



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

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NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

OCT 24 1984

B-199688

Mr. Richard A. Smith, Administrator  
Foreign Agricultural Service  
Department of Agriculture

Dear Mr. Smith:

Subject: Overpayment of Transportation Costs  
for Public Law 480 Commodities  
(GAO/NSIAD-85-21)

During our current study of costs for transporting Public Law 480, Title I commodities, we identified an error by the Foreign Agricultural Service's (FAS) Ocean Transportation Division in computing the ocean freight differential (OFD) involved in a shipment of wheat to the Arab Republic of Egypt. As you know, FAS pays the OFD, which is essentially the difference between the transportation rates of U.S. flag vessels transporting the commodity and the rates of foreign flag vessels that would have been selected without cargo preference. Division representatives concur that they used a foreign flag bid in the computation that was non-responsive since the bid was received after the deadline. As a result of this error, FAS paid about \$144,507 in excess OFD payments for the benefit of Egypt. We recommend that FAS seek to recoup these funds from Egypt. The details of this overpayment are discussed below.

FAS issued purchase authorization EG-7055 in 1982 authorizing Egypt to purchase \$15 million worth of bulk wheat. After inviting and receiving commodity offers, Egypt awarded contracts to several wheat suppliers. Star Trading and Marine, Inc., Washington, D.C., the transportation agent for Egypt, arranged the ocean transportation. On June 9, 1982, Star issued a transportation tender for U.S. and foreign flag vessels to transport about 100,000 metric tons of bulk wheat to Egypt. After evaluation of the transportation offers, the U.S. flag vessel Point Vail was selected, and the Ocean Transportation Division approved the selection. Star sent copies of the transportation offers to the Division for its records and for computing the OFD.

The Division memorandum explaining the OFD calculation stated that, without cargo preference, Egypt would have selected the foreign flag vessel Argosy Pacific, which offered to transport 60,000 metric tons at \$17 per ton. Yet, Star had received



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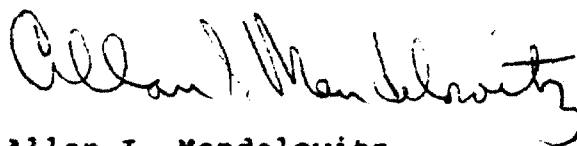
the offer from the owner of the Argosy Pacific, about 1 and 1/2 hours after the bid deadline for foreign flag offers. The transportation tender specifically provided that an offer received after the deadline would be considered non-responsive. Star submitted a copy of the Argosy Pacific's offer to the Division with other foreign flag offers, but Star had noted on the offer that "this offer is not a valid offer since we received it very late." Division representatives did not identify the offer as a late offer; they subsequently explained to us that Star's comment on the offer was almost illegible and not prominently marked to stand out. (We note, however, that the Division's copy of the late offer showed both the time the bidder telexed its offer and the time Star received it.) The representatives agreed that the bid should have been deemed non-responsive and excluded from consideration in computing the OFD.

The oversight increased U.S. transportation expenditures for the shipment on the Point Vail by about \$144,507 and decreased Egypt's expenditures by an equal amount. As stated above, the OFD is essentially the difference between the transportation rate of U.S. flag vessels transporting the commodity and the rates of foreign flag vessels that would have been selected without cargo preference. The Division should have considered the Argosy Pacific's \$17 per metric ton offer as non-responsive and thus computed the OFD on the basis of the vessel Global E Sun that offered to transport the wheat at a rate of \$18.70 per metric ton. The \$144,507 represents the difference in the two rates (adjusted for a small difference in commissions) multiplied by the 86,016 tons transported on the Point Vail.

Because the overpayment was erroneously based on a late bid, we recommend that FAS seek to recoup these funds from Egypt.

This overpayment and other related issues are included in a report we will be sending for the Department's comments in the near future. If you have any questions concerning this specific payment, please call me on 275-4812 or Mr. John Watson on 275-5889.

Sincerely yours,



Allan I. Mendelowitz  
Associate Director