# U.S. DEPARTMENT OF COMMERCE
## Office of Inspector General

# U.S. CENSUS BUREAU

# Census Bureau's National Processing Center Needs to Improve Controls Over Government Bills of Lading

*Final Audit Report No. ESD-14911-3-0001/September 2003*

**PUBLIC RELEASE**

*Office of Audits Business and Trade Division*

**UNITED STATES DEPARTMENT OF COMMERCE**
**The Inspector General**
Washington, D.C. 20230

SEP 30 2003

MEMORANDUM TO: Charles Louis Kincannon
Director of Census Bureau

FROM: Johnnie E. Frazier

SUBJECT: *Census Bureau's National Processing Center Needs to Improve Controls over Government Bills of Lading*
Final Audit Report No. ESD-14911-3-0001

This is our final report on government bills of lading (GBLs) issued for airfreight services by the Census' National Processing Center (NPC) during Census 2000. This audit began in response to information forwarded to our office by the General Services Administration (GSA) concerning possible overbilling by two airfreight carriers. GSA is congressionally mandated to conduct post–payment audits of all government transportation bills. GSA was reviewing the GBLs for both carriers and believed it was finding substantial overcharges. However, both carriers protested the overcharges stating that the Census Bureau had authorized the additional services even though such authorizations were not specified on the GBLs. GSA stopped the post-payment audit for both carriers and requested that our office look into the matter. Thus, we sought to determine whether the carriers overbilled the government for services rendered and whether Census could have procured less-costly airfreight services.

We found that NPC did not follow federal transportation management regulations for acquiring airfreight services, which totaled more than $11 million over an 11-month period. In addition, the center did not independently estimate the cost of shipments authorized by each GBL or thoroughly audit the final charges on them, and therefore cannot be certain that it paid only for services provided. We also found that a shipping department clerk, with no contracting authority, negotiated rates and signed agreements with airfreight carriers. Finally, we found instances where both carriers had over-charged the Census Bureau for services provided. We briefed GSA on our audit findings, and GSA agreed to resume the post-payment audit. GSA informed us that it has billed the carriers for over $2 million since our office referred the matter to GSA. Our recommendations appear on page 6. In responding to our draft report, the Bureau agreed with the recommendations and described actions already taken, or planned to address the recommendations. The Bureau's response in its entirety is attached as Appendix A.

## Introduction

The 2000 decennial census was conducted in the United States, Puerto Rico, and U.S. territories as of April 1, 2000. In preparation for the decennial, the bureau opened 12 regional census centers and 520 local census offices. The regional centers managed the local offices, recruited and trained personnel, and provided payroll and administrative support. The local offices performed field activities such as developing address lists and conducting door-to-door enumerations.

To complete the decennial accurately and on schedule, the field offices required sufficient quantities of various printed forms, supplies, and other materials. The bureau's National Processing Center in Jeffersonville, Indiana, was the primary distributor of those items. The center warehoused approximately 1,500 different decennial forms along with a variety of related supplies, which it packaged into 323 distinct types of kits that were shipped to the field offices for use in conducting census operations.

In decennials prior to 2000, NPC primarily shipped these materials via ground freight. However, because of unanticipated delays during Census 2000, NPC relied on airfreight companies to make the bulk of its deliveries to the local and regional offices. Each shipment was accompanied by a government bill of lading, completed by the center's shipping department and provided to the freight carrier. A government bill of lading is a shipping document that contains the material, weight, cost, date, and destination of the shipment.

## Objectives, Scope, and Methodology

On October 3, 2001, our office received a letter from the General Services Administration Audit Division concerning potential overcharges on shipments transported to Census 2000 local offices by two airfreight carriers. According to the letter, the carriers claimed that the Census Bureau had authorized services in addition to those contained on the government bills of lading, thus increasing the cost. Consequently, GSA asked our office to review the practices used to procure air transportation for shipments to the local census offices.

Our audit sought to determine whether the carriers overbilled the government for services rendered and whether Census could have procured less-costly airfreight services.

To meet our objective, we interviewed personnel from the airfreight carriers, GSA, NPC, and Census's Finance Division in Suitland, Maryland. We reviewed government bills of lading issued to the carriers as well as the pricing proposals the carriers submitted to Census and other relevant documents. We assessed NPC's compliance with 41 CFR Part 102-117 ("Transportation Management")[1] to determine whether the center had

[1] On July 21, 1999 GSA began updating, reorganizing, streamlining, and clarifying federal management regulations governing transportation management. At that time, regulations governing transportation management were located at 41 CFR Part 101. Those regulations were moved to 41 CFR Part 102-117, effective October 6, 2000.

followed federal requirements for procuring delivery services. We also evaluated the center's internal controls over GBL preparation and review to determine whether they were adequate for detecting billing inaccuracies. We did not assess the reliability of computer-generated data because it was not relevant to our audit objectives.

We conducted our audit from February to December 2002, in accordance with Government Auditing Standards issued by the Comptroller General of the United States and under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

## Findings

### NPC Did Not Follow Federal Regulations For Acquiring Airfreight Services

According to 41 CFR Part 102-117, agencies that wish to acquire transportation services may do so in one of four ways: (1) use the GSA tender of service, (2) use another agency's contract or rate tender with a transportation service provider, (3) contract directly with a transportation service provider in accordance with the Federal Acquisition Regulation, or (4) negotiate a rate tender under a Federal transportation procurement statute. However, the National Processing Center failed to follow the appropriate procedures for using any of these approved methods. NPC did not follow federal regulations for acquiring Census 2000 airfreight services because, according to NPC personnel, the center did not anticipate using these services often enough to warrant a GSA tender or negotiated contract.

Realizing that some airfreight service would be needed, the NPC shipping department requested price proposals from eight carriers. Only two of them delivered to all the bureau's locations—the 12 regional offices and the 520 local offices in the United States, Puerto Rico, and U.S. territories. NPC therefore decided to use these two.

However, unanticipated delays in assembling census kits required NPC to rely more heavily than it had anticipated on airfreight delivery[2]—and it ultimately spent more than $11 million on air transport for the 11-month period from November 1999 to September 2000. NPC personnel indicated that by the time they realized the volume of airfreight would be significant, it was too late in the decennial process to develop a scope of work, solicit proposals, and negotiate a competitively bid contract. In subsequent conversations with Bureau officials, they agreed that a contract should have been competitively bid. By not following federal regulations to competitively acquire services, the bureau has no assurance that it received the best service at the lowest cost.

[2] OIG report DEN-11950-0-0001, *Decennial Census Warehousing Operations Needed Attention* (issued July 2000), discusses the potential and actual adverse effects caused by the shortage of time to assemble kits, one of which was an increase in decennial costs.

## NPC Needs to Independently Estimate and Thoroughly Review Fees Listed on the GBL

The NPC shipping department did not have controls in place to ensure that the airfreight carriers were billing at the rates contained in their proposals: the center did not independently estimate the cost of shipments authorized on the GBLs against those rates, and it failed to detect in its review of the bills that a much higher rate than proposed was being used.

The GBL is a one-page document with eight carbon copies. NPC kept four of the carbon copies and the transport carriers were provided with the original and the remaining four carbon copies. Prior to transport, NPC completed the sections of the bill that described the shipment (e.g., items, weight, destination, date of pickup and delivery); the cost section was left blank. After the shipments were delivered, the carriers provided a facsimile cost estimate to the center and also completed the cost section of the GBL for billing purposes.

Although the carriers completed the cost section, GSA regulations also recommend that the agency that issued the GBL, estimate, on its copies, the transportation charges. However, NPC did not develop its own cost estimates, and instead used the estimates provided by the carriers to complete its copies of the GBLs. The center then forwarded a completed copy, with the carrier's cost estimate, to the bureau's Finance Division, where it was compared with a copy submitted for payment by the carrier. As long as the estimate on the center's copy was within 10 percent of the requested payment amount, the GBL was paid. If the difference was 10 percent or greater, the Finance Division reported the discrepancy to NPC for resolution before making payment.

Comparing the government's estimate to the bill submitted by the carrier prior to making payment is an effective internal control. However, when the carrier is the sole source of both the estimated and actual charges, the government has no objective, independent verification of the reasonableness of those charges. NPC personnel should have independently estimated the cost of all services listed in the GBL at the time of shipment. Without such an estimate, it has no way of determining whether the charges on the carrier's request for payment are appropriate.

We also found that NPC could not thoroughly review the GBL cost estimates provided by the carrier, because all the charges in the estimate were bundled into one composite total. Without a detailed breakdown, NPC had no way of knowing whether the proper shipping rates were being applied and whether additional fees were supportable. NPC explained that as long as the total estimated bill did not exceed $1.20 per pound, the amount was not questioned. We asked shipping department personnel how they arrived at the $1.20 threshold, and we were told that the $1.20 was set based on their "experience." However, based on the rates in the price proposals, which ranged from .45 cents to .90 cents, we believe that the $1.20 threshold was set too high and that too few GBLs would be questioned.

**Air Freight Carriers Overbilled for Services Provided**

NPC personnel told us that the price proposals were the only formal documentation between the carriers and the Census Bureau. NPC personnel stated that the carriers were expected to abide by the terms and rates in the proposals even though the proposals were not signed.

We compared the itemized charges on a sample of GBLs against the fees listed in the pricing proposals, and found that both carriers did not always adhere to the proposed rates. We contacted both carriers about the price proposals and the rates billed for services provided during Census 2000. One carrier explained that because they were located in close proximity to NPC, they were considered a local carrier and that they had negotiated a verbal agreement with NPC that they would adhere to the price proposal. The carrier stated that there was never a written signed agreement. In contrast to the carrier's claims that they billed according to the price proposal we did find much higher rates for some shipments in March 2000. According to the carrier, a one-day rate increase was verbally negotiated with NPC shipping personnel due to a last minute request for Saturday next- day service to some of the 520 offices. This one-day rate increase was significant, jumping from 64 cents per pound to $2.50 per pound. Although the carrier contends that the increase was for one day only, we found several instances where the carrier continued to charge $2.50 a pound throughout the month of March 2000. When we initially reported the overbilling to NPC, the center claimed it had no documentation to support any increase in the shipping fees and that the carriers should have used the proposed rates.

When we visited the second carrier, representatives produced three tender agreements between the carrier and Census, covering shipping rates and charges for the period April 1999 to May 2001, all signed by an NPC shipping clerk. Because we were originally told that there were no signed agreements between NPC and either carrier, we contacted NPC personnel and verified the signatures on the tender agreements. Shipping department personnel did not have the authority to accept special rate increases or negotiate and sign tender agreements. When we spoke to the contracting officer at NPC who was not involved in these procurements, she confirmed that only a contracting officer has the authority to sign the tender agreements and negotiate price increases.

We analyzed the rates in the tender agreements and found that they were significantly higher than those in the second carrier's pricing proposal. For example, the per pound proposal for next-day delivery of shipments weighing more than 1,000 pounds was 58 cents; in the tender agreement it was 80 cents—an increase of 38 percent—and jumped to 90 cents if delivery had to be made by noon.

Using the new rates in the signed tender agreements, we compared the new rates with the rates in the GBLs and still found that the second carrier was overbilling. Specifically, the carrier would bill for next day service by noon, but actually would not deliver until after noon or would provide second-day service.

**Questioned Costs and Actions Taken to Recover Overbilling**

We met with senior Census officials and explained that our review confirmed what the GSA Audit Division had suspected: both carriers had been overbilling the Census Bureau for transportation services. Therefore, we requested that GSA resume and complete its post-payment audit of the GBLs for both carriers. Based on their recently completed review of more than 5,000 GBLs issued for both carriers, overbillings are estimated at $2,045,304. GSA has already billed the two carriers for more than $2 million in excess charges.

**Recommendations**

The director, Bureau of the Census, should require the bureau to take these actions:

1. Follow federal regulations for acquiring airfreight services, to ensure that the bureau receives the best service at the lowest cost.

2. Direct the bureau to prepare its own cost estimates for services covered by each government bill of lading that the center issues.

3. Require future service providers to itemize all charges—both in their estimates and their final bills.

4. Ensure the National Processing Center audits future GBLs against a reasonable cost threshold that will reveal whether a carrier is overcharging for services.

5. Ensure that only authorized officials negotiate and sign contractual agreements.

**Bureau Response**

In responding to our draft report, the Bureau agreed with the above recommendations and described actions already taken, or planned to address the recommendations. Specifically, the Bureau agreed that controls need to be improved, and independent cost estimates for GBLs must be performed. As a result, the NPC is in the process of developing written procedures for the preparation of GBLs that will incorporate all of the provisions of the *U.S. Government Freight Transportation Handbook* and the regulations governing the use of GBLs that are published in Title 41, Code of Federal Regulations, Sections 102-118.

In addition, to assure that all future shipping service cost is fair, reasonable, and the best value to the government, the Bureau stated that NPC will take or has taken the following actions:

- meet with the Finance Division to discuss and determine the best approach for conducting GBL prepayment audits;

- require service providers to itemize all charges on the GBL;
- require the NPC shipping office personnel to develop a government estimate for all services identified on the GBL;
- establish reasonable cost thresholds on all GBLs to reveal carrier overcharges; and
- acquired a bulk air freight contract

Finally, the Bureau pointed out that late in 1999, and contrary to experiences in previous censuses, NPC began to receive urgent requests to expedite the delivery of office supplies and training materials to the RCCs and LCOs. The Bureau stated that NPC immediately, and repeatedly, sought overnight air freight solutions through the General Services Administration, but without success. Because of both operational needs and time constraints, NPC proceeded with direct acquisition of air freight delivery services. The Bureau's response in its entirety is attached as Appendix A.

**OIG Comments**

We commend the Bureau for already initiating actions to implement the report recommendations. The described actions taken or planned should provide a sound basis for an acceptable audit action plan.

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In accordance with DAO 213-5, please provide us with an audit action plan for our review and concurrence addressing all of the report recommendations within 60 days of this memorandum. Should you need to discuss the contents of this report or the audit action plan, please call me at (202) 482-4661, or Michael Sears, Assistant Inspector general for Auditing on (202) 482-1934.

We appreciate the cooperation and courtesies your staff extended to us during the audit. .

Attachment

cc: Marvin Raines, Associate Director for Field Operations
Pat Boteler, Audit Liaison

**UNITED STATES DEPARTMENT OF COMMERCE**
**Economics and Statistics Administration**
**U.S. Census Bureau**
Washington, DC 20233-0001
OFFICE OF THE DIRECTOR

SEP 30 2003

MEMORANDUM FOR Michael Sears
Assistant Inspector General for Auditing
Office of the Inspector General

Through: Kathleen B. Cooper KBC
Under Secretary for Economic Affairs

From: Charles Louis Kincannon
Director

Subject: *Census Bureau's National Processing Center Needs to Improve Controls over Government Bills of Lading*
Draft Audit Report No. ESD-14911-3-XXXX

This is in response to your memorandum of August 27, 2003, concerning the above-referenced draft audit report. We appreciate the opportunity to comment on this report. The U.S. Census Bureau agrees with and has initiated the implementation of the recommendations (as discussed below) resulting from this audit. In this memorandum, we have included necessary background information to provide the appropriate context for understanding the unique set of circumstances in Census 2000 relating to the National Processing Center's (NPC) use of air freight carrier services in calendar year 2000.

**Background Information and General Comments on the Draft Report**

Late in 1999, and contrary to our experience in previous censuses, the NPC began to receive urgent requests from the Field Logistics Operations Center to expedite the delivery of office supplies and training materials to Regional Census Centers (RCCs) and Local Census Offices (LCOs). The NPC immediately—and repeatedly—sought overnight air freight solutions through the General Services Administration (GSA), but without success. At this critical juncture in the logistical ramp-up to Census 2000, both operational needs and time constraints necessitated the direct acquisition of air freight delivery services, and the NPC proceeded to do so.

Although the draft audit report observes that NPC "generally used air freight carriers" to move supplies and other materials to the RCCs and LCOs, it is worth noting that only 8,803 of 63,080 total shipments were sent next-day air freight. Even under intense pressure from its customers (census offices, in this case) and severe schedule concerns, NPC dispatched the overwhelming majority of shipments by traditional carriers: truck (10,264 shipments), Federal Express (30,992) and United Parcel Service (13,021).

**Comments Specific to the Recommendations**

The Census Bureau concurs that controls need to be improved, and independent cost estimates for Government Bills of Lading (GBLs) must be performed. As a result, the NPC is in the process of developing written procedures for the preparation of GBLs. The procedures, when complete, will incorporate all of the provisions of the *U.S. Government Freight Transportation Handbook* and the regulations governing the use of GBLs that are published in Title 41, Code of Federal Regulations, Sections 102-118.

In accordance with position classification standards for the Freight Rate Series, GS-2131, persons working in these positions have the authority to select the most cost-effective means of transportation. Transportation mode and method selections must be in accordance with established freight tariffs and tenders. Recognizing that no established tender or tariffs were available during Census 2000, freight rate specialists attempted to negotiate fair and reasonable cost for next-day air freight services with companies that had demonstrated positive performance. While their efforts assured the timely delivery of materials to the field and the success of Census 2000, they may not have constituted the most cost-effective method.

To assure that all future shipping service cost is fair, reasonable, and the best value to the government, the NPC is taking/has taken the following actions:

- Meet with Finance Division to discuss and determine the best approach for conducting GBL prepayment audits (to be scheduled).
- Require service providers to itemize all charges on the GBL.
- Require the NPC shipping office personnel to develop a government estimate for all services identified on the GBL.
- Establish reasonable cost thresholds (based on actual tariff and rate schedules) on all GBLs to reveal carrier overcharges.
- Acquired bulk air freight contract with the Yellow Freight Company on September 3, 2003 (Contract No. YFSY010104). This is the contract from the GSA National Capital Region Transportation Office. The NPC management met with shipping office personnel on September 11, 2003, to review contract responsibility, authority for acquiring shipping services, and the terms and conditions of the new bulk air freight contract. This contract is used for all bulk air shipments.
- Completed first draft of procedures entitled "Instructions for the Preparation of Commercial Bills of Lading" on September 11, 2003. The procedures are scheduled to be finalized by October 2003.

cc: US/EA