Suez Canal tolls are based upon an objective standard. However, until 1980 no U.S. Navy warships had certificates on file with the Canal Authority and at the end of 1981 a significant portion of the warships still did not have these certificates. As a result, the Canal Authority overestimated the weight of the ships and computed higher toll charges.

These special certificates, prepared by the U.S. Coast Guard as a non-reimbursable service to the U.S. Navy, represent an official certification of the net register tonnage of each ship, the basic unit of measurement used by the Suez Canal Authority in computing tolls. Since, for Suez Canal purposes, vessels within a particular class are identical, one certificate is usually drawn up for each class, accompanied by a cover letter listing all ships

^{1/} Suez Canal tolls are computed by the Suez Canal Authority according to a schedule the Authority publishes and periodically updates (see enc. I for a listing of rates for the period under review). Suez Canal Net Tonnage is the standard unit of measurement upon which the toll computation is based. Vessels of each class are admeasured by the U.S. Coast Guard to determine their Suez Canal Net Tonnage. This measurement then applies to all similar ships of that class.

to which the certificate applies. Once prepared, copies of the certificate are sent to the Defense Attache Office (DAO) in Cairo, the ship itself, and the Suez Canal Authority. In theory, the Suez Canal Authority should use the net tonnage figure on the certificate in its published toll computation formula to arrive at the proper toll. However, our review strongly indicates that the Suez Canal Authority is not consulting the certificates consistently, as wide variances often occur in tolls assessed ships with certificates. (See enc. II.)

DAO informed us that the first Suez Canal Certificates were not received in Cairo until February 1980, although U.S. warships had been crossing the Canal since its reopening in 1975. Prior to February 1980, the DAO reports, all Suez Canal tolls were based upon the tonnage given by the individual ship or by DAO as listed in "Jane's Fighting Ships." We reviewed all available certificates for ships transiting the Canal and found that most were prepared prior to 1980, some as early as 1961. We did not determine the reasons for the delay in forwarding the certificates. The cost to the United States of this delay is significant. Our review indicates that the tonnage figures in "Jane's Fighting Ships" are as much as 60 percent higher than those found on the Suez Canal Certificates. As shown in enclosure II, the fact that certificates were slow in being issued, or never issued at all plays an important role in accounting for over \$460,000 of the total overcharge.

In addition, 28 percent of all U.S. Canal transits were made by ships which still did not have certificates at the end of 1981. In these cases, the Suez Canal Authority uses the physical dimensions of the ship, that is, length, beam, draft and displacement, as supplied by DAO, and computes its net tonnage. Since DAO does not verify this procedure, a great potential for overcharges exists. In fact, our analysis revealed an average overcharge of over \$10,000 per transit on vessels never issued certificates.

According to a Navy official, all classes of ships will eventually have certificates. However, the Navy's requests to the Coast Guard have no special priority and will take some time before being completed. Normally the Navy's requests for admeasurement and certificate issuance receive no higher priority than requests from commercial ship owners for the same service. The Coast Guard is capable of issuing certificates on fairly short notice, as was accomplished in the cases of the aircraft carriers America and Independence, where a high priority was assigned to the task.

U.S. EMBASSY
FAILS TO VERIFY TOLLS

The DAO in Cairo is responsible for facilitating arrangements and payments for all U.S. warships transiting the Suez Canal. However, DAO does not verify the tolls charged by the Suez Canal Authority.

U.S. Navy ships contact DAO approximately 8 to 10 days prior to their intended transit. DAO then notifies the Suez Canal Authority of the date and time of the ship's arrival and the last date the ship transited the Canal and then requests that the Authority and a shipping agent arrange for either a northbound or southbound transit. In addition, DAO issues a statement that the American Embassy guarantees payment of just bills related to the transit of the Canal. If the ship has not been issued a Special Tonnage Certificate, for toll purposes, then DAO provides the dimensions of the ship as well.

DAO notifies the ship when arrangements have been made and requests accounting data for use in paying the eventual costs of the transit. DAO forwards the bill to the Embassy's Budget and Fiscal Office, where vouchers are prepared and returned to DAO for verification. Upon verification of the voucher DAO forwards it to the Regional Finance Center in Paris for check issuance. The check is sent to DAO and is then turned over to the appropriate Egyptian authorities.

DAO officials informed us that they only check to see that figures are correctly transcribed by Embassy personnel from the bill to the voucher. DAO does not verify that all tolls and fees assessed by the Suez Canal Authority are correct. According to DAO, bills are scanned to ensure they are not excessive, based on other transits of the same ship class. The effectiveness of this scanning is questionable, however, as demonstrated by the variances in tolls within ship classes and even in tolls applied to the same vessel.

In response to our inquiry as to the reason for the variances, DAO replied that "there is no easy explanation why transit dues for the same class ship are not exactly the same," and stated they do not have sufficient staff to verify all bills. DAO officials see some minor differences arising as the result of currency conversion rates and point out that bills received in 1981 are more consistent than in prior years. However, according to our analysis, large overcharges still appear throughout virtually every ship class. The United States paid \$1,600 too much for the average transit in fiscal year 1981.

Since DAO is solely responsible for all phases of U.S. warship transits of the Suez Canal and authorizes the payment of bills in connection with each transit, we believe that Office should verify any and all charges assessed by the Suez Canal Authority for the transits. The automatic payment of all claims against the United States without verification has led to the

unnecessary expenditure of Government funds. We believe DAO could perform this verification 1/ with its current staffing levels.

CONCLUSIONS AND RECOMMENDATIONS

Because of a lack of tonnage certificates, inaccurate computations, and inadequate verification of bills, the United States has paid over \$600,000 in excess Suez Canal tolls since 1979. While we believe that the payment of a fair and reasonable toll for U.S. warships transiting the Canal is a legitimate obligation, sufficient controls should be established to reduce the unnecessary expenditure of Government funds and ensure that an objective standard is used in the future.

We recommend that the Secretary of Defense work with the Coast Guard to accelerate the preparation and dissemination of Suez Canal Special Tonnage Certificates for all classes of U.S. warships, and vessels in the Military Sealift Command, in order to introduce greater objectivity into the computation of tolls.

We recommend that the Secretaries of State and Defense should establish a routine verification procedure, within the office of the Defense Attache, for all bills forwarded by the Egyptian Government for Suez Canal toll collection. As part of this procedure, the recomputation of all assessments should be made a mandatory activity. If this recomputation reveals overcharges in the bill presented for payment, payment should be withheld until the issue is resolved with the Canal Authority.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review of U.S. payments for Suez Canal tolls was conducted as an offshoot of our overall study of the developing U.S.-Egyptian defense relationship. Our objectives were to examine indications that the United States was being overcharged for warship transits of the Canal, to assess the magnitude of the overcharges, and to identify what steps can be taken to eliminate them.

Our work was performed during October and November 1981. We interviewed officials of the U.S. Atlantic Fleet Headquarters in Norfolk and the Naval Sea Systems Command in Washington, D.C. In addition, we reviewed a report prepared by the DAO in Cairo at our request concerning Canal tolls paid during the January 1979 through

1/ We were able to compute the tolls for the various classes of U.S. warships using the published formulas in a minimum of time. The computations would only have to be made when the tolls change, approximately once a year. About 20 classes of warships transited the Canal in the past 2 years, so only 20 computations would be required to prepare a schedule of tolls for U.S. warships, which could then be compared to the amount actually billed by the Suez Canal Authority.

August 1981 time frame. Our review did not examine what other nations' warships are charged for Canal transits or whether U.S. commercial ships are being assessed accurate tolls.

In determining the extent of the overcharges, we reconstructed the proper toll which should have been assessed for each of the 130 transits included in this report. This was accomplished by using the admeasured tonnage of all ships having Suez Canal Certificates and running it through the toll schedule applicable on the date of transit. For those vessels not having certificates, we estimated the admeasured tonnage by taking 70 percent 1/ of the deadweight tonnage as reported in "Jane's Fighting Ships." We then compared the result of our toll computations to the amount actually paid by the U.S. Embassy and determined the difference. In converting Special Drawing Rights (SDRs) to Egyptian pounds (LEs) we utilized the rates found in "International Financial Statistics." LEs were converted to U.S. dollars using a factor of .70 as agreed upon between the Governments of Egypt and the United States.

We did not obtain official agency comments on this report. However, the contents of the report were discussed with officials of the Departments of State and Defense.

Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Transportation; and to the chairmen of selected congressional committees and subcommittees. We wish to acknowledge the cooperation given to our representatives during our review.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 4

1/ This figure is a conservative estimate based upon the admeasured tonnage of a number of U.S. warships compared with the tonnage figures in "Jane's Fighting Ships."

SUEZ CANAL TRANSIT DUES RATES 1/

1. The same rates of transit dues are applied to warships as well as to commercial vesels.
2. In October 1978 the transit dues were levied on the following basis:
 - a. A unified rate of 1.611 SDR units for each ton of Suez Canal net tonnage, for tankers of crude oil and its products, bulk carriers and combined carriers.
 - b. A unified rate of 1.772 SDR units for each ton of Suez Canal net tonnage for loaded vessels not in paragraph 2a above (included warships).
 - c. A unified rate of 1.289 SDR units for all unloaded vessels.
3. As from 15 July 1979 the rates were levied on the following basis:
 - a. For tankers of crude oil and its products and for combined carriers a unified rate of 1.611 SDR units for each ton.
 - b. For bulk carriers a rate of 2.42 SDR for each ton of the first one thousand tons; 2.00 SDR for each ton on the following four thousand tons; and 1.611 for each ton of the rest of the tonnage.
 - c. For other ships not listed in paras. 3a and 3b above a rate of 2.66 SDR for each ton on the first one thousand tons; a rate of 2.18 SDR for each ton on the following four thousand tons; and 1.772 SDR for each ton of the rest of the tonnage (included warships).
 - d. Unloaded vessels: a ratio of 80% of the dues rates on laden vessels is to be levied according to kind and tonnage as listed in paras. 3a, 3b, and 3c above.
4. As from 1 January 1981 the rates are levied on the following basis:
 - a. A unified rate is to be levied on each ton of the first five thousand tons, for laden vessels: 3.50 SDR; for ballast vessels: 2.80 SDR. A unified rate is to be levied on each ton of the next fifteen thousand tons, for laden vessels: 2.10 SDR; for ballast vessels: 1.68 SDR.
 - b. The following rates are to be levied on each ton of the rest of the vessels tonnage:
 - (1) tankers of crude oil and its products, bulk carriers and combined carriers, for laden vessels: 1.30 SDR; for ballast vessels: 1.04 SDR.
 - (2) for all vessels not listed in para. 4b(1) above; for laden vessels: 2.10 SDR; for ballast vessels: 1.68 SDR.

1/ This rate schedule was provided by the U.S. Defense Attache Office in Cairo.

EFFECT OF CERTIFICATE ISSUANCE
UPON OVERCHARGES
January 1979 to August 1981

	<u>Number of transits</u>	<u>Amount paid</u>	<u>GAO estimate</u>	<u>Overcharges</u>
Ships with certificates (note a)	75	\$2,278,725	\$2,135,459	\$143,266
Ships without certificates (note b)	<u>55</u>	<u>1,001,285</u>	<u>537,981</u>	<u>463,304</u>
Total	<u>130</u>	<u>\$3,280,010</u>	<u>\$2,673,440</u>	<u>\$606,570</u>

a/ See enclosure IV.
b/ See enclosure III.

SHIPS WITHOUT CERTIFICATES
January 1979 to August 1981

<u>Number of transits</u>	<u>Class of ship</u>	<u>Amount paid</u>	<u>GAO estimate</u>	<u>Overcharge (undercharge)</u>
5	Brooke	\$ 81,278.11	\$ 31,486.50	\$ 49,791.61
16	Forest Sherman	229,134.83	137,936.67	91,198.16
3	Raleigh	115,749.25	73,787.25	41,962.00
2	Glover	37,088.86	14,822.53	22,266.33
2	Spear	148,398.61	79,192.26	69,206.35
8	Garcia	148,035.82	61,221.99	86,813.83
12	Knox (note a)	136,208.86	85,771.92	50,436.94
3	C.F. Adams (note a)	65,045.68	15,426.12	49,619.56
2	Spruance (note a)	33,673.34	31,639.38	2,033.96
<u>2</u>	Diver (note a)	<u>6,671.99</u>	<u>6,696.70</u>	<u>(24.71)</u>
<u>55</u>	Total	<u>\$1,001,285.35</u>	<u>\$537,981.32</u>	<u>\$463,304.03</u>

a/ These classes of ships were eventually issued certificates in February 1980.

SHIPS WITH CERTIFICATES
February 1980 to August 1981

<u>Number of transits</u>	<u>Class of ship</u>	<u>Amount paid</u>	<u>GAC estimate</u>	<u>Overcharges (undercharges)</u>
15	Knox	\$ 135,959.29	\$ 140,472.51	\$ (4,513.22)
14	C.F. Adams	142,621.89	88,982.68	53,639.21
3	Coontz	47,166.93	46,276.86	890.07
9	Spruance	221,695.85	153,405.09	68,290.76
8	Newport	168,457.33	163,767.40	4,689.93
2	Iwo Jima	104,094.88	102,335.30	1,759.58
3	Austin	102,381.38	128,871.90	(26,490.52)
2	E.S. Land	119,558.92	120,319.64	(760.72)
2	Wichita	88,565.53	95,420.34	(6,854.81)
2	Anchorage	82,966.01	67,292.86	15,673.15
2	Tarawa	250,530.29	246,980.50	3,549.79
1	Leahy	15,280.58	15,297.52	(16.94)
1	Kitty Hawk	170,585.67	163,272.71	7,312.96
1	Forrestal	191,404.75	178,339.65	13,065.10
4	Kileau	175,718.18	168,092.56	7,625.62
2	Mars	64,990.36	63,436.44	1,553.92
2	Sacramento	137,666.00	136,845.78	820.22
<u>2</u>	Charleston	<u>59,080.86</u>	<u>56,049.18</u>	<u>3,031.68</u>
<u>75</u>	Total	<u>\$2,278,724.70</u>	<u>\$2,135,458.92</u>	<u>\$143,265.78</u>