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Washington, DC 20548

March 31, 2005

Brigadier General Charles W. Fletcher, Jr.,  
Commanding General  
Military Surface Deployment and Distribution Command  
Department of the Army  
200 Stovall Street  
Alexandria, VA. 22332-5000

Subject: *Payment Processing: Documentation Procedures For Electronic Billing and Payment Under the Families First Personal Property Program*

Dear General Fletcher:

This letter responds to your request for our views on whether certain payment procedures included in the Defense Department's (DOD) proposed Families First Personal Property Program<sup>1</sup> conform with relevant criteria in GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*. As you know, Families First is a DOD initiative to reengineer its processes for transporting household goods and personal property for its service members and civilians. Your request is in response to a Defense Finance and Accounting Service (DFAS) recommendation that DOD seek our views specifically on whether the proposed procedures for electronic billing and payment meet the supporting documentation requirements in Title VII of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*.

While the General Services Administration (GSA) is responsible for issuing federal regulations for transportation, including moves of household goods and personal property<sup>2</sup> as well as agency prepayment and postpayment audit requirements for transportation payments, we are responsible for issuing fiscal guidance based on authorities in the U.S. Code.<sup>3</sup> We considered DOD's proposed process of electronic billing and payment in light of our requirements established in Title VII for disbursements and related documentation. Our views are based on our understanding of DOD's planned implementation of the Families First program on a conceptual basis. We

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<sup>1</sup>The Families First program is being implemented over three phases. In reviewing a draft of this report for factual accuracy, SDDC indicated that the procedures for billing, payment, and supporting documentation, which are the subject of this request, were implemented as part of Phase I on March 29, 2005.

<sup>2</sup>Federal regulations for transportation are published in the Code of Federal Regulations, 41 C.F.R. Parts 102-117 and 102-118 (2004).

<sup>3</sup>General authorizations and requirements for agency accounting and auditing are set forth in numerous statutes, primarily in chapter 35 of Title 31, U.S. Code. The fiscal guidance in Title VII is based on the Comptroller General's authority to settle accounts of accountable officers and conduct audits.

did not perform tests of your current or proposed system or validate information provided to us.

In order to respond to DOD's request, we contacted your staff to gain an understanding of Families First. We considered additional information about the proposal provided by your staff. We analyzed sections of the law pertaining to this request. We interviewed GSA staff concerning their audit responsibilities in the transportation area, including for Families First.

As explained to us, Families First does not fully meet Title VII documentation requirements for federal payments because the documentation that DOD is to use as evidence of receipt of accessorial<sup>4</sup> services does not provide adequate assurances about the propriety of these services. This is because the documentation is prepared by the transportation service provider (TSP) without independent corroboration upon preparation, and then the documentation is retained by the TSP. These documentation procedures increase the potential risk of improper transportation payments.

Management must determine what changes to the documentation procedures or what additional controls will mitigate these risks so that the documentation requirements of Title VII are fully met. The objective of such controls should be to ensure that invoiced accessorial services are allowed, necessary, and were indeed rendered. Automated procedures do not reduce the need for effective internal control nor relieve a certifying/disbursing officer of his or her responsibility. These officers must have sufficient knowledge of the automated systems in order to carry out their responsibilities, and must make sure they can rely on the quality of the automated systems to ensure that transportation invoices authorized for payment are legal, proper, and correct.

## **Background**

The Surface Deployment and Distribution Command (SDDC) is DOD's Traffic Manager for the Household Goods and Personal Property Program. SDDC<sup>5</sup> provides an interface between DOD's local shipping offices and the commercial shipping industry. SDDC is developing the Families First program under DOD's business process reengineering efforts. SDDC staff estimate that Families First will process over 500,000 shipments at a cost of almost \$2 billion annually. The goal for Phase I of Families First is to implement a new electronic bill payment process in a Web-based environment.

Our Title VII procedures are designed to complement existing federal accounting, internal control, and systems standards.<sup>6</sup> Title VII does not provide specific guidance on

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<sup>4</sup>Accessorials are services such as packing or special boxing that are performed by a carrier in addition to the linehaul transportation charges.

<sup>5</sup>SDDC is a major command of the United States Army that is under the control of the United States Transportation Command.

<sup>6</sup>In May 2000, GAO issued a guide to agencies in reengineering payment systems, entitled *Streamlining the Payment Process While Maintaining Effective Internal Control*, GAO/AIMD-21.3.2. (Washington, D.C.: May 2000).

how to process financial transactions involving travel and transportation. Those functions, originally covered under Title V of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, were transferred to the Executive branch on June 30, 1996.<sup>7</sup> However, Title VII does provide general guidance on disbursements, including necessary steps to help ensure disbursement transactions can be verified as to their legality, propriety, and correctness and to spell out the responsibilities of accountable officials.

Section 3726 of title 31, U.S. Code requires each agency that receives a bill from a carrier or freight forwarder for transporting property for the U.S. government to verify the bill's correctness using a prepayment audit<sup>8</sup> in accordance with the requirements prescribed by GSA.<sup>9</sup> The official certifying a transportation voucher is responsible for computation of payment amounts and for the legality of payments.<sup>10</sup> The certifying official is also responsible for verifying transportation rates, freight classification, and other information provided on a government bill of lading or transportation request, unless GSA has determined that the prepayment audit of such vouchers will not adequately protect the interest of the government.<sup>11</sup> The law makes a special provision that permits advance payment for transportation services, provided certain usual documentation, such as an invoice or bill of lading, is submitted.<sup>12</sup> SDDC indicated that GSA has tentatively approved its prepayment audit procedures,<sup>13</sup> although at the time of our inquiries GSA had not yet audited any Phase I transactions.

Our understanding is that linehaul<sup>14</sup> charges make up the single largest component of programwide billings. The second largest cost component, and the topic dealt with in this letter, is accessorial, which are services such as packing or special boxing that are performed by a TSP in addition to linehaul charges. Existing Defense Transportation Regulations<sup>15</sup> require the TSP to furnish the original DD Form 619, *Statement of Accessorial Services Performed*, and DD 619-1, *Statement of Accessorial Services*

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<sup>7</sup>Public Laws 104-53 (Nov 19, 1995 ) and 104-316 (Oct 19,1996) transferred GAO's authority over claims settlements and related advance decisions, waivers, and other functions to the Director of the Office of Management and Budget (OMB), who in turn delegated specified functions to various executive agencies. Among those functions delegated to the General Services Administration are settling claims for travel, transportation, and relocation expenses of federal civilian employees and reviewing transportation carrier appeals. See B-275605, March 17, 1997.

<sup>8</sup>According to 41 C.F.R. § 102-118.265 (2004), prepayment audit for transportation consists of comparison of charges on the TSP's bill against charges permitted under the applicable contract, rate tender, or other agreements.

<sup>9</sup>GSA may exempt bills from prepayment audit and verification and, in lieu thereof, require postpayment audit as determined by the public interest, cost effectiveness, or other factors. See 31 U.S.C. § 3726 (a) (2).

<sup>10</sup>See 31 U.S.C. § 3528 (a); Title VII, chapter 6, section 6.5, page 7.6-8.

<sup>11</sup>31 U.S.C. §§ 3528 (a) (5), 3726(a) (2); and see 41 C.F.R. 102-118.160.

<sup>12</sup>31 U.S.C § 3726(h).

<sup>13</sup>In a memo from GSA to SDDC on October 23, 2003, GSA granted tentative approval to SDDC's prepayment audit procedures pending certain action steps critical to the audit process, and an in-depth analysis after Phase I has been more widely implemented.

<sup>14</sup>Linehaul charges include transportation of cargo over carrier routes from point of origin to destination, with the exclusion of certain charges such as local pickup or delivery.

<sup>15</sup>DOD 4500.9-R, subject: Defense Transportation Regulation, Part IV (Aug. 2003), chapter 405.F.1

*Performed (Storage in Transit Delivery and Reweighs)*<sup>16</sup> to the transportation officer within the Personal Property Shipping Office. The Personal Property Shipping Officer (PPSO)<sup>17</sup> uses these forms to validate receipt of accessorial services submitted with the TSP's invoice.

### **Proposed Process for Phase I of Families First**

The focus under Phase I of the Families First program is on streamlining payments to the TSPs by using a third-party Web-based payment system called PowerTrack.

PowerTrack, which is owned and operated by U.S. Bank, has automated prepayment audit and verification procedures that are to be satisfied prior to payment. U.S. Bank remits electronic payments to TSPs for system-approved transactions and DFAS subsequently reimburses U.S. Bank.<sup>18</sup>

As described to us, the business process begins when the local DOD PPSO receives a service member's movement order, calling for transport of household goods and personal property.<sup>19</sup> Upon receipt of the order, the PPSO is to procure the services of the TSP, and prepare an electronic Bill of Lading (BOL) that functions as a contract for shipping the household goods. The TSP or its agent is to visit the origin site, conduct a move survey, and obtain preapproval<sup>20</sup> by either facsimile, e-mail or telephone conversation for those authorized accessorial line items or special services that require PPSO preapproval.<sup>21</sup> The PPSO indicates approved or denied status with a record in the SDDC's Central Web Application (CWA). The TSP is to prepare an inventory of what is to be moved and the DD Form 619. The TSP and service member are to sign these documents and copies are to be provided to the service member. Under the proposal, the TSP would retain all original source documents, except for the weight ticket.<sup>22</sup> Within 7 days of picking up the shipment, the TSP is to physically send the original weight ticket to the PPSO, who then is to enter the shipment weight into the CWA<sup>23</sup> and retain the document.

Once the move is completed and the household goods have reached their destination, the TSP provides the service member a copy of the inventory listing and the DD Form 619-1. Then, the TSP is to prepare and send an electronic invoice to the PPSO that includes a

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<sup>16</sup>Throughout this document, we will refer to the DD Form 619 generically, to encompass both the DD Form 619 and the DD Form 619-1.

<sup>17</sup>Throughout this document, we will use the term Personal Property Shipping Officer (PPSO) to refer to the transportation officer within the local DOD Personal Property Shipping Office.

<sup>18</sup>We did not review the rights and responsibilities that may have been agreed to between DOD and U.S. Bank with respect to these payments.

<sup>19</sup>Throughout this document, the term "household goods" will be used generically to refer to household goods and personal property.

<sup>20</sup>These services do not need to be entered in the DD Form 619.

<sup>21</sup>Certain accessorial services require preapproval, while others do not. Preapproval is not required to be documented on the DD Form 619.

<sup>22</sup>The weight ticket is from a third-party, state-regulated weighing station, and documents the shipment weight.

<sup>23</sup>Technically, the PPSO enters the amount from the weight ticket into a local database, which then populates CWA.

Notice of Service Completion (NOSC)<sup>24</sup> stating that the shipping services were provided. The PPSO is to review invoiced services submitted for payment, in terms of linehaul charges, and for accessorial services, compare those charges against the PPSO recorded preapproved services in CWA. In addition, the PPSO is to select a sample from the invoices submitted daily and request copies of supporting documentation from the TSP for those invoices selected. The PPSO is to review the scanned or faxed copies of supporting documentation, such as the DD Form 619 and inventory listing for the accessorial portion of the invoiced charges before approving them for payment. The PPSO's review is aimed at ensuring the services in CWA were performed and the quantities are correct. Once approved, an automated matching process is to occur within PowerTrack, where the TSP-submitted invoice data are compared to the cost data in CWA. Items that match successfully within established tolerances and threshold levels are to be automatically paid to the TSP by U.S. Bank.

Next, the Certifying Officer (CO)<sup>25</sup> prints and reviews the PowerTrack Summary Invoice (PSI),<sup>26</sup> listing the monthly total of all TSP invoices paid by U.S. Bank. The CO is to check for the presence of the necessary elements<sup>27</sup> for all transactions and verify their accuracy primarily from information available in PowerTrack. The CO is to review all transactions over \$2,500, those that meet a DOD-established threshold for price variances, and a random selection of additional PowerTrack transactions. The overall objective of these steps, according to SDDC, is to ensure the invoices contain the necessary substantiation and documentation for lawful and proper payment. Once the CO has verified the accuracy of the PSI, he or she is to sign the PSI to certify it as correct and proper for payment and DFAS reimburses U.S. Bank.

### **GAO's View of Proposed Documentation Policy**

Improvements to streamline the disbursement process related to service member's moves should be made within a framework of adequate controls that reasonably ensure that payment transactions are properly authorized and sufficient records of these transactions are maintained. In theory, proper application of technology makes it possible to perform prepayment examination without assembling physical documentation. However, implementation of such technology does not change the basic objectives of prepayment examinations.<sup>28</sup> Title VII identifies three essential steps to ensure that proper payment is authorized: (1) the acquisition of goods and services has been properly authorized as evidenced by an approved purchase order or contract; (2) the goods and services ordered have been delivered and accepted, evidenced by a

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<sup>24</sup>NOSC is a requirement before any consideration of payment on invoice can proceed.

<sup>25</sup>The certifying official is appointed by the commander, activity director, or others of equivalent rank in writing and does not need to be part of the transportation office.

<sup>26</sup>This occurs after the 15th of each month, or when U.S. Bank generates the PSI, whichever occurs later.

<sup>27</sup>Examples of necessary data elements include a complete line of accounting for each line item and, where required, a standard documentation number for each transaction.

<sup>28</sup>The objectives of prepayment voucher examinations are described in Title VII, section 6.5 entitled, "Prepayment Examination of Vouchers, General Requirements." See also page 6 of *Streamlining the Payment Process While Maintaining Effective Internal Control*, GAO/AIMD-21.3.2. (Washington, D.C.: May 2000).

receiving and inspection report; and (3) a claim has been made against the government as evidenced by receipt of an invoice or bill.

Families First does not fully meet Title VII documentation requirements for federal payments because the documentation that DOD is to use as evidence of receipt of accessorial services does not provide adequate assurances about the propriety of these services as intended in step 2 above. The documentation is not able to provide the necessary assurances on accessorial services because it is prepared by the TSP without independent corroboration upon preparation. Although the service member is to sign the inventory sheets and DD Form 619 upon pickup, when the documentation is prepared, and upon delivery of the household goods, the service member's role in signing this documentation is not designed in such a way as to provide government verification of receipt of approved services. Further, the service member or other designated representative may lack the ability or incentive to verify all accessorial services. In addition, the documentation does not necessarily include all accessorial services applicable to a particular move. Apart from the copies viewed as part of sampling, the only evidence of service delivery that the PPSO would see for all shipments is the TSP's NOSC on the invoice. To create the invoice the TSP is to extract accessorial and other shipment data from original source documents in their custody and input the information into PowerTrack as part of invoice submission. Then the TSP in essence self-certifies that the services ordered have been delivered and accepted, carrying out step 2 above through the NOSC indication in PowerTrack.

The proposal also increases potential risk because the generated documentation supporting certain accessorial services is to be retained by the TSP. Phase I of SDDC's Families First increases the level of automation in DOD's personal property program, but does not completely eliminate all paper documentation. Therefore, physical document control remains an important part of the proposed process. One core objective of document control is to preserve and protect the integrity and validity of the information contained in the documents. Because the process is structured so that the original source documents are created by and remain in the custody of the TSP, and the PPSO reviews copies<sup>29</sup> of original documents on a sample basis, the assurance to be gained by review of such documents is hindered by the increased risk that they may contain invalid data or be subject to potentially undetected alteration, whether intentional or unintentional.

Preparation and custody of original source documentation by a service provider rather than the agency, though not expressly prohibited, does increase risk to the payment process. Other permissible modifications to the traditional practice that agencies confirm receipt of services prior to payment have been made. For example, agency payment of transportation charges in advance of completion of services is specifically allowed by statute. Federal "Fast Pay" procedures also contemplate payment to vendors for purchases under \$25,000 before the agency processes evidence of its receipt of goods

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<sup>29</sup>SDDC indicated that the copies would most likely be faxed to the PPSO or scanned by the TSP and sent electronically to the PPSO.

and services, but these procedures call for proper documentation of such receipt.<sup>30</sup> Each permissible modification to the traditional payment practice increases the risk of improper payments and the combination of such practices further increases such risk, absent compensating controls.

These factors, when considered collectively in context with the objectives of Title VII documentation requirements, increase the risk of improper transportation payments. Management must determine what changes to the documentation procedures or what additional controls will mitigate these risks so that the documentation requirements of Title VII are fully met. The objective of such controls should be to help ensure that invoiced accessorial services are allowed, necessary, and were indeed rendered. Recognizing that cost-benefit considerations are important to any control procedures, management must make such assessments and determinations based on its experience, through both quantitative and qualitative analysis. Such analysis should be applied to the full range of potential options for possible solutions. In our discussions, SDDC told us of certain planned procedures, such as quality control inspections where DOD quality control inspectors would be present at selected shipments when being picked up or delivered. If based on relevant analysis and potential deterrence for shipments not inspected is factored in, these inspections may be part of the solution. Another possibility would be strengthening the service member's role in representing the government's interest. A fully electronic signature system that complies with GAO guidance<sup>31</sup> is another option for management consideration from a cost-benefit standpoint.

As with any control procedure, effectiveness is dependent upon many factors, including whether the control activity is directly related to the control objective, how the control is applied, including the frequency with which it is applied and the proficiency of the personnel who apply the control, the reasonableness and relevance of the criteria used, and actions taken when an exception is identified, including follow-up. Therefore, monitoring of these procedures is needed to verify that they properly address the related risks, particularly related to the validity of the underlying transactions.

As discussed earlier, the changes to transportation billing and payment proposed under Families First Phase I and the use of PowerTrack do not influence one way or the other the need for effective internal controls. In fact, GAO and Inspectors General audits of another bank sponsored electronic billing and payment system, the government-wide purchase card program, have found many instances of improper and fraudulent payments.<sup>32</sup> While new technologies and reengineered business processes may change how accountable officials operate, their basic responsibilities and accountabilities remain unaltered. Consequently, these officials must have valid and documented assurances that the systems and key controls on which they rely for authorizing payments are working as intended and remain intact and effective over time.

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<sup>30</sup>48 C.F.R. §13.402(f)(2004).

<sup>31</sup>*Streamlining the Payment Process While Maintaining Effective Internal Control*, GAO/AIMD-21.3.2 (Washington, D.C.: May 2000).

<sup>32</sup>*Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars*, GAO-04-71T (Washington, D.C.: April 28, 2004).

In this regard, the Federal Managers' Financial Integrity Act of 1982<sup>33</sup> (FMFIA) requires all executive branch agencies to periodically assess their systems of internal control using the assessment guidance issued by the OMB.<sup>34</sup> Title VII also provides that FMFIA reviews be designed, executed, and reported in ways that show that payment processing controls are reliable. As part of DOD's required internal control review under FMFIA, special emphasis could be given to testing controls of the Families First Phase I process, in order to help ensure effective implementation.

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The contents of this report were discussed with Mr. George Thomas, Jr. of your staff. We hope our comments are responsive. If you have any questions, or would like to discuss these matters further, please contact me at (202) 512-6906 or Mary Arnold Mohiyuddin, Assistant Director, at (202) 512-3087. This report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

Sincerely yours,



McCoy Williams  
Director, Financial Management  
and Assurance

(195035)

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<sup>33</sup>31 U.S.C. 3512 (c), (d), commonly referred to as FMFIA.

<sup>34</sup>OMB Circular A-123, *Management's Responsibility for Internal Control*, was revised on December 21, 2004, and this revised version is effective for fiscal year 2006.