



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

January 12, 1979

B-114807

See form 715 for title

The Honorable John M. Thomas
Assistant Secretary for Administration
Department of State *ACC 00032*

Dear Mr. Thomas:

This report discusses ways that the Department of State can improve its traffic management practices. Specifically, we found that savings could be realized by using the General Services Administration rather than commercial contractors to perform packing, crating, and related services for goods going overseas.

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Additional savings are possible by taking advantage of special reduced transportation rates available to the Government, shipping furniture to the nearest GSA export depot, and negotiating lower ocean carrier transportation rates. Also, overseas logistical operations could be improved by making greater use of the European Logistics Support Office in Antwerp, Belgium.

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Our work was done at Department headquarters, the four U.S. despatch agencies, the European Logistics Support Office, five embassies, and GSA headquarters and export facilities.

PACKING, CRATING, AND RELATED SERVICES

The State despatch agents could realize large savings by using GSA to perform packing, crating, and related services for goods going overseas. The savings relate to Government furnished furniture and official supplies and equipment.

Currently, State uses contractors to provide these services for supplies and equipment. The commercial operations are located at Bayonne, New Jersey; Baltimore, Maryland; Miami, Florida; and Richmond, California.



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Furniture is handled slightly differently. The Department of State has a contract with a North Carolina manufacturer to provide furniture and furnishings for various sized houses and apartments used by Government employees stationed overseas. The manufacturer ships the furniture to a subcontractor in the New York City area who provides various packing, crating, container loading, and related services.

The packing, crating, and related services for both supplies and equipment and furniture could be handled by GSA. Its depots in Belle Meade/Raritan, New Jersey; Norfolk, Virginia; Stockton, California; and Auburn, Washington have been designated as export depots to receive, consolidate, and pack items destined for overseas locations and then deliver them to the ocean carrier for shipment. GSA charges 8 percent of the dollar value of the items for these services. Prior to January 1, 1978, the surcharge was 12 percent but GSA lowered it after making a detailed cost analysis.

We discussed our findings with State officials and they expressed doubt as to the potential for savings by using GSA rather than commercial contractors for the packing, crating, and related services. In order to confirm our findings, we analyzed a random sample of 47 shipments -- 15 for furniture and 32 for supplies and equipment -- which were processed through the New York despatch agent during May, June, and July 1978.

Our analysis showed that the services of GSA would have been less costly for 13 of the 15 furniture shipments. The overall savings of 50 percent on the sample items is very similar to the savings computed from fiscal year 1978 data furnished by the furniture subcontractor.

<u>Value of furniture</u>	<u>Packing, crating, and related services</u>			
	<u>State's FY 1978 cost</u>	<u>GSA surcharge</u>	<u>Annual Amount</u>	<u>Savings Percent</u>
\$7,345,088	\$1,092,812	\$587,607	\$505,205	46

With regard to supplies and equipment, the Department of State provided us information which showed that the contractors were paid \$1,073,555 in fiscal year 1978 for packing, crating, and related services. However, the results of our sample of shipments of supplies and equipment were inconclusive and therefore, we did not estimate annual savings. Our sample showed that the GSA services would have been less costly on 20 of 32 shipments but these savings would have been more than offset by the higher cost of the remaining 12 shipments.

While we can not project overall savings for both furniture and supplies and equipment, we believe that our sample reaffirms that the use of GSA facilities is a viable alternative to contracting out for packing, crating, and related services and warrants discussion with GSA officials. In addition to making arrangements for the use of GSA facilities, these discussions could also cover the possibility of obtaining a rate even lower than the current 8 percent charge.

GSA officials told us that they would be willing and able to handle the packing, crating and related services for the Department of State. They said GSA has the physical facilities needed to handle the increased workload and could obtain the additional personnel required. GSA already performs export services for other agencies. For example, at the request of the Agency for International Development, GSA assembled 26 educational kits worth \$5 million for schools in Africa.

TRANSPORTATION SERVICES

Further savings are possible by supplying furniture to the nearest export depot, negotiating lower ocean transportation rates, and taking advantage of special reduced transportation rates available to the Government.

Furniture Shipments

Currently, the primary furniture manufacturer for the Department of State ships the furniture from his plant in North Carolina to the New York City area for packing, crating, container loading, and other services. Shipping the furniture to the GSA export depot in Norfolk instead would reduce transportation costs by about 33 percent if moved by truck and 27 percent if moved by rail.

The percentage differences were arrived at by comparing the Interstate Commerce Commission-approved transportation rates from North Carolina to the two locations. For example, the transportation savings on one of the most popular furniture groupings (valued at \$6,647) would be \$84 if shipped by truck. This is the difference between the \$250 cost to New York and the \$166 cost to Norfolk.

Ocean Transportation

In our initial discussions, State despatch agents told us that they usually accept any ocean transportation rate offered by the ocean carrier if it is comparable to published commercial tariff rates. Since that time we were furnished information which shows that lower rates have been negotiated in some cases. State officials acknowledge, however, that even more can be done in this area.

One aid in obtaining lower rates would be to use Military Sealift Command rates as a factor in negotiations. The Command negotiates rates that are considerably lower than the commercial rates. For example, on cargo moving from New York to Iran, the Command negotiated a rate of \$91.25 a measurement ton while the same carrier offered a rate of \$187 a measurement ton to the New York despatch agent. While we recognize that the carriers may be willing to give the Department of Defense the lowest rates because it moves considerably more cargo overseas than other agencies, the Military Sealift Command rate certainly could serve as a starting point in attempting to negotiate lower rates for the Department of State.

Reduced inland transportation rates

The Department of State could reduce transportation costs on shipments to U.S. export facilities by taking advantage of special reduced transportation rates available to the Government. These rates are available under section 22 of the Interstate Commerce Act (49 U.S.C. 22) which permits commercial carriers to move Government property free or at special reduced rates.

The Department of State now uses Free on Board (FOB) destination delivery terms almost exclusively. Under these terms the contractor normally arranges for transportation and includes the cost in the price of the material. If the other principal delivery term, FOB origin, was used, the Department would take possession of the material at the contractor's plant and make the arrangements for transportation.

Our review showed that the Department of State gives very little consideration to transportation costs when evaluating procurement contracts. They do not make analyses comparing FOB destination and FOB origin costs as required by the Federal Procurement Regulations. Such an analysis would seem to be particularly advantageous on large procurement contracts such as the one for furniture.

Obtaining section 22 rates would be easier under FOB origin delivery terms but they also could be obtained under FOB destination delivery terms by using the "freight prepaid and charged back" method. Under this method, the vendor prepays the freight using a commercial bill of lading and then adds the cost to the agency's invoice. The Army and Air Force Exchange Service has used this method successfully for many years. They require the vendor to annotate the commercial bill of lading with the statement: "Transportation is for the (name the specific Government agency) and the actual total transportation charges paid to the carrier(s) by the consignor or consignee are assignable to, and are to be reimbursed by the Government."

Obtaining the reduced rates would require some additional work on the part of the Department of State but the potential for savings is great. The Department of Defense alone estimates that section 22 rates save them \$250 million a year in transportation costs.

EUROPEAN LOGISTICAL OPERATIONS

When we visited the European Logistics Support Office in Antwerp, Belgium about a year ago, we found that most embassies were not taking advantage of the services offered by that office. The support office was established in 1975 to direct the handling and distribution of incoming shipments of household and personal effects and official supplies and equipment from the United States to selected posts in Europe. The support office also handles the consolidation and shipment of household and personal effects and official supplies and equipment from selected posts in Europe to other posts throughout the world.

The support office was used extensively for inbound shipments but only two embassies--Bonn and Brussels--used the support office for outbound shipments. We recently were provided information which showed that other embassies had started to use the support office to handle outbound shipments.

Continuing to increase the use of the support office for outbound shipments could improve operations and result in economies. This would give them additional leverage for negotiating lower transportation rates and costs with freight forwarders and ocean carriers, selecting the most economical port, and consolidating shipments.

CONCLUSIONS

The preceding sections enumerate ways that the Department of State can improve operations and effect savings in traffic management. They involve packing and crating services in the United States, transportation services in the U.S. and at sea, and logistical operations in Europe.

Accordingly, we suggest that you initiate discussions with GSA to arrange for the use of their facilities to perform packing, crating, and related services for goods going overseas. With regard to transportation, we suggest that you (1) have the furniture manufacturer ship his goods to the nearest GSA export depot, (2) make transportation cost analyses and take advantage of section 22 rates on shipments to U.S. export facilities, and (3) continue to strengthen the negotiating practices for obtaining lower ocean transportation rates. We also suggest that you further increase the use of the European Logistical Support Office for outbound shipments from posts in Europe.

We do not plan to further report on these matters at this time, but we would appreciate receiving your comments and being informed of any actions taken or proposed on the matters discussed. We are sending copies of this report to the General Services Administration.

Sincerely yours,



Frank C. Conahan
Associate Director