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Acronyms

ID	Infantry Division
MSC	Military Sealift Command
NTC	National Training Center
OSD	Office of the Secretary of Defense
SDDC	Surface Deployment and Distribution Command
USTRANSCOM	United States Transportation Command



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

June 21, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND

SUBJECT: Report on United States Transportation Command Compliance With DoD
Policy on the Use of Commercial Sealift (Report No. D-2007-105)

We are providing this report for review and comment. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of comments received from the Deputy Under Secretary of Defense for Logistics and Materiel Readiness, we revised draft Recommendation 1. Therefore, we request additional comments on Recommendation 1. from the United States Transportation Command (USTRANSCOM) by July 23, 2007. Management comments on Recommendation 2. were responsive, and no further comments are required.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audacm@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network.

Objectives. We initiated this audit in response to allegations made to the Defense Hotline. The overall objective of the audit was to determine whether USTRANSCOM was complying with DoD policies in the use of commercial transport during wartime and whether those policies provide optimal and cost-effective logistics to the warfighter. Specifically, we reviewed allegations regarding USTRANSCOM use of commercial sealift services to transport equipment for the 25th Infantry Division (ID) in support of a training exercise at the National Training Center (NTC), Fort Irwin, California. See Attachment A for a discussion of the scope and methodology.

Background. USTRANSCOM provides transportation, sustainment, and distribution to our nation's warfighters. The command has the authority to establish a contracting activity to procure commercial transportation services.

Our review focused on two USTRANSCOM component commands: the Navy Military Sealift Command (MSC), Washington, D.C.; and the Army Surface Deployment and Distribution Command (SDDC), Alexandria, Virginia. MSC and SDDC use commercial and Government-owned ships to provide global transportation for troops and equipment.

In preparation for their deployment to Iraq, the 25th ID Schofield Barracks, Hawaii, scheduled training at NTC, Fort Irwin, California. The training was scheduled to take place from April 24 through May 24, 2006. The 25th ID deployment consisted of two brigades with more than 1,700 pieces of equipment requiring more than 240,000 square feet of vessel space. To facilitate the transfer of equipment to NTC, the

25th ID planned to move the equipment by using a Government-owned vessel. However, USTRANSCOM determined that commercial sealift transportation was available and could meet the cargo requirements and timelines outlined by the 25th ID.

Sealift Transportation Criteria. National Security Directive 28, “National Security Directive on Sealift,” October 5, 1989, and DoD Directive 4500.9E, “Transportation and Traffic Management,” February 12, 2005, provide guidance on sealift transportation. Both require DoD to use the commercial sector for sealift transportation to the maximum extent practicable when the commercial sector can meet DoD operational requirements.

The Office of the Secretary of Defense (OSD) “Interim Guidance for Implementation of Sealift Policy,”¹ February 10, 2006, and the Commander, USTRANSCOM memorandum, “Vessel Selection Process,” February 10, 2006,² also require DoD to use commercial sealift transportation resources whenever practicable. However, both the OSD interim guidance and the USTRANSCOM memorandum require personnel to evaluate all sealift options and use either a cost analysis or business case analysis when multiple sealift options exist. According to the Office of the Assistant Deputy Under Secretary of Defense (Transportation Policy), OSD issued the DoD interim guidance to clarify the use of activated Government-owned and chartered vessels pending a revision to DoD Instruction 4500.dd, “Transportation and Traffic Management Procedures.”

Review of Internal Controls. We identified an internal control weakness as defined by DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006. Specifically, the USTRANSCOM surface business model is not consistent with the OSD interim guidance and the USTRANSCOM memorandum. Implementing the recommendations contained in this report will correct the internal control weakness we identified.

Audit Results. Two of the three Defense Hotline allegations were unsubstantiated, and one was partially substantiated. In addition, we found that the USTRANSCOM surface business model is not consistent with OSD interim guidance and the USTRANSCOM memorandum on the use of commercial transportation.

Allegation 1. USTRANSCOM directed the use of a commercial vessel rather than a more cost-effective Government vessel in support of the 25th ID training exercise at NTC, Fort Irwin, California. As a result, USTRANSCOM spent \$6 million more than necessary.

Results. The allegation was not substantiated. The USTRANSCOM surface business model promotes the use of commercial sealift in accordance with DoD policy. USTRANSCOM personnel followed that model and selected a commercial carrier when

¹ The OSD “Interim Guidance for Implementation of Sealift Policy” was previously incorporated into DoD Directive 4500.9E. The OSD interim guidance was current as of the date of this review. The Office of the Assistant Deputy Under Secretary of Defense (Transportation Policy) intends to incorporate the language of the OSD Interim Guidance into a DoD Instruction by the end of 2007.

² On May 7, 2007 the Commander, USTRANSCOM rescinded the memorandum, “Vessel Selection Process,” February 10, 2006, and stated that future command guidance would be published in a USTRANSCOM policy directive scheduled for release later this year.

they determined that a commercial option could accommodate the 25th ID deployment to NTC. Therefore, they did not consider a Government-owned vessel.

According to the 25th ID Chief of Transportation, MSC officials stated that a Government-owned vessel was available and could accommodate the deployment. However, neither the 25th ID Chief of Transportation nor MSC officials could provide us with specific documentation, such as vessel name, hull number, or port location, to confirm that an activated Government-owned vessel was available to accommodate the deployment.

Because we found no evidence to support the availability of an activated Government-owned vessel, we could not substantiate that the use of a commercial vessel resulted in the overexpenditure of \$6 million. However, USTRANSCOM provided documentation showing that the cost to deploy the 25th ID from Hawaii to NTC via a commercial vessel was \$6.7 million. Their cost to return to Hawaii using a Government-owned vessel totaled \$3.5 million. Therefore, if a Government-owned vessel had been available for the deployment, the estimated cost avoidance could have been around \$3.2 million.

Allegation 2. The use of a commercial vessel prevented the brigade from accomplishing some of its mission-essential tasks and eliminated potential opportunities for the warfighter to train for deployment.

Results. The allegation was partially substantiated. Use of a commercial vessel resulted in arrival delays for three 25th ID CH-47 helicopters to NTC. To accommodate the commercial vessel that transported the CH-47 helicopters, 25th ID personnel had to break down the CH-47 helicopters to airlift configuration. Due to problems personnel experienced during the rebuild, three of the four CH-47 helicopters arrived late to NTC and did not meet the training exercise start date of April 24, 2006. In addition, the fourth CH-47 helicopter remained at the port of arrival due to mechanical problems and was not available for the NTC training exercise. As a result, Combat Aviation Brigade personnel responsible for rebuilding and testing the CH-47 helicopters did not participate in either some or all of the training exercises at NTC.

Nevertheless, training officials from the NTC and the 25th ID stated that the Division successfully met all its training goals and objectives. According to the 25th ID and NTC training officials, using commercial sealift to transport the unit to NTC did not adversely affect their training exercise. The 25th ID used five commercial vessels for the deployment to NTC, and all the vessels arrived in sufficient time for the training exercise.

Allegation 3. USTRANSCOM has directed the use of commercial vessels in similar situations and on a regular basis. Specifically, the former USTRANSCOM Deputy Commander unilaterally decided which type of transport to use.

Results. The allegation was not substantiated. We found no evidence that the former USTRANSCOM Deputy Commander was unilaterally directing the use of certain carriers or which type of transport to use. Because the USTRANSCOM surface business model promotes the use of commercial vessels as the first method of sealift transportation, commercial carriers receive priority over Government-owned vessels. As discussed in the next section of this report, we believe aligning the USTRANSCOM surface business model with their memorandum will help ensure USTRANSCOM examines all viable sealift options.

USTRANSCOM Surface Business Model for Selecting Vessels. The USTRANSCOM surface business model for selecting vessels is inconsistent with both OSD interim guidance and USTRANSCOM policy. The model does not require personnel to consider the use of activated Government-owned and chartered commercial vessels before selecting other commercial sealift options. The surface business model ensures that personnel solicit commercial industry first for commercial liner services,³ then for charter service⁴ (see Attachment B). USTRANSCOM uses Government-owned or chartered commercial vessels only after personnel determine that commercial liner service carriers are unable to meet requirements or are not economical. Further, the model does not require a business case analysis or a cost analysis when multiple sealift options exist. Making the surface business model consistent with OSD and USTRANSCOM policy will help ensure that USTRANSCOM personnel consider activated Government-owned and Government-chartered vessels before considering other sealift options .

Conclusion. We did not substantiate two allegations, and partially substantiated one allegation. However, we did find that the USTRANSCOM surface business model is inconsistent with OSD and USTRANSCOM policies. Adjusting the current business model and requiring a documented analysis of each transportation decision will help ensure the efficient use of activated Government vessels, chartered service, and commercial liner service, and it will provide the optimum sealift option to the warfighter.

Management Comments on the Finding and Audit Response

USTRANSCOM Comments on Internal Controls. The Chief of Staff, USTRANSCOM, provided comments on behalf of the Commander, USTRANSCOM. He stated that USTRANSCOM vessel selection process was consistent and in compliance with OSD guidance on the use of commercial transportation during planning for the 25th ID movement. The Chief of Staff also stated that the use of a commercial vessel was a conscious decision involving the need to demonstrate whether commercial partners could execute a time-sensitive move of one of three new United States Pacific Command striker brigades.

Audit Response. Based on USTRANSCOM comments, we revised the internal control discussion to note the surface business model used for vessel selection is inconsistent with the February 10, 2006, OSD interim guidance and the USTRANSCOM memorandum. The current USTRANSCOM surface business model does not require planners to consider the use of an activated Government-owned vessel before selecting a commercial vessel. Thus, it is inconsistent with the OSD guidance, which requires a cost analysis when multiple shipping options exist. As stated in results to Allegation 1, we could not determine whether a Government-owned vessel was available to accommodate the 25th ID deployment. Therefore, we could not determine whether USTRANSCOM complied with OSD guidance on the use of commercial transportation.

³ Commercial liner service is carrier service that operates on a fixed route calling on the same ports on a regular basis.

⁴ Charter service calls on ports directed by MSC.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we revised Recommendation 1. We added the requirement for USTRANSCOM personnel to include an evaluation of Government-chartered vessels before considering other sealift options.

We recommend the Commander, United States Transportation Command:

1. Revise the surface business model to be consistent with the Office of the Secretary of Defense “Interim Guidance for Implementation of Sealift Policy,” February 10, 2006, requiring United States Transportation Command personnel to evaluate all activated Government-owned vessels and Government-chartered vessels before considering other sealift options.

United States Transportation Command Comments. The Chief of Staff, USTRANSCOM concurred with the recommendation to evaluate all activated Government-owned vessels before considering other sealift options. He stated they were developing a new vessel selection policy directive that will supersede the current surface business model planning tool.

Office of the Under Secretary of Defense Acquisition Technology, and Logistics Comments. Although not required to comment, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness concurred with comment, stating that Recommendation 1. should also require the United States Transportation Command to include an evaluation of Government-chartered commercial vessels before considering other sealift options.

Audit Response. We revised the recommendation based on the comments received from the Deputy Under Secretary of Defense for Logistics and Materiel Readiness. We request the Commander, USTRANSCOM provide comments on the revised recommendation.

2. Develop policies and procedures requiring documentation to support the sealift options considered and the justification for the final vessel selection.

United States Transportation Command Comments. The Chief of Staff, USTRANSCOM concurred with the recommendation. He stated USTRANSCOM is developing a “Vessel Selection Policy” directive projected for publication in June 2007. The directive will contain a vessel selection procedures annex. The directive and annex will prescribe detailed procedures for documentation and subsequent justification in support of vessel selection decisions.

Audit Response. The Chief of Staff, USTRANSCOM comments are fully responsive.

See Attachment D and E of the report for the complete text of Management Comments.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Susan J. Lippolis at (703) 604-9081 (DSN 664-9081) or Mr. Marc E. Avers at (703) 604-9064 (DSN 664-9064). See Attachment C for the report distribution. The team members are listed on the inside of the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Richard B. Jolliffe". The signature is fluid and cursive, with the first name being the most prominent.

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management

Attachment A. Scope and Methodology

We conducted this performance audit from August 2006 through April 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed audit work to examine allegations made to the Defense Hotline. To answer the specific hotline allegations and audit objectives, we reviewed the following documentation and information dated from October 2005 through September 2006:

- vessel selection documents including the USTRANSCOM Surface Business Model; Sealift Program Ship Schedule as of November 29, 2006; and the Cargo Manifest documents dated April 24, 2006, through August 30, 2006;
- 25th ID sealift cost documentation including Government bills of lading dated April 24, 2006, through August 30, 2006; 25th ID billing documentation dated May 25, 2006, through July 17, 2006; and cost data obtained from USTRANSCOM as of September 27, 2006;
- 25th ID training requirement documents including the NTC 06-06 Transportation Milestones, October 2, 2005; NTC Rotation 06-06 Mission Letter and Troop List, November 17, 2005; Mission Letter for NTC Rotation 06-06, December 21, 2005; and NTC Timeline, March 15, 2006; and
- correspondence related to the 25th ID deployment dated March 16, 2006, through September 21, 2006.

We also contacted the staffs of the Office of the Under Secretary of Defense for Transportation Policy, USTRANSCOM, MSC, SDDC, and NTC. We contacted those staffs, as applicable, to:

- evaluate policies and guidance used by transportation officials for commercial sealift,
- review the vessel selection process,
- evaluate available sealift options for the 25th ID deployment,
- evaluate costs incurred for 25th ID deployment,
- compare the cost of using a commercial vessel with the cost of using Government-owned vessels,

-
- review planning documents to determine the required date equipment was to be delivered to NTC and,
 - evaluate shipping documents to determine whether equipment was delayed in arrival to NTC.

Limitation. Because of time constraints, we did not review the adequacy of contracting practices as they relate to the award and administration of commercial contracts issued by USTRANSCOM. However, this did not impair our review of the Defense Hotline allegations.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

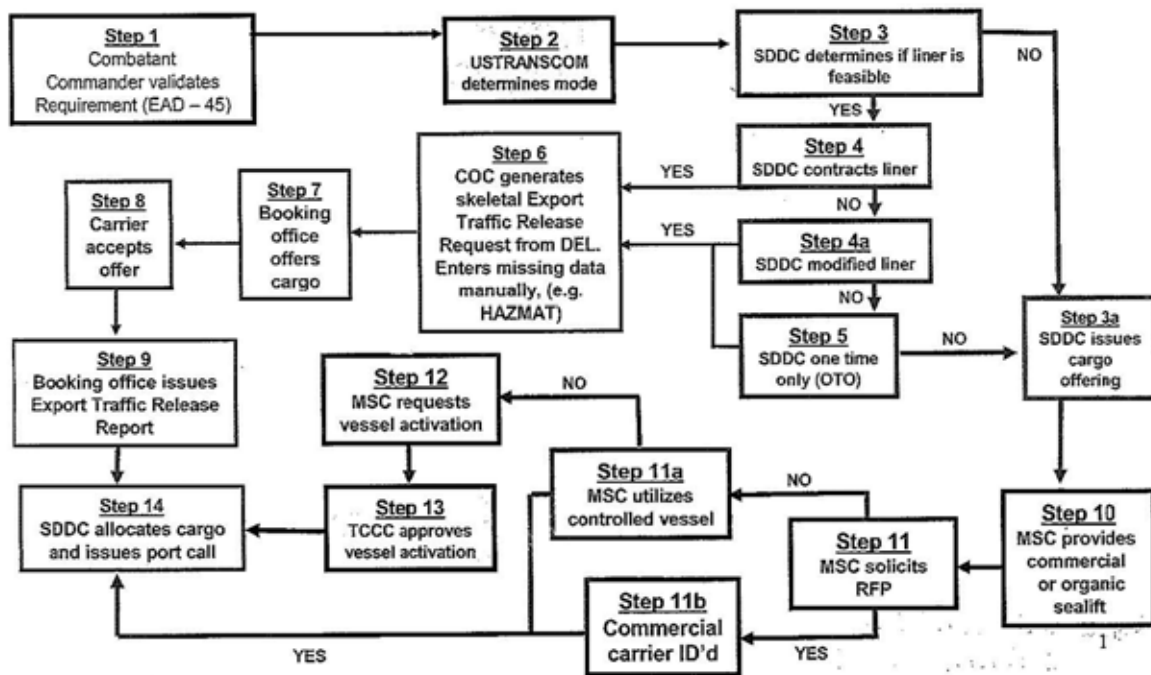
Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of DoD Support Infrastructure Management.

Prior Coverage

No prior coverage has been conducted on the subject during the last 5 years.

Attachment B. USTRANSCOM Surface Business Model

Surface Business Model



Acronyms

COC	Command Operations Center
DEL	Deployment Equipment List
HAZMAT	Hazardous Material
MSC	Military Sealift Command
OTO	One Time Only
SDDC	Surface Deployment and Distribution Command
RFP	Request For Proposal
TCCC	Commander, United States Transportation Command
USTRANSCOM	United States Transportation Command

Attachment C. Report Distribution

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Deputy Comptroller (Program/Budget)
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Auditor General, Department of the Army
Commander, National Training Center
Commander, 25th Infantry Division

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Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform

House Subcommittee on National Security and Foreign Affairs,
Committee on Government Reform

Attachment D. United States Transportation Command Comments

Final Report
Reference



UNITED STATES TRANSPORTATION COMMAND
506 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

11 May 07

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

FROM: TCCS

SUBJECT: Feedback to DoD IG Report on U. S. Transportation Command Compliance With DoD Policy on the Use of Commercial Sealift (Project No. D2006-D000AB-0236)

1. This memorandum is in response to your April 26, 2007 draft audit report, and request for review and comment to the report finding and recommendations.

2. The following feedback is provided to the report findings and recommendations.

a. DoD IG Draft Report Finding (Review of Internal Controls). The USTRANSCOM vessel selection process is not consistent with the OSD interim guidance and the USTRANSCOM [Vessel Selection Process] memorandum.

RESPONSE: NON-CONCUR. The USTRANSCOM vessel selection process was consistent with OSD guidance on the use of commercial transportation during planning for the 25th ID movement. Use of commercial capability was a conscious decision involving the need to demonstrate whether commercial partners could in fact execute a time sensitive move of one of three new PACOM Striker Brigades. USTRANSCOM is in full compliance with current OSD/DOD national sealift policy directives.

b. DoD IG Draft Report Recommendation 1: Commander, United States Transportation Command revise the surface business model to be consistent with the Office of the Secretary of Defense "Interim Guidance for Implementation of Sealift Policy," February 10, 2006, requiring USTRANSCOM personnel to evaluate all activated Government-owned vessels before considering other sealift options.

RESPONSE: CONCUR. USTRANSCOM is developing a new vessel selection Policy Directive which will supersede the current Surface Business Model planning tool.

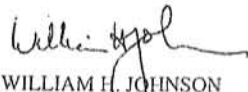
c. DoD IG Draft Report Recommendation 2: Commander, United States Transportation Command develop policies and procedures requiring documentation to support the sealift options considered and the justification for the final vessel selection.

RESPONSE: CONCUR. USTRANSCOM is developing a Policy Directive (PD) titled "Vessel Selection Policy" that will contain a vessel selection procedures annex. This PD and annex will prescribe detailed procedures for documentation and subsequent justification in support of vessel selection decisions. The projected publication date is June 2007.

Revised

Revised

3. USTRANSCOM point of contact is CAPT Bradley A. Carpenter, TCIG, DSN 779-1781,
Commercial (618) 229-1781.


WILLIAM F. JOHNSON
Major General, U.S. Army
Chief of Staff

cc:
TCDC
TCCS
TCJ3
TCJ5/4
TCJ8
TCAQ
TCJA

Attachment E. Deputy Under Secretary of Defense for Logistics and Materiel Readiness Comments

Final Report
Reference



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

MAY 25 2007

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND
CONTRACT MANAGEMENT, DODIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *ms 5/29/07*

SUBJECT: Report on U.S. Transportation Command Compliance With DoD Policy on
the Use of Commercial Sealift (Project No. D2006-D000AB-0236.000)

As requested, we have reviewed the subject draft report and concur with comment. Recommendation one should be revised in accordance with the February 10, 2006, Interim Guidance for the Implementation of Sealift Policy, to include Government chartered commercial vessels. Suggest the recommendation be changed to, "Revise the surface business model to be consistent with the Office of the Secretary of Defense 'Interim Guidance for Implementation of Sealift Policy,' February 10, 2006, requiring USTRANSCOM personnel to evaluate all activated Government-owned vessels and Government chartered commercial vessels before considering other sealift options."

Revised

We appreciate the opportunity to review the subject draft report. For further information, please contact Mr. Adam Yearwood of my Transportation Policy staff, 703-601-4461, extension 102, or adam.yearwood@osd.mil.

Earl S. Bergantony
for Jack Bell *ADUSD
(Transportation
Policy)*



Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Acquisition and Contract Management prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Zorayma Alvarez Torres
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