

GAO

Report to the Chairman, Committee on  
Armed Services, House of Representatives

February 1989

# HOUSEHOLD GOODS

## Evaluation of Department of Defense Claims Payment and Recovery Activities



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**National Security and  
International Affairs Division**

B-229396

February 24, 1989

The Honorable Les Aspin  
Chairman, Committee on Armed Services  
House of Representatives

Dear Mr. Chairman:

The Department of Defense (DOD) shares liability with commercial moving companies for loss and damage incurred during the movement of the household goods of military service members. In early 1987, DOD, through the Military Traffic Management Command (MTMC), instituted a change in its household goods movement program which increased carrier liability on domestic household goods shipments. This change, as well as a steadily increasing military claims budget, prompted you to question DOD's practices and procedures for settling service members' claims for loss and damages.

On June 29, 1987, you asked us to review the DOD resolution process for household goods claims. In subsequent meetings with your office it was agreed that we would (1) review household goods claims procedures in each of the four military services, (2) determine whether military household goods claims payments to service members are overly generous, and (3) evaluate the efficiency and effectiveness of military service claims resolution.

The results of our work are briefly summarized in this letter. Details of our findings and observations and our complete evaluation of DOD and industry comments are included in appendix I. The full texts of DOD and industry comments are included as appendixes II and III, and appendix IV describes the objectives, scope, and methodology of our work.

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**Results in Brief**

Military claims procedures were reasonably consistent among the services. We did not identify any major shortcomings in the procedures.

Concerning the generosity of claims payments, we found that military household goods claims payments are higher on average than those made by carriers for similar commercial shipments. However, this does not necessarily mean that military payments are overly generous. For example, more military shipments than commercial shipments go into temporary storage before delivery. This necessitates added handling, thereby significantly increasing the potential for loss and damage.

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Although the amounts of payments are dependent upon some judgments by claims officials, the claims payments we reviewed at the 11 installations we visited appeared reasonable. These claims offices were reviewing service member claims in accordance with regulations and generally paid about 60 to 85 percent of the amounts claimed by service members.

While most of the services are apparently paying household goods claims in a reasonably effective and timely manner, we did find indications of potential problems with some service efforts to recover the carrier's share of the liability for losses and damages to household goods shipments. For example, 4 of the 11 installations we visited had varying sizes of claims backlogs awaiting recovery processing. Some of the claims awaiting recovery processing were more than 2 years old. One Navy installation had recently cleared a large recovery backlog.

Claims recovery apparently has a lower priority than claims payment to service members. Recovery effectiveness also varied by service, and the Air Force had consistently initiated a higher percentage of recovery actions and recovered a higher percentage of funds than the other services. Recovery backlogs and inefficient recovery activities are likely to result in the need for increased claims appropriations.

DOD therefore needs to put more emphasis on recovery from carriers to fully realize the benefits of the recently increased carrier liability on military shipments. Whereas DOD was recovering only about 21 percent of what it paid out in claims to service members prior to 1987, the amount now potentially recoverable from carriers has increased to about 78 percent.

We observed two additional factors that directly affect the resolution of household goods claims. First, under the provisions of 31 U.S.C. 3721, federal employees have 2 years to file claims for loss and damage to all types of personal property, including household goods. The 2-year statutory period for filing household goods claims causes claims management and adjudication problems for both DOD and the carriers and results in increased government costs. During fiscal year 1987, 71.3 percent of all Air Force household goods claims were filed within 6 months of shipment delivery, and 85.2 percent within 1 year. Claims officials at nearly all the installations we visited told us that service members' procrastination was usually involved when household goods claims took longer than

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6 months to be filed. We noted that claims on similar commercial shipments must be filed within 9 months of shipment delivery. Consideration should therefore be given to shortening the period allowed by statute for filing household goods claims.

Second, while claims data could be very useful in measuring carrier performance, DOD does not make full use of this data in selecting carriers to move DOD shipments. It is in the best interest of DOD and the service member to reduce the potential for damage to household goods shipments. However, the current system allows poorly performing carriers that cause high frequencies and amounts of claims to continue transporting DOD household goods shipments. DOD needs to minimize the use of these carriers. This could be done more effectively by using available claims performance data in selecting carriers.

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## Recommendation to the Secretary of Defense

Because recent changes in the level of carrier liability have significantly increased the amount of money recoverable from carriers for loss and damage, timely recovery of these funds is even more essential. We therefore recommend that the Secretary of Defense direct the Secretaries of the Army, the Air Force, and the Navy to place greater emphasis on recovery efforts associated with household goods claims.

Although we believe that a more effective use of claims data in selecting carriers is important, we are not making a recommendation on this matter. The increased carrier liability should result in either improved carrier performance or the eventual elimination of poorly performing carriers from the DOD household goods program. Either result would reduce the importance of using claims data in the carrier selection process.

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## Matter for Consideration by the Congress

We believe that the statutory period for filing household goods claims needs to be shortened. Although our work was limited to military household goods claims, both DOD officials and General Services Administration (GSA) officials responsible for civilian employee claims agreed that 2 years is excessive and that setting the statute of limitations at 1 year for civilian and military claims will not impose undue hardship on service members or federal employees. Therefore, we recommend that the statute—insofar as it pertains to household goods claims—be changed to limit the time allowable for filing claims to 1 year after the claim accrues. Prior to 1952, the statutory period was 1 year. The period was

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extended to achieve consistency with other claims statutes. A draft of proposed changes to 31 U.S.C. 3721 is included in appendix V.

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## DOD and Industry Comments

We requested that DOD and eight carrier associations review and comment on a draft of this report. DOD agreed with our findings.

The carrier industry generally agreed that (1) too few claims have been processed to evaluate the impact of increased liability on carrier performance and claims resolution, (2) DOD makes only limited use of claims data in selecting carriers to move DOD shipments, and (3) the statute of limitations for filing household goods claims needs to be shortened. However, industry officials believe that our report is incomplete since it does not compare DOD and commercial claims resolution practices. They also disagreed with other aspects of the report and suggested that our review be continued to (1) compare the military and commercial claims resolution processes, (2) determine the reasons that the military has higher household goods claims payments than carriers for commercial shipments, and (3) determine when the household goods claims backlog will be processed and inform carriers of the degree of financial liability they can expect as a result of the claims recovery backlog.

We believe that our report responds fully to the Committee's request and that further work comparing the military and commercial claims resolution processes is not warranted because of the time and resources such a comparison would require and because the fundamental differences between these two processes make the value of such a comparison questionable.

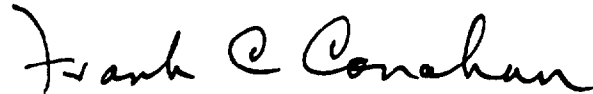
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Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after its issue date. At that time, we will send copies to the Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, Senate Committee on Armed Services, and Senate and House Committees on Appropriations; and the Secretaries of Defense, the Army, the Navy, and the Air Force.

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This report was prepared under the direction of Richard Davis, Director, Army Issues. Other major contributors are listed in appendix VI.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan". The signature is written in black ink and is positioned above the typed name and title.

Frank C. Conahan  
Assistant Comptroller General

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**Abbreviations**

AMC	American Movers Conference
CERS	Carrier Evaluation and Reporting System
DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration
MTMC	Military Traffic Management Command
TCT	Total Cost Transportation

# Evaluation of DOD Claims Payment and Recovery Activities

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## Background

The Department of Defense (DOD) shares liability with carriers for loss and damage to the household goods shipments of military service members. Service members with loss or damage to their household goods shipments may file claims against the government for the amounts of loss at installation claims offices. The claims offices then adjudicate the claims submitted and authorize payment to the service members for the full depreciated value of the damaged or lost items or the cost of repairs, whichever is less, up to the maximum amount allowed per shipment of \$25,000. The services' Judge Advocates General have primary responsibility for claims office operations.

After authorizing payment of the service member's adjudicated claim, the claims office attempts recovery from the carrier up to the extent of the carrier's liability. The carrier then has 120 days in which to pay the amount demanded. The claims office may accept less than the amount demanded from the carrier if the carrier can show that an error was made in determining the extent of carrier liability or if the amount offered by the carrier is determined by the claims office to be acceptable for other reasons. Failure of the carrier to submit an amount acceptable to the claims office can result in the subtraction of this amount from future transportation charges payable by DOD to the carrier involved. If the carrier believes that the recovery amount demanded by a claims office is inappropriate, the carrier may appeal to the service's Judge Advocate General for reconsideration. If the carrier is still unsatisfied, final appeal can be made to our office.

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## Carrier Liability Increased

From 1967 to early 1987, carriers handling military household goods shipments were liable for damage or loss at the rate of \$0.60 per pound per article. For example, if a carrier lost or damaged a 70-pound television worth \$400, it was liable for the depreciated value or for repairs, whichever was less—up to a maximum of \$42 (70 pounds times \$0.60).

Under the increased liability system adopted in early 1987 by the Military Traffic Management Command (MTMC), carriers are liable for the full depreciated value of damaged or lost articles up to a maximum amount per shipment based on the shipment weight multiplied by \$1.25 per pound. For example, if a shipment weighs 4,000 pounds, the carrier is liable for a maximum of \$5,000 (4,000 pounds times \$1.25). Thus, if only one item in this shipment is lost and its depreciated value is established at \$5,000, the carrier is liable for this amount. In the case of the \$400 television, the carrier would be liable for the full depreciated value or for the cost of repairs, whichever was less, and for all other lost or

damaged items in the shipment until the total amount of loss and damage reached \$5,000. Carrier liability under the new system generally is increased because it is no longer computed on a per article basis.

Military service members' claims for lost or damaged household goods are settled by the military services. In commercial practice, the carrier usually settles such claims directly with the owner. In early 1987, DOD began paying carriers a separate charge in addition to transportation charges to compensate them for the increased liability. This separate charge was higher than the comparable commercial separate charge because, among other reasons, the military services wanted to retain claims settlement authority for DOD household goods shipments. Our report entitled Household Goods: Implications of Increasing Moving Companies' Liability for DOD Shipments (GAO/NSIAD-88-103, Mar. 24, 1988) addressed the adequacy of this separate charge and other related issues.

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## Procedures Consistent Among the Services

We did not identify any major shortcomings in the military services' claims procedures. Claims regulations and procedures are reasonably consistent among the services, and claims processing activities at the installations we visited appear to be in accordance with these regulations and procedures. We noted minor problems concerning which depreciation tables are applicable and weaknesses in property disposal procedures, but the services were already developing plans to correct these problems.

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## Generosity of Claims Payments Could Not Be Determined

We could not determine whether DOD payments for household goods claims are overly generous. The military services frequently disagree with the carrier industry over what constitutes a fair and reasonable claims payment. Although the average military settlement is higher than the average settlement on a similar commercial shipment, this does not necessarily mean that military settlements are overly generous. There are many factors that tend to affect these averages. For example, many military shipments go into storage, which increases the likelihood of damage.

The settlement of claims involves subjective judgment. However, the military claims payments we reviewed appeared reasonable, and the claims were settled within the parameters of existing regulations. Also, the amounts actually paid were generally less than the amounts military members claimed.

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## Military and Carrier Industry Viewpoints Differ

The Army, Navy, and Air Force Judge Advocates General are responsible for the resolution of military household goods claims. DOD settles these claims with the service member first and then attempts recovery from the carrier up to the limit of the carrier's liability. Claims officials told us that household goods claims payment is both a fairness and a morale issue related to the services' desire to minimize the undesirable effects of frequent changes of duty stations. They said that moving companies often cause damage and loss to service members' household goods and that carriers frequently seek to unfairly minimize or reduce their liability for these losses and damages. They also said that damage to personal property, such as furniture, appliances, and other costly or sentimental items, affects the quality of service life and ultimately service personnel retention rates.

Carrier industry officials told us that the military services' method of settling household goods claims is different from that of private industry and the military services are inclined to make settlements in an overly generous fashion. This overgenerosity in turn results in higher costs to the carriers. The carrier industry believes that (1) carrier costs will increase dramatically with the increased liability, (2) the separate charge paid by DOD for the increased liability will be inadequate to cover these increased costs, and (3) it is unfair for the military services to pay household goods claims in a generous manner and then hold carriers almost entirely liable for these settlements.

Carrier industry officials told us that the services' generosity in paying household goods claims was of little concern to them before MTMC greatly increased carrier liability on domestic household goods shipments in early 1987. According to these officials, carrier liability prior to that time was so limited that claims recovery attempts were often not contested, and some carriers did not even have claims departments. However, with the increased liability, DOD has less incentive for controlling claims costs because DOD can pay claims generously and then expect higher recovery payments from the carriers.

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## Military Claims Payments Are Higher Than Commercial Payments

DOD payments for military household goods claims are generally higher than those paid by the carrier industry for similar commercial shipments. Sufficient data is not currently available to accurately determine the average amount of difference, but carrier industry estimates show that the average payment for a military household goods claim may be more than twice the average claim paid by carriers for similar commercial shipments.

Although carrier industry officials believe that military claims payments are higher because they are overly generous, DOD and other private industry officials associated with household goods movements told us that military claims payments are higher because carrier claims payments for similar commercial shipments are held as low as possible. They said that many carriers seek to minimize claims payments and that the amounts carriers are willing to pay are often inadequate to compensate for the losses and damage they cause. DOD and carrier industry officials also told us that military shipments may be suffering higher levels of damage because they are often placed in temporary storage before delivery to the service member. The additional handling associated with unloading and reloading shipments placed in storage increases the likelihood of damage.

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## Judgment Is a Factor

We could not determine whether DOD claims payments were overly generous. Much depends on the judgment of the individuals adjudicating the claims. For example, claims officials told us that when proof of ownership and loss could not be provided regarding claims for loss or damage to smaller, less expensive items, they largely relied on the honesty of the service member. Carrier industry officials told us that they felt that more burden of proof should be placed on the service member to demonstrate that loss or damage had actually occurred. During our visits we confirmed that written estimates were being required to substantiate the repair costs claimed for the more expensive items. However, claims officials told us that requiring a greater burden of proof for many smaller, less expensive items was impractical.

Other factors, such as the differences in the way carriers and service members obtain estimates for repairs to damaged household goods, can also affect claims amounts. The amount of a service member's claim often depends on the estimated cost of repairs to a damaged item, such as a piece of furniture. Carrier industry officials told us that they could reduce their costs for repairing damaged items by contracting with selected repair firms that offer discounts in exchange for volume business. They therefore object to being held liable for the higher claims amounts resulting when service members independently obtain higher-priced repair estimates.

Some military claims office officials told us that contracted repair firms sometimes performed poor quality repairs. They said that these firms also tended to provide unrealistically low repair estimates. At other locations, military claims officials told us that they were satisfied with

the same repair firms being used by the carriers. We believe that these conditions vary depending on the installation, the repair firms, and the carriers involved.

We asked carrier industry representatives to provide us with documentation to support their belief that military claims payments are overly generous. Ten carriers gave us information on 120 claims that allegedly involved excessive payments. For example, the carriers alleged that the services either had not depreciated or had incorrectly depreciated items in 25 claims, that the damage had occurred prior to the shipment in 44 claims, and that there were multiple problems with 66 claims. Some of these examples, such as the cases involving a failure to depreciate items appeared to involve error by military claims offices. However, others involved subjective judgments. For example, in 10 claims the carriers disputed the fairness of the repair estimate used by DOD. We could not determine from the data provided how often these differences were occurring or how representative they were of the carrier industry overall because of the small number of examples and the time and resources that verification of the carriers' allegations would require.

Differences between DOD and the carrier industry, the inherent subjectivity of claims settlement, and varying local situations make an overall evaluation of this subject difficult. In any event, we believe that DOD has the right to determine the services it wants the carriers to perform. If exercising this right results in variances from carriers' commercial practices and increases carrier costs, the carriers may increase the rates they charge DOD for transporting household goods shipments. The carriers may also appeal claims they believe are overly generous. We believe that the carrier industry has adequate recourse for compensation if it believes that carrier costs are too high because of increased liability and/or overly generous military claims payments.

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### **Claims Office Adjudication Appears Appropriate**

We reviewed the files and settlement procedures for household goods claims at 11 military installations in Maryland, Virginia, Texas, and the District of Columbia. The claims payments we reviewed at these installations appeared to be reasonable. The claims offices also appeared to be reviewing service members' claims in accordance with regulations. For example, each claims office was ensuring that the items claimed were being depreciated, that the cost of the items claimed was substantiated by comparison with catalog prices or other means of determining fair initial value, and that written estimates were submitted to substantiate

the more expensive repair costs claimed.<sup>1</sup> These claims offices were paying about 60 to 85 percent of the amounts claimed by service members.

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## Claims Resolution Efficiency and Effectiveness Are Unclear

Our evaluation of the efficiency and effectiveness of the military services in resolving household goods claims produced varied results. The services appeared to be processing and paying service members' household goods claims in an effective and timely manner at most of the installations. However, we were unable to evaluate other aspects of claims payment and recovery activities because the Army, Navy, and Marine Corps could not provide us with the needed computerized claims data. Recovery activities appear to have a lower priority than claims payment, and some of the installations had large backlogs of claims awaiting recovery processing. Recovery effectiveness appears to vary among the services, with the Air Force having done significantly better than the other services during the recent fiscal years for which claims data was available.

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## Claims Payments Appear Timely and Effective

Nearly all the installations we visited were processing service members' household goods claims and authorizing payment in a timely and effective manner. Only Marine Corps Headquarters had a large claims payment backlog—about 1,296 claims as of March 4, 1988. Claims packets containing guidance for filing household goods claims were routinely being distributed, and claims offices were providing briefings and personal assistance to service members. Once a claim was filed, the processing time required to obtain authorization for payment at the Army, Navy, and Air Force installations averaged less than 2 weeks for household goods claims under \$1,000 and usually less than 30 days for those of \$1,000 or more. Claims officials told us that claims payments were sometimes delayed due to staffing shortages and/or the unavailability of funds near the end of the fiscal year.

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## Claims Recovery Effectiveness Is Unclear

We were unable to determine the effectiveness of DOD household goods recovery activities. Only the Air Force was able to provide the computerized claims data needed to evaluate claims recoveries and some

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<sup>1</sup>Repairs requiring written estimates varied depending on the installation, the item, and the circumstances involved. Normally, written estimates were required when item repair costs exceeded the \$50 to \$100 range.

aspects of claims payments.<sup>2</sup> The other services are currently procuring or installing computerized claims data systems. We did not perform manual analyses of claims payment and recovery data at the other services because of the time and resources such an analysis would require.

Also, too few of the shipments with increased carrier liability have been processed to date to provide the recovery data needed to evaluate the impact of the increased liability on carrier performance and claims resolution. Such an analysis should focus on the increased liability shipments because (1) the increased liability should result in major changes in the household goods shipment program and (2) the dollar value of recoveries associated with these shipments is potentially much higher than it is for other shipments. We do not believe that an adequate evaluation of this subject can be made at this time.

We performed a partial evaluation of claims recovery processing activities at the 11 installations we visited, Marine Corps Headquarters, the U.S. Army Claims Service, and the offices of the Air Force and Navy Judge Advocates General. We found substantial recovery backlogs of household goods claims awaiting processing at four Army installations. We estimate that the potential value of recoveries associated with these claims at each installation varied from approximately \$40,000 to \$95,000 and totaled approximately \$257,000. Some of the claims awaiting recovery processing were more than 2 years old. Also, one of the Navy installations we visited had recently cleared a large recovery backlog. No backlogs were found at the Air Force installations we visited.

The efficiency and effectiveness of claims recovery activities appear to vary by service. We analyzed MTMC's data on domestic household goods shipments, claims, and recovery by service for fiscal years 1983, 1984, and 1985.<sup>3</sup> We found that, of all the services, the Air Force had recovered both the highest percentage of the number of claims paid and the greatest percentage of the claim amounts paid. Air Force recovery efforts therefore appear to have been more effective than those of the other services. A MTMC official told us that recovery efficiency among the services should be approximately equal. We did not determine why the other services were less effective. Summary data for these comparisons is shown in tables I.1 and I.2.

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<sup>2</sup>This data includes listings by individual claims and by installations of the amounts claimed, the amounts paid, the amounts asserted against the carriers, and the amounts recovered from the carriers.

<sup>3</sup>Complete claims data for each service was not available from MTMC for fiscal years after 1985.



**Appendix I  
Evaluation of DOD Claims Payment and  
Recovery Activities**

**Table I.1: Percentage of the Number of Service Member Claims Paid That Had Recoveries From Carriers**

Figures in percent

Service	Fiscal year		
	1983	1984	1985
Air Force	89.9	88.8	87.1
Army	74.8	71.7	61.0
Navy	76.7	55.9	<sup>a</sup>
Marines	63.5	60.8	<sup>a</sup>

<sup>a</sup>The Navy and the Marine Corps did not report all household goods claims data to MTMC in fiscal year 1985.

**Table I.2: Percentage of the Service Member Claims Amounts Paid That Were Subsequently Recovered From Carriers**

Figures in percent

Service	Fiscal year		
	1983	1984	1985
Air Force	28.9	28.1	26.1
Army	23.3	22.3	17.6
Navy	22.9	16.6	<sup>a</sup>
Marines	20.2	21.0	<sup>a</sup>

Note: The amounts recovered represent a relatively low percentage of the claim amounts paid because carrier liability during this period was limited to \$0.60 per pound per article.

<sup>a</sup>The Navy and the Marine Corps did not report all household goods claims data to MTMC in fiscal year 1985.

Claims officials told us that household goods claims payments to service members tend to receive more command emphasis than claims recoveries from carriers. They attributed recovery backlogs to their low priority, personnel shortages, and processing surges caused by the unavailability of funds to pay claims near the end of the fiscal year. For example, a claims official at one Army installation with a 7-month claims recovery backlog told us that household goods claims recoveries were mostly performed by reservists and part-time hires during the summer.

Timely claims recovery is important because recovered funds are used to pay future claims. Shortages must be made up through appropriations. Claims officials told us that delays tend to make recovery more difficult and to increase government costs. They said that problems occur because the availability of evidence and documents needed to support the recovery claim tends to lessen over time, older claims are generally more difficult and consequently more costly to process, and some carriers tend to be more resistant to delayed recovery efforts. Low recovery amounts result in the need for increased appropriations, thus increasing government costs.

The importance of household goods claims recovery has increased since MTMC implemented the increased carrier liability program. Purchasing the increased liability will cost DOD more than \$9 million annually, but recoveries should almost quadruple to about \$17 million annually if carrier performance remains unchanged. Effective recovery operations are therefore critically important to the increased liability program's objectives of reducing government costs and providing an incentive for poorly performing carriers to reduce household goods damage and loss.

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## Statute of Limitations Appears Needlessly Long

Under the provisions of 31 U.S.C. 3721, federal employees have 2 years to file claims for loss and damage to personal property, including household goods. Prior to 1952, the statutory period was 1 year. The period was extended to 2 years to achieve consistency with other claims statutes.

However, the 2-year period for filing household goods claims appears to be needlessly long, contributes to claims management and adjudication problems, prevents carriers from making more timely adjustments to their transportation rates, and causes increased government costs. We believe that nearly all household goods claims could be filed within 6 months without unfairly burdening the service member. Claims officials at the installations we visited told us that claims filed more than 6 months after shipment delivery usually involve service member procrastination.

We asked the Claims and Tort Litigation Staff of the Office of the Air Force Judge Advocate General to provide us with computerized data indicating the length of time between shipment delivery and the filing of claims for all Air Force household goods shipments occurring in fiscal year 1987. Similar data was unavailable from the other services.

Our analysis of the Air Force's data showed that 71.3 percent of all household goods claims had been filed within 6 months of shipment delivery, and 85.2 percent within 1 year. The average amount paid for claims increased only slightly for those filed more than a year after shipment delivery. It therefore appears that claims filed a year or more after shipment delivery are usually not significantly larger and consequently more complex than earlier-filed ones. We also noted that, by contrast, claims on commercial shipments must be filed within 9 months of shipment delivery.

We believe that the 2-year statute of limitations encourages service members to take longer periods than are necessary to file their claims. This tends to increase the already long gaps between the time household goods shipments occur and the time claims data for evaluating costs and carrier performance is available. Claims processing and recovery by the military services can take an additional 6 months or longer. Claims officials at all the installations we visited also told us that long delays in filing household goods claims often resulted in claims settlement problems that caused reduced claims payment to the service member and difficulties in claiming recoveries from carriers.

Unnecessary delays in filing claims also exacerbate carriers' problems in obtaining the claims recovery cost information they need to adjust their rates in a timely fashion. MTMC requires household goods carriers to bid on transportation rates for contracts to transport DOD household shipments 6 months prior to the beginning of the 6-month period these rates will be in effect.

In addition, delays in filing household goods claims increase government costs. Late-filed claims are generally more difficult to process and consequently increase administrative costs. They also increase government costs because they tend to result in reduced recoveries from carriers. DOD pays carrier transportation charges when household goods shipments are delivered. Carriers are required to refund transportation charges for items that are lost or irreparably damaged during shipment. DOD cannot recover and reuse these funds until the service member's claim is filed and processed. The availability of these funds and the amount of interest cost to the government thus depend largely on the amount of time required for service members to file their claims. Shortening this period would reduce government costs. DOD, General Services Administration (GSA), and carrier industry officials agreed that the statute of limitations concerning household goods claims could be shortened to a year or less. We therefore believe that this statute—insofar as it pertains to household goods claims—should be changed to allow a maximum of 1 year for filing household goods claims. A draft of the proposed statutory changes is included in appendix V.

## DOD Does Not Use Claims Data to Select Household Goods Carriers

Installation Personal Property Shipping Offices select the commercial carriers used to transport DOD household goods shipments. This selection is based on (1) the transportation rates bid by the authorized carriers and (2) carrier scores given by DOD's Carrier Evaluation and Reporting System (CERS). However, CERS does not use actual service claims payment and recovery data as criteria for carrier selection. Instead, CERS uses criteria such as a carrier's compliance with scheduled shipment pickup and delivery dates and service members' opinions of the quality of service provided and of the extent of damage and repair costs. DOD officials told us that DOD had received service members' evaluations on less than half of all DOD household goods shipments. In 1982, the Air Force proposed that DOD adopt the Total Cost Transportation (TCT) concept for selecting carriers to move household goods shipments. This concept advocates evaluating all transportation costs, including claims costs, in selecting the carriers used for DOD shipments. However, Air Force and MTMC officials told us that all the military services would need computerized, compatible claims and transportation data information systems in order to implement TCT. As of August 1988, only the Air Force had an effective computerized claims information system. The Army, the Navy, and the Marine Corps were in various stages of procuring and/or installing new or improved computerized claims data systems, and DOD had not made a decision on whether to implement TCT.

A recent GAO analysis of service claims data showed that carrier performance (measured in terms of the number and amount of claims the services paid) varied widely by carrier.<sup>1</sup> The average amount of claim paid by DOD for fiscal year 1985 shipments ranged from \$297 for the best performing carrier to \$823 for the worst.<sup>2</sup> Carriers causing high frequencies and amounts of claims often bid the lowest transportation rates and consequently are frequently selected to carry DOD shipments. DOD officials told us that some of these carriers rely on DOD for all their business.

We believe that claims data is an important indicator of carrier performance and that it should also be a factor in determining which carriers are chosen to move DOD household goods shipments. It is unclear whether the amount saved by using the low cost carriers is greater or less than the amount of claims costs subsequently incurred. However, some carriers that continue to do business with DOD are causing much

<sup>1</sup>Household Goods: Implications of Increasing Moving Companies' Liability on DOD Shipments (GAO/NSIAD/88-103, Mar. 24, 1988).

<sup>2</sup>Fiscal year 1985 is the last year for which adequate data is available for analysis.

higher levels of damage and loss to service members' household goods shipments than others, and this is resulting in much higher frequencies and amounts of claims for shipments handled by these carriers.

The increased carrier liability program should cause poorly performing carriers to either (1) improve their performance, (2) raise their transportation rates (and thus become less competitive for DOD contracts), or (3) absorb the losses they will incur through much higher recovery costs. We therefore believe that the increased liability program eventually will have much the same effect as would an effort to better select household goods carriers.

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## Agency and Industry Comments and Our Evaluation

We asked DOD and eight carrier associations to review and comment on a draft of this report. Comments from six associations were consolidated and submitted by the American Movers Conference (AMC). Two carrier associations did not provide comments.

The major issues raised by DOD and the carrier industry are discussed below. Complete comments are included as appendixes II and III.

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### DOD Comments

DOD agreed with our findings, conclusions, and recommendations. However, it suggested that, in shortening the statutory period for filing claims, exceptions be allowed for certain individuals who have difficulty meeting the statute because they serve in remote locations. We believe that military regulations' interpretation of the law permits DOD to provide relief in those rare instances in which the service member cannot reasonably file a claim in a timely manner.

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### Industry Comments

Carrier industry representatives questioned the scope of our work and stated that we had not fully responded to the Committee on Armed Services' request. They noted that the Committee's original request had asked us to evaluate the claims resolution efficiency and effectiveness of the military services as compared to the commercial practice of carriers settling claims directly with property owners.

The carrier industry's understanding of the Committee's original request is correct; however, the request was modified during meetings held subsequent to its receipt. We agreed with the Chairman's office to (1) review household goods claims procedures in each of the four military services, (2) determine whether military household goods claims

payments to service members were overly generous, and (3) evaluate the efficiency and effectiveness of military service claims resolution. We also agreed not to attempt to compare the military and commercial claims resolution processes because of the time and resources such a comparison would require and because such a comparison would involve so many fundamental differences and problems that its value would be questionable. These differences and problems include (1) the limited comparability of military and commercial shipment statistics because they often involve different carriers with different performance characteristics, (2) the subjectivity of the claims payment fairness issue, (3) differences in the ways carriers are selected for military and commercial shipments, and (4) differences in the claims data associated with shipment storage.

First, the differences among the carriers that handle only military shipments, those that handle military and commercial shipments, and those that handle only commercial shipments complicate any comparison. Some of the carriers bidding the lowest transportation rates and consequently selected to carry DOD shipments appear to rely on DOD for most or all of their business. Claims statistics on commercial shipments are therefore not affected by the poorer quality service offered by many of these carriers. Poorer performing carriers continue to do business with DOD because actual carrier performance is not used in selecting carriers.

Second, a comparison of the commercial and military claims resolution processes could not address the fairness issue. The industry states that military claims payments are overly generous because they are higher than similar commercial payments. This assessment may establish the commercial standard, but it does not necessarily mean that commercial payments are adequate.

Third, major differences exist regarding the way carriers are selected to handle military as opposed to commercial shipments. DOD regulations require that military shipments be distributed evenly among approved carriers with similar transportation rates and CERS scores. Large commercial customers, on the other hand, can select carriers that offer high quality service to move all their shipments.

Finally, proportionately more military than commercial shipments are placed in temporary storage prior to delivery. The additional handling associated with unloading and reloading shipments placed in storage increases the likelihood of damage. This consequently affects any comparison of military and commercial claims amounts.

The carrier industry stated that such a comparison could have been made had we chosen to visit carriers and evaluate their claims resolution activities in the same manner as we did the military claims offices. They believed that such an evaluation would have shown that military claims settlement is overly generous and could have determined why military claims payments are much higher than industry's for similar services. In particular, the industry stated that our conclusion that military claims payments appear higher on average than commercial payments is vastly understated. In support of this position, industry comments included statistics comparing military claims payments with those of national account (corporate or business contract) commercial shipments. The statistics purportedly showed that military payments are 4.5 times greater than commercial claims payments in terms of the amount of claim payment per pound shipped and more than 2.7 times greater in terms of the average total claim amount paid.

We modified our report to state that the average military claim is higher, rather than appears to be higher. However, we believe that any comparison of military and commercial claims resolution is flawed and is likely to result in distorted conclusions. The inherent differences between the two types of shipments preclude meaningful comparison because they often involve different carriers with different performance patterns.

Furthermore, we would expect commercial national account shipments to be more efficiently handled since the shipper would normally select only quality carriers to handle its repeat business. Unlike military shipments, which are rotated among carriers with widely varying performance levels, national accounts employ only the best performers. Carriers, knowing that repeat business is contingent on quality service, are likely to exercise care to ensure that minimum loss and damage occur on these shipments. Also, the carrier industry's national account statistics cover only 42.5 percent of all the household goods traffic volume the industry handles. These statistics do not include claims data for commercial shipments made by smaller businesses and individuals. Inclusion of this data could substantially reduce the amount of difference between commercial and military claims reflected in the carrier industry comments.

The carrier industry agreed that DOD has the right to determine the services it wants the carriers to perform. However, it stated that the practicalities of the claims recovery process and the rate-filing process effectively prohibit a carrier from adjusting its rate level quickly to account for a backlog of unrecovered claims.

The practicalities of the rate-filing and claims recovery processes do inhibit rapid rate adjustment by the carriers. Shortening the statute of limitations and increasing DOD emphasis on claims resolution should help to alleviate this problem.

The carrier industry stated that the increased liability program has highlighted the importance of providing valid estimates for repair. The industry believes that if a carrier's lower repair cost estimate is not used in the military member's claim settlement, the carrier generally should not be required to reimburse the government at the higher cost repair estimate during the claims recovery process. The carrier industry also stated that low cost carrier estimates are not being accepted everywhere, even if the repair firm can and will do the repairs adequately.

At the installations we visited, claims officials were generally reviewing the amounts claimed for reasonableness and using the low cost estimates except in cases in which work performed by the low cost repair firms was considered unacceptable. However, although service members are usually required to obtain estimates for repairs exceeding \$50 to \$100, the repair firm selected may not offer the lowest cost or be the one carriers prefer to use. Claims officials at the installations we visited told us that they rejected repair firm estimates that were considered higher than average. Carriers often reduce repair costs by contracting with selected repair firms that offer discounts in exchange for volume business or by using carrier-owned repair firms. At some of the installations we visited, claims officials told us that they were satisfied with the repair firms used by the carriers, while at others claims officials were dissatisfied. These conditions therefore appear to vary depending on the installation, the repair firms, and the carriers involved. We believe that DOD should use the low cost repair firms if the quality of the repairs they perform is acceptable. Carriers can also adjust for the higher repair costs by increasing their transportation rates.

The carrier industry stated that DOD has little incentive to constrain claims costs since these costs are passed on to the carriers. If a carrier contests the claim amount, a service claims office often resorts to set-off (subtracting the claim amount from subsequent shipment transportation charge payments to the carrier involved), leaving only GAO and the Court of Claims as appeal routes. According to industry officials, both of these routes are time-consuming and costly to the carrier.

DOD does have incentives to constrain claims costs because (1) not all of the amount paid is recovered from the carrier and (2) higher claims will



ultimately result in higher transportation charges for military shipments. It is unclear whether the average claim payment is increasing as a result of the increased liability program. At present, a sufficient number of increased liability claims have not been processed by the military services to determine this.

The carrier industry stated that increasing the total amount recovered from carriers to \$17 million will result in the industry's being charged \$8 million annually to maintain the service members' morale and quality of life. Since DOD will pay the carriers (through the separate charge) only \$9 million for the increased liability, the carrier industry believes that the remainder is attributable to morale and quality of life issues.

The industry's statement is misleading. Recoveries from carriers will increase \$12.3 million (from about \$4.7 million to about \$17 million) under the increased liability program if the carriers perform as they did in fiscal year 1985, the last year for which complete claims data was available at the time of our work. This \$12.3 million is offset, however, by about \$9.4 million annually in separate charge payments by DOD to the carriers under this program. Net cost to the carriers will therefore increase by almost \$3 million annually, not \$8 million. Fiscal year 1985 claims data filed since our analysis indicates that the increase in net cost to the carriers could rise by about \$1 million more to a total increase of approximately \$4 million annually. This increase represents less than 1 percent of the \$450 million in total transportation charges carriers received for domestic DOD household goods shipments.

Furthermore, the increased costs will be incurred by those carriers whose performance is less than that demonstrated by the better performing carriers (the better performing carriers composed 28 percent of the 54 carriers sampled). In other words, the additional cost to the carrier industry will be borne by the poorly performing carriers, which is where we believe the added burden should fall. Conversely, the profitability of the better performing carriers will improve. The impact of the increased liability program and its cost to DOD and the carriers are discussed in detail in our report entitled Household Goods: Implications of Increasing Moving Companies' Liability for DOD Shipments (GAO/NSIAD-88-103, Mar. 24, 1988).

The carrier industry also questioned the accuracy and logic of our estimate that, on average, DOD would recover about 78 percent of the total amount of household goods claims paid. The industry's comments

included calculations that, it believes, contradict our estimate. In particular, the industry quadrupled a 30-percent recovery factor to show that our methodology would result in a 120-percent recovery.

We disagree with the industry's methodology and the numbers it used. We estimated that the services would recover about \$4.7 million of the \$21.8 million paid for domestic household goods claims in fiscal year 1985 (21 percent, not 30 percent). Under the increased liability rate, the amount recovered would total about \$17 million of the \$21.8 million paid (78 percent, not 120 percent). If the carriers perform as they did in fiscal year 1985, the increased liability program would result in almost a quadrupling of the amount recovered by the government (\$17 million instead of \$4.7 million at the old liability rate). The carrier industry's 120-percent figure was obtained by what we believe is an inappropriate use of selected service claims data.

The carrier industry's comment focuses on the accuracy of the factor we used to project DOD totals from service claims data. The factor we used was provided by MTMC and was based on historical claims data. During February 1988, we asked a MTMC official to check actual reported claims data for the increased liability program to test the accuracy of our projections. The average percentage of recovery at that time was exactly as we had projected—78 percent of the claims amount paid. We therefore believe that our estimates are accurate if carriers continue to perform as they did in fiscal year 1985 and if claims data filed after our review does not differ substantially from the rest of the fiscal year 1985 data.

The carrier industry stated that the fact that our review found problems with claims recovery at several installations involving all the services except the Air Force confirmed that the DOD claims settlement/recovery process is seriously flawed. The carrier industry believes that our report should identify these as actual rather than potential problems.

We did find problems with the claims settlement/recovery process at some of the installations we visited. We describe them in our report as potential problems DOD-wide because we visited only 11 installations, too small a sample for statistical validity for all military installations.

The carrier industry agreed that the period allowed for filing household goods claims needs to be shortened. It recommended that DOD members be required to file household goods claims within 9 months or less of shipment delivery. However, the carrier industry stated that it believes the time allowed for filing can be shortened through administrative

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**Appendix I**  
**Evaluation of DOD Claims Payment and**  
**Recovery Activities**

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rather than legislative action. We disagree. Under 31 U.S.C. 3721 (g), federal employees and military personnel are, by statute, allowed 2 years to file personal property claims. The entitlement cannot be curtailed through an administrative process.

# Comments From the Department of Defense



PRODUCTION AND  
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301-8000

OCT 17 1988

(L/TP)

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and  
International Affairs  
Division  
U.S. General Accounting Office  
Washington, DC 20548

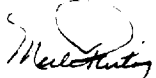
Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report entitled HOUSEHOLD GOODS: Evaluation of DoD Claims Resolution Activities (GAO Code 393267), dated August 15, 1988.

While the DoD is in general agreement with the report findings, there are several areas needing clarification. These areas are addressed in the DoD comments on the draft report findings which are provided in the enclosure.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,

  
Merle Freitag, MG, USA  
Military Deputy

Enclosure

GAO DRAFT REPORT - DATED August 15, 1988  
(GAO CODE 393267) OSD CASE 7735

"HOUSEHOLD GOODS: Evaluation of DoD Claims  
Resolution Activities"

DEPARTMENT OF DEFENSE COMMENTS  
\* \* \* \* \*

FINDINGS

- o **FINDING A: Procedures for Evaluation of DoD Claims Payment and Recovery Consistent Among Services.** The GAO noted that the Service Judge Advocates General have primary responsibility for claims office operations. The GAO further noted that the DoD shares liability with carriers for loss and damage to household goods shipments of Military Service members. The GAO described the claims process, as follows:

- Service members with household goods shipment loss or damage may file a claim against the Government for the amount of loss at installation claims offices.
- The claims offices then adjudicate the claims submitted and authorize payment to the Service member for the full depreciated value of the damaged or lost items or the cost of repairs, whichever is less, up to the \$25,000 maximum amount allowed per shipment;

The GAO observed that, under the increased liability system adopted within DoD in 1987, the carrier now carries a much larger portion of the liability because under the new system the rates are higher per pound and the carrier liability is not computed on per article basis. The GAO did not identify any major shortcomings in the Military Service claims procedures. The GAO found that claims regulations and procedures are reasonably consistent among the Services, and claims processing activities at the installations appear to be in accordance with the regulations and procedures. Although noting minor problems concerning which depreciation tables are applicable and weaknesses in the property disposal procedure, the GAO observed that the Services were already developing plans to correct these problems. (p. 1, pp. 8-10/GAO Draft Report)

**DoD Response:** Concur

Enclosure

Now on p. 9.

- o **FINDING B: Generosity of Claims Payments Could Not be Determined.** The GAO reported that it was unable to determine whether DoD payments for household goods claims are overly generous. The GAO further reported that neither was it able to determine whether the commercial settlements are fair and equitable to the shipper. The GAO found that the Military Services frequently disagree with the carrier industry over what constitutes a fair and reasonable claim payment. The GAO also found, however, that the amounts actually paid were generally less than the amounts the Military members claimed. The GAO observed that, although the average Military claim appeared higher than that experienced for similar commercial shipments, this does not necessarily mean that Military settlements are overly generous. The GAO identified several factors that tend to affect these averages. The GAO noted, for example, that many Military shipments go into storage, which increases the likelihood of damage. The GAO concluded that the settlement of claims involves subjective judgement. The GAO further concluded that the Military claims payments it reviewed appeared to be reasonable and the claims were settled within the parameters of existing regulations. (pp. 1-2, pp. 10-15/GAO Draft Report)

Now on pp. 1-2, 9-12.

**DoD Response:** Concur

- o **FINDING C: Claims Resolution Efficiency and Effectiveness is Unclear.** The GAO evaluation of the efficiency and effectiveness of the Military Services in resolving household goods claims produced varied results. According to the GAO, the Services appeared to be processing and paying Service member household goods claims in an effective and timely manner at most of the installations. However, the GAO was unable to evaluate other aspects claims of the payment and recovery activities because three of the Services (i.e., the Army, the Navy and the Marine Corps) could not provide the needed computerized claims data to the GAO. The GAO observed that recovery activities appeared to have a lower priority than claims payment, noting some of the installations have large backlogs of claims awaiting recovery processing. The GAO also found that recovery effectiveness appeared to vary among the Services, with the Air Force doing significantly better than the other Services during recent fiscal years for which claims data was available. The GAO found an estimated \$257,000 in recovery backlogs of household goods claims awaiting processing at four Army locations, and some of these claims more than 2 years old. The GAO also found one Navy location that had recently cleared a large recovery backlog. The GAO found no

backlogs in the Air Force. The GAO concluded that the importance of household goods claims recovery has increased since the Military Traffic Management Command (MTMC) implemented the increased carrier liability program. The GAO estimated that purchasing this increased liability will cost the DoD more than \$9 million annually, but recoveries should almost quadruple to about \$17 million annually, if carrier performance remains unchanged. The GAO generally concluded that effective recovery operations are, therefore, critically important to the increased liability programs objectives of reducing Government costs and providing incentive for poorly performing carriers to reduce household goods damage and loss. (pp. 2-3, pp. 21-24/GAO Draft Report)

Now on pp 2, 13-16.

DoD Response: Concur

- o FINDING D: Statute of Limitations Appears Needlessly Long. The GAO reported that the statute of limitations allows a Service member 2 years to file a household goods claim. The GAO observed that this period appears to be needlessly long. The GAO further observed that the long filing period contributes to claims management and adjudication problems, prevents carriers from making more timely adjustments to their transportation rates, and causes increased Government costs. The GAO found that, during FY 1987, 71 percent of all Air Force household goods claims were filed within 6 months of shipment delivery, and 85 percent within one year. The GAO discussed the timeliness of claims with DoD claims officials at numerous installations and found that Service member procrastination was usually involved when household goods claims took longer than 6 months to be filed. The GAO noted that claims on similar commercial shipments must be filed within 9 months of shipment delivery. The GAO concluded that delays in filing household goods claims increase government costs because late-filed claims are generally more difficult to process and consequently increase administrative costs. In addition, the GAO concluded that late-filed claims increase Government costs because they tend to result in reduced recoveries from carriers. The GAO generally concluded, therefore, that shortening the statute of limitations would therefore reduce Government cost. (According to the GAO, both DoD claims officials and carrier industry officials agreed that the statute of limitations could be shortened.) (p. 3, pp. 21-24/GAO Draft Report)

Now on pp 2-4, 16-17, 19, 24.

DoD Response: Partially Concur. The DoD supports shortening the statute of limitations for filing claims from two years to one year. However, exceptions to the statute should be allowed for certain individuals who may

have difficulty meeting the statute--e.g., those serving assignments in remote areas.

- o **FINDING E: The DoD Does Not Use Claims Data To Select Household Goods Carriers.** The GAO observed that the Military Traffic Management Command (MTMC) selects the commercial carriers used to transport DoD household goods shipments. The GAO explained that this selection is based on (1) the transportation rates bid by the authorized carriers and (2) carrier scores given by the MTMC Carrier Evaluation and Rating System (CERS). The GAO found, however, that the CERS does not use actual Service claims payment and recovery data as criteria for carrier selection; instead, the CERS uses criteria such as carrier compliance with scheduled shipments pickup and delivery dates and Service member opinions of the quality of service provided and the extent of damage and repair costs. In a prior report<sup>1/</sup>, the GAO showed that carrier performance (measured in terms of the number and amount of a claim the Military Services paid) varied widely by carrier. The GAO found that the average claim paid by the DoD for FY 1985 shipments ranged from \$297 for the best performing carrier to \$823 for the worst. The GAO observed that carriers causing high frequencies and amounts of claims often bid the lowest transportation rates and consequently are frequently selected to carry DoD shipments. The GAO reported that DoD officials stated that some of these carriers rely on DoD for all their business. The GAO concluded that the increased carrier liability program should cause poorly performing carriers to either (1) improve their performance, (2) raise their transportation rates (and thus become less competitive for DoD contracts), or (3) absorb the losses they will incur through much higher recovery costs. The GAO further concluded, therefore, that the increased liability program will have the same effect as would an effort at better selection of household goods carriers. The GAO, nonetheless, suggested that the DoD consider implementing a system that uses claims payment and recovery data as one of the criteria for selecting household goods carriers. (p. 3-4, pp. 24-27/GAO Draft Report)

**DoD Response:** Concur.

<sup>1/</sup> "HOUSEHOLD GOODS: Implications of Increasing Moving Companies' Liability On DoD Shipments,"  
GAO/NSIAD-88-103, Dated March 24, 1988, OSD Case 7385.

\* \* \* \* \*

Now on pp. 3, 17-19.



RECOMMENDATION TO THE DOD

- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, the Navy and the Air Force to place greater emphasis on recovery efforts associated with household goods claims. (p. 4/GAO Draft Report)

Now on p. 3.

**DOD Response:** Concur. The Service Secretaries will be asked to place greater emphasis on recovering household goods claims. A tasking memorandum will be forwarded by October 31, 1988.

RECOMMENDATION TO THE CONGRESS

- o **RECOMMENDATION 2:** The GAO recommended that the Congress consider changing the statute of limitations--insofar as it pertains to household goods claims--to allow one year after shipment delivery for filing claims. (p. 5/GAO Draft Report)

Now on pp. 3-4.

**DOD Response:** Partially Concur. The Department supports the recommended shortening of the statute of limitations for filing household goods claims. However, the DoD suggests that exceptions should be allowed for certain individuals who may have difficulty meeting the statute because they serve in remote locations.

# Comments From the Carrier Industry



**CHARLES C. IRIONS**  
Major General USAF (Ret)  
*President*

September 29, 1988

Mr. Frank C. Conahan  
Assistant Comptroller General  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Conahan:

We appreciate the opportunity to provide comments to GAO's draft report on military claims procedures, DOD's overly generous payment of claims, and its review of the efficiency and effectiveness of military service claims resolution.

This response, as indicated by the signature sheet, represents the position of the major moving associations whose membership includes virtually all the DOD approved carriers. While we intend to address certain major deficiencies found in the report, the fact that we did not address the report on an item-by-item basis should not be construed as agreement or acceptance of those points. Time constraints, even with the short extension granted to respond, prevented a more detailed response to every point in the report.

In reviewing the tasking letter of June 29, 1987, from Chairman Aspin, we find that the GAO has not responded to a key requirement of the tasking letter. Specifically, GAO was requested "to evaluate claims resolution efficiency and effectiveness as compared to the commercial practice of carriers settling claims directly with property owners."

GAO did evaluate the military claims resolution process, but did not make any comparison with commercial practice. We believe this report is incomplete and should not be released except as an "interim" report.

In summary, the GAO should:

1. Complete an evaluation of the efficiency and effectiveness of the military claims resolution process as compared with the commercial practice of settling claims directly with the owner of the property.
2. Determine the reason(s) why the military has a higher claim payout than industry has for similar service.

3. Determine when the claims backlog will be processed and inform carriers how much of a financial liability they can expect to receive as a result of the claims recovery backlog.

4. Release this draft as an interim report and provide a final report when the additional evaluations are completed.

GAO's failure to compare the claims settlement process of the military with the claims settlement process for commercial shippers by the carriers is a major deficiency of the draft report. It would have been possible to make this comparison if GAO had chosen to visit carrier offices in the same manner as it visited the eleven military claims offices.

We requested GAO visit carriers and advised them that our claims files and data were available for their review. We believe the one carrier visited by GAO supports our contention that the data for comparison were available and that the industry's objections to the military claims settlement process is justified. The two reasons used by GAO (excess military storage and fair and equitable claims settlements with commercial shippers pp.1&2) for justifying the difference in average claims costs between military and commercial traffic could have been answered by visiting carriers. The carrier industry could have provided data on commercial shipments that went into storage, and GAO could have contacted any of our commercial customers to evaluate our claims services.

See pp. 19-20.

GAO "found that military household goods claims payments appear higher on average than those made by carriers for similar commercial shipments." This conclusion is vastly understated. DOD's data indicate military average claims payments to service members averaged \$609. This compares with a commercial claims payment for shipments at similar valuation of \$224. To highlight the claims payment differential, military shipments averaged 4,883 pounds which indicates a claims payment of 12.5 cents per pound (\$609 divided by 4,883 pounds). This compares with an average commercial shipment of 8,098 pounds or an average claims payment of 2.8 cents per pound (\$224 divided by 8,098).

See p. 21.

Military claims payments are 4.5 times greater than commercial shipments moving under the same released valuation, i.e., \$.60 per pound per article. Therefore, we find it difficult to understand how GAO can conclude that military household goods claims payments only "appear" higher than commercial claims. Military claims are considerably higher, as summarized in the following table.

TABLE NO.1

Comparison of Military and Commercial Shippers

	<u>Military Shippers</u>	<u>Commercial Shippers</u>
Average Shipment size	4,883 lbs.	8,098 lbs.
Average claim payment	\$ 609	\$ 224
Claim payment per pound (Payments - Pounds)	12.5 cents	2.8 cents

GAO's statement that "carrier liability under the new increased liability system (\$1.25 valuation) generally is increased because it is no longer computed on a per article basis" is understated. Carrier liability under \$1.25 per pound is greatly increased, not generally increased. If you take the example of the 70-pound television used in this report, our liability at \$.60 per pound was \$42. At \$1.25 per pound, it is now \$400, or almost a 1,000 percent increase.

In defense of their conclusion that military household goods claims payments appear higher on average than those made for similar commercial shipments, GAO stated: (1) more military shipments go into storage than commercial; (2) GAO can't determine if carrier settlements are fair and equitable to the commercial shipper. In terms of storage, we agree that proportionately more military shipments go into storage than commercial shipments.

Increased handling due to storage may well have caused higher claims payments. However, of all shipments that required storage during 1986, 65% of such shipments were non-DOD shipments, therefore, commercial claims payments are also influenced by storage handling. More important is the fact that, according to the Household Goods Carriers' Bureau 1986 Continuing Traffic Study, national account shipments represent 42.5% of all household goods traffic volume, as compared with military shipments that represent only 13.9% of all household goods traffic volume. National account shipments have an average weight of 8,098 pounds as compared with the military shipment average weight of 4,993 pounds. This means that despite the fact that national account shipments contain significantly more household goods articles being transported (as compared with military shipments), commercial claims payments are substantially less than military claims payments.

As to GAO's inability to determine if the claims settlement for commercial shippers is fair and equitable, the statement that moving companies seek to unfairly minimize or reduce their liability for their loss and damages to household goods is unfounded and demonstrates a serious lack of under-

See p. 21.

standing by GAO of the carrier industry and the general business world.

Carriers are bound by law not to discriminate between any class of shippers. Movers depend on repeat business so there is no effort to treat any class of shippers differently or unfairly. Therefore, the average amount paid in commercial claims settlements is according to the carrier's legal liability limits imposed by law, or the amount of additional increased valuation taken by the shipper with the carrier.

It is an erroneous assumption that commercial shippers are treated differently or unfairly, since carrier claims personnel in the national account market deal directly with the professional traffic and claims departments of the largest corporations in the United States. These carriers would not long enjoy the benefits of national account business if in fact they engaged in unfair and inequitable claims settlement procedures. The national account traffic managers are not restricted in their ability to discontinue the use of a poorly performing carrier. If they find inequitable claims settlements, they are not locked into the use of a particular carrier merely because he is the low cost carrier.

The following referenced statements from Appendix I do not support GAO's reference in its cover letter that military claims procedures are consistent throughout all the services and that there are no major shortcomings:

- (1) Page 2. Some of the claims awaiting recovery were more than two years old.
- (2) Page 14. Reference to 66 of 120 claims with multiple problems, 44 claims had damage to the shipment, and 25 claims were depreciated incorrectly.
- (3) Page 16. Heading entitled "Claims Resolution Efficiency and Effectiveness Unclear." Three of the services could not provide the needed computerized claims data. Service recovery activities from carriers had a lower priority than claims payments to service members.
- (4) Page 17 & 18. Substantial backlogs of claims await recovery at four Army installations.
- (5) Page 20. One Army installation with a seven-month backlog is using reservists and part-time hires.

- (6) Page 18. MTMC advised that recovery efficiency should be equal between services. The GAO report indicates otherwise.

GAO states that DOD has the right to determine the services it wants the carriers to perform. We agree with this statement. GAO further states that if exercising this right results in a variance from the carriers' commercial practices and increases carriers' costs, the carriers can increase the rates they charge DOD for transporting household goods shipments. We disagree with this statement. The practicalities of the claims recovery process and the rate filing process effectively prohibit a carrier from adjusting his rate level quickly to account for a backlog of unrecovered claims.

See pp. 21-22.

GAO found that recovery activities have a lower priority than claims payments, and some installations had large backlogs of claims awaiting recovery processing. The backlog of claims awaiting recovery makes it more difficult for the carrier to determine the extent of his liability when many months have passed from the date of incurring the liability. It is interesting to note that the processing time required to obtain authorization for payment to the service member averages less than two weeks for claims under \$1,000. We believe that one of the reasons for the overpayment of claims is DOD's emphasis on the fast payment of claims rather than on allowing sufficient time to validate a claim. We question the ability of claims adjusters to properly review repair estimates and inspect the damaged articles in less than ten working days.

The implementation of the DOD \$1.25 valuation program has highlighted the importance of providing valid estimates for repair. DOD and the carrier industry are working to resolve the issue of providing carrier estimates for repair for use in final claims recovery actions. At this time, low cost carrier estimates are not being accepted everywhere, even if the repair firm can and will do the repairs adequately. If a carrier's lower cost repair estimate is not used in the military member's claim settlement, the carrier generally should not be required to reimburse the government at the higher cost repair estimate during the claims recovery process.

See p. 22.

The moving industry sees no reason why claims payments cannot be "reasonably effective and timely" since there is little accountability or incentive in the military system to hold claims costs down. The claims offices do not have to justify high or overly generous claims payments to military members since they will attempt to recover the cost from the carrier. The only challenge to the overly generous claims settlement will come from the carriers. When such challenges are received, the claims offices frequently go to set-off, leaving only the appeal routes to the GAO and Court of

Appendix III  
Comments From the Carrier Industry

Claims. Both of these routes are time consuming and very costly to the carrier.

The GAO has reported that the claims payments are considered a "morale and quality of life issue" (p.11). If claims settlements under \$1,000 take approximately ten working days, there is very little time to validate the claim. We recognize that under certain conditions fast claims settlements for essential items are necessary. However, this fast claims settlement time is considered one reason for the overpayment of military claims. Given the fact that the military expects to recover the claims payments from the carrier, there is little effort to hold claims costs down.

We agree with GAO that too few claims with increased carrier liability (\$1.25) have been processed to date to evaluate the impact of the increased liability on carrier performance and claims resolution. Despite the passage of 18 months since the inception of the increased carrier liability program, it is a fact that too few claims recovery actions have been processed to evaluate the increased liability. It seems premature, therefore, for GAO to assume that increased liability should result in either improved carrier performance or the eventual elimination of poorly performing carriers from the DOD household goods program.

See pp. 23-24.

On page 20 of its draft report GAO states "... will cost DOD more than \$9 million annually, but recoveries should almost quadruple to about \$17 million annually if carrier performance remains unchanged." Based on this estimate, the industry is being charged \$8 million to maintain the service member's morale and quality of life payments which are not included in the \$.64 valuation charge. Such payments are not the carriers' responsibility, and if desired, should be included in the military member's dislocation allowance as a direct payment.

However, this same recovery estimate raises some doubts as to the validity of GAO's data. At several meetings with GAO personnel, we indicated that the carriers' present cost under the 60-cents-per-pound/per-article recovery program for military claims was about \$175, while the payment to the service member was averaging \$609. Industry argued that under the \$1.25 liability provisions, there was no reason not to expect industry's costs to go up to \$609. GAO argued that industry could expect to pay no more than 78% of the \$609.

This 78% recovery factor was developed by GAO in its GAO/NSIAD-88-103 Report. The 22% recovery shortfall from carriers is obviously part of the morale and quality of life payments being made to service members, and this confirms a claims settlement deficiency in the DOD program.

Appendix III  
Comments From the Carrier Industry

We question GAO's logic. A 78% recovery factor implies a \$475 (\$609 x 78%) recovery payment from the carrier. Quadrupling industry's previous \$175 average recovery payment to the government under the 60-cent-per-pound/per-article process equals \$700. Quadrupling the approximately 30% recovery factor (found in GAO/NSIAD-88-103 Report pertaining to the 54 study carriers) equals 120% recovery. Obviously, there are real contradictions in the data GAO provided, confirming our original premise that this draft report is premature and incomplete.

See p. 24.

GAO found indications of potential problems with some service efforts to recover carrier liability. With the exception of the Air Force, the GAO report clearly details actual problems with claims recovery, not potential problems. This further confirms that the claims settlement/recovery process is seriously flawed. The deficiency has a considerable impact upon carriers not knowing their actual shipment liability.

We agree with GAO that DOD does not make full use of claims data in selecting carriers to move DOD shipments, and the current system allows poorly performing carriers with high frequency and amounts of claims to continue transporting DOD household goods shipments. The DOD should not use carriers who have an unusually high average of loss and damage claims. MTMC should require such carriers to "show cause" why they should be allowed to continue in the program. If these carriers offer the lowest transportation rates and have a high frequency and amount of claims, then what has the DOD gained by their reduced transportation rates (p.4)? There are "show causes" procedures in MTMC Regulation 15-1 which could lead to a hearing to resolve this program deficiency.

The use of actual claims data as one of the factors in traffic allocation might be considered under the following conditions.

1. Collection of claims data is based on real time basis.
2. Claims factors should be developed on an installation basis where traffic allocation occurs.
3. The transportation and claims office should be automated at the installation level in order to provide current claims data.

See pp. 16-17.

The Code of Federal Regulations allows a service member two years to file a household goods claim. GAO observed this period appears to be needlessly long, contributes to claims management and adjudication problems, and causes increased government costs. Claims filed more than six months after




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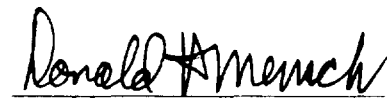
shipment delivery usually involve service member procrastination. Industry agrees with all three statements. Industry recommends that DOD members be required to file their claims within nine months or earlier, as in Project REVAL, where members were required to file their claims within 45 days of delivery.


GAO has recommended that the statute of limitations be changed from two years to one year after shipment delivery to file a claim. GAO believes only Congressional action can shorten the claims filing period. Industry disagrees. Industry believes the claims filing period can be shortened to 90 days, with exceptions, by DOD administrative action.

We thank you for the opportunity to provide comments on GAO's draft report.

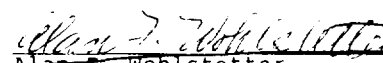
  
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Alan F. Wohlstetter  
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# Objectives, Scope, and Methodology

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By letter dated June 29, 1987, the Chairman of the House Committee on Armed Services asked us to review DOD's resolution process for household goods claims. In subsequent meetings with the Committee it was agreed that we would (1) review household goods claims procedures in each of the four military services, (2) determine whether military household goods claims payments to service members are overly generous, and (3) evaluate the efficiency and effectiveness of military service claims resolution.

We interviewed officials and reviewed documents associated with DOD's domestic household goods shipments and claims resolution activities at MTMC; the offices of the Army, Navy, and Air Force Judge Advocates General; and Headquarters, U.S. Marine Corps. We also interviewed and obtained documents from carrier industry officials and representatives of selected carriers.

We collected and analyzed selected claims data and reviewed service organization and procedures for claims resolution. However, only the Air Force was able to provide the computerized data needed to evaluate claims payments and recoveries. The other services are currently procuring or installing computerized claims data systems. We did not perform manual analyses of claims payment and recovery data at the other services because of the time and resources such analyses would require.

We reviewed claims adjudication and recovery activities for household goods shipments at Fort Meade, Maryland; Fort McNair, Washington, D.C.; Fort Belvoir, Virginia; Fort Eustis, Virginia; Fort Sam Houston, Texas; Langley Air Force Base, Virginia; Randolph Air Force Base, Texas; Lackland Air Force Base, Texas; Corpus Christi Naval Air Station, Texas; Norfolk Navy Base, Virginia; and the Washington Navy Yard, Washington, D.C. We conducted this survey from August 1987 to June 1988 in accordance with generally accepted government auditing standards.

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# Draft of Proposed Statutory Changes

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We propose that 31 U.S.C. 3721 (g) be modified as follows:

(g) A claim may be allowed under this subsection only if it is presented in writing within 2 years after it accrues, except that a claim for damage to, or loss of, personal property in a government-arranged or reimbursed commercial shipment or storage accruing after [DATE] may be allowed only if it is presented in writing within 1 year after it accrues. However, if a claim under subsection (b) of this section accrues during war or armed conflict in which an armed force of the United States is involved, or is not yet untimely at the time a war or armed conflict begins, and for cause shown, the claim must be presented within 2 years (or within 1 year after [DATE] for claims involving damage to, or loss of, personal property in government-arranged or reimbursed commercial shipment or storage) after the cause no longer exists or after the war or armed conflict ends, whichever is earlier. An armed conflict begins and ends as stated in a concurrent resolution of Congress or a decision of the President.

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