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Department of Defense Needs To  
Strengthen Its Controls Over the  
Payment of Maneuver Damage Claims  
In Germany

Statement of  
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Before the  
Subcommittee on Readiness,  
Sustainability and Support  
Committee on Armed Services  
United States Senate



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Mr. Chairman, Members of the Subcommittee:

I am pleased to be here to discuss our review of the processing and verification procedures for settling maneuver damage claims in the Federal Republic of Germany (FRG). We initiated the review at your request after the Committee had obtained information indicating that the Department of Defense (DOD) had done little to increase U.S. involvement in the verification process as we recommended in a prior report.<sup>1</sup>

Our review confirmed that there has been very little U.S. involvement in the verification process. We found that virtually all claims continued to be paid without adequate U.S. inspection or verification to make sure that damage occurred and that it was caused by U.S. forces. The potential impact of this deficiency became more evident in 1986, when a special test was conducted using U.S. personnel to perform on-site inspections. As a result of these inspections, considerably lower payments were made on the test cases than were made on similar claims that had not been inspected by U.S. personnel. While the test was limited in numbers and covered only one German county, it included all the claims submitted to the Army over a 2-month period. In view of the results of the test, we believe that the United States needs to increase its involvement to protect U.S. interests. Last month, the Army approved several actions designed to strengthen its verification capabilities.

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<sup>1</sup>Military Damage Claims in Germany--A Growing Burden (GAO/ID-81-4, Oct. 9, 1980).

The 1951 North Atlantic Treaty Organization (NATO) Status of Forces Agreement, called the SOFA, grants the Army the right to maneuver outside its designated training areas in Germany. The Army does not have enough space within its training areas and therefore conducts about 1,000 maneuvers annually on public and private land to maintain force readiness. These maneuvers inevitably cause damage to German roads, fields, and forests and result in thousands of damage claims being filed against the United States. In 1981, the Army established a maneuver management program in Germany to prevent unnecessary damage. Army officials believe this program is effective in controlling damage while allowing for adequate, though somewhat reduced, maneuver realism.

The SOFA governs the cost-sharing arrangements and the rights and obligations of the United States and Germany in settling claims. Generally, the United States pays 75 percent of the cost, and Germany pays the remaining 25 percent. Over the last 8 years, annual payments for the U.S. share have averaged about \$29 million.

To implement the SOFA, the United States and Germany have entered into an administrative agreement that details the specific procedures for processing claims. Under this agreement, Germany retains the exclusive right to adjudicate claims. Germany's 36 Defense Cost Offices (DCO), which employ about 600 persons, process all claims submitted for damage allegedly caused by NATO forces. The DCO staffs inspect the damage, negotiate settlements, pay claimants out of their own funds, and then bill the United States

for its share. The United States does not reimburse Germany for any costs to run these offices; it only pays for its share of the maneuver damage claim which may be awarded.

The Army Claims Service Europe, or the Claims Service, is responsible for the U.S. processing and paying of maneuver damage claims in Germany. In the majority of cases, it is only notified of the settled amount and thus is expected to pay without any further involvement. Such expedited procedures are used for small claims of less than \$1,765, other than claims for road damage, and for claims from large U.S. and multinational maneuvers, except for large claims generally exceeding \$58,825. Of the more than 25,600 claims processed in fiscal year 1987, about half, called simplified claims, were small-value claims with the U.S. share totaling \$2.2 million. Another quarter, called blanket-scope claims, were from large U.S. or multinational exercises, with the U.S. share totaling \$13.2 million.

The remaining quarter of the claims were processed under what is known as "scope" procedures. The role of the Claims Service in processing these claims is to confirm that U.S. forces could have caused the damage. To make this determination, it uses information contained in Master Maneuver Damage Reports submitted by maneuvering units. However, these reports are of limited value for this purpose, and for most claims, all that can be ascertained is that the damage occurred within the time and geographical limits of a U.S. maneuver. Even so, few U.S. inspections are made and adequate records have not been kept on those that were conducted.

Thus, the Claims Service has limited knowledge on which to base its decision. Without any reason to say otherwise, it certified that U.S. forces could have caused damage for more than 99 percent of the scope claims it processed in 1987. These claims totaled more than \$28 million, but the final amount to be paid will not be known until they are adjudicated. (Additional details on claims and payments are contained in the attachments to my statement.)

I would like to discuss why we feel that U.S. involvement should be strengthened. Several questionable claims were identified in isolated inspections conducted from late 1984 through spring 1986. Because of these claims, the Claims Service conducted a special test in 1986 to ascertain the feasibility of increasing on-site inspections. A maneuver damage prevention specialist from one of the U.S. units inspected the alleged damage for all 94 claims submitted from one German county between May and July. The inspections disclosed that in 19 of the cases the damages had not occurred, or the damage was not caused by U.S. forces. In another 29 cases, it was found that U.S. forces had not caused all the damage claimed. As a result, the DCOs paid only about 25 percent of the amount claimed for the 90 claims that had been settled as of October 1987. This is a significantly lower rate than the overall average of 85 percent paid for claims processed in 1986. On the basis of this substantial difference, the Claims Service estimated potential savings of up to \$10 million per year by using on-site U.S. inspections as a verification technique. However, experience from a broader base is needed to confirm this estimate.

The Claims Service would like to perform joint on-site inspections for high-cost claims, but it lacks the necessary personnel. The DCOs appear willing to cooperate with U.S. personnel in performing joint inspections, as long as the United States does not interfere in the settlement process. Furthermore, only the administrative agreement would need to be amended to allow for U.S. inspections. The SOFA would not have to be changed.

Army officials recently told us they are taking several actions to strengthen U.S. verification as a result of a 1987 internal study of the Army's maneuver management system in Germany. These actions include (1) studying ways to make maneuver damage reports more useful for verification purposes, (2) formalizing the part-time use of personnel in the operating units to verify claims, and (3) providing the Claims Service with five additional staff to enhance its verification capabilities.

The Army's decision to provide additional resources to increase inspections by U.S. personnel is an essential first step. It also needs to develop procedures to ensure that sufficient data is collected to be reasonably assured that only valid claims are paid. Such procedures should (1) identify a portion of claims processed under scope and blanket-scope procedures to be verified through inspections; (2) identify questionable claims, such as high-cost road damage claims, and ensure they are verified by qualified personnel; and (3) ensure that adequate records are made of verification efforts.

To further enhance capabilities, the Corps of Engineers, already in-country, could be used to review claims and conduct on-site inspections, especially for the higher cost road damage claims. In 1987, the Claims Service tested the feasibility of using the Corps to verify damage and believes this assistance would be worthwhile. The Corps agreed but said it would need funding for this purpose.

In a draft report recently issued to DOD, we have recommended that the Secretary of Defense take certain actions to strengthen the internal controls over the payment of maneuver damage claims in the FRG. These include (1) ensuring that the planned Army actions are implemented and (2) directing the use of Corps of Engineer personnel stationed in the FRG to assist in the review of claims and verification process and the development of procedures to collect and document sufficient data to be certain that only valid claims are paid.

This concludes my statement. I will be happy to respond to any questions.

ANNUAL MANEUVERS AND MANEUVER DAMAGE PAYMENTS

<u>Year</u>	<u>Number of maneuvers outside U.S. training areas</u>	<u>U.S. maneuver damage payments<sup>a</sup></u> ----(millions)----	<u>Payment backlog<sup>b</sup></u>
1980	858	\$20.1	\$19.3
1981	1,092	35.4	15.0 <sup>c</sup>
1982	941	52.5	None
1983	940	33.6	None
1984	989	23.8	None
1985	1,015	23.5	None
1986	1,098	18.6	22.7
1987	d	22.8	24.6 <sup>e</sup>

<sup>a</sup>Payments are reported on a fiscal year basis.

<sup>b</sup>A payment backlog is created when annual payments are insufficient to meet obligations.

<sup>c</sup>The backlog was eliminated in fiscal year 1982.

<sup>d</sup>Calendar year 1987 figures were unavailable.

<sup>e</sup>Claims Service officials told us their 1988 funding of \$60 million is sufficient to pay anticipated claims and eliminate the payment backlog.



FISCAL YEAR 1987 MANEUVER DAMAGE CLAIMS PROCESSED

<u>Procedure</u>	<u>Claims processed</u>	<u>Percent</u>	<u>Amount claimed</u> ----- (thousands) -----	<u>U.S. share</u>
Scope	5,706	22	\$28,603	a
Blanket-Scope <sup>b</sup>	6,727	26	c	\$13,252
Simplified <sup>d</sup>	<u>13,222</u>	<u>52</u>	c	2,258
Total	<u>25,655</u>	<u>100</u>		

<sup>a</sup>Most claims have not been adjudicated, so the U.S. share is unknown.

<sup>b</sup>Blanket-scope procedures are used to process claims from large U.S. and multinational maneuvers, except for large claims generally exceeding \$58,825.

<sup>c</sup>The amount claimed could not be determined from the Claims Service records.

<sup>d</sup>Simplified procedures are used to process small damage claims under \$1,765, except for road damage claims.

FISCAL YEAR 1987 CLAIMS PROCESSED UNDER SCOPE PROCEDURES

<u>Claim type</u>	<u>Claims processed</u>		<u>Total claimed<sup>a</sup> (thousands)</u>	<u>Percent</u>	<u>Average</u>
	<u>Number</u>	<u>Percent</u>			
Road (including forest roads and curbstones)	4,717	83	\$26,216	91.6	\$5,558
Field (cultivated and uncultivated)	461	8	1,056	3.7	2,291
Forest	116	2	569	2.0	4,905
Boundary Stone	113	2	243	.9	2,150
Government (federal or state property other than road damage)	78	1	169	.6	2,167
Private Property	<u>221</u>	<u>4</u>	<u>350</u>	<u>1.2</u>	<u>1,584</u>
Total	<u>5,706</u>	<u>100</u>	<u>\$28,603</u>	<u>100.0</u>	<u>\$5,013</u>

<sup>a</sup>Not all claimed amounts are included because some notices are received without the amount stated.