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GENERAL ACCOUNTING OFFICE WASHINGTON DC PROCUREMENT --ETC F/G 15/5
DOD'S REVISED CARRIER EVALUATION AND REPORTING SYSTEM MAY NOT B--ETC(U)
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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AND READINESS DIVISION

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By _____ MAY 27, 1982
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The Honorable Caspar W. Weinberger
The Secretary of Defense

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AUG 11 1982

Attention: Director, GAO Affairs

Dear Mr. Secretary:

Subject: DOD's Revised Carrier Evaluation and Reporting
System May Not Be Needed. (GAO/PLRD-82-70)

In October 1980 we reported ^{1/} on our observations concerning the Department of Defense's (DOD's) Carrier Evaluation and Reporting System (CERS). Then, we pointed out problems in CERS' design and operation and recommended several corrective actions. DOD responded promptly and positively and suggested ways to simplify CERS and to improve the system's effectiveness. However, because these proposed changes did not satisfy the concerns of certain officials of the moving industry, Senator Strom Thurmond asked us on June 8, 1981, to evaluate complaints he had received about the revised system. Although the revised system was scheduled to become effective on November 1, 1981, you deferred the implementation date until we completed our evaluation. Our findings are summarized below and are discussed in more detail in enclosure I.

CERS MAY NOT BE NEEDED

The revised reporting system is based on definite performance standards, lessens the administrative burden, and returns much of the responsibility for quality assurance to installation transportation officers. It also eliminates the incentive tonnage awards, which had created problems (particularly reported in the New Mexico area).

Although the revised system is an improvement over the initial one, we question whether either system actually is needed. For example, the setting of performance standards is a positive development, but DOD assumes that CERS is the only system to monitor carriers' adherence to those standards. A simpler method would be

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^{1/}"DOD's Carrier Evaluation and Reporting System" (LCD-81-6, dated Oct. 6, 1980).

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the pre-CERS concept of exception reporting; that is, developing paperwork only on problem shipments. Transportation officers could evaluate carrier performance by combining these exception reports with other information currently available to them.

The high cost of claims was one of the reasons for initially establishing CERS, but neither form of CERS uses actual claims information to evaluate carriers' loss and damage performance, thus keeping DOD from effectively attacking its major shipment problem. Because neither CERS uses actual claims information, DOD's Military Traffic Management Command (MTMC) cannot determine the total cost of moves and does not know which carriers are truly providing quality service at the lowest possible cost.

In addition, the conditions at local installations do not indicate a need for CERS. The knowledge and experience of installation transportation officers concerning operations at their particular bases, the relatively low volume of shipments at any given installation, and the effect of competitive rates negate the need for an elaborate evaluation system at the local level. Both reporting systems require that local quality control resources be diverted to manage CERS paperwork, while limiting the authority and flexibility of installation transportation officers. Because conditions at each installation are unique, the transportation officers are best able to evaluate and monitor carriers' performance at their particular installation.

We also found that DOD could monitor nationwide carrier performance, using actual claims information, through its existing Worldwide Household Goods Information System for Traffic Management (WHIST). MTMC could use the WHIST information to analyze and evaluate nationwide carrier performance instead of continuing to develop the duplicative CERS program. Although problems currently exist with the WHIST data, they can be solved through improved DOD internal coordination.

RECOMMENDATIONS

We recommend that you direct MTMC to

- refine and use WHIST or consider a system based on exception reporting to evaluate carrier performance, and
- return operational control for local carrier evaluations to the installation transportation officers.

We recognize the need for some quality control mechanism to monitor carrier performance in DOD's billion dollar a year

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household moving program. Until WHIST or some exception reporting system can be refined, MTMC may want to revert to the pre-CERS concept. Another alternative would be for MTMC to temporarily implement its revised and more simplified version of CERS.

AGENCY COMMENTS

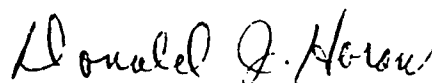
In commenting on a draft of our report, DOD said it believes the revised CERS will adequately address the problems identified in our 1980 report, and therefore, should be implemented as soon as possible. DOD's comments, together with our evaluation of these comments, are in enclosures II and III. After carefully assessing DOD's comments, we saw no need to change the thrust of our recommendations.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to Senator Strom Thurmond; the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Appropriations and on Armed Services; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,



Donald J. Horan
Director

Enclosures - 3

DOD'S REVISED CARRIER EVALUATION
AND REPORTING SYSTEM

As the manager of the Department of Defense's (DOD's) worldwide personal property moving and storage program, the Military Traffic Management Command (MTMC) is responsible for periodically evaluating the program's overall efficiency, economy, cost effectiveness, and adequacy. The high cost of DOD's household goods shipments necessitates some type of quality control. The need to conserve taxpayer dollars has led to an MTMC objective of awarding shipments to household goods carriers who provide quality service at the lowest possible cost. To meet this objective, MTMC has tried, during the past 15 years, to develop systems to evaluate the overall performance of carriers. In developing these systems, MTMC wanted a uniform program for evaluation, along with a method to measure and monitor performance against program standards.

HISTORY OF MTMC'S EVALUATION SYSTEMS

Before the Worldwide Household Goods Information System for Traffic Management (WHIST) and the Carrier Evaluation and Reporting System (CERS), each DOD installation developed an individual quality control program that implemented general MTMC policy guidelines. Quality control was based on a system of actions (warnings, suspensions, nonuse, and disqualifications) for poor performance and each installation determined the particular emphasis of its own program. Performance was usually monitored by origin transportation officers on the basis of their own observations and on feedback from destination personnel. Traffic was distributed equally to low-rate, qualified carriers. As long as a carrier was rate competitive and its service satisfactory, it shared equally in available traffic.

MTMC's first attempt at an automated system to evaluate carrier performance was WHIST, which was established in 1966 and became operational in 1970. However, in 1974 we found many problems with WHIST, and it was discontinued as a quality control program in 1975. MTMC revamped and simplified WHIST, through which MTMC continues to collect some information on household goods shipments for general reporting purposes.

MTMC next developed CERS in the mid-1970s, tested it during 1976, and expanded it nationwide in 1977. However, our 1980 report 1/ identified serious problems with CERS. It stated:

1/"DOD's Carrier Evaluation and Reporting System" (LCD-81-6, dated Oct. 6, 1980).

"Although the CERS objective of high quality service at reasonable cost is good, current implementation practices preclude DOD's attaining this objective. We found that while administrative costs are increasing, additional benefits attributable to CERS are questionable."

CERS was overly complex and of limited usefulness, its carrier performance evaluations were unreliable, and it created an administrative burden due to the immense amounts of paperwork involved. Accordingly, we recommended that DOD establish a task force to review MTMC's quality control needs, the resources available to meet those needs, and the potential for correcting the problems identified.

DOD consequently established and directed two review groups: a task force of transportation officers 1/ from various DOD field installations and a committee consisting of representatives from the services and MTMC. The goals of both review groups were to simplify the system, to make the scoring process more objective, and to reduce the administrative workload, while maintaining a uniform method for carrier evaluation.

The review groups designed the proposed system, which improved upon the initial CERS. The proposed CERS contains definite performance standards, reduces the administrative burden somewhat by simplifying scoring, and returns more responsibility to the installation transportation officers. It also simplifies the shipment award process.

When DOD solicited the views of the household goods industry, however, they were overwhelmingly opposed to both the initial and the proposed systems. Many carrier representatives asserted that both systems were burdensome, produced large amounts of paperwork, and required personnel for an effort which had little value to anyone. For example, the carriers receive CERS evaluations on hundreds of thousands of shipments, whether or not there is a problem. The carriers must do something with this paperwork, either file it or distribute it to their agents for the agents' information.

Despite the industry's negative views, DOD proceeded to develop the proposed CERS. Descriptions of the initial and the proposed systems follow.

1/Throughout this report, the titles "installation transportation officer," "traffic manager," and "traffic management officer" are used interchangeably. While the actual titles vary by military service, they reflect similar duties and responsibilities.

HOW THE INITIAL SYSTEM WORKED

The initial CERS was designed to evaluate carrier performance on each shipment of household goods within the continental United States. Penalty points were assessed against a perfect score of 100 and were incurred for the following factors: late pickups or deliveries, loss and damage, customer dissatisfaction, or infractions of tender-of-service requirements (which cover shipment handling and administrative procedures). Loss and damage penalties were assessed on the basis of a subjective estimate by either the servicemember or an inspector. Actual claims costs were not considered.

The initial system did not fix performance standards for specific components of the scoring system; rather, it set a minimum performance level based on the aggregate of all scoring factors. A minimum score of 50 was required for a carrier to be eligible for shipments at each installation.

Scoring was done by personnel at the installation where the shipment originated, on the basis of origin and destination reports and a servicemember's satisfaction report, when available. At the end of each 6-month rating cycle, each carrier's shipment scores were compiled into a composite score. The top-scoring 10 percent of the carriers were ranked "superior," the next 30 percent "excellent," and the remainder "standard."

Shipments were offered to carriers according to the rates they had filed with DOD and their relative standing among other carriers within the same rate level. To provide an incentive for high-quality service, superior carriers were offered twice the shipment tonnage offered to standard carriers; excellent carriers were offered 1-1/2 times the tonnage offered to standard carriers.

The quality control role of installation transportation officers was limited under CERS. Carriers were penalized through the CERS scoring system; only the most flagrant violations of CERS standards were dealt with by transportation officers.

HOW THE PROPOSED SYSTEM WOULD WORK

DOD's proposed system has several advantages over the initial one. For example, the proposed CERS is based on performance standards, simplifies scoring and shipment award, and returns more authority and responsibility to installation transportation officers.

The proposed evaluation system is, for the first time, based on specific performance standards for individual scoring factors. In contrast to the many initial CERS rating elements, the proposed system would score only three essential shipment elements:

ontime pickup, ontime delivery, and extent of loss and damage. The proposed standards for the three key factors are as follows: 95 percent of shipments will be picked up on time, 90 percent of required delivery dates will be met, and 70 percent of shipments will suffer less than \$300 in loss and damage. Scoring of loss and damage under the proposed system would remain dependent upon the servicemember's or inspector's subjective estimate.

The new system would require carriers to achieve a minimum score of 85, based on the 3 key factors, rather than the initial system's minimum score of 50, based on numerous factors. MTMC officials estimated that the number of unsatisfactory carriers would increase from 1 percent to 8 percent with the increased minimum score. However, MTMC officials emphasized that they may later adjust the minimum score, should it prove to be inappropriate. In its instructions for the proposed CERS, MTMC did not enunciate the three individual performance standards upon which the composite 85-percent minimum acceptable score would be based. Although the standards were verbalized in discussion between some industry members and MTMC, they were not clearly defined in writing for all program participants.

Carriers would still be rated every 6 months on all shipments within the continental United States. The same participants would continue to deal with the same paperwork. Although carrier performance is judged only on the 3 key factors, each shipment may still be evaluated and records kept on over 30 other elements established under the initial CERS. Shipments not fully evaluated within 12 months would be given full credit for those scoring elements for which no contrary data had been received. Under the initial system, in contrast, such shipments may never have been scored.

Carriers achieving a minimum score of 85 during a 6-month period would be entitled to shipment distributions equal to those of other qualified carriers within the same rate level. The stratification of carriers within rate levels and the incentive award of shipments by superior/excellent/standard rankings would be discontinued.

Partially going back to the pre-CERS era, the proposed system would return more quality control responsibilities to installation transportation officers. Customer satisfaction and tender-of-service factors would no longer be scored; rather, the transportation officers would independently monitor and evaluate these factors. Because transportation problems vary by installation, transportation officers would emphasize those factors they consider important to their operations. Transportation officers would continue to be governed by MTMC guidelines under DOD regulations.

INDUSTRY SUPPORTS QUALITY CONTROL AND
GENERALLY ACCEPTS SOME PERFORMANCE STANDARDS

Although the carrier industry supports the concept of quality control and generally accepts the establishment of some performance standards, it is concerned with the levels that may be set for those standards and the ways they may be implemented. Carrier industry representatives recognize the necessity of MTMC's maintaining quality control over household goods shipments. A June 1981 letter to the Commander of MTMC, signed by officials of six industry associations, stated, "* * * the industry has no objection to having its performance evaluated by the Department of Defense."

The industry also does not generally object to DOD's using pickup, delivery, and loss and damage as key elements for evaluating carrier performance. In fact, these elements are similar to some of those the Interstate Commerce Commission (ICC) has proposed for the industry. ICC was directed by the Congress in the Household Goods Transportation Act of 1980 to include, where appropriate, reasonable performance standards in its regulation of the industry. In March 1981 ICC proposed standards of 95 percent and 90 percent, respectively, for ontime pickup and delivery, along with prescribed processing times for loss and damage claims.

Most industry officials who commented to ICC on the proposed standards accepted the setting of standards for pickup, delivery, and loss and damage. However, they expressed concerns about the levels of those standards and how they were to be applied. For example, the National Moving and Storage Association wanted an initial 90-percent pickup and 85-percent delivery standard until the new rules had been tested. According to carrier representatives with whom we met, the need for adequate testing and evaluation of standards also applies to DOD performance standards.

Potential implementation problems anticipated by carriers include their being evaluated on shipments where there is no harm to the individual or where the servicemember rather than the carrier initiates a delay or causes damage. For example, if a carrier delivers a day late at the member's request, the carrier should not be penalized for missing the required delivery date.

DOD OVERLOOKED SEVERAL VITAL
ISSUES IN REVISING CERS

While we agree with MTMC's objective of awarding shipments to carriers who provide quality service at the lowest cost, neither the initial nor the proposed CERS is capable of identifying those carriers. Neither system contains a method to

determine the total cost of a move, including actual loss and damage claims. Until MTMC can develop such a system, it cannot know which carriers are truly providing quality service at the lowest total cost.

In revising CERS, DOD should have made a much broader analysis of the system's overall efficiency, economy, and cost effectiveness. Had the review groups been given a mission consistent with our 1980 recommendation--to determine MTMC's basic quality control needs and the resources available to meet those needs--we believe they could have developed a much better system. However, by limiting the groups' objective to simplifying CERS, DOD failed to address several vital questions:

- What is DOD's most critical problem with household goods shipments, and how can that problem be attacked?
- What are the current conditions at local installations, and what do the transportation officers need to manage their daily operations?
- What information is available to meet MTMC's needs as DOD's personal property manager?

Proposal does not attack
DOD's most critical problem

While we agree that ontime pickup, ontime delivery, and absence of loss and damage are elements of a good move, only the latter is a critical problem for DOD. In fact, the carrier industry's shipment pickup and delivery performance over the past few years leaves little room for improvement, however, loss and damage costs have steadily risen. Yet, neither the current nor the proposed CERS effectively attacks the critical loss and damage problem.

According to MTMC statistics, DOD has received good pickup and delivery service in recent years. From November 1979 to October 1980 the industry picked up 99 percent and delivered over 90 percent of DOD shipments on time. This performance improved between November 1980 and May 1981, during which period the industry picked up 99.4 percent and delivered 94 percent of DOD shipments on time. Ontime pickups are virtually assured through the agent-carrier relationship, which provides for pickup by the agent if the carrier's line-haul driver is delayed. Deliveries, however, will continue to be constrained by problems caused by weather, the member, DOD, and/or the industry. While DOD will probably want to monitor pickup and delivery performance to insure

it does not decrease or to determine if significant problems exist at specific installations, the initial process of scoring all shipments at the local level for these elements seems questionable and of little value.

Since DOD, as a self-insurer, bears the major part of loss and damage claims, its most critical problem with household goods shipments is the increasing magnitude of such claims. During fiscal year 1980, DOD paid about \$70 million in claims, a 19-percent increase over 1979. The high cost of claims was one reason DOD initially instituted CERS, yet neither the initial nor the proposed system can directly attack this problem because neither collects actual claims cost.

DOD needs a quality control system that incorporates actual claims data into carrier performance evaluations. Actual claims data would enable MTMC to determine which carriers have a high incidence of loss and damage. MTMC could then take action against those carriers. In addition, MTMC could use claims data to determine the total cost of a shipment. Total cost should include, at a minimum, the transportation charge plus any claims paid for loss and damage. Currently, shipments are allocated to qualified carriers by the rates they have filed, without regard to their actual claims history.

Because of the split in responsibilities between MTMC and the services, DOD cannot determine either the total cost of a move or the amount of claims against carriers. MTMC, as DOD's personal property transportation manager, negotiates rates, develops performance standards, and coordinates the evaluation of carrier performance; the services independently process claims against carriers. Because both CERS rely chiefly on servicemembers' or inspectors' loss and damage estimates instead of on actual claims information, MTMC cannot accurately evaluate carrier performance or provide high-quality moves at the lowest overall cost. Similarly, because the services are not involved in evaluating carriers, but only process the claims after shipment delivery, they do not know which carriers provide quality service. To increase quality of service and reduce claims, DOD must mesh the services' claims data into MTMC's evaluation process.

Local installation conditions
do not indicate a need for CERS

Several important characteristics of local operations were overlooked during DOD's revision of CERS. The job experience of installation transportation officers, the low volume of shipments at any one base, and the effect of competitive rates negate the need for an elaborate evaluation system at the local level. Because conditions at each installation are unique, transportation officers are best able to evaluate and monitor carrier's performance at their own installations.

Local household goods operations are usually managed by a transportation officer and/or a civilian traffic manager, depending on the service. For example, the Air Force usually has a captain or a civilian GS-11 or GS-12 as a traffic management officer. Such grade levels usually indicate a knowledge of and experience in traffic management.

In addition, the volume of shipments at most installations is small. As shown below, of the 192 shipping offices in the continental United States, 134 make only about 500 shipments per year.

<u>Installation size</u>	<u>No. of installations</u>	<u>Average shipments per year</u>	<u>Average shipments per day</u>
Small	134	500	2
Medium	50	1,600	7
Large	8	5,000	21

Finally, because DOD awards shipments to the qualified carriers with the lowest rates, only a few carriers receive bulk of its household goods shipments. Nationally, 14 percent of the eligible carriers (50 of 350) received 84 percent of CERS shipments scored between November 1979 and October 1980. Locally, the relationships are similar. For example, the Naval Supply Center in San Diego, California, a large-volume installation, used 22 of 104 carriers for 77 percent of its shipments scored during one 6-month period. Fort Carson, Colorado, a medium-volume installation, used 21 of 68 carriers for 80 percent of its shipments during a similar period. Correspondingly, the Air Force Academy, a small-volume installation, used only 10 of 73 carriers for 78 percent of its shipments scored during the same period.

Given the low shipment volume and the small number of agents/carriers actually receiving shipments, transportation officers can readily determine the quality of local carrier service. MTMC agrees that "* * * most ITOs [installation transportation officers] are well aware of an agent's current and past performance record."

Because transportation officers have quality control inspections and reports, they do not need an extensive system to evaluate local carrier performance; however, they do need more flexibility to cope with varying local conditions. For example, an installation located on a major traffic pattern probably will not have the same problems as will an installation in an isolated

location. Traffic managers at installations on major traffic routes will probably have an easier time awarding shipments because of high carrier availability. Similarly, an installation located in a small, economically depressed town will have different problems than will an installation located in a large, economically growing city.

Before CERS, installation transportation officers evaluated local carrier performance, within MTMC's general guidelines, using actual inspections and other information gathered on an exception basis. That is, since most shipments move without incident, transportation officers gathered data only on problem shipments. They periodically assessed carrier performance trends, instead of attempting to analyze performance on every shipment. Traffic managers emphasized those quality control aspects that were most significant at their installations. Because problems varied among installations, so did the quality control emphases.

CERS took this flexibility away from the transportation officers and required them to score standardized performance items on all shipments. The proposed CERS revision recognizes the need for local flexibility and, except for the required scoring on three critical elements, returns to the pre-CERS system of allowing installation transportation officers to manage their operations within general MTMC guidelines.

Although this partial return to pre-CERS practices reduces the amount of scoring required, it does not eliminate paperwork. Under the proposed system, installation transportation officers will still have to divert the same quality control resources to process CERS paperwork. DOD's personnel costs alone for processing CERS paperwork are about \$3 million annually. Since MTMC cannot attribute any improvement in carrier performance to the CERS program, we question whether DOD can justify such a costly paperwork exercise.

Despite some concerns about restoring greater authority and responsibility to installation transportation officers, the majority of industry officials contacted favored a return to a form of pre-CERS traffic management. Carrier representatives said most transportation officers are competent and fair in their dealings with agents and carriers, and the benefits of personal contact outweigh the potential for problems. Many carriers said that CERS has transformed traffic management into a clerical function, with interactions between the military and industry reduced to exchanges of great volumes of paperwork that move slowly through the system. According to industry officials, were CERS and its massive paperwork eliminated, problems would likely be solved more rapidly, as verbal communications between the military and industry would be strengthened.

Information is available to meet
MTMC's needs as DOD's personal
property transportation manager

We believe MTMC should use information it already has to analyze carrier performance instead of using the less complete and less accurate CERS data. MTMC currently collects information on pickup, delivery, and actual claims through WHIST. Many problems exist with the WHIST data, but they can be solved through better internal DOD coordination.

MTMC simplified and restructured WHIST in the mid-1970s. Since fiscal year 1977, WHIST has collected information from all paid bills of lading. This information includes requested and actual pickup and delivery dates. These dates can be compared to determine carrier performance on pickup and delivery, nationwide or by installation.

Also included in WHIST is data on all claims the services settle. The automated claims data is sent to MTMC by each service except the Marine Corps, from which MTMC has not yet requested individual shipment claims data. By matching the claims data to the bill of lading data, WHIST provides a complete picture of each shipment.

By using WHIST, MTMC could evaluate carriers' loss and damage performance on the basis of actual claims data instead of estimates by inspectors or by servicemembers who may or may not ever file a claim and who are probably unsure of the actual amount of loss and damage. WHIST would thus give MTMC the tool it needs to attack DOD's major shipping problem--the increasing level of loss and damage. Analyzing both claims history and transportation rates would enable MTMC to accomplish something it cannot do under either CERS program: determine which carriers have the lowest overall shipment costs. MTMC could then justifiably withhold shipments from carriers with poor claims records. Consequently, carriers which emphasize quality control and have low claims levels would benefit from their improved competitive positions.

Using actual claims data would also eliminate the unreliable CERS evaluations noted in our 1980 report, which were caused by scoring personnel who often arbitrarily changed members' loss and damage estimates. The revised CERS would not eliminate that unreliability.

Another advantage of using WHIST is that factual data on all household goods shipments are entered in its data base, because it includes all paid bills of lading. On the other hand, CERS includes only scored shipments. We estimated that 15 percent of all shipments were never scored under the initial system.

Since WHIST data is developed from the services' finance centers and claims processors, its use would not require any effort on the part of local quality control staff. Were MTMC to use WHIST data for carrier evaluations, it could release local personnel processing CERS paperwork and reassign them to actual quality control activities, such as inspections. Increasing such activities should improve overall shipment quality.

Finally, WHIST collects shipment pickup and delivery data nationwide faster than CERS does. Over 90 percent of the data is entered into WHIST and available to MTMC within 4 months after shipment delivery. CERS data, however, is collected at the end of each 6-month cycle, and another 4 to 5 months can pass before it is available for MTMC's use.

Although WHIST gathers information on the three proposed CERS scoring elements, several problems must be resolved before WHIST could be used for evaluations. The most important problem is that MTMC receives inaccurate and incomplete claims data from the services. However, at an October 16, 1981, meeting, MTMC officials and service representatives reached a tentative agreement on how to solve this and other problems. Once DOD officially requests the services to correct or change their claims reporting instructions, MTMC will receive usable claims data.

MTMC officials also said that claims processing timelags may hinder the usefulness of the data for evaluative purposes. Currently, legal statutes allow a servicemember 2 years from shipment delivery to file a loss and damage claim. Because not all claims are filed immediately after delivery, a timelag will always exist unless the statutes are changed. However, our analyses of Air Force and Army claims showed that about 80 percent of all claims are filed and settled within 6 to 8 months of delivery. The average time between delivery and claims settlement is about 6 months. This timelag is not significant enough to discourage using actual claims to evaluate carriers, especially since

- little can be done to speed up the claims process without changing the legal statutes;
- carriers evaluate the performance of their agents and drivers by using the same data, with the built-in timelag; and
- performance trends should be discernible over a period of time.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective, in accordance with Senator Thurmond's June 8, 1981, request, was to evaluate the proposed changes to CERS. To determine the system's changes, their ramifications on industry and DOD, and other alternatives to accomplish DOD's objective, we conducted our review from August to October 1981 in Colorado, New Mexico, California, Indiana, Missouri, and the Washington, D.C., area.

To evaluate DOD's changes, we interviewed officials from the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) who had coordinated the review groups' work and results, several DOD officials who worked with the review groups, the Commander of MTMC, MTMC officials who manage the CERS and WHIST programs, and transportation officials from eight installations. We selected installation officials in three ways. First, we interviewed installation officials knowledgeable of current and proposed systems whom we had contacted during our prior review. Second, we interviewed officials from a large-volume installation operated by the Navy (a type of installation and service that we did not include in our prior review). Finally, we interviewed officials from several installations outside the Denver region to insure that our results were not just regional in nature.

We also selected industry officials in three ways. The Senator's Office recommended that we contact several trade associations and several agents/carriers. The trade associations, in turn, recommended several carriers to contact. We also selected carriers who represented a broad spectrum of size and percentage of military traffic.

Our review of claims processing systems included several installations; however, it was mainly conducted at the four services' headquarters. We also analyzed the WHIST information to determine the feasibility of MTMC's using WHIST as its nationwide carrier evaluation system.

Below is a list of firms and DOD offices contacted during our review.

Congressional staff

Colonel K. K. Cowan, Military Assistant to Senator Thurmond
Cindy Douglass, Majority Counsel to the Senate Subcommittee
on Surface Transportation
Thomas Baca, Administrative Assistant to Senator Schmitt

Military installations

Air Force Academy, Colorado
Edwards Air Force Base, California
Kirtland Air Force Base, New Mexico
Lowry Air Force Base, Colorado
Norton Air Force Base, California
Peterson Air Force Base, Colorado
Naval Supply Center, San Diego, California
Fort Carson, Colorado

Other DOD offices

The Office of the Assistant Secretary of Defense
Military Traffic Management Command
Naval Supply Systems Command
U.S. Air Force Headquarters, Personal Property Branch
Staff Judge Advocate Headquarters for the Air Force,
Army, Navy, and Marines

Carrier industry associations

New Mexico Movers and Warehousemen's Association
American Movers Conference

Carrier headquarters

Global Van Lines, Anaheim, California
Lyon Van Lines, Los Angeles, California
Pan American Van Lines, Long Beach, California
Aero Mayflower Transit Co., Inc., Indianapolis, Indiana
American Red Ball Transit Co., Inc., Indianapolis, Indiana
Wheaton Van Lines, Indianapolis, Indiana
United Van Lines, Fenton, Montana
Von Der Ahe Van Lines, Fenton, Montana
Sherwood Van Lines, Inc., San Antonio, Texas

Agents for carriers

Alamagordo Moving and Storage, Alamagordo, New Mexico
Palace Transfer and Storage, Alamagordo, New Mexico
Apache Van and Storage, Alamagordo, New Mexico
San Diego Van and Storage, San Diego, California
Sullivan Storage and Transfer, San Diego, California

Other

Interstate Commerce Commission
General Services Administration Office of Transportation
and Traffic Management

GAO'S EVALUATION OF DOD'S COMMENTSDOD COMMENT

The draft report asserts that CERS is primarily needed for national visibility of carrier performance. This is not the case. CERS was, and is, developed to provide quality control at the local level on a uniform basis. A side benefit to the revised CERS is that we do obtain national visibility. Poor performance on the national level could result in a national temporary suspension. This, of course, would achieve greater attention by the carrier of widespread management problems. We recommend that the final report emphasize the use of the revised CERS at the local level and that national visibility is but a side benefit.

GAO EVALUATION

This level of control--local or national--had no bearing on our evaluation of the need for CERS. Although MTMC officials have constantly maintained that they need CERS to monitor carrier performance at the national level, our report does not emphasize national over local level control. On the contrary, it covers both viewpoints.

DOD COMMENT

We agree that claims cost to the DOD is a significant problem. Both the initial and revised CERS attack the incidence of claims and not the actual dollar amount collected from the carrier. We do, however, establish a magnitude or penalty value on damages less or greater than \$300. We consider the \$300 figure as very liberal; first because it is much greater than the figures reported to the Interstate Commerce Commission by the carriers themselves and, second, it is an increase from the \$100 figure contained in the initial CERS. We believe that by reducing the incidence of claims, the claims costs to both the DOD and the members will be reduced. We request that the final report address whether our belief is appropriate.

GAO EVALUATION

Granted, if DOD could reduce the incidence of claims it would reduce loss and damage costs. The problem is that neither CERS provides actual verifiable data, and the use of reporting minimum (\$100-\$300) only confuses the issue more. As stated in our report, both CERS collect subjective estimates from service-members. A claim may or may not have occurred and may or may not

be filed. The dollar values the members' estimate also may or may not be valid. Even worse, transportation officers completing the CERS forms often change and/or ignore these estimates. All of this subjectivity and interpretation makes the CERS method of attacking loss and damage questionable.

DOD COMMENT

One of the stated objectives of this review was to determine the ramifications the revised CERS has on industry. The draft report contains industry assertions, unsubstantiated by GAO. In the development of the revised CERS, comments were solicited from the various industry associations, to no avail. Comments received referred to both the initial and revised CERS together and they have not chosen to differentiate between them. We recommend that the final report substantiate industry assertions or delete such comments. Our position is that any information provided industry on carrier shipment performance is for their use as they see fit. There is no reporting requirement.

GAO EVALUATION

We were requested to obtain industry views on the revised CERS, which we presented in the report and clearly identified them as such. Industry comments about both systems are often similar which could explain why the industry chose not to differentiate.

The fact that there is no reporting requirement on carriers begs the issue. DOD sends 200,000 plus CERS evaluations to the carriers each year, which requires the carriers to do something with the evaluations--either to file them with no action or to use them in some manner. Since agents can be seriously affected by the evaluations, carriers are often forced to process and send them to agents. Carriers must also process any appeals. The volume of CERS paperwork places at least an informal requirement on the carriers.

DOD COMMENT

The draft report asserts that personnel costs for CERS paperwork is about \$3 million annually. This cost was reported in the October 1980 report on the initial CERS and is inconsistent with the recognized simplification of the revised CERS. The report also fails to recognize that some form of written communication or record keeping must exist in any quality control system between those responsible for quality control and those responsible for awarding shipment. The revised CERS satisfies that requirement.

We recommend that the final report recognize that the cost of CERS is a cost of insuring quality control at the local level and that it is not an additional cost.

GAO EVALUATION

As stated previously, simplification will not reduce the workload sufficiently to eliminate the staff currently processing CERS paperwork. Before CERS, written communications were limited to only problem shipments. The CERS requirements for written communication on every shipment--all 200,000 plus in addition to the scoring process--required installation transportation officers to divert staff to do CERS paperwork processing and/or to obtain additional personnel. The cost of CERS is an added cost.

DOD COMMENT

The draft report dismisses, as statistically insignificant, the problem of missed pickup and delivery dates. The report fails to recognize that we are not dealing with mere statistics, but the welfare of our military members. In 1981 over 204 thousand shipments moved in domestic traffic. The 10-11 percent of the shipments that were either picked up or delivered late, frustrated, inconvenienced and, in some cases, caused financial hardship on approximately 22 thousand families. We believe this to be a significant problem regardless of the percentage associated with DOD's total shipments.

GAO EVALUATION

DOD has not considered that the industry is not at fault for all missed pickups and/or deliveries. Servicemembers, installation transportation officers, and other DOD staff are often at fault. Also, what can CERS do to reduce the number of missed pickups and deliveries? With 99.4 percent of shipments picked up on time, can CERS realistically improve that number? With 94 percent of the shipments delivered on time, can CERS realistically correct the causes of the delayed 6 percent--that is, weather, equipment problems, and/or problems caused by DOD and/or the members? Under the pre-CERS system, consistently missed pickups and deliveries were identified through exception reporting.

DOD COMMENT

The revised CERS essentially uses three criteria for satisfactory service (on-time pickup, on-time delivery, and loss and damage). These standards hardly qualify as an "elaborate evaluation system" and are recognized by both industry and the Interstate Commerce Commission as the basics for a satisfactory move. A task

force of field level transportation and traffic management officers involved in personal property developed the revised CERS and found it to be needed to satisfy the documented evidence required to suspend a nonperforming carrier. CERS is a standard method by which such a case is documented and leaves no doubt in the mind of a carrier on how their performance will be evaluated.

GAO EVALUATION

We said that CERS--not the standards--qualifies as an "elaborate evaluation system." Reducing the number of items evaluated does not reduce the actual paperwork being generated. In addition, the task force members were told to revise CERS, not to study their needs and how to meet them. Other ways are available to document carrier performance, such as the pre-CERS practice of using exception reporting. These we feel should have been explored.

DOD COMMENT

The revised CERS has no relationship to rates offered by carriers.

GAO EVALUATION

We do not say CERS has a relationship to rates offered. Our point is that because DOD awards the majority of its shipments by reduced rates, this limits the number of carriers receiving shipments and the need for CERS. If an installation is using 10 to 20 percent of its eligible carriers for 80 percent of its shipments, the installation transportation officers obviously should be closely monitoring those 10 to 20 percent. So while an installation may have a high number of eligible carriers, in fact, it uses only a small percent of them because they have the lowest rate. This simplifies the traffic management evaluation process for the transportation officers.

DOD COMMENT

The draft report cites that loss and damage claims for fiscal year 1980 were about \$70 million, a 19 percent increase over 1979. Though the correct figure is \$68.8 million, the total is not applicable to the environment in which CERS operates. CERS is only applicable to domestic government bill of lading shipments. Included in the \$68.8 million figure and not included in CERS are international, mobile home, direct procurement and privately-owned vehicle shipment claims data, plus damages incurred in non-temporary storage and possibly barracks theft. Also, of the \$68.8 million only 23 percent is recovered from the industry primarily because of the limited liability the carrier industry accepts for

losses and damages incurred. We recommend that the final report recognize what is included in the claims figures reported. Also, as a matter of record, FY 1981 claims were \$65 million or down 5.5 percent from 1980.

GAO EVALUATION

The \$70 million claims figure does include the other categories DOD lists because MTMC does not report claims on individual categories. Nevertheless, we believe--and we are sure that DOD agrees--claims are still a major problem. Additionally, DOD has planned for several years to expand CERS worldwide, so a greater proportion of the claims figure would eventually relate to CERS shipments.

DOD COMMENT

The draft report recommends that the WHIST system be refined and used in a nationwide system to enhance carrier performance. As stated in the preceding, this solution does not satisfy a requirement for local quality control and oversight of actions taken at the local level. In addition, a major constraint to using WHIST is the delay in obtaining actual claims data. Currently, the processing time to accumulate 80 percent of final claims data into WHIST is 16 months (8 months expire from time of delivery until 80 percent of the claims are filed, another month to adjudicate, 2 months to finalize recovery action, 2 months to prepare data at claims offices and one month to process data into WHIST). We question whether the industry or GAO would sanction a corrective or punitive action taken against a carrier on data this old.

GAO EVALUATION

If local level oversight is the primary objective, neither form of CERS is needed. If both local and national levels are sought, we still believe WHIST or some variation of exception reporting is the more viable alternative. Regarding WHIST, DOD agreed at our March 9, 1982, meeting that the processing time was 8 to 12 months. In fact, 8 to 12 months is shown on page 2 of its cover letter.

We still believe that DOD would be on firmer ground taking corrective action on actual claims after 8 to 12 months than on subjective estimates of servicemembers.



MANPOWER
RESERVE AFFAIRS
AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON DC 20301

16 MAR 1982

Mr. Donald J. Horan
Director, Procurement, Logistics,
and Readiness Division
United States General Accounting
Office
Washington, D. C. 20548

Dear Mr. Horan:

This is in response to your letter report to the Secretary of Defense, dated February 17, 1982, titled "Observations Concerning the DoD's Carrier Evaluation and Reporting System," (Codes 943119 and 943144), OSD Case #5900. Detailed Department of Defense (DoD) comments are attached.

This is not the first time the Carrier Evaluation and Reporting System (CERS) has come under General Accounting Office (GAO) review. In October 1977 GAO supported CERS and found no reason to delay expansion. In October 1980 several aspects of CERS were criticized by GAO with the recommendation to establish a task force to resolve problems identified in that report. We concurred and have developed the CERS revision now being addressed in your draft report.

Your report recognizes that we were responsive in making the necessary changes to the CERS program such as (1) development of definitive performance standards, (2) reduction in the administrative burden, and (3) elimination of the opportunity for carriers to circumvent the system through rate manipulation. We believe we should implement the revised CERS with such modifications as soon as possible.

The attached comments question the GAO view that the objective of CERS is to have a nationwide visibility and control over carrier performance. More accurately, CERS was developed as a program for local use by installation traffic managers. Nationwide visibility of carrier performance and compliance with quality control procedures is only a by-product of CERS data processing. The prime objective of CERS continues to be the improvement of quality of service by actions taken at the local level against carriers not meeting established personal property shipment standards.

ENCLOSURE III

ENCLOSURE III

Also we suggest that your report be modified to reflect a number of other items as outlined in the enclosure. Of particular concern is the 8-12 months' delay in obtaining claims data and its use as a tool to improve quality control.

In view of the above, we suggest the following recommendations be presented in your final report.

1. DoD implement the revised CERS as soon as possible
2. DoD examine the use of combining claims cost and carrier rates to determine low-cost, satisfactory service.

We welcome and appreciate the opportunity to comment on this important report.

Sincerely,



James N. Juliana
Principal Deputy Assistant Secretary of Defense
(Manpower, Reserve Affairs & Logistics)

Enclosure

Observations Concerning DoD's Carrier Evaluation
and Reporting System (CERS) - GAO Codes 943119/943144
Detailed Comments

CERS Provides information for both local and national use

The draft report asserts that CERS is primarily needed for national visibility of carrier performance. This is not the case. CERS was, and is, developed to provide quality control at the local level on a uniform basis. A side benefit to the revised CERS is that we do obtain national visibility. Poor performance on the national level could result in a national temporary suspension. This, of course, would achieve greater attention by the carrier of widespread management problems. We recommend that the final report emphasize the use of the revised CERS at the local level and that national visibility is but a side benefit.

CERS does not address the major problem (i.e., claims)

We agree that claims cost to the DoD is a significant problem. Both the initial and revised CERS attack the incidence of claims and not the actual dollar amount collected from the carrier. We do, however, establish a magnitude or penalty value on damages less or greater than \$300. We consider the \$300 figure as very liberal; first because it is much greater than the figures reported to the Interstate Commerce Commission by the carriers themselves and, second, it is an increase from the \$100 figure contained in the initial CERS. We believe that by reducing the incidence of claims, the claims costs to both the DoD and the members will be reduced. We request that the final report address whether our belief is appropriate.

Impact of revised CERS on industry

One of the stated objectives of this review was to determine the ramifications the revised CERS has on industry. The draft report contains industry assertions, unsubstantiated by GAO. In the development of the revised CERS, comments were solicited from the various industry associations, to no avail. Comments received referred to both the initial and revised CERS together and they have not chosen to differentiate between them. We recommend that the final report substantiate industry assertions or delete such comments. Our position is that any information provided industry on carrier shipment performance is for their use as they see fit. There is no reporting requirement.

Cost of the revised CERS

The draft report asserts that personnel costs for CERS paperwork is about \$3 million, annually. This cost was reported in the October 1980 report on the initial CERS and is inconsistent with the recognized simplification of the revised CERS. The report also fails to recognize that some form of written communication or record keeping must exist in any quality control system between those responsible for quality control and those responsible for awarding shipment. The revised CERS satisfies that requirement. We recommend that the final report recognize that the cost of CERS is a cost of insuring quality control at the local level and that it is not an additional cost.

On-time pickup and delivery

The draft report dismisses, as statistically insignificant, the problem of missed pickup and delivery dates. The report fails to recognize that we are not dealing with mere statistics but the welfare of our military members. In 1981 over 204 thousand shipments moved in domestic traffic. The 10-11 percent of the shipments that were either picked up or delivered late, frustrated, inconvenienced and, in some cases, caused financial hardship on approximately 22 thousand families. We believe this to be a significant problem regardless of the percentages associated with DoD's total shipments.

Local installation conditions do not indicate a need for CERS

The revised CERS essentially uses three criteria for satisfactory service (on-time pickup, on-time delivery, and loss and damage). These standards hardly qualify as an "elaborate evaluation system" and are recognized by both industry and the Interstate Commerce Commission as the basics for a satisfactory move. A task force of field level transportation and traffic management officers involved in personal property developed the revised CERS and found it to be needed to satisfy the documented evidence required to suspend a nonperforming carrier. CERS is a standard method by which such a case is documented and leaves no doubt in the mind of a carrier on how their performance will be evaluated.

Competitive rates negate a need for an elaborate evaluation system

This assertion is incorrect. The revised CERS has no relationship to rates offered by carriers.

The DoD cost of claims is \$70 million annually.

The draft report cites that loss and damage claims for fiscal year 1980 were about \$70 million, a 19 percent increase over 1979. (Though the correct figure is \$68.8 million, the total is not applicable to the environment in which CERS operates. CERS is only applicable to domestic government bill of lading shipments. Included in the \$68.8 million figure and not included in CERS are international, mobile home, direct procurement and privately owned vehicle shipment claims data, plus damages incurred in nontemporary storage and possibly barracks theft. Also, of the 68.8 million only 23 percent is recovered from the industry primarily because of the limited liability the carrier industry accepts for losses and damages incurred. We recommend that the final report recognize what is included in the claims figures reported. Also, as a matter of record, FY 1981 claims were \$65 million or down 5.5 percent from 1980.

Worldwide Household Goods Information System (WHIST)

The draft report recommends that the WHIST system be refined and used in a nationwide system to enhance carrier performance. As stated in the preceding, this solution does not satisfy a requirement for local quality control and oversight of actions taken at the local level. In addition a major constraint to using WHIST is the delay in obtaining actual claims data.

Currently, the processing time to accumulate 80 percent of final claims data into WHIST is 16 months (8 months expire from time of delivery until 80 percent of the claims are filed, another month to adjudicate, 2 months to finalize recovery action, 2 months to prepare data at claims offices and one more month to process data into WHIST). We question whether the industry or GAO would sanction a corrective or punitive action taken against a carrier on data this old.

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