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WASHINGTON, D.C. 20548

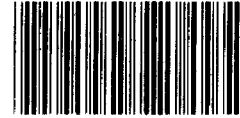
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INTERNATIONAL DIVISION

B-210761

MARCH 3, 1983

The Honorable Edward R. Madigan
Ranking Minority Member
Committee on Agriculture
House of Representatives



120739

Dear Mr. Madigan:

Subject: Managing the Transportation of U.S.-Donated
Food to Developing Countries (GAO/ID-83-24)

We examined Agency for International Development (AID) and U.S. Department of Agriculture procedures for managing the shipping and freight-forwarding functions for the Public Law 480, Title II food donation program. Our work was performed in response to a March 5, 1982, request made by then ranking minority member of the Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs, Mr. Paul Findley. As arranged with your office and former Congressman Findley, we are addressing this report to you as ranking minority member of the House Committee on Agriculture.

AID reimburses private voluntary organizations (PVOs) for all Title II ocean-freight expenditures for commodities administered by AID. PVOs, in turn, use private-sector freight forwarders for booking cargo and preparing shipping documents. Although several PVOs participate in the Title II program, Catholic Relief Services and CARE represent, by far, most PVO activity. Agriculture performs the cargo booking and freight-forwarding function for 50 percent of the commodities the United States donates to the World Food Program, a multi-lateral agency for food aid established by the United Nations and the Food and Agriculture Organization. The World Food Program assumes the ocean freight expenditures for the other 50 percent. Agriculture also arranges commodity shipments for all government-to-government programs.

We found that the procedures followed by private-sector freight forwarders in behalf of PVOs and AID and those used by Agriculture for booking and forwarding ocean freight were similar and generally adequate to protect the interests of the Federal Government. Further, our tests of transactions and information obtained indicated that their performances were not different enough to substantially favor one group over another

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in carrying out the freight-forwarding function. For example, we found that private freight forwarders and Agriculture often obtained more favorable ocean freight rates than those determined by Agriculture guidelines and that both groups encourage a high level of competition among ocean carriers to obtain economical rates. In addition, our examination of claims, collections, and loss data on food shipped by Agriculture and the most active PVOs--Catholic Relief Services and CARE--showed that they settled claims within similar timeframes and that there were no significant differences in cargo losses.

During the course of our work, we were able to identify several areas where monitoring and auditing of Title II transportation activities could be improved. First, Agriculture has no assurance that private freight forwarders or its Ocean Transportation Division are conforming to its established guidelines covering ocean freight rates. Although Agriculture's system to identify the lowest freight rates is a good management tool, monitoring of the rate guidelines for PVO shipments is not done routinely. Second, PVO freight forwarders can and do receive "reimbursement" for ocean freight expenditures before the carriers are paid--a violation of AID regulations. This results in interest-free advances of Federal funds. Third, AID does not review Title II freight vouchers which PVOs submit either on a pre-audit or post-audit basis. Therefore, AID has no assurance that the amounts which the forwarders pay ocean carriers are in accordance with the established tariffs. These matters are covered in detail in the enclosure to this letter.

We are sending copies of this report to the Chairman, House Committee on Foreign Affairs; Director, Office of Management and Budget; Administrator, Agency for International Development; Secretaries of Agriculture and State; and other interested House and Senate committees.

Sincerely yours,



Frank C. Conahan
Director

Enclosure

MANAGING THE TRANSPORTATION OF U.S.-DONATED
FOOD TO DEVELOPING COUNTRIES

BACKGROUND

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480), commonly known as the Food for Peace Program, is the major means of distributing U.S. food assistance abroad. Title II of the act authorizes the donation of agriculture commodities and the payment of delivery expenses to assist malnourished people in poorer countries through a variety of programs. The legislation specifically authorizes the designation of PVOs, friendly governments, and organizations, such as the World Food Program (WFP), as sponsors and distributors of the donated food commodities. The principal PVOs involved in the Title II program are the Catholic Relief Services (CRS) and CARE.

Title II is administered by AID and the Department of Agriculture (USDA), which receives the appropriation of Title II funds. AID plans and programs Title II activities, issues guidelines to participating organizations, and reviews proposals for food allocations. The Agricultural Stabilization and Conservation Service of USDA purchases Title II commodities on a "lowest landed cost" basis, combining the value of the commodity and the cost of the ocean freight. USDA also supervises the movement of Title II commodities from vendors or warehouses to U.S. ports.

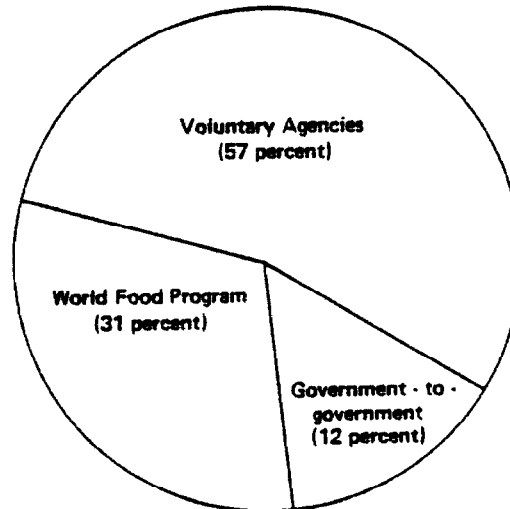
Both AID and USDA arrange for commodity shipments under Title II. AID does this through freight forwarders chosen by designated PVOs and other organizations. Shipping procedures and payments for ocean freight are handled somewhat differently in the agencies. AID uses the funds of the Commodity Credit Corporation of USDA to reimburse PVOs for all Title II ocean freight expenditures. PVOs, in turn, use the services of private freight forwarders for booking cargo and preparing all shipping documents.

Although USDA purchases and arranges deliveries of all Title II commodities to U.S. ports, it performs the cargo booking and freight-forwarding function only for 50 percent of the commodities donated to WFP and for government-to-government programs. WFP uses a private freight forwarder in the United States as its agent for the remaining 50 percent of the U.S.-donated commodities, for which it pays the freight; the United States pays the ocean freight for all other Title II shipments. Liner shipments which WFP controls are booked through its U.S. agent and are subject to WFP approval. The WFP headquarters in Rome directly books charter shipments--those generally weighing 5,000 metric tons or more.

During fiscal year 1981, at a cost of \$840.1 million, the United States donated about 1.94 million metric tons of food

under the Title II program through various sponsors. (See table below.) Title II shipments are subject to the Cargo Preference Act which requires that U.S.-flag ships carry at least 50 percent of all Title II commodities.

Percent of FY 1981 Value of Commodities Shipped - By Sponsor



Combined AID and USDA ocean transportation and overland transportation costs to landlocked countries were approximately \$247 million in fiscal year 1981.

P.L. 480, Title II Commodity and Ocean Transport Expenditures by Fiscal Year

<u>FY</u>	<u>Commodity Expenditures</u>	<u>Ocean Transportation</u>	<u>Total Expenditures</u>
	----- (millions) -----		
1971	\$ 302.3	\$ 91.2	\$ 393.5
1972	403.5	117.7	521.2
1973	290.0	103.8	393.8
1974	281.6	101.6	383.2
1975	331.3	126.6	457.9
1976	245.3	80.9	326.2
1976TQ	129.6	26.0	155.6
1977	362.0	96.9	458.9
1978	327.5	130.6	458.1
1979	397.6	149.2	546.8
1980	410.5	185.6	596.1
1981	593.1	247.0	840.1
1982	325.7	196.2	521.9

Sources: USDA Report of Financial Condition and Operations of CCC for FY 1971-80, FY 1981 Annual Report on P.L. 480, and AID input for FY 1982 annual report.

The size of the transportation expenditures, the participation of several agencies with different shipping procedures, and a longstanding controversy between WFP and USDA concerning freight booking and forwarding performance have created concerns about the administration of Title II ocean freight arrangements. The controversy, dating back to 1969, pertains to the WFP contention that USDA has not provided proper service for shipment of programmed commodities and that such transportation could be handled more efficiently by a private freight forwarder.

OBJECTIVES, SCOPE, AND METHODOLOGY

Reflecting congressional concerns over the program, the ranking minority member of the Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs, asked us in March 1982 to take a broad look at the administration of Public Law 480, Title II shipping. Specifically, we were requested to

- study AID procedures, management, and performance of shipping functions for the Title II program;
- study AID procedures for payments of private freight forwarders and ocean freight; and
- compare AID procedures with USDA management of its segment of the Title II program.

Our review of Title II ocean transportation was performed in accordance with generally accepted Government audit standards and had three objectives. One objective was to describe the procedures and to determine the essential differences between AID and USDA methodologies for managing the Title II program shipping functions. A second objective was to evaluate AID and USDA procedures for making ocean freight payments for Title II shipments. The third objective was to analyze USDA and AID performances in several key areas of commodity shipping, including freight rates and claims performance.

We examined USDA procurement of Title II commodities, which has a significant impact on ocean freight rates used by both AID and USDA. We highlight characteristics of booking and forwarding, as well as the payments of Title II ocean freight by the USDA Ocean Transportation Division (OTD) and private freight-forwarding firms.

Our audit work was conducted between March and September 1982. We reviewed numerous AID and USDA Inspectors' General studies and reports and reviewed a consultant's study of the WFP ocean transportation function.

We interviewed officials from several Government agencies which are involved in Title II, including USDA (in Washington and Kansas City), AID, the General Services Administration

(GSA), and the Federal Maritime Commission. We conducted interviews with PVOs, private freight forwarders, financial institutions, and officials of shipping associations both in Washington and New York. We gathered and analyzed computer data on USDA, PVO, and WFP ocean freight claims and collections performance in the Title II program. In addition, we visited the WFP headquarters in Rome to discuss its Title II procedures.

We made tests of 33 Title II PVO shipments selected from AID's computer listing of transactions for October 1981 through June 1982 to obtain an understanding of PVO and freight forwarder procedures. We selected shipments of at least 100,000 pounds each to major Title II recipient countries. We also selected an additional 22 PVO shipments to review specific aspects of the payment process. In these cases, we selected bills of lading totaling at least \$10,000 each. The shipments were not selected on a statistical sampling basis; however, we believe that the transactions were sufficient to enable us to obtain an understanding of PVO and freight-forwarder procedures for shipping food and for making payments to ocean carriers.

Our test of USDA and AID freight-rate performance was limited in that shipments were not generally comparable. We found that a comparison of freight rates was affected by outside economic and market factors which could not be easily evaluated even if a statistically sound sample were taken. PVOs participating in the Title II program generally operate in different countries, implementing diverse programs. This further limits comparison of USDA and AID performance.

OCEAN FREIGHT BOOKING AND FORWARDING PROCEDURES:
SYSTEMATIC MONITORING OF FREIGHT RATES IS NEEDED

The USDA Agricultural Stabilization and Conservation Service, through its Kansas City Field Office (KCFO), obtains bids on commodities to be purchased, identifies the lowest available freight rates, purchases all Title II commodities, and forwards them from vendors or warehouses to U.S. ports. Private-sector freight forwarders or USDA arrange to ship the food from the United States to recipient countries.

We found that ocean freight booking and forwarding procedures followed by private freight forwarders and USDA were generally adequate, and our tests of transactions and the information we obtained indicated that their performances were not substantially different enough to favor one group over another in carrying out the freight-forwarding function. Nevertheless, we did observe that the monitoring of freight rates paid to ocean carriers and other related program activities could be improved.

Procurement of commodities and
identification of freight rates
by the Kansas City Field Office

A competitive procurement process is initiated after KCFO receives requests for commodities from Title II program sponsors, such as CARE and WFP. A list of intended destinations and the quantities of specific commodities to be purchased is included in an invitation-for-bid package. After bids are received from vendors, the KCFO computer analyzes the data, which is labeled the "lowest landed cost." The computer program provides for a "marriage" of the commodity offers (which include inland transportation to U.S. ports), service rates, ocean freight rates, and port allocations. The offer resulting in the lowest landed cost of a commodity to a foreign destination, including the lowest commodity price in combination with the lowest ocean freight rate, is accepted subject to negotiation by freight forwarders. Although the lowest landed cost determination results in the naming of a suggested ocean carrier, freight forwarders have the option of using any carrier at or lower than the lowest landed cost rate.

During the 2-week period when commodity invitations are considered open, KCFO identifies the available ocean service and freight rates for the desired destinations in several ways. KCFO uses published ocean freight tariffs filed with the Federal Maritime Commission by carrier conference members^{1/} or independent carriers offering liner service. Then KCFO conducts what is, in essence, a competitive offer process for ocean freight by notifying potential carriers of USDA's intention to ship commodities to certain destinations. KCFO allows carriers to submit changes in rates or service up to one week before the commodity is purchased, provided that the change has also been filed with the Federal Maritime Commission or the carrier promises to file with the Commission within 10 days. Any rate changes are posted in the computer and evaluated to determine the lowest landed cost. KCFO has the exclusive responsibility for monitoring the transport of all commodities from vendors to U.S. ports.

The freight-forwarding function

A freight forwarder is anyone who dispatches a shipment of cargo for another through such services as ordering cargo to port, booking space, preparing shipping and export documents, and handling monies or credit in connection with such shipments. During fiscal year 1981, private-sector freight forwarders, licensed by the Federal Maritime Commission, were responsible

^{1/}An association of ocean liner operators, U.S.- and foreign-owned, providing services on a particular route and operating with an agreement that establishes similar rates for many commodities and other conditions of services.

for booking and forwarding about three-quarters of the U.S.-donated Title II food. USDA was responsible for booking and forwarding the remaining one-quarter of the food.

Private freight forwarders

Although several PVOs participate in the Title II program, CRS and CARE represent most of the PVO activity. In fiscal year 1981, for example, their Title II ocean freight charges represented over 95 percent of such charges for all PVOs.

CRS and CARE employ private freight forwarders to handle Title II shipments. Private freight forwarders are compensated by brokerage fees paid by the ocean carriers with whom they book the Title II shipments. These fees, filed with the Federal Maritime Commission, range from one and one-quarter to two and one-half percent of the ocean freight charge, depending on the carrier. In addition, one forwarder receives a \$2,500 monthly fee, which is paid by the PVO and not from Federal funds. Freight forwarders charge fees to shippers of commodities. However, such charges are not imposed on shippers who operate under the Title II food donation program.

As agreed in a 1975 Memorandum of Understanding between WFP and the United States, most recently amended in May 1981, WFP is responsible for booking and paying for the shipment of one-half of the U.S.-donated food it receives. Actual transportation arrangements are made by each party based on geographical areas of destination, which may be adjusted if necessary so that amounts shipped by each party approximate 50 percent of the total commodities. To arrange ocean transportation for its portion of U.S.-donated commodities, WFP employs a freight-forwarding firm in New York as its U.S. agent.

Government freight forwarding

USDA performs the freight-forwarding function for 50 percent of WFP shipments and for all government-to-government programs. The function is shared by USDA's OTD in Washington, D.C., which books the cargoes, and by USDA's KCFO which performs the remaining duties. KCFO is assisted by its branch offices in Houston and Portland. USDA, which performed the same functions as the private forwarders for 25 percent of the Title II cargo during fiscal year 1981, does not receive any brokerage commissions from carriers. The Shipping Act of 1916, 46 U.S.C. Section 817(b) (3), prohibits ocean carriers from granting rebates, refunds, or other special privileges to any shippers. Because USDA is the shipper of Title II commodities, as well as the arranger of ocean freight, commissions cannot be paid to USDA.

When foreign carriers are used, OTD books the cargo through authorized brokers or agents for the steamship company located in Washington. In the case of American carriers, OTD is authorized to book directly with all carriers with the exception of

one, which uses a Washington broker. The OTD use of brokers or agents is a practice which the lines require. Brokers receive commissions or fees directly from the carriers they represent.

Booking agents or brokers used by USDA earn commissions of one and one-quarter to two and one-half percent of the ocean freight value, depending on the carrier. This has contributed to the controversy because PVO freight forwarders earn their commissions for freight forwarding, document preparation, and booking; and the agents and brokers do much less for the same fees because the freight-forwarding function is performed by USDA.

GAO's test of booking transactions
showed rate reductions were achieved

When a cargo is booked, private freight forwarders and USDA both attempt to obtain an even more favorable ocean freight rate than that which is determined by the USDA lowest landed cost procedure. Negotiations with carriers who serve the routes often resulted in lower rates.

To obtain an understanding of their booking procedures and to compare actual freight rates with the USDA-quoted lowest landed cost rates, we selected a number of Title II ocean freight bookings which the CRS and CARE forwarders arrange. Our selections emphasized countries which were major recipients of Title II food. The shipments we selected were booked between January and April 1982 and included 18 CRS-sponsored bookings and 15 sponsored by CARE.

Our analysis of the CRS freight-forwarder booking indicated that the rates obtained were in accordance with existing procedures and tariffs. In fact, of the 18 CRS transactions we reviewed, 8 were booked at a rate lower than the lowest landed cost, thereby saving the Government over \$22,000. In the remaining 10 cases, the CRS forwarder booked the cargo at the USDA-quoted rate.

The CARE freight forwarder negotiated rates only slightly below the lowest landed cost in 2 of 15 cases, for total savings of \$2,790. In one case, it booked the cargo above the lowest landed cost, resulting in an overpayment of \$6,746 paid in Indian rupees. A followup of a related transaction revealed a similar overpayment. Theoretically, before a forwarder books a Title II shipment at a rate exceeding USDA's lowest landed cost, the forwarder should obtain KCFO approval. Apparently, the CARE forwarder did not obtain such approval for these Indian bookings. The freight rate paid was above the established tariff. As a result of our audit, the forwarder obtained a \$13,155.00 adjustment from the carrier. This amount in Indian rupees was returned to the U.S. Embassy in India.

The CRS freight forwarder claims that its vigorous attempts to negotiate freight rates below the USDA allowable rates have

saved the Government millions of Title II dollars. The forwarder's claimed "savings" through rate negotiations represent the difference between USDA's lowest landed cost and the freight rate the forwarder was actually able to obtain for the shipment. The freight forwarder estimates that such savings have totaled over \$12.2 million from 1970 through 1981, with an additional \$1.5 million for the first 6 months of 1982.

Based on the freight-rate performance and the timeliness of shipments and incidence of claims, officials at both CRS and CARE were satisfied with the performance of their respective freight forwarders. These assessments, however, are based on judgments of performance for which the PVOs could not provide supporting documentation.

Upon receipt of a Form 512 (Notice of Commodity Availability) from KCFO, which includes the lowest landed cost for ocean freight, OTD used additional competitive procedures by calling all carriers who serve the route to be used. Often, OTD can obtain a lower rate than the lowest landed cost through negotiations. OTD officials report that for fiscal year 1981 they negotiated freight-rate savings of \$2,319,251 based on the difference between the first-offered rate and the actual rate used.

One method by which OTD insures that USDA-booked ocean carriers are paid in conformance with existing tariffs is through a pre-payment review. When vouchers arrive for payment, OTD's Rate Analysis and Statistics Branch compares the payment requested by the ocean carrier with the rate agreed upon to determine if changes have occurred. The Rate Analysis Branch also checks the rate used with the applicable tariff. This process is important because many tariffs use different effective dates for rate changes.

When OTD's prepayment review reveals a discrepancy between the rate booked and the payment requested, a "voucher difference statement" is prepared. OTD officials told us that voucher-difference statements are prepared when carriers do not bill in accordance with the terms of the OTD booking contract or in accordance with the applicable tariff. A copy of the voucher-difference statement is sent to the carrier for action. In fiscal year 1981, carrier overbillings of \$547,157 were identified. During the first 10 months of fiscal year 1982, the total was \$487,384.

KCFO officials told us that their files enable them to monitor the procurement and shipment of all Title II commodities, regardless of program sponsor. KCFO freight forwarders receive and review copies of signed onboard bills of lading for all Title II shipments. Although KCFO is responsible for scrutinizing quantities loaded, the amount of ocean freight paid is not compared with the information on the Form 512 to help ensure that cargo is being booked at or lower than the lowest

landed cost. In addition, our examination of CRS and CARE procedures suggests that no regular checks are made to insure that freight rates paid are in accordance with USDA's lowest landed cost guidelines.

USDA and private-forwarder claims
collection and loss experience
are similar

USDA regulations require that PVOs use every effort short of litigation to pursue collection of all ocean freight-related claims. However, KCFO has the ultimate authority and responsibility for settlement and collection of losses on all Title II shipments, with the exception of WFP shipments. (Under a 1972 agreement with the U.S. Government, WFP retains monies collected on claims but also pays premiums for insurance on shipments of U.S.-donated commodities.)

We examined Title II claims collection and loss data and found that USDA, CARE, and CRS settled claims within similar timeframes, with no significant difference in cargo losses. CARE's claim settlement records, covering January 1975 through December 1980, showed an average settlement time of 446 days; CRS settled claims in an average of 487 days; USDA claims settlements averaged 442 days. Loss data also indicates similarities in performance. Data for shipments from January 1975 through May 1981 indicated that CARE lost an average of 1.24 percent of Title II cargo, CRS 1.38 percent, and USDA 0.99 percent.

The WFP cargo loss and claims settlement experience could not be directly compared with data for USDA and other PVOs because the WFP data included shipments for all donor countries and could not be easily isolated for U.S.-donated Title II commodities. The WFP data indicated that total program cargo losses were approximately \$3,500,000 in calendar year 1980 and \$5,000,000 in 1981. Losses were recovered at a rate of approximately 63 percent each year. The average time WFP required to settle claims from 1978 through 1981 was 21 months.

FREIGHT FORWARDERS ARE RECEIVING
GOVERNMENT ADVANCES RATHER THAN
REIMBURSEMENTS

We found that AID, in some cases, is releasing funds to the banks to credit the forwarders' accounts before the forwarders pay the ocean carriers. Although the time periods may involve only a few days, this constitutes premature payments of Federal Government monies to the freight forwarders rather than reimbursements. In one case, a freight forwarder held these monies for more than 4 weeks before paying the carriers. Our test of 26 shipping transactions showed delays in carrier payments after forwarder reimbursements in 17 cases. In the most extreme case,

one freight forwarder held over half a million dollars for 41 days, as shown.

AID ADVANCES TO FREIGHT FORWARDERS
FOR OCEAN FREIGHT PAYMENTS

<u>PVO</u>	<u>Bank reimbursed freight forwarder</u>	<u>AID reimbursed bank</u>	<u>Freight forwarder check to carrier</u>	<u>No. of float days for AID funds (note a)</u>	<u>Amount of ocean freight payment</u>
	-----1982-----				
CRS	May 19	May 20	May 25	5	\$ 13,988.15
	May 17	May 19	May 25	6	16,966.10
	Apr. 27	Apr. 28	May 06	8	63,987.30
	Apr. 16	Apr. 19	Apr. 28	9	56,497.84
	Mar. 15	Mar. 17	Mar. 22	5	81,946.49
	Feb. 25	Mar. 01	Mar. 04	3	18,575.65
	Feb. 24	Feb. 26	Mar. 04	6	16,898.50
CARE	Feb. 24	Feb. 26	Mar. 15	17	22,188.48
	Apr. 30	May 03	June 17	45	35,959.19
	Jan. 29	Jan. 29	Feb. 16	18	37,559.26
	Jan. 14	Jan. 15	Feb. 25	41	547,006.72
	Apr. 15	Apr. 16	May 12	26	15,163.95
	Apr. 13	Apr. 15	Apr. 30	15	11,376.75
	Mar. 24	Mar. 25	Apr. 14	20	557,813.95
	Apr. 30	May 03	May 06	3	75,747.62
	May 17	May 18	June 03	16	29,758.92
	May 12	May 14	May 20	6	858,727.78

^{a/} Represents number of calendar days from AID reimbursement to bank to date of freight forwarder's check to carrier.

Our analysis did not include an overall measurement of the effect of these premature payments of funds on the U.S. Government. Obviously, interest could be earned by banks or forwarders under this procedure. In addition, such AID payments prior to freight-forwarder settlement with ocean carriers are a violation of AID regulations which allow only for AID reimbursement of PVOs for Title II ocean freight expenditures. If the forwarders and PVOs adhered to AID regulations, this problem would be eliminated.

In discussing this with representatives of the freight forwarders, the CRS forwarder stated that it generally pays ocean carriers shortly after the bank notifies it that its account has been credited. Both CRS and CARE freight forwarders told us that such AID advances are held in non-interest-bearing accounts. The CARE forwarder also noted that, as a rule, it prepays the carriers and must wait for reimbursement without interest. It believes this general circumstance greatly outweighs the occasional instance where there is a delay in the ocean freight payments. Our test indicates that this observation may not be valid.

In addition, the CRS forwarder told us that the ocean carriers provide it with bills of lading marked paid, based on the forwarder's credit with the carriers even though the freight in fact has not been paid. These bills of lading are then submitted to CRS with the forwarder's "reimbursement" request. A CRS official stated that PVOs do not know whether the forwarders have actually paid the carriers prior to requesting reimbursement.

AID EXERCISES LIMITED OVERSIGHT
OF PVO FREIGHT PAYMENTS

AID pays ocean freight on PVO-sponsored Title II shipments with bank letters of commitment established in favor of the PVOs. The private freight forwarders which the PVOs use to book and forward Title II ocean freight are responsible for paying the ocean carriers and for seeking reimbursement from AID through the PVOs. CRS and CARE instruct their respective banks to pay the freight forwarders directly, under bank letters of commitment. AID, however, does not post-audit PVO ocean freight vouchers. As a result, AID has no assurance the Title II ocean freight charges and payments are in accordance with established tariffs and AID regulations.

The AID Surveillance and Evaluation Division is responsible for reviewing all AID transportation vouchers either before or after payments to verify that charges for commodities and freight are in accordance with statutory and regulatory requirements. However, AID does not perform a regular post-audit of Public Law 480, Title II transportation vouchers. Agency officials told us that the staff pre-audits payments to be made under direct letter of commitment on other assistance projects which must be paid within 5 days. As a result of staffing limitations, post-audits on Title II freight vouchers are not routinely performed. AID officials indicated that audit responsibility for Public Law 480, Title II vouchers was transferred to GSA in 1978. It is their understanding that GSA continues to audit these vouchers.

AID and USDA audit reports were critical of AID's voucher-approval process. The most recent criticism was highlighted in a January 1982 AID Inspector General report, which concluded that "AID does not have reasonable assurance that voucher payments are proper and valid." The auditors found several cases where AID paid for unsupported expenditures. For example, the report cites \$58,442 in double billing for AID-financed ocean freight and \$294,774 in unnecessary freight and handling. In addition, the report noted the payment of \$270,000 in excess freight charges because payment was made on the basis of estimates rather than on the actual freight costs.

Although GSA is responsible for post-auditing all government transportation vouchers, a 50-percent decrease in the

transportation audit staff since 1976 has created what GSA officials have called a "downward trend in effectiveness." Further, officials told us that there is an 18- to 20-month backlog of voucher post-audits. Therefore, any discrepancies found after the 1-year statute of limitations on commercial bills of lading could bar possible claims, making post-audits of year-old AID transportation vouchers untimely and possibly unfruitful.

AID officials have considered hiring a private transportation consulting contractor to conduct an audit of freight vouchers, with the exception of Title II. Such an audit would include a check of the prevailing ocean freight tariff with the payment voucher and a check of the cargo classification used with the ocean freight contract. After a 1-year testing period, AID plans to expand the scope of the audit to include Title II ocean freight.

AID officials believe that there is insufficient expertise in the Federal Government to perform adequate transportation voucher post-audits because of the ambiguous and complex nature of ocean freight tariffs. GSA officials agreed that the many variations and exceptions to the tariff could result in overcharges.

AID plans to hire the contractor on a contingency basis, with compensation based on a percentage of the recoveries. One contractor with whom AID has had discussions told us that, in his experience with commercial shippers, recoveries from post-audits of ocean freight charges have ranged from one-half of one percent to 10 percent.

GSA has accepted the concept of hiring an outside contractor for transportation post-audits. In fact, in its fiscal year 1983 congressional appropriation justification, GSA includes a request for \$1.08 million to contract out part of its transportation audit responsibilities.

CONCLUSIONS AND RECOMMENDATIONS

Procedures which private-sector freight forwarders and USDA use to book and forward ocean freight were similar and generally adequate to protect the interests of the Federal Government. Further, our tests of transactions and information obtained indicated that their performances were not different enough to substantially favor one group over another in carrying out the freight-forwarding function. For example, we found that private freight forwarders and USDA often obtain more favorable ocean freight rates than those determined by the USDA lowest landed cost procedure and that both groups encourage a high level of competition among ocean carriers to obtain economical rates. In addition, our examination of claim collections and loss data on food which USDA, CRS, and CARE shipped showed that they settled claims within similar timeframes and that there were no significant differences in cargo losses.

During the course of our work, we identified several areas where management of Title II ocean freight activities can be improved. First, USDA has no assurance that the private forwarders or OTD are conforming to the lowest landed cost for ocean freight. Although the USDA system for identifying the lowest freight rates is a good management tool, monitoring the rate guidelines for PVO shipments is not done routinely. Second, PVO freight forwarders can and do receive "reimbursement" for ocean freight expenditures before the carriers are paid, which is a violation of AID regulations. This results in an interest-free advance of Federal funds. Third, AID does not review Title II freight vouchers which PVOs submit, either on a pre-audit or a post-audit basis. Therefore, AID has no assurance that the amounts which the forwarders pay ocean carriers are in accordance with the established tariffs. We believe AID could improve program monitoring and should proceed with efforts to have transportation vouchers post-audited. AID should coordinate these effort with both USDA and GSA.

Because KCFO receives copies of bills of lading for all Title II transactions, we recommend that the Secretary of Agriculture require that procedures be established to routinely examine the actual freight charges which appear on the bills of lading from all program sponsors to help assure that they do not exceed those determined by its lowest landed cost procedure. By doing so, it would monitor PVO, WFP, and OTD compliance with USDA ocean freight guidelines.

We also recommend that the Administrator, AID require PVOs to monitor the activities of their freight forwarders by comparing, prior to payment, freight forwarder payment requests with USDA guidelines to verify that ocean freight charges comply with the lowest landed cost determination. Concerning the matter of paying freight forwarders for ocean freight before the forwarders pay ocean carriers, we believe AID and the PVOs should ascertain whether such practice is fair and equitable and, if necessary, revise the regulations concerning such payments.

AGENCY COMMENTS

AID and USDA had no fundamental disagreements with the conclusions and observations contained in the report. Several modifications were made in the report to reflect suggested clarifications and updated information provided by the agencies. AID also stated that it expected to work with the PVOs and USDA to improve several aspects of the management of Title II ocean freight activities along the lines we suggested.