

Audit of NARA's Movement of Freight

OIG Audit Report No. 11-01

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EXECUTIVE SUMMARY

The National Archives and Records Administration (NARA) Office of Inspector General (OIG) completed a review of NARA's Movement of Freight Shipments. The review was initiated as a result of a fraud investigation performed by the OIG Office of Investigations. Specifically, in FY 2007, a Facilities and Personal Property Management Division (NAF) employee was indicted for theft of government property and conspiracy to embezzle \$958,280 from the United States. The employee was responsible for large transportation procurements and often circumvented NARA controls. The employee had authority to set up transportation service orders and approve invoices for payments. The employee commonly used the same vendors over and over. Management discarded other employee's complaints about this employee not following NARA controls.

The objective of the audit was to determine if controls are effective and efficient to ensure that NARA obtains the best value and most economical prices for the movement of freight.

Our review disclosed that NARA has taken several significant steps to improve controls since FY 2007. Controls over separation of duties were implemented. The person requesting freight shipments is not the same person setting up the transportation order in General Services Administration's Transportation Management Services System and is also different from the person authorized to approve freight invoices for payment. A NAF manager tracks all transportation transactions from inception through payment, reviews invoices after U.S. Transportation Consultants (USTC) audits the invoice and reviews transactions to ensure vendors are rotated.

NARA has been in the process of revising NARA 702, Freight and Shipping Services since June 2008. NARA is addressing concerns from program offices before implementing the policies and procedures. Included in the revised NARA 702 are policies to prevent government purchase cards from being used to pay for freight and shipping services. NAF is working with the Financial Services Division to monitor government purchase card use for freight and shipping services. Also included in the revised NARA 702 is a policy to conduct performance reviews and quality inspections of services provided.

The results of our testing indicate the separation of controls over requesting freight and shipping services, setting up the obligation and approving payment are working effectively. The transactions tested were appropriately pre-audited by USTC before payment and reported to GSA in the required quarterly reports. However, we could not come to the same conclusion in our test work in determining whether NAF selected the Transportation Service Provider (TSP) that provided the best value to the government. NAF is working to track reasons why TSP's with a lower price were not selected.

Since the investigation, NAF has implemented stronger controls over freight and shipping. We believe NARA is on the right track in continuing to improve controls over transportation services.

We made 3 recommendations which, when implemented by management, will assist the agency in enhancing controls in freight management.

BACKGROUND

In FY 2007 a NAF employee was indicted for theft of government property and conspiracy to embezzle \$958,280 from the United States. The person was responsible for large transportation procurements and often circumvented National Archives and Records Administration (NARA) controls. The person had authority to approve invoices for payments. The person commonly used the same vendors over and over. Management discarded other employee's complaints about this person not following NARA controls. As a result of this investigation we initiated an audit of freight shipments.

The Facilities and Personal Property Management Division (NAF) arranges for and oversees freight shipments for all NARA units. NAF responds to program requests for freight shipments and selects transportation service providers (TSPs) using General Services Administration's (GSA) Transportation Management Services Solution (TMSS). NARA has contracted with USTC to audit freight bills prior to payment.

GSA provides regulations on transportation management, acquiring transportation services and business rules to consider before shipping freight. GSA also provides regulations on transportation payment and audit to assure that payment and payment mechanisms for agency transportation services are uniform and appropriate. GSA offers freight transportation services for civilian agencies. NARA uses GSA's TMSS, an internet based system that provides:

- Comprehensive online freight and household goods transportation;
- First web based transportation system with an approved electronic bill of lading;
- Shipment booking online feature;
- Volume discounted negotiated government rates;
- Efficient transportation system that streamlines the transportation process; and
- Ease of use.

TMSS enables GSA customers to effectively and efficiently manage their transportation process. TMSS provides access to GSA's highly competitive transportation rates. GSA's Standard Tender of Services (STOS) establishes the rates, rules, and charges that transportation service providers must follow in conducting business with Federal civilian agencies. Use of GSA's STOS relieves Federal agencies of any need to (a) conduct extensive research and analysis of individual TSP tenders and tariffs to determine the most favorable charges, and (b) create, for an individual agency's/location's use, a set of rates, rules and charges for transportation services.

OBJECTIVES, SCOPE, METHODOLOGY

The objective is to determine if controls are effective and efficient to ensure that NARA obtains the best value and most economical prices for the movement of freight. To accomplish our objective we:

- Reviewed relevant laws, regulations, contracts, and NARA guidance pertaining to the freight shipments;
- Held discussions with NARA staff to obtain an understanding of the freight shipment functions and controls;
- Reviewed pertinent documentation related to selected transactions to test the effectiveness of controls. For example, we reviewed the NARA log, related bills of lading, vouchers and invoices and invoice approval forms for a sample of freight shipments made between December 2008 and August 2009;
- Reviewed credit card data to determine if cardholders are paying for freight shipments using credit cards;
- Reviewed NARA's prepayment plan to ensure compliance with GSA regulations; and
- Employed judgmental sampling.

The review was conducted at Archives II in College Park, MD and encompassed all NARA programs. Our audit was performed from August 19, 2009 through August 11, 2010 and was conducted in accordance with generally accepted government auditing standards. This audit was delayed at times due to other priorities. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

1. Current Policies and Procedures Have Not Been Implemented

Written policies and procedures have not been implemented since the investigation of an NAF employee related to transportation transactions. NARA has been in the process of writing NARA 702, Freight and Shipping Services since June 2008. NARA has not implemented these procedures because the policies are still being vetted through NARA management. Policy and Planning Staff (NPOL) and NAF are working on addressing concerns from Office of Presidential Libraries (NL), Office of Records Services – Washington, DC (NW) and Office of Regional Records Services (NR) before implementing the policies and procedures. Internal controls need to be clearly documented and readily available in the form of management directives, administrative policies or operating manuals. The policies and procedures are not effective when they are only in draft form. NAF acknowledged many employees are using the draft guidance however, in our opinion without approved policies and procedures employees have no basis for consistent processing of transportation services and management has no means to effectively monitor activity.

Included in the draft NARA 702 are policies to prevent government purchases cards from being used to pay for freight and shipping services. However we found 10 instances between November 2008 and May 2010 where transportation services were paid for by a government credit card. As a result these 10 transactions were not controlled by NAF, were prepaid and not audited by a third party before payment. NAF is working with Financial Services Division (NAB) on developing a process to monitor government purchase card use for freight and shipping services. NAF acknowledge these purchase card transaction and stated because the policies were not implemented the policies could not be enforced.

Also included in the draft NARA 702 is a policy to conduct performance reviews and quality inspections of services provided. However, specific standard operating procedures on NAF reviews and quality inspections have not been developed. NAF officials stated that these will be developed when the policies and procedures become effective.

Government Accountability Office (GAO) Standards of Internal Control require internal controls to be clearly documented and readily available in the form of management directives, administrative policies or operating manuals. GSA's regulations, Federal Management Regulation, subchapter D-Transportation, Part 102-117 and Part 102-118 provides guidance on transportation management which is agency oversight of the physical movement of commodities and other freight from one location to another by a transportation service provider and establishes requirements for audits of agency transportation bills. Without current policies and procedures employees have no basis for consistent processing of transportation services and management has no effective means to monitor activity.

Recommendation 1

The Archivist should direct NPOL and NA to coordinate efforts to implement NARA 702, Freight and Shipping Services policies and procedures.

Management Response(s)

“We concur with all three recommendations as stated and will create a detailed action plan stating how we will satisfy them.”

Recommendation 2

The Assistant Archivist of Administration should direct NAF to draft standard Operating Procedures (SOPs) to conduct performance reviews and quality inspections of services provided. NAF SOPs should include procedures for tracking performance metrics and procedures for putting TSPs in temporary nonuse, suspension or debarment for unsatisfactory performance as described in Part 102-117 - Transportation Management.

Management Response(s)

“We concur with all three recommendations as stated and will create a detailed action plan stating how we will satisfy them.”

2. Results of Tests of Controls – NARA is Unable to Demonstrate They are Selecting TSPs That Provide the Overall Best Value

Our review found NARA has taken several steps to improve controls since the investigation of a NAF employee. Controls over separation of duties were implemented. However, we could not come to the same conclusion in our test work in determining whether NAF selected the Transportation Service Provider that provided the best value to the government. GSA requires agencies to use the mode or individual transportation service provider that provides the overall best value to the agency. In addition, agencies must consider cost and demonstrate no preferential treatment to any TSP when arranging for transportation. There was no justification for instances when TSPs with a lower cost were not selected. NAF staff often selects TSP's with proven satisfactory services but this factor is not mutually exclusive as NARA should still consider other business rules in selecting a TSP that provides the overall best value to the agency. See Appendix I for business rules to be considered.

Controls over separation of duties were implemented. The person requesting freight shipments in not the same person setting up the transportation order in GSA's Transportation Management Services System and is also different from the person authorized to approve freight invoices for payment. A NAF manager tracks all transportation transactions from inception through payment, reviews invoices after USTC audits the invoice, and reviews transactions to ensure vendors are spread out.

We reviewed 13 transportation transactions. The results of our testing indicate the separation of controls over requesting freight and shipping services, setting up the obligation and approving payment are working effectively. The transactions tested were appropriately pre-audited by USTC before payment and report to GSA in the required quarterly reports. However, based on the evidence available the auditor was unable to determine if the TSP selected, provided the best value to the government. Individually, preferential treatment appears to exist to those TSP's with a proven past performance without consideration to other factors. For example, there was no justification for instances when TSPs with a lower cost were not selected.

NAF is starting to track reasons why TSP's decline providing the transportation service. NAF indicated some lower priced TSP's often decline providing the service because:

- TSPs do not have trucks available or trucks are not working in the required areas at the time.
- TSPs ask for more money than estimated in GSA's TMSS.

NAF is starting to track these reasons to share this information with GSA.

GSA's regulations, Federal Management Regulation, subchapter D-Transportation, Part 102-117.100 requires agencies to use the mode or individual transportation service provider that provides the overall best value to the agency based on satisfactory services factors (i.e. availability, estimated time in transit, past performance). In addition, agencies must consider cost and demonstrate no preferential treatment to any TSP when arranging for transportation. See Appendix I for business rules to be considered.

Since the investigation, NAF has implemented stronger controls over freight and shipping. We believe NARA is on the right track in continuing to improve controls over transportation services. However, NAF staff often selects TSP's with proven satisfactory services but this factor is not mutually exclusive as NARA should still consider other business rules in selecting a TSP that provides the overall best value to the agency.

Recommendation 3

The Assistant Archivist of Administration should direct NAF to document reasons TSP's selected provide the government the best value. NAF should document reasons TSP's with a lower cost of the TSP selected were not selected. These reasons should be based on business rules identified by GSA.

Management Response(s)

“We concur with all three recommendations as stated and will create a detailed action plan stating how we will satisfy them.”

APPENDIX I

Federal Management Regulations

Part 102-117—Transportation Management

Subpart C—Business Rules to Consider Before Shipping Freight or Household Goods

§102-117.100—What business rules must I consider before acquiring transportation or related services?

When acquiring transportation or related services you must:

- (a) Use the mode or individual transportation service provider (TSP) that provides the overall best value to the agency. For more information, see §§102-117.105 through 102-117.130;
- (b) Demonstrate no preferential treatment to any TSP when arranging for transportation services except on international shipments. Preference on international shipments must be given to United States registered commercial vessels and aircraft;
- (c) Ensure that small businesses receive equal opportunity to compete for all business they can perform to the maximum extent possible, consistent with the agency's interest (see 48 CFR part 19);
- (d) Encourage minority-owned businesses and women-owned businesses, to compete for all business they can perform to the maximum extent possible, consistent with the agency's interest (see 48 CFR part 19);
- (e) Review the need for insurance. Generally, the Government is self-insured; however, there are instances when the Government will purchase insurance coverage for Government property. An example may be cargo insurance for international air cargo shipments to cover losses over those allowed under the International Air Transport Association (IATA) or for ocean freight shipments; and
- (f) Consider the added requirements on international transportation found in [subpart D](#) of this part.

§102-117.105—What does best value mean when routing a shipment?

Best value to your agency when routing a shipment means using the mode or individual TSP providing the best combination of satisfactory service factors.

§102-117.110—What is satisfactory service?

You should consider the following factors in assessing whether a TSP offers satisfactory service:

- (a) Availability and suitability of the TSP's equipment;
- (b) Adequacy of shipping and receiving facilities at origin and destination;
- (c) Adequacy of pickup and/or delivery service;
- (d) Availability of accessorial and special services;
- (e) Estimated time in transit;
- (f) Record of past performance of the TSP including accuracy of billing;
- (g) Capability of warehouse equipment and storage space; and
- (h) Experience of company, management, and personnel to perform the requirements.

§102-117.115—How do I calculate total delivery costs?

You calculate total delivery costs for a shipment by considering all costs related to the shipping or receiving process, such as packing, blocking, bracing, drayage, loading and unloading, and transporting.

§102-117.120—To what extent must I equally distribute orders for transportation and related services among TSPs?

You must assure that small businesses, socially or economically disadvantaged and women-owned TSPs have equal opportunity to provide the transportation or related services.

§102-117.125—How detailed must I describe property for shipment when communicating to a TSP?

You must describe property in enough detail for the TSP to determine the type of equipment or any special precautions necessary to move the shipment. Details might include weight, volume, measurements, routing, hazardous cargo, or special handling designations.

§102-117.130—Must I select TSPs who use alternative fuels?

No, but, whenever possible, you are encouraged to select TSPs that use alternative fuel vehicles and equipment, under policy in the Clean Air Act Amendments of 1990 (42 U.S.C. 7612) or the Energy Policy Act of 1992 (42 U.S.C. 13212).

APPENDIX II

Acronyms and Abbreviations

GAO	Government Accountability Office
GSA	General Services Administration
NAB	NARA's Financial Services Division
NAF	NARA's Facilities and personal Property Management Division
NARA	National Archives and Records Administration
NL	NARA's Office of Presidential Libraries
NPOL	NARA's Policy and Planning Staff
NR	NARA's Office of Records Services – Washington D.C.
NW	NARA's Office of Regional Records Services
OIG	Office of Inspector General
STOS	Standard Tender of Service
TMSS	Transportation Management Services System
TSP	Transportation Service Provider
USTC	Unites States Transportation Consultants

APPENDIX III

Management's Response to the Draft Report



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date: **OCT 26 2010**

To: Paul Brachfeld, Inspector General

From: David S. Ferriero, Archivist of the United States

Subject: Comments on OIG Report 11-01, Audit of NARA's Movement of Freight Shipments

Thank you for the opportunity to review this draft report. We appreciate the efforts of all OIG and NARA staff involved.

We concur with all three recommendations as stated and will create a detailed action plan stating how we will satisfy them.

If you have questions about this action plan or the documentation provided via email, please contact Mary Drak at 301-837-1668 or by email at mary.drak@nara.gov.

David S. Ferriero
Archivist of the United States

NARA's web site is <http://www.archives.gov>