

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS
DIVISION

Lieutenant General G. J. Post
Director, Defense Logistics
Agency

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Dear General Post:

We have completed our study of the procedures for the payment and audit of carriers' bills for the pipeline movement of petroleum fuels (GAO Code 943290). We found there exists the opportunity to significantly improve the audit process thereby increasing its effectiveness. This improvement can be achieved by integrating the audit function now being done by the General Services Administration into the Defense Fuel Supply Center program for the management of petroleum fuel movements.

BACKGROUND

Each year the Department of Defense moves substantial volumes of petroleum fuels by pipeline, mainly in support of air bases throughout the United States. In fiscal year 1977, over 1.7 billion gallons of petroleum fuel was moved at a cost of \$16.5 million.

DFSC
Fuel

Management of petroleum movements and payment of pipeline carriers' bills are the responsibility of the Defense Fuel Supply Center (DFSC), Defense Logistics Agency. The audit of carriers' bills and the collection of any overcharges are the responsibility of the Federal Supply Service, General Services Administration (GSA), unless delegated by it to another agency (41 CFR 101).

Movements of petroleum products by pipeline are documented by U.S. Government bills of lading issued to pipeline companies by DFSC. The pipeline companies submit their bills to the U.S. Army Finance and Accounting Center, Indianapolis, Indiana, which makes payments on presentation of carriers' bills for account of DFSC. After payment the bills are forwarded monthly to GSA for audit and collection of any overcharges.

The volume of paid transportation bills received by GSA for audit, however, is so great that all bills received cannot be individually examined in the audit process. The method of determining which bills are cost beneficial to audit (the cost of auditing is less than overcharges identified) is established by a special audit of bills selected by a statistical sample. If the special audit of the bills of a certain



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...not found to be cost beneficial, a minimum (dollar amount of bill) is established and bills for amounts less than the minimum are not individually examined. In the case of pipeline bills, no overcharges were found during a special audit several years ago; therefore, pipeline carriers' bills are not audited.

In the absence of any audit coverage, overcharges could be going undetected. For example, DFSC asked GAO in November 1975 for a decision on the proper application of rates quoted by a pipeline carrier for the movement of petroleum fuels. GAO decided that DFSC's determination of the applicable rates was correct and DFSC subsequently deducted nearly \$200,000 in overcharges from unpaid bills of the pipeline carrier involved. The overcharged bills had not been examined by GSA during its audit process because of the aforementioned procedure for limiting audit coverage.

DFSCs MANAGEMENT PROGRAM COULD
INCLUDE AUDIT OF PAYMENTS

Charges for pipeline movement of fuels are based on rates per barrel (42 U.S. gallons) published in tariffs on file with the Interstate Commerce Commission or in rate quotations tendered to the military pursuant to section 22 of the Interstate Commerce Act (49 U.S.C. 22). Charges for most movements are based on rates per barrel for the number of barrels of fuel shown on the bill of lading issued for the movement. The charges for some movements, however, are based on rates per barrel for incentive or annual volume quantities.

Charges for incentive quantity shipments are based on rates per barrel shown in a graduated scale of rates which decreases as the cumulative total number of barrels shipped increases beyond certain stated quantities during an agreed period (usually a year). This means that a portion of a shipment occurring in mid-year could incur charges based on one rate and another lesser rate on the remaining barrels which exceeds the quantity shown in the incentive quantity scale. The quantities shown in the incentive scales are usually divided into 50,000 barrel increments.

Annual volume charges are based on a constant rate per barrel shown in a graduated scale of rates which decreases as the number of barrels shipped increases above certain quantities during an annual period. The constant rate applied to these shipments is based on the estimated number of barrels of fuel to be shipped to that destination during the annual period. If the actual number of barrels of fuel shipped during the annual period is more or less than the estimated usage, an adjustment is made to the rate level for the actual number of barrels of fuel shipped. The pipeline carriers submit to the finance center (1) a supplemental bill if additional amounts are due, or (2) a refund if it has been overpaid. As with bills for individual movements, the end of year settlements are not audited by GSA. Even if such bills were audited, GSA's month-by-month audit process would not

provide the relative total number of barrels moved at incentive quantity rates for an audit determination.

On the other hand, DFSC's responsibility for petroleum movement by pipeline requires a constant monitoring of (1) requirements forecasts, (2) usage reports, (3) storage levels, and (4) supplier capability. This management program also involves continuing contact with pipeline carriers to (1) schedule the "through-put" of petroleum products, (2) order injection of additives and/or filtering, and (3) check quality controls. Management and control of the petroleum distribution system requires access to vast amounts of information on the above functions. DFSC's data management system utilizes a computer for storage and retrieval of information on origin, destination, gallonage, date of shipment, carrier, bill of lading number, estimated charges, etc. Most of this information is entered into the system from a copy of the bill of lading.

The finance center is making available to DFSC a data tape which indicates the actual charges paid to carriers by bill of lading number. DFSC has demonstrated to us and to GSA that information from its data management system can be integrated by computer with the information provided by the finance center and presented in printout form. This integrated printout would then contain the basic shipment and payment data to perform an audit of the rate and charges billed by pipeline carriers.

The only element not directly provided is the applicable rate per barrel, gallon, or hundredweight, from which the correct charges can be computed. In this regard, DFSC stated that because of the limited number of origins and destinations for pipeline movements the universe of rates is relatively small when compared with the multitude of rates for general cargo via other modes. For this reason they find it relatively easy to accurately forecast the basic transportation charge for each movement and show that amount on the bill of lading issued for the movement.

This estimated transportation charge is picked up by DFSC's data management system and is shown in the printout for comparison with the actual charge input from the tape provided by the finance center. Any difference between the two amounts is shown as a plus (estimated more than actual) or minus (estimated less than actual). The minus figures represent overcharges unless they can be explained by legitimate charges by the carrier for accessorial services, such as filtering, blending, testing, etc. For each overcharge not explained by charges for accessorial services, the carrier must be billed and the collection affected.

Although we believe that responsibility for the audit process and the identification of overcharges should rest with DFSC, the billing of such overcharges and effecting collections should continue to be done by GSA. Also, responsibility for subsequent actions, such as deductions,

... and the handling of protests and reclaims which are frequently involved in the settlement of overcharges, should be GSA's. These actions, are routine matters for the GSA audit group. In this regard, GSA agreed that actions subsequent to identification of the overcharge could better be handled by it.

This procedure for auditing pipeline carriers' bills would be similar to the identification of variances between estimated charges and actual charges by the Military Traffic Management Command in its Traffic Management Analysis Program. The pipeline program, however, offers several advantages. First, the relatively small universe of rates for a few commodities via a single mode offers a greater degree of accuracy in forecasting the charge applicable to each movement. The MTMC system involves all modes of transportation, thousands of commodities, and tens of thousands of rates. Secondly, the pipeline program offers the additional advantage of being performed in the agency having a vested interest in conservation of its appropriation. The third advantage, and one very important to carriers and government alike, is that the entire process can probably be completed within several months of date of payment; whereas, the audit process done by GSA sometimes takes a year or more. This decrease in the audit timeframe offers the added advantages of (1) potential reduced period for retention of records by carriers and the Government, (2) return of appropriated money to the agency for payment of other obligations, and (3) performing timely traffic management analyses from traffic data on which the final cost has been determined.

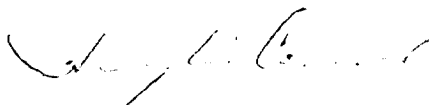
RECOMMENDATIONS

We recommend that the Defense Logistics Agency

- request GSA to designate DFSC as auditor for pipeline accounts as discussed in this report.
- coordinate with the Military Traffic Management Command to identify other traffic which may lend itself to similar procedures.

Copies of this report are being sent today to the Director, Defense Fuel Supply Center, the Administrator of GSA, and to the Commander, Military Traffic Management Command.

Sincerely yours,



Henry W. Connor
Associate Director

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