



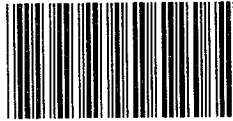
UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

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LOGISTICS AND COMMUNICATIONS DIVISION

B-159390



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JANUARY 19, 1979

HSE 2700

The Honorable Spark M. Matsunaga
United States Senate

Dear Senator Matsunaga:

Your letter of September 5, 1978, asked us to comment on a constituent's letter concerning the Competitive Rate Program (CRP) of the Department of Defense (DOD). Among other things, the constituent raised questions about a 1976 GAO report on DOD's household goods program and on a more recent letter we sent to the House Merchant Marine and Fisheries Committee on CRP.

As agreed to by your office, we will limit our discussion to the constituent's observations with respect to the report and letter mentioned above. DOD will respond to you on the constituent's suggested recommendations to improve CRP and will address your concern about the contract it has with Drake Sheahan/Stewart Dougall, Inc.

Your constituent first asked for the source of the information used in our 1976 report. He also observed that he had not been asked nor had he furnished any such information.

The cost data used in our 1976 report was developed from tariffs on file with the Interstate Commerce and the Federal Maritime Commissions, from agency agreements, and through discussion with general agents, port agents, and local agents representing various forwarders. We also consulted officials of some forwarding companies. Although we did not contact each and every forwarder, we did meet frequently and at great length with representatives of the Household Goods Forwarders Association to discuss the progress of our work, our findings, and even our report presentation. The Association's comments are an integral part of our final report. Your constituent is a member of the Association and we assume his views were made known to appropriate officials of that organization.

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The constituent was concerned that the period covered by our 1976 report--March through July 1974--was not indicative of the household goods industry moving cycle and figures obtained during this period might be misleading. The period involved was used only because, at the time of our audit effort, it was the latest period for which complete data, such as agents' charges, was available. Furthermore, the period involved is really immaterial since the forwarder costs we used would be applicable through both the slack and peak seasons. Tariff rates and the other forwarder costs were averaged thereby giving full recognition to fluctuations in such costs throughout the year.

The Household Goods Forwarders Association was thoroughly aware of the methodology we employed in estimating forwarder costs. The period we used was discussed in detail during the several days we spent in going over the report with its representatives.

Another question asked was why Congressman McCloskey continues to quote from the report some two years after it was issued. The reason is that the report demonstrates, and it has been generally acknowledged by the forwarder industry, that the procurement method used at the time of our review did not promote competition. The report recommended a change to introduce more competition into the procedure for obtaining forwarder rates.

With respect to financial information available at the Interstate Commerce Commission and the Internal Revenue Service, I would like to point out that in the past few years we have reviewed available information at the Interstate Commerce Commission and found it to be of little use for our purposes. Officials of that agency, in response to our request for data on domestic carriers, have repeatedly said that the financial information they receive--balance sheet and income statement--is not adequate to evaluate rate levels. Presumably, the same balance sheet and income statement are filed with the Internal Revenue Service.

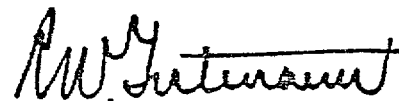
Finally, your constituent questioned how we could say to the Merchant Marine and Fisheries Committee in July 1978 that DOD's estimate of savings and the methodology used is sound, and yet we could not determine whether the forwarders' rates were compensatory. The answer is that these are two unrelated issues. In the first instance we were able to review DOD's records supporting its claim of estimated savings. The basic data needed to project the savings was the difference in published rates prior to introducing CRP

on the test routes and those rates obtained by CRP. This difference was projected to DOD's estimate of household goods traffic worldwide.

To determine if the rates obtained by CRP were compensatory, we would need access to the forwarders' cost accounting records. However, these records were, for the most part, either denied or our request for access was ignored. Our ability to respond on the two issues was limited by the availability of needed information. I might add that we are, at the request of the House Merchant Marine and Fisheries Committee, now seeking alternative methods to evaluate forwarder rate levels.

I trust the information supplied herein, together with input from the Department of Defense, will enable you to respond to your constituent.

Sincerely yours,



R. W. Gutmann
Director