Department of
Veterans Affairs

Office of Inspector General

EVALUATION OF VA FREIGHT AND HOUSEHOLD GOODS TRANSPORTATION PROGRAMS

VA's centralized freight transportation programs reduced costs and improved customer service. Costs could be further reduced by increasing usage of the general freight program, selecting lower cost carriers, and consolidating household goods programs.

Report No. 8R8-E11-113
Date: June 29, 1998

Office of Inspector General
Washington DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to:
Acting Assistant Secretary for Management (004)
Assistant Secretary for Human Resources and Administration (006)

Evaluation of VA Freight and Household Goods Transportation Programs

1. The purpose of the evaluation was to assess how effectively the Office of Acquisition and Materiel Management (OA&MM) had managed the General Freight Management Program and the Centralized Household Goods Move Management Services and Transportation Program. In Fiscal Year (FY) 1996, OA&MM established these two programs to reduce shipping costs and to improve transportation service to VA facilities. Both programs are operated by OA&MM's VA Transportation and Logistics Center (VATLC). In addition to the VATLC household goods program, which covers employee moves funded by VA facilities, the VA Office of Administration (OA) operates a separate household goods program for moves funded by VA Central Office.

2. In FY 1997, the VATLC managed 2,196 shipments (1,134 general freight and 1,062 household goods). VA's total FY 1997 freight costs were $8.14 million, of which $1.06 million was for general freight (both VATLC and facility shipments) and $7.08 million was for household goods ($6.44 million for the 1,062 VATLC shipments and $638,000 for 91 shipments under the OA program).

3. We concluded that the VATLC had effectively managed the general freight and household goods programs. The VATLC provided high quality service to its VA customers and gave these customers shipping rates that were significantly lower than those available from the General Services Administration. The evaluation identified three opportunities to enhance these successes and to further reduce costs.

4. First, facilities needed to make more use of the general freight program. Our analysis of FY 1997 freight shipment data found that some facilities had used the program for all shipments, some had used the program occasionally, and some had never used it. Of 1,689 shipments made by facilities in FY 1997, 1,134 (67.1 percent) were arranged through the VATLC and 555 (32.9 percent) were arranged by facilities. The total cost of the 555 facility shipments was $630,000. We estimate that the VATLC could have arranged these shipments for $386,000, or $244,000 less than the facilities paid. While usage of the general freight program has been fairly good, we

believe that the potential for additional cost reductions warrants further efforts to encourage facilities to utilize the program for all shipments.

5. Second, the VATLC needs to reconsider its requirement that facilities rotate shipments among the five carriers participating in the household goods program. To determine if this practice was cost-effective, we analyzed a judgment sample of 14 representative shipments. Our analysis found that the five carriers varied significantly in the prices they offered VA for specific point-to-point moves. While we recognize that when the household goods program was started the practice of rotating shipments was reasonable to ensure adequate carrier participation, we believe that the program has been in effect long enough to justify focusing on ways to further reduce costs. In our opinion, it would be advantageous for the VATLC to instruct facilities to discontinue the practice of rotating shipments among the carriers and to begin selecting the lowest cost carrier for each shipment. We estimate that this would reduce household goods transportation costs by about $974,000 a year.

6. Third, the VATLC and OA household goods programs should be consolidated. The managers of both programs had recognized that consolidation would be advantageous, but they were unsure which program had the lower costs. To address this question, we compared the line haul and storage costs OA incurred for 10 FY 1997 shipments to the costs that would have been incurred if the VATLC had arranged the shipments. OA's costs for the 10 moves was $42,726. The VATLC's costs (using the lowest cost carrier) would have been $36,823, or 13.8 percent less. Based on the 13.8 percent savings that the VATLC program could have obtained for the 10 shipments, we estimate that costs would have been about $59,000 less if the VATLC had arranged all 91 shipments made by OA in FY 1997.

7. We recommended that the Acting Assistant Secretary for Management: (1) further inform VA facilities about the benefits of the General Freight Management Program and emphasize to facility mangers the importance of maximizing use of the program; and (2) revise VATLC guidance to discontinue the practice of rotating household shipments among carriers and to require facilities to use the lowest cost carrier for each shipment. We also recommended that the Acting Assistant Secretary for Management and the Assistant Secretary for Human Resources and Administration work together to consolidate the two household goods transportation programs.

8. The Acting Assistant Secretary for management concurred with the recommendation on increasing the use of the General Freight Management Program and he provided an acceptable implementation plan. He did not agree with the recommendation to discontinue the practice of rotating household goods shipments among carriers, but he provided an acceptable alternative corrective action. We consider these two audit issues to be resolved and we will follow up on the completion of planned corrective actions.

9. The Acting Assistant Secretary also concurred with the recommendation to consolidate the two household goods transportation programs. However, the Assistant Secretary for Human Resources and Management did not provide final comments on this recommendation. Instead, he provided an interim response stating that he wished to defer a final decision on the issue until the

General Accounting Office completes an ongoing review of a similar household goods transportation program operated by a Department of the Army facility. We will consider this issue unresolved until we receive final comments and an implementation plan from the Assistant Secretary.

For the Assistant Inspector General for Auditing
(Original signed by:)

DAVID SUMRALL
Director, Seattle Audit Operations Division

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Results and Recommendations

VA Can Reduce Freight Costs by Increasing Usage of the General Freight Program, Using the Lowest Cost Household Goods Carriers, and Consolidating Household Goods Programs

The general freight and household goods shipping programs operated by the VA Transportation and Logistics Center (VATLC) were generally well-managed. The VATLC provided good customer service to VA facilities and offered lower shipping costs than facilities could have obtained locally or through the General Services Administration (GSA). Our evaluation identified three opportunities to further reduce costs. First, encouraging facilities to use the VATLC's general freight program instead of making local arrangements could save about $244,000 a year. Second, ending the practice of rotating household goods shipments among the five carriers participating in the program and instead selecting the lowest cost carrier for each shipment would reduce costs by about $974,000 a year. Third, consolidating the separate household goods program operated by the VA Office of Administration (OA) with the VATLC program would save about $59,000 a year.

VATLC Programs Reduced Freight Costs and Improved Customer Service

In Fiscal Year (FY) 1996, the Office of Acquisition and Materiel Management (OA&MM) established two centralized freight transportation programs, one for shipping general freight and one for shipping the household goods of employees who are being relocated. Both programs are operated by the VATLC. Our evaluation concluded that the VATLC had effectively managed the two programs, achieving significantly lower freight costs for VA and providing high quality service to VA customers.

General Freight Management Program. The purpose of this program is to provide VA facilities with transportation management assistance for shipping freight within the United States and Puerto Rico. In most instances, freight rates obtained by the VATLC are lower than rates that can be obtained by the facilities. There are several reasons for these savings, with the most significant being that the VATLC has access to a current and complete freight cost database. Using this database, VATLC staff can identify the lowest available rates for particular shipments. VATLC staff estimated that the program saves VA facilities about 50 percent off the commercial rates they would ordinarily be charged. In addition, the VATLC assists facilities by selecting the carrier that can provide the needed services at the best cost, by authorizing and coordinating shipments, and by processing shipment paperwork. Although use of the general freight program is not mandatory, OA&MM encourages facilities to utilize the program to reduce freight costs. (OA&MM Information Letter 90-95-12).

Centralized Household Goods Move Management Services and Transportation Program. The purpose of this program is to assist facilities in arranging employee moves. Before FY 1996, VA had used GSA household goods transportation services. For each move, VA facilities selected carriers from a GSA list that showed the prices approved carriers charged and the carriers' customer satisfaction ratings. To reduce costs and improve customer service, OA&MM established the new household goods transportation program. The program reduced costs because the five carriers gave VA discounts off the Government freight rates established by the American Moving and Storage Association and approved by the Department of Commerce. The program improved customer service by providing comprehensive move management services, which include counseling employees on moves, arranging and scheduling shipments, and processing loss and damage claims. The program uses only full service carriers, those that can provide packing, full-service hauling, delivery, and other related services. Use of the program is required for all moves funded by VA field facilities. Moves funded by VA Central Office (VACO) are covered by a separate program operated by the OA.

In FY 1997, the VATLC managed 2,196 shipments (1,134 general freight and 1,062 household goods). VA's total FY 1997 freight costs were $8.14 million, of which $1.06 million was for general freight (both VATLC and facility shipments) and $7.08 million was for household goods ($6.44 million for the VATLC program and $638,000 for the OA program). The VATLC operated the two programs with minimal staffing -- 1.6 full-time equivalent employees (FTEE) for the general freight program and .5 FTEE for the household goods program.

Increased Use of the General Freight Program Would Reduce Costs

In FY 1997, VA facilities had 1,689 Government Bill of Lading (GBL)[1] shipments of general freight such as medical records, equipment, supplies, and furniture. The VATLC arranged 1,134 (67.1 percent) of these shipments, and facilities arranged the remaining 555 shipments (32.9 percent). The 1,134 VATLC shipments cost a total of $430,000. VATLC staff estimated that if facilities had arranged these shipments the cost would have been $848,000, so the estimated savings was $418,000, or 49.3 percent off facility costs.

Our analysis of FY 1997 freight shipment data found that some facilities had used the general freight program for all shipments, others had used it occasionally, and some had never used it. To evaluate program usage we sent questionnaires to seven representative VA medical centers (VAMCs). Three of these VAMCs were high users of the program. Staff at these VAMCs felt that the program provided a valuable service and significantly reduced freight costs. Of the remaining four VAMCs, two had used the program occasionally and two had never used it.

To determine if it would have been beneficial for these four VAMCs to have made more use of the program, we compared the costs of 40 GBL shipments arranged by the VAMCs to the costs that would have been incurred if the VAMCs had used the VATLC. The VAMCs paid a total of $19,871 for the 40 shipments. Working with the VATLC staff and using their freight rate database, we concluded that the VATLC could have obtained lower prices on 36 of the 40 shipments and could have arranged all 40 shipments for a total of $12,171, or 38.7 percent less than the VAMCs paid. While this 38.7 percent savings is less than the 49.3 percent savings that the VATLC staff estimated for the 1,134 shipments they arranged, it is still substantial. The

[1] GBLs are required for shipments costing $250 or more.

following examples illustrate the point-to-point shipment savings that could have been achieved by the VATLC:

- A VAMC paid $168 to ship 291 pounds of dental supplies to Milwaukee, Wisconsin. The VATLC could have arranged the shipment for $62, a 63.1 percent saving.
- A VAMC paid $450 to ship 1,500 pounds of medical equipment to Long Beach, California. The VATLC could have obtained a price of $184 for this shipment, a 59.1 percent saving.
- A VAMC paid $873 to ship furniture to Orange, California. The VATLC staff could have arranged this shipment for $683, a 21.7 percent saving.

In our opinion, the 40 shipments reviewed were reasonably representative of the 555 shipments that VAMCs made without using the VATLC. Based on the 38.7 percent savings that the VATLC could have obtained on the 40 shipments, we estimate that about $244,000 would have been saved if the VATLC had arranged all 555 shipments ($630,000 VAMC cost × 38.7 percent = $244,000). Although facility usage of the general freight program has been fairly good, we believe that the potential for additional cost reductions warrants OA&MM making further efforts to encourage facilities to utilize the program for all GBL shipments.

Selecting the Carrier Offering the Best Price for Each Household Goods Shipment Would Reduce Costs

When the household goods program was established in FY 1996, the VATLC selected five freight carriers to participate in the program. The carriers were selected based on three criteria: (1) the ability to provide the full range of moving services; (2) a GSA customer satisfaction rating of 95 or higher; and (3) the ability to provide nationwide service. The price agreements with the five carriers covered the 2-year period August 16, 1996 through August 15, 1998. All five carriers based their charges on the Government rate established by the American Moving and Storage Association. However, the carriers offered different discounts off the Government rate for specific point-to-point moves.

The VATLC instructed facilities to rotate shipments among the five carriers so that each received a proportional share of VA business, without regard to which carrier could offer the lowest price for a specific shipment.[2] (That is, a facility was to use one carrier for the first shipment, a different carrier for the second shipment, and so on.) To determine if the practice of rotating shipments among the five carriers was cost-effective, we analyzed a judgment sample of 14 shipments that VATLC staff agreed were reasonably representative. Our analysis found that the five carriers varied significantly in their discounts off Government rates for line haul and storage, with one carrier always offering the highest discounts and another carrier always offering the second highest discounts. As the following examples illustrate, discounts for

[2] OA&MM guidance, "VA Household Goods Field Representative Responsibilities," September 23, 1996.

particular point-to-point moves varied by as much as 17 percent:

- The highest line haul discount rate from Costa Mesa, California to Hampton, Virginia was 60 percent and the lowest was 43 percent, a difference of 17 percent.
- The highest line haul discount rate from New York to Fresno, California was 59 percent and the lowest was 43 percent, a 16 percent difference.
- The highest storage discount rate from Miami to Seattle was 37 percent and the lowest was 26 percent, a difference of 11 percent.

According to VATLC staff, the five carriers were promised proportional shares of VA's business and the practice of rotating shipments among the five carriers was begun because: (1) the VATLC wanted to get the program up and running and did not have time to negotiate rate reductions with carriers beforehand; and (2) the VATLC focused on service quality and wanted to be sure that high quality carriers participated in the program.

While we recognize that these concerns were reasonable when the program was getting underway, we believe that the program has been in effect long enough to justify focusing on ways to further reduce costs. Because of the wide variations in discounts depending on the carrier and points of origin and destination, we believe that it would be advantageous for the VATLC to revise its guidance to instruct facilities to end the practice of rotating shipments among the five carriers and to begin selecting the lowest cost carrier for each shipment. Based on FY 1997 costs, selecting the lowest cost carrier could reduce household goods transportation costs by $974,000 a year, which is about 14 percent of total program costs. Revising the guidance would also bring it into conformance with VA's governing policy which states that shipments should be distributed equitably among carriers only if they offer the same price and the same quality of services (VA Handbook 7240). The implication of this policy is that shipments should normally go to the lowest cost carrier, providing that this carrier offers good quality service.

During the evaluation, VATLC staff expressed concern that selecting the lowest cost carrier could mean that VA would always use only one or two carriers. However, in our opinion if all carriers are aware that selection depends on price they will have an incentive to match the rates offered by the lower cost carriers.

Consolidating Household Goods Programs Would Reduce Costs

As mentioned above, employee moves funded by VACO are covered by the OA household goods transportation program. OA began its program several months before the September 1996 implementation of the VATLC household goods program. Like the VATLC, OA started its program to obtain better shipping rates than those available through GSA, and like the VATLC, OA succeeded in both reducing costs and improving customer service.

The OA program provides the same services as the VATLC program. However, the two programs differ in the way they obtain carriers. Instead of using selected carriers as the VATLC does, the OA program contracts with a move management service, which then subcontracts shipments to various carriers. The carriers pay the management service a fee for each shipment they receive. To obtain this business, the carriers offer rates below GSA rates. In FY 1997, OA arranged 91 shipments, at a cost of $638,000 (as compared with the VATLC's 1,062 shipments for $6.44 million).

At the time of our evaluation, VATLC and OA management had recognized the potential advantages of consolidating the two programs, but they were unsure which program had the lower costs. To address this question, we asked the American Moving and Storage Association to provide the undiscounted line haul and storage costs for a judgment sample of 10 shipments that OA made in FY 1997. We used this data and the discounts available to the VATLC to calculate the costs that would have been incurred if the VATLC had arranged the shipments. Our analysis showed that the VATLC program would be less costly. OA's line haul and storage costs for the 10 moves was $42,726. The VATLC's costs (using the lowest cost carrier) would have been $36,823, or 13.8 percent less. Based on the 13.8 percent savings that the VATLC program could have obtained for the 10 shipments, we estimate that costs would have been about $59,000 less if the VATLC had arranged all 91 shipments made by OA.

In addition to achieving lower costs, there are four other reasons for consolidating the two programs:

- The VATLC could manage the total workload of shipments (1,153 in FY 1997) without additional resources.
- Both programs offer the same type and quality of move services for employees, so there is no quality advantage in retaining the higher cost program.
- There will be a good opportunity to consolidate the two programs in July/August 1998 because the contracts for both programs expire then.
- Consolidation would lower administrative costs and free up OA staff for other needs.

During the evaluation OA officials agreed that VA did not need two household goods programs. However, they felt that further study was needed to determine which program was most advantageous to VA. We agree that this is a reasonable precaution, although we are confidant that the VATLC program will prove to be the less costly of the two programs.

Conclusion

The VATLC general freight and household goods program were effectively managed and had successfully reduced costs and improved customer service. The OA had achieved similar results with its household goods program. To enhance these successes and to further reduce costs, program management should encourage facilities to make more use of the general freight program, revise guidance to require facilities to use the carrier that offers the best price for each household goods shipment, and consolidate the two household goods programs.

For More Information

- The evaluation objectives, scope, and methodology are discussed in Appendix I, page 8.

- More details on the cost reductions associated with the evaluation findings are presented in Appendix II, page 9.

Recommendation 1

We recommend that the Acting Assistant Secretary for Management:

a. Work with the Under Secretary for Health, the Under Secretary for Benefits, and the Director of the National Cemetery System to further inform VA facilities about the benefits of the General Freight Management Program and to emphasize to facility managers the importance of maximizing use of the program.

b. Revise VATLC guidance to discontinue the practice of rotating household shipments among carriers and to require facilities to use the lowest cost carrier for each shipment.

Recommendation 2

The Acting Assistant Secretary for Management and the Assistant Secretary for Human Resources and Administration should work together to consolidate the two household goods transportation programs based on which is most cost-effective.

The associated monetary benefits for Recommendations 1 and 2 are shown in Appendix III, page 12.

Acting Assistant Secretary for Management Comments

The Acting Assistant Secretary for Management concurred with Recommendations 1a and 2. He did not concur with Recommendation 1b, but he provided an acceptable alternative corrective action.

Implementation Plan

In response to Recommendation 1a, the Acting Assistant Secretary for Management stated that: (1) the Traffic Manager will schedule presentations on VATLC's transportation programs at the Contracting Officers' Symposium Program; (2) OA&MM Information Letter 90-95-12 will be updated and reissued; and (3) the OA&MM internet web site will be updated to permit electronic freight shipment requests. He also stated that the estimated monetary benefit associated with increasing usage of the General Freight Management Program was reasonable.

In response to Recommendation 1b, the Acting Assistant Secretary provided alternative corrective actions that met the intent of the recommendation. He stated that the next VA Household Goods Program agreement will correct the carrier rotation issue by selecting carriers that satisfy both the program quality and the competitive rates criteria. This agreement will significantly narrow the differences among carrier rates. The great majority of the shipments will be at the lowest rates available in the program. The Acting Assistant Secretary agreed with the potential monetary benefits associated with Recommendation 1b.

In response to Recommendation 2, the Acting Assistant Secretary for Management sent a memorandum to the Assistant Secretary for Human Resources and Administration requesting the OA household goods program be absorbed by the VATLC program. However, as discussed below, OA decided to defer a decision on this issue pending further study. The Acting Assistant Secretary agreed with the potential monetary benefits associated with Recommendation 2. (See Appendix IV, pages 13-14, for the full text of the Acting Assistant Secretary's comments and implementation plan.)

Assistant Secretary for Human Resources and Administration Interim Comments

The Assistant Secretary for Human Resources and Administration did not provide final comments on Recommendation 2, but instead provided an interim response. He stated that action on consolidating the household goods transportation programs should be deferred until responsible VA officials have had an opportunity to review the forthcoming report of a General Accounting Office review of a Department of Army household goods transportation program that is similar to the OA program. Based on our discussions with OA staff, we believe that they agree that VA does not need two household goods programs and that they will work with OA&MM to determine the most cost-effective program. (See Appendix V, page 15, for the full text of the Assistant Secretary's interim comments.)

Office of Inspector General Comments

The Acting Assistant Secretary for Management concurred with Recommendation 1a, agreed with the intent of Recommendation 1b, and provided acceptable implementation plans for both recommendations. We consider these two recommendations to be resolved and will follow up on the completion of planned corrective actions.

The Acting Assistant Secretary for Management concurred with Recommendation 2, but the Assistant Secretary for Human Resources and Administration deferred providing final comments on this recommendation. Based on our discussions with OA staff, we believe that they agree that VA does not need two household goods programs and that they will work with OA&MM to determine the most cost-effective program. However, until we receive the Assistant Secretary's final comments and implementation plan, we will consider Recommendation 2 unresolved.

Objectives, Scope, and Methodology

Objectives

The purpose of the evaluation was to assess the effectiveness of the VATLC's management of the general freight and household goods transportation programs. Specific objectives were to determine if VA facilities were using the programs, if customers were satisfied with program services, if the programs had reduced costs, and if there were opportunities to further reduce costs.

Scope and Methodology

To meet the evaluation objectives, we reviewed FY 1997 freight cost data in VA's automated Financial Management System, and discussed program operations with management and staff of the VATLC and the OA. We also reviewed freight cost data from GSA and the American Moving and Storage Association. In addition, we sent questionnaires to seven VAMCs asking them to provide information on GBL shipments, their usage of VATLC services, and their satisfaction with VATLC services.[3] As appropriate, we followed up the questionnaires by discussing freight shipping procedures and practices with responsible VAMC staff.

The evaluation covered VATLC operations for FY 1997 and the first quarter of FY 1998. The evaluation was done in accordance with generally accepted government auditing standards for staff qualifications, independence, and due professional care; field work standards for planning, supervision and evidence; and reporting standards for performance audits.

[3] The seven VAMCs were: Lexington, Kentucky; Milwaukee, Wisconsin; Alexandria and New Orleans, Louisiana; and Long Beach, Palo Alto, and West Los Angeles, California.

Details of Evaluation

General Freight Transportation Cost Analysis

As discussed on pages 2-3, we estimated that increased usage of the General Freight Management Program would reduce freight costs by about $244,000 a year. The steps we used to make this estimate are described below:

1. We determined the dollar value and number of GBLs from the Financial Reports System. We used document type "T" to identify GBL shipments that were made through the general freight program (VA Manual MP-4, Part V, 12D.02). In FY 1997, the total cost of GBL shipments was $1,060,672. The total number of GBL shipments was 1,689.

2. Of the 1,689 shipments, 1,134 were made through the VATLC and 555 were made locally by facilities.

3. According to the VATLC, the cost of the 1,134 shipments was $430,157. Therefore, the cost of the 555 non-VATLC shipments was $630,515 ($1,060,672 total shipping costs - $430,157 VATLC costs).

4. Our analysis of 40 non-VATLC shipments found that the average cost reduction that could be achieved by the VATLC was 38.75 percent.

5. Applying the 38.75 percent reduction to the cost of the 555 non-VATLC shipments results in a total cost reduction of $244,325 (38.75 percent × $630,515).

Cost Reduction Analysis -- VATLC Household Goods Program

As discussed on pages 3-4, selecting the carrier offering the best price for each household goods shipment would reduce costs by about $974,000 a year. The steps we used to make this estimate are described below:

1. The five participating carriers offered discounts from the Government rates for two types of services -- line haul and storage.

2. The amount of the discounts offered varied from carrier to carrier. We analyzed 14 representative shipments and found that the average line haul discounts offered by the five carriers ranged from 43.0 percent to 57.7 percent and average storage discounts ranged from 26.0 percent to 37.0 percent. Collectively, the five carriers offered average discounts of 49.0 percent for line haul and 34.6 percent for storage.

3. For FY 1997, the line haul and storage costs for the five carriers totaled $6,444,784. To estimate the proportions of total costs represented by line haul and by storage charges, we

reviewed 10 shipments on which the line haul and storage costs were specified separately. Our review showed that line haul costs accounted for 85.7 percent of the costs and storage accounted for 14.3 percent of the costs. Using these percentages, we estimated that line haul accounted for $5,523,180 of the total cost of $6,444,784, and storage accounted for the remaining $921,604.

4. We determined the undiscounted line haul and storage costs (that is, costs based on the Government rate without any discounts) using the following formula [total costs ÷ (1 - average discount rate for all five carriers)]. The total undiscounted line haul cost was $10,834,013 [$5,523,180 ÷ (1 - 49.0 percent)]. The total undiscounted storage cost was $1,409,181 [$921,604 ÷ (1 - 34.6 percent)].

5. The VATLC did not have complete data on actual household goods shipments that each carrier made in FY 1997 and therefore did not have reliable data on how costs (payments) were actually distributed among the five carriers. To estimate the undiscounted line haul and storage costs for each carrier, we assumed that each carrier handled an equal portion (that is, one-fifth) of the shipments. We believe that this is a reasonable assumption because VATLC instructions required facilities to rotate shipments among the five carriers, and staff at the seven VAMCs reviewed told us that they followed these instructions. We calculated the undiscounted costs for shipments handled by each carrier as $2,166,803 ($10,834,013 ÷ 5 carriers) for line haul and $281,836 ($1,409,181 ÷ 5 carriers) for storage. Using these base figures, we then calculated the estimated line haul and storage costs (payments) for each carrier. For example, Carrier A offered a line haul discount of 57.7 percent, so its share of total line haul costs was $916,557 ($2,166,803 undiscounted proportion of total line haul costs × 57.7 percent discount = $1,250,245; $2,166,803 - $1,250,245 = $916,557, adjusted for rounding). Table 1 below shows the average discounts offered by the five carriers and the estimated distribution of costs (payments) among the carriers:

Table 1. Average Carrier Discounts and Distribution of Costs Among Carriers

Carrier	Average Line Haul Discount	Average Storage Discount	Line Haul Cost	Storage Cost	Total Cost
A	57.7%	37.0%	$916,557	$177,557	$1,094,114
B	45.6%	35.0%	1,178,741	183,193	1,361,934
C	54.0%	35.0%	996,729	183,193	1,179,923
D	44.8%	40.0%	1,196,075	169,102	1.365,177
E	43.0%	26.0%	1,235,077	208,559	1,443,636
Five-Carrier Average	**49.0%**	**34.6%**		**Total**	**$6,444,784**

6. The last column in Table 1 shows the total costs for each of the five carriers. Because carrier A had offered the highest discounts, this carrier had the lowest overall costs, $1,094,114.

The following calculation shows the cost reduction that could be achieved using the lowest cost carrier:

Total cost rotating shipments among five carriers	$6,444,784
Total cost if lower cost carrier A used (5 × $1,094,114)	-5,470,570
Potential cost reduction	**$974,214**

Cost Comparison -- OA and VATLC Household Goods Programs

As discussed on pages 4-5, consolidating the two household goods programs would reduce costs by about $59,000 a year. The steps we used to make this estimate are described below:

1. We obtained the undiscounted line haul and storage costs for 10 FY 1997 shipments using the applicable commercial or Government rates for each transportation program from the American Moving and Storage Association.

2. We used the cost data from the Association and the applicable discount rates to calculate the line haul and storage costs for the 10 shipments. As shown in Table 2 below, the OA program costs totaled $42,726, and the VATLC costs totaled $36,823 using the lowest cost carrier. For the 10 shipments, the VATLC program cost $5,903 less, or 13.8 percent less, than the OA program:

Table 2. Comparison of OA and VATLC Costs for 10 Representative FY 1997 Household Goods Shipments

Shipment Origin and Destination	OA Cost	VATLC Cost	Cost Difference
North Carolina - Kansas	$5,702	$5,286	$416
Virginia - Texas	5,286	4,598	688
South Dakota - Kansas	1,100	1,077	23
Louisiana - Kansas	992	921	71
Wisconsin - Kansas	2,333	2,261	72
California - Virginia	3,985	3,058	927
Maryland -South Carolina	5,247	4,878	369
West Virginia - Texas	7,914	6,217	1,697
Texas - Kansas	851	815	36
Ohio -District of Columbia	9,316	7,712	1,604
Totals	**$42,726**	**$36,823**	**$5,903**

3. Based on the 13.8 percent savings that the VATLC program could have obtained for the 10 shipments, we estimated that about $59,000 would have been saved if the VATLC program had arranged all 91 shipments made by OA. (Total line haul and storage cost for 91 shipments = $424,636 × 13.8 percent = $58,642.)

Monetary Benefits in Accordance with IG Act Amendments

Report Title: Evaluation of VA Freight and Household Goods Transportation Programs

Project Number: 8R8-061

Recommendation Number	**Category/Explanation of Benefits**	**Better Use of Funds**	**Questioned Costs**
1a	Maximize facility use of the General Freight Management Program.	$244,000	
1b	Require facilities to select the lowest cost carrier for each household goods move instead of rotating shipments among participating carriers.	$974,000	
2	Consolidate the OA household goods program with the VATLC program.	$59,000	

Acting Assistant Secretary for Management Comments

Department of
Veterans Affairs

Memorandum

Date: May 15, 1998

From: Acting Assistant Secretary for Management (004)

Subj: Draft Report, Evaluation of VA Freight and Household Goods Transportation Programs (Project No. 8R8-061)

To: Assistant Inspector General for Auditing (52)

1. We appreciate the opportunity to review the subject draft Report, Evaluation of VA Freight and Household Goods Transportation Programs, Project No. 8R8-061, and we offer the following comments:

Recommendation 1.a - Concur

That the Acting Assistant Secretary for Management work with the Under Secretary for Health, the Under Secretary for Benefits, and the Director of the National Cemetery System to further inform VA facilities about the benefits of the General Freight Management Program and to emphasize to facility managers the importance of maximizing use of the program.

Implementation Plan: The Traffic Manager (92A) will schedule presentations on the freight management and household goods program at the Contracting Officers' Symposium conducted quarterly by the Office of Acquisition and Materiel Management (OA&MM).

OA&MM Information Letter 90-95-12, VATLC, General Freight Management Program for the Department of Veterans Affairs, will be updated and reissued for distribution to all field activities by June 30, 1998. Savings referenced in the IG report for general freight shipments are conservative but reasonable. It is more accurate to examine freight savings within shipment size categories most appropriate to a shipment. The net average savings of all shipments is as originally reported, 49.3 percent.

The OA&MM internet web page is currently being modified to include an on-line version of VA Form 134, Combination Requisition and Shipping Ticket, to permit electronic freight shipment requests. The completion date is estimated to be the end of Fiscal Year 1998.

Recommendation 1.b - Nonconcur

Revise VA Transportation and Logistics Center (VATLC) guidance to discontinue the practice of rotating household shipments among carriers and to require facilities to use the lowest cost carrier for each shipment.

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<u>Acting Assistant Secretary for Management Comments (Continued)</u>

2.

Assistant Inspector General for Auditing (52)

<u>Alternative Corrective Action</u>: The second release of the VA Household Goods Program agreement will correct the "carrier rotation" feature by selecting carriers that satisfy both the program quality issues and the competitive rates issue. The difference in the range of the carrier rates will be narrowed significantly and it will become irrelevant which carrier is selected. We will not be able to limit carrier selection to the lowest cost carrier at all times, but certainly the great majority of shipments will be at the lowest rates available in the program. Implementation of the updated household goods program is scheduled for November 1, 1998, when the current program agreement expires. The field users will be notified via FORUM and with updated field representative's instructions by September 30, 1998.

<u>Recommendation 2</u> - Concur

The Acting Assistant Secretary for Management and the Assistant Secretary for Human Resources and Administration should work together to consolidate the two household goods transportation programs based on which is most cost-effective.

<u>Implementation. Plan</u>: A memorandum dated March 30, 1998, was sent from the Acting Assistant Secretry for Management to the Assistant Secretary for Human Resources and Administration requesting that the Office of Administration (OA) household goods program be absorbed by the VATLC Household Goods Program. It is anticipated that a decision favorable to the VATLC program will be made. A meeting with OA will be scheduled not later than June 1, 1998, to complete the program merger. Any moves funded by Central Office after the termination of the OA program will be directed to the VATLC program immediately.

2. Should you have questions pertaining to the above information, please contact Robert McKenna, Director, Materiel Management (92), at (202) 273-6116. Thank you for the opportunity to review the referenced document and provide comments.

(Original signed by:)
D. Mark Catlett

Assistant Secretary for Human Resources and Administration Interim Comments

Department of Veterans Affairs

Memorandum

Date: June 18, 1998

From: Assistant Secretary for Human Resources and Administration (006)

Subj: Draft Report: Evaluation of VA Freight and Household Goods Transportation Programs (Project No. 8R8-061)

To: Assistant Inspector General for Auditing (52)

1. This is an interim response to your April 16, 1998, memo on the subject draft report.

2. Office of Administration staff met with Michael Slachta, Deputy Assistant Inspector General for Auditing, on June 1, 1998, to discuss the draft report. Because of a General Accounting Office audit of a program at Hunter Army Airfield, Savannah, Georgia, that is similar to the one being administered by the Travel Policy Division, a decision was made that all current household goods shipment methods should continue until the time the GAO report is issued. An objective judgment on the appropriate method for shipping household goods cannot be made until the General Accounting Office issues their report which should be this summer. It would be inappropriate for VA to take any action until this report, which will have Government-wide implications, is finalized.

3. If you have any questions, please contact Bonnie Britten, Chief, Travel Policy Division, at 273-5380.

(Original signed by:)
Eugene A. Brickhouse

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