

GAO

Report to the Chairman, Subcommittee on
Readiness, Sustainability and Support,
Committee on Armed Services, U.S.
Senate

August 1988

MANEUVER DAMAGE

DOD Needs to Strengthen U.S. Verification of Claims in Germany



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General Accounting Office
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National Security and
International Affairs Division

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August 9, 1988

The Honorable Alan J. Dixon
Chairman, Subcommittee on Readiness,
Sustainability and Support
Committee on Armed Services
United States Senate

Dear Mr. Chairman:

On September 14, 1987, you requested that we review Department of Defense (DOD) procedures for processing maneuver damage claims in the Federal Republic of Germany (FRG) and determine what DOD is doing to validate claims before they are paid. It had come to the Committee's attention that DOD had done little to increase U.S. involvement in the claims verification process, as recommended in our 1980 report.¹ In addition, allegations had been made that the United States might be paying claims that were highly inflated and, in some cases, fraudulent.

Our review showed that while DOD had made progress in various aspects of maneuver damage management, it had done very little since our last review to increase U.S. involvement in the verification process. DOD had paid almost all claims without a U.S. inspection. However, when U.S. personnel conducted special test inspections during 1986, the results were significant. The average rate of payment made on the test cases was much lower than that made on similar claims that U.S. personnel had not inspected. Therefore, we concluded that increased U.S. involvement to protect U.S. interests was warranted.

Background

The North Atlantic Treaty Organization's Status of Forces Agreement (NATO SOFA) provides for the settlement of claims for damage allegedly caused by U.S. armed forces in the territory of other member states. Annually, the U.S. Army conducts about 1,000 training maneuvers in the FRG on public and private land outside its training areas because the training areas are too small to meet its needs. Inevitably, these maneuvers cause damage to German roads, fields, and forests.

U.S. Army, Europe (USAREUR), has established a maneuver management program in the FRG to prevent unnecessary damage. The program has strengthened procedures for coordination with German authorities,

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

reduced the number of maneuvers in overused or excessively damaged areas, and provided damage prevention training. USAREUR officials believe that this program is effective in controlling damage while allowing for adequate, though somewhat reduced, realism in the maneuver environment.

The FRG pays 25 percent of the cost of U.S. maneuver damage, as the NATO SOFA requires. The United States pays the remaining 75 percent. Payments for the U.S. share of maneuver damage have averaged about \$28.8 million annually since 1980, with a high of \$52 million in fiscal year 1982. Because of funding shortfalls and the declining value of the dollar in fiscal years 1986 and 1987, U.S. payments to the FRG were insufficient to cover all obligations. A \$24.6 million payment backlog existed at the beginning of fiscal year 1988. Initially, the U.S. Army Claims Service, Europe (USACSEUR), believed that the fiscal year 1988 funding level of \$60 million would be adequate to eliminate the backlog and pay anticipated claims. However, DOD officials now believe it is too early to predict whether or not DOD will have to augment the \$60 million through reprogramming to prevent a backlog from occurring toward the end of the fiscal year.

Processing Procedures

The NATO SOFA describes the basic framework for settling claims. The United States and the FRG have an administrative agreement that details the procedures for processing claims and designates USACSEUR as the U.S. agency to process and pay maneuver damage claims in the FRG. The FRG retains the exclusive right to adjudicate settlements with claimants, and it carries this out through its Defense Cost Offices (DCO)—which receive overall guidance from the Ministry of Finance. The DCOs investigate claims, adjudicate settlements, pay claimants, and then bill the United States for its share. The DCOs represent the United States in German courts in the few instances their administrative adjudications are litigated.

The DCOs were processing the majority of maneuver damage claims solely under “blanket-scope”² and “simplified”³ procedures. Under these procedures, DCOs notify USACSEUR only after paying such claims; thus,

²DCOs used blanket-scope procedures to process claims from large U.S. and multinational maneuvers except for large claims generally exceeding \$58,825 in value. As of January 1988, these procedures were eliminated by USACSEUR, and such claims will be processed under the “scope” procedures described elsewhere.

³DCOs use simplified procedures to process small damage claims under \$1,765 except for road damage claims.

USACSEUR's role is limited to reimbursing the FRG for the U.S. share of the damage. Of the 25,655 claims for U.S.-caused damage in fiscal year 1987, 6,727 (or 26 percent) were processed under blanket-scope procedures, and 13,222 (or 52 percent) were processed under simplified procedures. In fiscal year 1987, the DCOS requested \$13.2 million¹ for reimbursement of blanket-scope claims and \$2.2 million for simplified claims.

The other 5,706 claims were processed under "scope" procedures. USACSEUR's role under these procedures is to assist the DCOS by confirming whether U.S. forces caused the damage. Soon after a claim is filed, the DCOS notify USACSEUR of the location, date and type of damage, amount claimed, and possible unit causing the damage. USACSEUR then issues scope or "not-involved" certificates to the DCOS to either acknowledge or deny U.S. involvement. It uses information contained in Master Maneuver Damage Reports, submitted by maneuvering units, to complete the certificates. This procedure provides only limited verification that damage occurred and was caused by U.S. forces because, for most claims, USACSEUR can ascertain from the reports only that the damage occurred within the time and geographical limit of a U.S. maneuver but cannot directly attribute the damage to the maneuver.

In fiscal year 1987, USACSEUR issued scope certificates for 5,304, or 98 percent, of the 5,394 claims. Not-involved certificates were issued for 29 claims. The DCOS cannot pay the 29 claims unless evidence is provided to show that U.S. forces caused the damage. USACSEUR designated the remaining 61 claims as "scope exceptional" to ensure that the DCOS would send their files for USACSEUR's review before being settled. USACSEUR issues scope-exceptional certificates when claims are extremely large, or when the amount claimed is unspecified or unusually high for the damage claimed. Fiscal year 1987 damage claims processed under scope procedures totaled more than \$28 million. USACSEUR did not know how much the DCOS would pay on these claims because it takes 9 months to a year for them to adjudicate claims.

Internal Controls Need to Be Strengthened

Although USACSEUR recognized the need to strengthen U.S. control over the payment of maneuver damage claims, its procedures had undergone little change since our last review. USACSEUR has continued to pay virtually all claims without U.S. personnel verifying that U.S. forces caused

¹Maneuver damage amounts in this report were calculated using an exchange rate of 1.70 German marks to the dollar.

the damage or, in fact, that damage occurred. Its procedures have not provided adequate control over the payment of claims because the limited verification provided has been ineffective and U.S. personnel have not documented on-site verification inspections. We believe that USACSEUR should apply stronger verification procedures for the higher value claims and develop procedures to adequately document its verification efforts. Such procedures are needed to ensure that payments are made only on valid claims.

The use of Master Maneuver Damage Reports to verify U.S. maneuver damage is ineffective because the data in these reports cannot be used to ensure that the damage exists or was caused by U.S. forces. The reports list only a portion—at best 20 to 30 percent—of damages actually claimed and are not an adequate substitute for physically verifying damage.

In 1986, USACSEUR tested the feasibility of using on-site inspections to strengthen verification. A 3rd Armored Division maneuver damage prevention specialist inspected the alleged damage for 94 claims in Main-Kinzig county between May and July 1986, often jointly with DCO personnel. Based on the inspections, USACSEUR issued 19 not-involved certificates because the damage did not exist or was not caused by U.S. forces and issued 29 scope-exceptional certificates because U.S. forces did not cause all the damage claimed. The 20-percent rate for claims receiving not-involved certificates was significantly higher than the less than 1 percent of claims that received such a certification in fiscal year 1987. Based on the test results, USACSEUR estimated potential savings of up to \$10 million a year from using on-site inspections as a routine verification technique.

Subsequently, DOD concluded that while it would achieve savings through improved verification, the amount of savings would depend on various factors. These factors include the number and intensity of exercises, the foreign currency exchange rate applicable to reimbursements, weather conditions, and the cost of the additional on-site inspections. As such, DOD considers the \$10 million estimate to be speculative and based on a limited and atypical test. Although the military officials who managed the Main-Kinzig test did not consider it atypical, we agree that there is a need to confirm the estimated savings from a broader base.

Given sufficient resources, USACSEUR officials stated they would increase joint on-site inspections for high-cost claims. They believe that the

administrative agreement might need amendment to allow joint inspections because the DCOS would have to notify USACSEUR of inspection dates and times. USACSEUR amended the administrative agreement in 1984 to allow joint on-site inspections of road damage for claims that exceeded \$5,882 and that were processed under blanket-scope certificates. However, USACSEUR lacked the personnel and expertise to make such inspections.

USACSEUR officials stated that they rarely perform on-site inspections of damage because they lack adequate resources. USACSEUR has attempted to use personnel in operating units to increase the number of inspections performed. However, these units have resisted USACSEUR's efforts for a variety of reasons; for example, some units believe that on-site inspections should not be their responsibility and that such inspections are not cost-effective. USACSEUR recently tested the feasibility of using the Corps of Engineers to verify high-cost road damage claims. The Corps agreed that its assistance would be worthwhile, but continued use of the Corps is dependent on obtaining funding for such purposes.

We could not determine specifically how many inspections USACSEUR and other Army personnel had performed because they did not maintain adequate records or the results of all the inspections performed. For example, USACSEUR's records show that its personnel performed five inspections in fiscal year 1987. According to USACSEUR, personnel in the operating units had also performed inspections, but it did not know how many. Maneuver damage personnel in V and VII Corps confirmed that they had occasionally performed inspections but had not kept records.

USACSEUR has discussed increasing on-site inspections with DCO and other FRG officials, who have generally been supportive. However, FRG officials expressed concern that during some past inspections, the presence of U.S. officials had interfered with their negotiations with claimants at the damage site.

Coincidental with our fieldwork in late 1987, USACSEUR performed a comprehensive study of its maneuver management system because of concerns over allegations that the United States was vulnerable to paying invalid claims, increased German civil opposition to maneuvering, and the high cost of maneuver damage. In its January 1988 report, USACSEUR reached findings and conclusions similar to those we reached during our fieldwork. As a result, USACSEUR officials told us they planned to take several actions to strengthen U.S. verification, including studying ways to make maneuver damage reports more useful for verification purposes.

and making more personnel available to physically verify claims. Also, we were informed that USAREUR planned to formalize the part-time use of personnel in the operating units to physically verify questionable claims and would authorize five additional staff for USACSEUR to enhance its verification capabilities. Since our fieldwork was completed, additional personnel have been authorized to perform these inspections. This addition of personnel was a major factor in the decision to eliminate blanket-scope procedures.

Conclusions

USACSEUR needs to implement internal control procedures to ensure that the United States pays only for the damage it causes. USACSEUR recognizes that the ability of the DCOS to adjudicate fair settlements is largely dependent on the accuracy of the information it provides them on the damage caused by U.S. forces. Accordingly, USACSEUR plans to increase the number of inspections performed by U.S. personnel. To do so, it believes that the administrative agreement would have to be amended so that USACSEUR would be apprised of DCO visits to a damage location, thus allowing for a joint inspection. According to USACSEUR officials, this would not require a change to the NATO SOFA. The DCOS appear willing to cooperate with U.S. personnel, provided they do not interfere in the settlement process.

USAREUR is taking steps to provide USACSEUR with additional resources to increase inspections by U.S. personnel. We believe that this is an essential first step to strengthen USACSEUR's internal controls. It also plans to develop procedures for collecting sufficient data to ensure that only valid claims are paid. Such procedures should (1) identify a portion of claims processed under scope procedures to be verified through joint inspections; (2) identify questionable claims, such as high-cost road damage claims, and ensure that qualified personnel verify them; and (3) ensure that U.S. personnel keep adequate records of verification efforts.

Another step could be taken to enhance U.S. inspection capabilities and acquire better information. Corps of Engineers personnel already in-country could be used to review claims and conduct on-site inspections, especially for the higher-cost road damage claims. Funds would be required to pay for their services, and consideration would have to be given to the impact this additional duty would have on their ability to perform other duties. Since USAREUR now plans to provide USACSEUR with an engineer to perform these tasks, DOD believes that the use of Corps of Engineers personnel might not be necessary.

Recommendations

We recommend that the Secretary of Defense take the following steps to strengthen internal controls over the payment of maneuver damage claims in the FRG:

- Ensure that USAREUR fully implements its actions to improve controls over maneuver damage payments. Specifically, it should use qualified personnel to inspect a portion of the more significant claims processed under scope procedures.
- Ensure that the procedures USACSEUR is now developing will enable it to collect and document sufficient data so that only valid claims are paid.
- Determine whether USAREUR's plan to provide USACSEUR with an engineer proves to be satisfactory for reviewing claims and conducting on-site inspections, especially for higher-cost road damage claims. If not, the Corps of Engineer personnel stationed in the FRG should be directed to perform this function.

Agency Comments

The Departments of State and Defense commented on a draft of this report (see app. IV and V). State suggested one clarification, which we made. DOD generally concurred with our findings and recommendations but did not agree with the USACSEUR-derived estimate of \$10 million in annual savings resulting from an enhanced on-site inspection program. DOD believes that any savings will depend on numerous factors, and therefore it views the estimate as speculative. DOD also suggested some other clarifications, which we made.

Further, DOD said that it is increasing personnel authorizations for USACSEUR to include an engineer. DOD also said that it is developing procedures for collecting data to ensure that only valid claims are paid and that U.S. personnel keep adequate records of these verification efforts.

Appendix I contains further details on maneuver damage claims, appendix II discusses U.S. payments, and appendix III describes our objectives, scope, and methodology.

As arranged with your representatives, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of its issue. At that time, we will send copies to cognizant congressional committees and other interested parties and make copies available to others on request.

Sincerely yours,

A handwritten signature in black ink that reads "Frank C. Conahan". The signature is written in a cursive style with a large, prominent "F" and "C".

Frank C. Conahan
Assistant Comptroller General

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Abbreviations

DCO	Defense Cost Office
DOD	Department of Defense
FRG	Federal Republic of Germany
MMDR	Master Maneuver Damage Report
NATO	North Atlantic Treaty Organization
SOFA	Status of Forces Agreement
USACSEUR	United States Army Claims Service, Europe
USAREUR	United States Army, Europe

Need for Stronger U.S. Verification of Maneuver Damage Claims in Germany

In our 1980 report Military Damage Claims in Germany—A Growing Burden (ID-81-4), we recommended that the Department of Defense (DOD) strengthen the U.S. Army's capability to verify high-cost road damage claims from training maneuvers. We had found an almost total lack of U.S. verification, even for very large claims. In our current review, we found that the U.S. Army Claims Service, Europe (USACSEUR), had made progress in various aspects of maneuver damage management, but it had done very little to increase U.S. involvement in the verification process. Although payment of claims is a joint responsibility of the Federal Republic of Germany (FRG) and the United States, most claims were processed under expedited procedures and were paid without U.S. verification of their validity. Furthermore, the remaining claims were processed under procedures that provided only limited verification.

In the past, USACSEUR officials believed that U.S. involvement in the physical verification of claims was not necessary because the FRG was required to pay 25 percent of the cost, and they believed that was sufficient incentive to ensure that only valid claims were paid. However, on-site inspections to verify damage claims have disclosed that some of the claimed damages were not incurred or were not caused by U.S. forces. While USACSEUR provided limited verification for about a quarter of the claims that were processed in fiscal year 1987, it appears that U.S. personnel verified less than 1 percent through on-site inspections. We believe that more on-site inspections could reduce U.S. vulnerability to paying invalid claims and could potentially reduce maneuver damage costs.

Background

U.S. Army, Europe (USAREUR), oversees the planning and coordinating of U.S. Army training exercises and maneuvers held outside the three major U.S. training areas in the FRG. According to USACSEUR officials, maneuvering outside these areas is necessary because the areas are too small to meet the Army's training needs. The size of the force stationed in-country, personnel turnover rates, and efforts to modernize equipment and tactics influence USAREUR's training requirements. USAREUR has established minimum unit training requirements, but commanders may do more if funds for fuel, maintenance, and other training expenses are available. Since 1980, the number of maneuvers in the FRG has averaged around 1,000 per year, as shown in table I.1.

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Maneuver Damage Claims in Germany**

**Table I.1: Annual Maneuvers and
Maneuver Damage Payments**

Dollars in millions		
Fiscal year	Maneuvers outside U.S. training areas^a	U.S. maneuver damage payments
1980	858	\$20.1
1981	1,092	35.4
1982	941	52.5
1983	940	33.6
1984	989	23.8
1985	1,015	23.5
1986	1,098	18.6
1987	^b	22.8

^aManeuvers are reported on a calendar year basis.

^bCalendar year 1987 figures were unavailable. Requests to maneuver were up 35 percent through September 1987 compared to the same period in 1986.

USAREUR officials anticipate that budget cuts will reduce training exercises and maneuvers in Germany during fiscal year 1988 and beyond. As table I.1 shows, annual maneuver damage payments have varied considerably from year to year. Funding shortfalls and foreign currency exchange rate fluctuations caused payment backlogs in fiscal years 1980, 1981, 1986, and 1987 (see app. II). The payments reached an all-time high of \$52 million in fiscal year 1982 due to above average maneuvering in 1981, excessive damage caused by maneuvering in unusually bad weather, and the elimination of a \$15 million payment backlog carried over from fiscal year 1981.

Large maneuvers account for up to two-thirds of all maneuver damage costs but represent less than 1 percent of the maneuvers conducted each year. For example, the annual Return of Forces to Germany (REFORGER) exercise typically accounts for 35 to 40 percent of the annual maneuver damage bill. REFORGER 1987 was large, and USACSEUR estimates that costs for U.S. maneuver damage could exceed \$17 million. USAREUR believes that large exercises are well planned and executed but that better planning of small exercises could potentially save \$3 million to \$5 million annually in damage payments.

**USAREUR's Maneuver
Management Program**

The Army has found that maneuver damage irritates German citizens and has resulted in resistance to maneuvers. Furthermore, growing environmental concerns and antimilitary sentiments have made it increasingly difficult for U.S. forces to maneuver outside established training areas in Germany. To minimize the negative impact, USAREUR instituted a

country-wide maneuver management program in 1981. USAREUR officials believe this program is essential to preserve its right to maneuver and maintain adequate readiness levels. Under the program, division and regimental commands under V Corps and VII Corps coordinate all U.S. maneuvers conducted in the areas where they normally exercise. They monitor all training exercises and maneuvers to eliminate conflicts and unnecessary requirements and to prevent excessive use of community areas and properties. Moreover, they are responsible for establishing good working relationships with German authorities down to the community level. The managing commands have designated maneuver damage prevention officers and specialists to carry out these responsibilities and to train maneuvering units how to avoid unnecessary damage. As the program has demonstrated its usefulness, it has been expanded.

All units obtain a maneuver right from USAREUR prior to conducting an exercise. To obtain the right, they must have the concurrence of the managing command, which has authority to exempt an area from maneuvering for up to 90 days if it has sustained extensive damage or has been overused. After obtaining the right, the maneuvering unit is required to coordinate with local German authorities, such as police, forestry personnel, road supervisors, property owners, and county and community government officials. Units provide exercise maps so that the authorities can identify wildlife preserves and other sensitive areas that the units should avoid. Units also provide maneuver dates to minimize disruption to community activities.

USAREUR officials believe that the program has been effective in preserving its right to maneuver in the face of growing German opposition. On the other hand, USAREUR is finding it extremely difficult to maneuver with an adequate amount of realism. Movement across cultivated fields has been restricted, and commanders have been requested to minimize damage to pasture land and agricultural roads because of the German people's anger about damage to fields, forests, and wildlife. Thus, maneuvering on public roads has increased, which is more expensive in terms of damage. Also, USAREUR believes that a North Atlantic Treaty Organization (NATO) force trained only on public roads cannot be a credible deterrent to the Warsaw Pact.

The German Army has also been subjected to constraints. Ministry of Defense officials told us that the German Army has experienced increased political and environmental opposition to its maneuvers. As a result, the German Army, which maneuvers more than U.S. forces, causes only about half the damage but maneuvers with less realism.

NATO Status of Forces Agreement

Cost-sharing arrangements and the rights and obligations of the United States and the FRG to settle maneuver damage claims are governed by the NATO Status of Forces Agreement (SOFA), dated June 19, 1951, and its supplementary agreements and amendments. Under these agreements, NATO countries normally reimburse the FRG for 75 percent of maneuver damage costs. In some cases, the reimbursement percentage can change under formulas used to divide maneuver damage costs among the NATO countries. For example, the formula is used to divide maneuver damage that FRG's Defense Cost Offices (DCO) cannot attribute to a specific country. Each NATO country has an administrative agreement that sets out procedural details and processing rules pertaining to maneuver damage claims. Amending the NATO SOFA requires agreement by all NATO countries. However, amending the U.S. administrative agreement requires concurrence of the United States and the FRG only. The agreement designates the DCOS as the FRG agencies to process maneuver damage claims and USACSEUR as the U.S. agency responsible for processing these claims.

FRG Responsibilities

Under the NATO SOFA, the FRG has the exclusive right to adjudicate maneuver damage settlements. There are about 36 DCOS, employing over 600 employees, to process maneuver damage claims. The DCOS tend to be organized differently—some are run by the state while others are run at the county or municipal level. Claimants file claims directly with the DCOS, which investigate the damage, adjudicate settlements, pay claimants out of their own funds, and bill the USACSEUR for the U.S. share.

The DCOS represent U.S. interests in German courts in the few instances of litigation over maneuver damage settlements. The DCOS pay the cost of litigation. About 375 cases are litigated each year; about 470 cases were pending as of August 1987.

The FRG Ministry of Finance provides guidance to the DCOS on claims procedures. According to Ministry officials, they do not review DCOS for compliance with procedures, but they do approve large settlements to ensure that they were properly adjudicated—especially those made to government agencies. A representative of the Ministry audits and approves payments for government claims exceeding \$5,880 and for private claims exceeding \$17,600.

Annual DCO operating costs are about \$18 million for processing NATO maneuver damage claims, of which about half are for damage caused by

U.S. forces. NATO countries do not reimburse the FRG for DCO costs to process maneuver damage claims. The Ministry of Finance pays half of these costs and the German states pay the other half.

DCO Verification Procedures

In 1984, USACSEUR stated that stronger U.S. verification might not be cost-effective because it would duplicate the verification the DCOS already provide. However, USACSEUR is now concerned that the DCOS may lack the staff to adequately verify damage and thus may be relying too much on certificates issued by USACSEUR as an admission of U.S. liability after only limited verification. USACSEUR believes the results of on-site inspections suggest that DCOS view these certificates as an admission of liability and that it is not necessary to verify that U.S. forces caused the damage. The DCOS are often forced to rely on claimants' assertions to establish that U.S. forces caused damages. For a variety of reasons, including the passage of time since the exercises and unfamiliarity with maneuver areas, the DCOS do not attempt to distinguish whether commercial vehicles or U.S. military vehicles caused the damage. Officials from one DCO office told USACSEUR that it does not have the resources to inspect damage thoroughly or to confirm involvement by U.S. forces.

We observed DCO personnel from two offices in the state of Hessen investigating several claims for damage to roads, forests, and fields. The Germans were conducting logging operations in the vicinity of the maneuver damage, and we found that it was difficult to distinguish logging damage from damage caused by U.S. forces. It was obvious that U.S. tanks caused the ruts on some roads and in the forests, but it was difficult to determine whether logging operations or U.S. vehicles caused the other damage. DOD officials stated that accurate findings would require prompt inspections, accurate records of preexisting damage, more information on what roads U.S. forces used, and reports on the damage U.S. forces inflicted.

The DCOS are required to inspect all claims prior to settlement, but USACSEUR has identified instances in which repairs had been completed before DCOS inspected the damage. In 1981, USACSEUR reviewed the files on 22 road damage claims and found that, while the DCOS had done a good job of adjudicating most claims, some of the damages had been repaired before a DCO made an on-site inspection. Subsequent inspections have disclosed other instances in which roads had been repaired without an inspection. While an emergency road repair can be made without a DCO inspection, DCO approval is required before the repair is made.

However, USACSEUR found that approvals were not always obtained prior to the repair being completed.

U.S. Responsibilities

USACSEUR's NATO SOFA Branch processes maneuver damage and tort claims for the United States. During fiscal year 1987, it had four employees to process maneuver damage claims and five employees¹ to process maneuver and tort reimbursements. Maneuver damage claims are for damage to real estate, such as fields, forests, and roads, caused by U.S. forces during military training exercises and maneuvers. Tort claims are for injury or death of German citizens or damage to personal property—generally resulting from traffic accidents involving military vehicles. Claimants have the right to file claims up to 90 days after they discover damage.

USACSEUR used three types of procedures—scope, blanket-scope, or simplified—to process maneuver damage claims. Under scope procedures, USACSEUR acknowledges that U.S. forces were the likely cause of damage prior to the DCOS making a final settlement. Under blanket-scope and simplified procedures, the DCOS adjudicated and settled claims without USACSEUR's involvement. Prior to their elimination in January 1988, blanket-scope procedures were used to process claims from large U.S. and multinational maneuvers except for those exceeding \$58,825. Simplified procedures are used to process small damage claims under \$1,765 except for road damage claims. Table I.2 shows that less than one-fourth of the claims were processed under scope procedures in fiscal year 1987.

Table I.2: Maneuver Damage Claims Processed in Fiscal Year 1987

Dollars in thousands				
Procedure	Claims processed	Percent	Amount claimed	U.S. share
Scope	5,706	22	\$28,603	^a
Blanket-scope	6,727	26	^b	\$13,252
Simplified	13,222	52	^b	2,258
Total	25,655	100		

^aMost claims have not been adjudicated, so the U.S. share is unknown.

^bThe amount claimed could not be determined from USACSEUR's records.

Scope Procedures

Under scope procedures, DCOS have 2 weeks after receipt of the claim to notify USACSEUR of the location, date and type of damage, amount

¹One employee was on leave most of the year.

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claimed, and possible U.S. unit causing the damage. USACSEUR then has 6 weeks to respond. If USACSEUR determines U.S. involvement, it issues a scope certificate; otherwise, it issues a "not-involved" certificate. In some cases, when claims are extremely large or the amount claimed is unspecified or unusually high, USACSEUR issues a "scope-exceptional" certificate to withhold payment until it reviews the proposed settlement. Generally, the DCOS send their complete files for USACSEUR to review when claims are given this designation. As shown in table I.3, virtually all claims certified in fiscal year 1987 received a scope certification.

Table I.3: Certification Results for Fiscal Year 1987 Claims

Type of Certification	Number	Percentage
Scope	5,304	98.3
Scope exceptional	61	1.2
Not-involved	29	0.5
Total	5,394^a	

^aUSACSEUR processed a total of 5,706 claims: 297 are pending certification, the claimant withdrew 14, and USACSEUR returned 1 to the DCO without a certification.

When available, USACSEUR uses Master Maneuver Damage Reports (MMDR), which maneuvering units prepare, to issue certificates to the DCOS. However, from information on MMDRs, USACSEUR can generally verify only that U.S. troops were maneuvering at the time and in the area specified in a damage claim. USACSEUR has found it difficult to use MMDRs to verify that damage actually occurred and was caused by U.S. forces because maneuvering units do not (1) adequately report preexisting damage; (2) report all damage (because some types of road damages are not visible or unit commanders fear reprisals from superiors if too much damage is reported); (3) regularly indicate routes traveled, which makes it difficult to verify that U.S. forces caused the road damage; (4) regularly file MMDRs (for example, in fiscal year 1986, 58 MMDRs were not filed, and as of September 1987, 156 MMDRs were late); and (5) report damage by German street address on German maps, but rather report damage by grid coordinates on military maps. USACSEUR's experience has been that only 20 to 30 percent of the damages had been reported in the MMDRs.

USACSEUR estimates that MMDRs do not provide adequate information on which to issue certificates for about 600 claims annually. In such cases, it requests that operational units provide information in reports of investigation, which USACSEUR uses to issue a certificate. USACSEUR uses these reports to establish that U.S. forces were in the area when the

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claimed damage occurred. This procedure provides only limited verification because key personnel in operational units (1) often cannot obtain a government vehicle to travel to the sites, (2) do not have adequate technical expertise to determine the reasonableness of amounts claimed in many damage cases, or (3) have only limited information about troop movements in their area.

Road damage claims account for 70 to 80 percent of the cost of maneuver damage annually. In fiscal year 1987, road damage claims accounted for more than 90 percent of the amount of claims processed under scope procedures, as shown on table I.4.

Table I.4: Types of Claims Processed Under Scope Procedures for Fiscal Year 1987

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

^aNot all claimed amounts are included because some notices were received without the amount stated.

According to Ministry of Finance officials, the DCOS do not routinely pay the full amount requested by a claimant. For the claim period of fiscal year 1986, the DCOS paid an average of 85 percent of the amount claimed. USACSEUR eventually reimbursed them for the U.S. share. According to a USACSEUR official, the DCOS sometimes help claimants determine the amount to claim before the DCOS submit claims to USACSEUR. In this case, the DCOS would not reduce the claims before paying them.

Blanket-Scope Procedures

Prior to their elimination in January 1988, blanket-scope certificates were used for claims resulting from large U.S. and multinational maneuvers, such as the annual REFORGER exercise. This procedure ensured prompt payment of the large number of claims that were filed in a short

period of time. However, if the claims exceeded a certain threshold, usually \$58,885, DCOs processed them under scope procedures.

For multinational exercises, a post-maneuver conference was held to divide the maneuver area into sectors. With certain exceptions, each participating country accepted financial responsibility for damage claimed in its sectors. Generally, damage exceeding \$58,885 that could be attributed to a specific country was excluded from the blanket-scope certificate and was processed under scope procedures.

USACSEUR relied on the DCOs to verify that damage existed and that it was the financial responsibility of the United States under blanket-scope certificates, since it received no notice of claims until after the DCOs paid claimants and USACSEUR received a reimbursement schedule. USACSEUR's accounting personnel reviewed the reimbursement schedules to ensure that the claimed damage occurred within the specified time of the maneuver and that claims adhered to processing agreements.

During a 1986 study the USAREUR Inspector General found that the use of blanket-scope certificates did not adequately protect the United States from paying invalid claims. USACSEUR's limited on-site inspections have confirmed that the United States was vulnerable because they have disclosed instances in which claimed damage did not exist or was not caused by U.S. forces.

USACSEUR wanted to eliminate the use of blanket-scope certificates. For REFORGER 1987, it reduced the threshold for excluding claims to \$5,882 in most sectors where the United States accepted financial responsibility. In some sectors, all claims above the simplified procedure threshold were subject to scope procedures. Blanket-scope certificates were eliminated in January 1988.

Simplified Procedures

Simplified procedures cover claims under \$1,765 except those for road damage claims, which are processed under normal scope procedures. This ensures prompt payment of the high volume of low-value claims so that the Army maintains good relations with local inhabitants. The process usually takes from 4 to 8 weeks. In 1987, the United States and the FRG amended the administrative agreement to increase the threshold for simplified claims from \$588 to \$1,765.

After the DCO investigates the damage and pays the claimant, it sends a reimbursement schedule to USACSEUR. The accounting personnel review

the schedules to verify that the amount paid does not exceed the maximum, that they do not include road damage, and that the U.S. share is calculated correctly. USACSEUR officials do not believe it would be worthwhile to inspect claims processed under simplified procedures because the procedure ensures prompt payment of the high volume of small claims submitted by farmers, and the risk that they are inflated or fictitious is slight.

Results of On-Site Inspections

USACSEUR and other Army personnel have conducted some on-site inspections of maneuver damage, but because USACSEUR does not have procedures to document these inspections, we were unable to verify the total number of inspections made annually or their overall results. USACSEUR's fiscal year 1987 records indicate that USACSEUR personnel conducted five inspections to verify damage. According to personnel in V Corps and VII Corps operating units, they occasionally conduct on-site inspections to verify damage and complete reports of investigations for USACSEUR. However, we were unable to determine how often they conduct such inspections or the results because USACSEUR does not require that records of inspections be maintained.

The maneuver damage prevention officer from the 3rd Armored Division, 2nd Brigade, identified several questionable claims from late 1984 through spring 1986:

- A city filed three claims for damage to gravel roads, drainage, and masonry. An inspection disclosed that no U.S. troops had been in the area. The claims had been based on the account of a witness, who had assumed the military vehicle he observed was American. USACSEUR issued not-involved certificates and the DCO did not pay the claims.
- A city street and roads authority submitted a claim for damage to embankments, guardrails, pavement markings, and traffic signs. A DCO had already made its inspection and considered the claim meritorious pending a slight reduction for depreciation. A subsequent U.S. joint inspection disclosed that normal wear and tear caused most of the damage, but the DCO official had not considered this. The DCO approved only 35 percent of the amount claimed.
- A forest authority filed a claim for damage to roads, areas with beech tree seedlings, a road gate, and a flower trough. The claim was covered by a blanket-scope certificate. Inspectors, including a battalion executive officer and the claimant's representative, found that only 2 or 3 meters of a gravel road were damaged. After the inspection, the claimant stated that he must have made an error and withdrew the claim.

**Appendix I
Need for Stronger U.S. Verification of
Maneuver Damage Claims in Germany**

After these inspections, USACSEUR became convinced that it needed more stringent U.S. verification and tested the feasibility of using on-site inspections as a basis for issuing scope and not-involved certificates. A 3rd Armored Division, 2nd Brigade, maneuver damage prevention officer inspected all 94 claims in the Main-Kinzig area from May through June 1986. The results confirmed USACSEUR's belief that on-site inspections could lower the number of scope certifications because only about half the claims received a scope certificate, as shown on table I.5.

Table I.5: Results of Main-Kinzig On-Site Inspections

Type of certification	Number	Percent	Amount		Percent paid
			Claimed	Paid	
Scope	46	49	\$151,005	\$56,585	37 ^a
Scope Exceptional	29	31	204,087	42,760	21 ^b
Not-Involved	19	20	41,052	0	0
Total	94	100	\$396,144	\$99,345	25

^aOne claim did not specify an amount and has not been settled.

^bThree claims totaling \$24,208 are not included because the DCO involved has not settled them.

The maneuver damage prevention officer made the inspections prior to DCO decisions on the settlements; the DCOs used the information provided during the inspections to adjudicate the final settlements. Since the settlements for these cases were significantly lower (25 percent of the claim amounts) than usual (85 percent), USACSEUR estimated that DOD might save up to \$10 million annually by making on-site inspections a routine verification technique.

Since the Main-Kinzig test, USACSEUR, V Corps, and the Hessen DCO agreed to but have not yet implemented a more extensive verification test. The expanded test calls for the use of a maneuver damage prevention officer to screen claims, issue scope certificates, and refer questionable claims to other Army personnel for further verification. To screen claims, the maneuver damage prevention officer would be given access to (1) the DCO damage claims and supporting documents, (2) maneuver overlays, (3) MMDRS, and (4) pre- and post-maneuver coordination reports. If the officer identified questionable claims, either because U.S. forces might not have caused the damage or the amount claimed seemed excessive, the officer would refer them to other Army personnel, such as engineers or maneuver damage prevention specialists, for further evaluation. Their evaluation could involve on-site inspections and contact with the

**Appendix I
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maneuvering unit. According to a USACSEUR official, the USAREUR maneuver damage study team recommended this verification procedure for implementation USAREUR-wide.

U.S. Payments on Damage Claims

In addition to the verification issue, two other issues of interest are the backlog in U.S. payments on damage claims and the inclusion of German value-added taxes and interest to the claims.

Backlog

USACSEUR officials cite funding shortfalls and the declining value of the dollar as the primary causes of a recent \$24.6 million maneuver damage payment backlog in fiscal year 1987. USACSEUR officials initially believed that their fiscal year 1988 funding of \$60 million was sufficient to pay anticipated claims and eliminate the NATO SOFA payment backlog.¹ However, DOD officials now believe it is too early to predict whether or not it will have to augment the \$60 million through reprogramming to prevent a backlog from occurring toward the end of the fiscal year. In 1980, we reported that USACSEUR had a limited capacity to accurately predict funding amounts required to reimburse the FRG in a timely manner. It has since enhanced its capability by obtaining a computer system, but USACSEUR officials believe that it is still difficult to predict requirements because of uncertainties in the number and size of maneuvers, weather conditions, and foreign currency exchange rates. Table II.1 shows that annual maneuver damage payments have not always been adequate to meet U.S. obligations.

Table II.1: Maneuver Damage Payment Backlogs

Dollars in millions		
Fiscal year	U.S. payments	Payment backlog
1980	\$20.1	\$19.3
1981	35.4	15.0 ^a
1982	52.5	None
1983	33.6	None
1984	23.8	None
1985	23.5	None
1986	18.6	22.7
1987	22.8	24.6

^aThe backlog was eliminated in fiscal year 1982.

A severe sustained decline in the dollar's value in 1986 contributed significantly to the funding shortfall. Although the Army Claims Service normally reprograms funds to cover shortfalls, it used all available funds in fiscal year 1986 for funding shortfalls in paying permanent change-of-station claims. This created a backlog of \$22.7 million in 1986.

¹SOFA claims include maneuver damage and tort claims. The backlog for tort claims was \$10.7 million at the end of fiscal year 1987.

The Army Claims Service used almost all fiscal year 1987 funds to pay fiscal year 1986 claims.

Value-Added Taxes and Interest

In some cases, maneuver damage settlements in the FRG include a value-added tax and interest. If claimants are required to pay the tax to repair or replace damaged property, German law allows them to include the tax as part of the claim. USACSEUR's Chief told us that the tax—normally about 14 percent—is added to the price of most goods and services. USACSEUR reimburses the U.S. share of these charges, as the NATO SOFA requires. Because DCOS do not report these taxes separately, USACSEUR does not know how much is paid annually.

Interest charges are also allowed for claims not settled by DCOS within 120 days after a claim is filed that specifies the amount of damage. Interest charges accrue at a rate of 2 percent above the German prime rate. To avoid interest charges, the DCOS make advance payments of up to 80 percent of the amount claimed. The DCOS are reluctant to make advance payments on claims for which the amount claimed appears inflated or there is little likelihood the claimant will receive any compensation. USACSEUR officials encourage DCOS to make advance payments whenever possible to minimize interest charges. While DCOS do not always report the amount of interest paid, USACSEUR in 1986 reported that more than half a million dollars had been paid annually for interest.

Objectives, Scope, and Methodology

We evaluated USACSEUR's internal control procedures for verifying maneuver damage claims, using our Standards For Internal Controls in the Federal Government as criteria. We also examined the Army's procedures to budget and pay the U.S. share of damage costs and to prevent unnecessary damage.

We discussed DOD procedures with officials in the FRG from Headquarters USAREUR, USACSEUR, V Corps and VII Corps Headquarters, and the Army Corps of Engineers, and with officials from the U.S. Army Claims Service, Ft. Meade, Maryland. We also examined pertinent documents, such as the NATO SOFA and its implementing agreements and amendments, claim files, accounting records, and correspondence files. We observed USACSEUR and Corps of Engineer personnel verifying damage reported by maneuvering units during REFORGER 1987 and attended the REFORGER 1987 post-maneuver damage conference. We observed USAREUR, USACSEUR, and DCO officials conducting joint on-site inspections of various road and field damage. We also visited one of the three U.S. training areas in the FRG.

We did not review DCO operations. However, we discussed with officials from the German Ministry of Finance and two DCOs in the German state of Hessen the procedures they used to adjudicate claims. We also discussed with German Ministry of Defense officials the procedures the German Army uses to prevent unnecessary damage. We conducted our review from September 1987 to February 1988 in accordance with generally accepted government auditing standards.

Comments From the Department of State



United States Department of State

Comptroller

Washington, D.C. 20520

April 28, 1988

Dear Mr. Conahan:

I am replying to your letter of March 23, 1988 to the Secretary which forwarded copies of the draft report entitled "Internal Controls: LCD Needs to Strengthen U.S. Verification of Maneuver Damage Claims in Germany" (Code 464128) for review and comment.

The enclosed comments on this report were prepared in the Bureau of Politico-Military Affairs.

We appreciate the opportunity to review and comment on the draft report.

Sincerely,

A handwritten signature in cursive script that reads "Roger B. Feldman".

Roger B. Feldman

Enclosure:
As stated.

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

Appendix IV
Comments From the Department of State


GAO DRAFT REPORT COMMENTS: INTERNAL CONTROLS: DOD NEEDS TO
STRENGTHEN U.S. VERIFICATION OF MANEUVER DAMAGE CLAIMS IN
GERMANY (Code 464128)

Thank you for the opportunity to comment on the draft
report on U.S. verification of maneuver damage claims in the
Federal Republic of Germany.

The Office of the Legal Advisor reports that the first
sentence of the BACKGROUND section of this draft report (p. 2)
is inaccurate and recommends that it be changed. The NATO SOFA
does not explicitly refer to maneuver practice outside training
areas. The SOFA does provide for the settlement of claims, and
has provisions governing claims for injuries allegedly caused
by U.S. armed forces (or armed forces of any other NATO
country) to private persons in the territory of other member
states.

I recommend the following lines be substituted for the
first two sentences of the first paragraph of BACKGROUND, draft
report page 2:

The NATO SOFA provides for the settlement of claims for
damage allegedly caused by U.S. armed forces to private
persons in the territory of other member states. Annually,
the U.S. Army conducts about 1,000 training maneuvers in
the FRG on public and private land outside its training
areas, which are too small to meet its needs. Inevitably
these maneuvers cause damage to German roads, fields, and
forests.


Arnold Schlossberg, Jr.
Major General, U.S. Army
Principal Deputy Assistant Secretary
Bureau of Politico-Military Affairs

Now on p. 1.

Comments From the Department of Defense



FORCE MANAGEMENT
AND PERSONNEL

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-4000

4 May 1988

Mr. Frank C. Conahan
Director, 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, "INTERNAL CONTROLS: DoD Needs to Strengthen U.S. Verification of Maneuver Damage Claims in Germany," dated March 24, 1988 (GAO Code 464128/OSD Case 7574). The Department generally concurs in the report's findings and recommendations, but certain clarifications and corrections are necessary to make the report fully accurate.

Insofar as the draft report simply states that more verification is needed and that such verification will require additional personnel, the DoD agrees. The U.S. Army, Europe, has taken steps to add five employees to the U.S. Army Claims Service, Europe, and to excuse the Claims Service from a previously scheduled manpower reduction of four spaces. These steps were taken as a result of a comprehensive 1987 study of the maneuver damage system in Germany.

The DoD disagrees, however, with the implication that an enhanced on-site inspection system will produce a savings of \$10 million dollars per year. The GAO places excessive emphasis on a 1986 test of 94 claims from a single heavily maneuvered area. Since some 25,000 claims are processed in a typical year, that test provides an insufficient basis for projecting future savings. Any savings will depend on numerous factors, including the number of exercises, the weather, the exchange rate, the quality of the German Defense Costs Office investigations, and the costs of the added inspections by U.S. personnel.

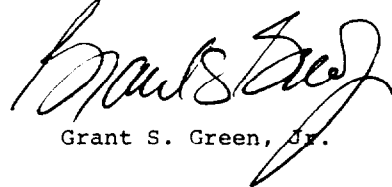
It is the DoD position that the actions to be taken by the Claims Service will correct the internal control weakness identified by the GAO. For example, the blanket-scope certificate has been eliminated, and Claims Service personnel are already

Appendix V
Comments From the Department of Defense

being used to perform additional on-site inspections. An assessment of the materiality of the weakness will, however, be considered by the Army in preparing the annual assurance statement on internal controls.

Detailed Department of Defense comments on the GAO findings and recommendations are provided in the enclosure.

Sincerely,



Grant S. Green, Jr.

Enclosure:
As Stated

GAO DRAFT REPORT - DATED MARCH 23, 1988
(GAO CODE 464128) OSD CASE 7574

"INTERNAL CONTROLS: DOD NEEDS TO STRENGTHEN
VERIFICATION OF MANEUVER DAMAGE CLAIMS IN GERMANY"

DEPARTMENT OF DEFENSE COMMENTS

FINDINGS

- o FINDING A: Very Little Done Since Last Review To Increase U.S. Involvement In The Verification Process. The GAO noted that in its 1980 report 1/ it recommended that the DoD strengthen the U.S. Army capability to verify high-cost road damage claims from training maneuvers. (In 1980, the GAO had found an almost total lack of U.S. verification, even for very large claims.) The GAO also noted that it had come to the attention of the Senate Armed Services Committee that the DoD had done little to increase U.S. involvement in the verification process and, in addition, allegations have been made that the U.S. might be paying highly inflated or fraudulent claims. The GAO observed that the current GAO review confirmed that very little has been done since the last review to increase U.S. involvement in the verification process or improve U.S. Army Claims Service, Europe (USACSEUR), procedures to process and verify maneuver damage claims. (pp, 1-2, pp. 13-14/GAO Draft Report)

DoD Response: Partially concur. While the DoD generally agrees with the GAO description of the background of this case, it is incorrect to say that "very little has been done" since the 1980 General Accounting Office report to increase U.S. involvement in the verification process or to improve U.S. Army Claims Service, Europe (USACSEUR) procedures for processing and verifying maneuver damage claims.

The Army responded to the 1980 report by increasing the maneuver damage prevention program and by acquiring needed automation equipment for the USACSEUR. This initial response was predicated on the belief that preventing damage was better than paying for damage, particularly given the potential for adverse reaction by the German public to maneuver damage. Thus, after the 1980 report, the Army established damage prevention as an important part of exercises, on the same level as training realism and safety. Managing commands with area responsibility were created to coordinate maneuvers, prevent overuse of areas,

1/GAO/ID-81-4, "Military Damage Claims in Germany--A Growing Burden" (OSD Case 5479-A)

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Now on pp. 1 and 12.

See p. 1.

and document damage. Full-time maneuver management officers and specialists were added to these commands, and, in 1983, training videos became a standard part of damage training. Suspicious claims in 1983 and 1984 led to the 1986 Main Kinzig test inspections, sponsored by the USACSEUR. The results of these inspections, in turn, led to creation in 1987 of an area maneuver damage specialist responsibility in the V Corps area. Increased coordination among the Sending States (i.e., the non-German NATO nations whose troops maneuver in Germany) on the subject of claims was achieved by establishing a Claims Working Group, which has met biannually since 1986. Planning for second-generation computer equipment and actual acquisition of this equipment for the USACSEUR started in 1986, with deliveries in late 1987 and early 1988. Additionally, the USACSEUR had a significant presence in the field during REFORGER 87 and spent more than \$40,000 on engineer support for inspecting high-cost or suspicious claims for this exercise. The Main Kinzig test also led to the 1987 USAREUR Maneuver Study, which made specific recommendations (since approved) to increase verification through additional personnel and use of maneuver management specialists to inspect claims.

From today's perspective, more could and should have been done since 1980 toward improving verification procedures. Nonetheless, real and identifiable progress has been made during this period in overall maneuver damage management.

- o FINDING B: Training Maneuvers Under North Atlantic Treaty Organization (NATO) Status Of Forces Agreement. The GAO reported that the NATO Status of Forces Agreement (SOFA) grants the U.S. Army the right to conduct training maneuvers in the Federal Republic of Germany (FRG) outside U.S. training areas, which are too small to meet Army needs. The GAO further reported that, annually, the Army conducts about 1,000 such maneuvers on public and private land, inevitably causing damage to Germany roads, fields, and forests. The GAO observed that the U.S. Army, Europe (USAREUR), oversees the planning and coordinating of U.S. Army training exercises and maneuvers held outside the three major U.S. training areas in the FRG. (p.2, pp. 14-15/GAO Draft Report)

DoD Response: Concur.

- o FINDING C: Costs. The GAO reported that cost-sharing arrangements and the rights and obligations of the United States and the FRG to settle maneuver damage claims are governed by the SOFA and its supplements and amendments and, that under these agreements, NATO countries normally reimburse the FRG for 75 percent of maneuver damage costs, but do not reimburse German costs to process maneuver damage

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Now on pp. 1-2 and 12-14.

claims. The GAO found that, since 1980, payments for the U.S. share of maneuver damage have averaged about \$28.8 million annually, with a high of \$52 million in FY 1982. The GAO also found that payment backlogs were caused by funding shortfalls and exchange rate fluctuations in FY 1980, FY 1981, FY 1986, and FY 1987. A \$24.6 million payment backlog existed at the beginning of FY 1988, but the USACSEUR advised the GAO that the FY 1988 funding level of \$60 million will be adequate to eliminate the backlog and pay anticipated claims. The GAO noted that USAREUR officials anticipate that budget cuts will reduce training exercises and maneuvers in Germany during FY 1988 and beyond. While the annual 1987 REFORGER exercise was large, and the USACSEUR estimates that costs for U.S. maneuver damage could exceed \$17 million, according to the GAO, it is the USAREUR position that large exercises are well planned and executed, but that better planning of small exercises could potentially save \$3 million to \$5 million annually in damage payments. (pp. 2-3, pp. 15-16, p. 18, p. 20, pp. 33-34/GAO Draft Report)

Now on pp. 2, 13, 15, and
24-25.

DoD Response: Concur. It should be clarified that the backlog of unreimbursed claims was eliminated by early March 1988. It is too early to predict whether the USACSEUR FY 1988 budget of \$60 million for NATO SOFA claims will have to be augmented through reprogramming to prevent a backlog from occurring toward the end of this fiscal year. Additionally, while increased verification and better planning of small exercises will undoubtedly save some money, any specific estimate is potentially misleading. Savings will depend on verification; the number, type and severity of exercises; weather conditions; and the exchange rate.

See p. 2.

- o FINDING D: Maneuver Management Program. The GAO reported that growing environmental concerns and antimilitary sentiments have made it increasingly difficult for U.S. forces to maneuver outside established training areas in Germany. Also, according to the GAO, the Army is finding it extremely difficult to maneuver with an adequate amount of realism because of German citizen anger about damage to fields, forests and wildlife. The GAO noted that German Ministry of Defense officials stated the German Army has also experienced increased political and environmental opposition to its maneuvers. The GAO reported that, to minimize the negative impact, the USAREUR has established a maneuver management program in the FRG to prevent unnecessary damage. The GAO found that the program has strengthened procedures for coordination with German authorities, reduced the number of maneuvers in overused or excessively damaged areas, and provided damage prevention

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Now on pp. 1-2 and 13-14.

training. The GAO noted that USAREUR officials consider this program to be effective in controlling damage, while allowing for adequate, though somewhat reduced, realism in the maneuver environment. The GAO observed that one consequence is that maneuvering on public roads has increased. (p. 2, pp. 16-18/GAO Draft Report)

DoD Response: Concur.

- o FINDING E: Processing Procedures--German Responsibilities. The GAO reported that the NATO SOFA describes the basic framework for settling claims. The GAO found that the United States and the FRG have, in addition, an administrative agreement that details the procedures for processing claims and designates USACSEUR as the U.S. agency to process and pay maneuver damage claims in the FRG. The GAO reported that, under the SOFA, the FRG retains the exclusive right to adjudicate settlements, and this is carried out by its Defense Cost Offices (DCOs)--which receive overall guidance from the Ministry of Finance (MOF). The GAO found that about 375 cases are litigated each year (with about 470 cases pending as of August 1987). The GAO found that, in addition, the DCOs process the majority of maneuver damage claims solely under "blanket-scope" and "simplified" procedures. Under these procedures, the DCOs notify USACSEUR only after paying such claims. The GAO also found that the MOF audits and approves payments for government claims exceeding \$5,880 and for private claims exceeding \$17,600. The GAO observed, however, that USACSEUR is concerned that the DCOs may lack the staff to adequately verify damage and, thus, may be relying too much on certificates issued by USACSEUR as an admission of U.S. liability after only limited verification, or on claimant assertions, to establish that U.S. forces caused damages. (Officials from a DCO office reportedly told USACSEUR that their office does not have the resources to inspect damage thoroughly or confirm involvement by U.S. forces.) The GAO staff personally observed DCO personnel from two offices in the state of Hessen investigating several claims for damage to roads, forests, and fields. The GAO found that the Germans were conducting logging operations in the vicinity of the maneuver damage, and it was difficult to distinguish logging damage from damage caused by U.S. forces. The GAO also found that, while the DCOs are required to inspect all claims prior to settlement, the USACSEUR has identified some instances in which repairs have been completed before the DCO inspected the damage. Finally, the GAO noted that, according to MOF officials, the DCOs do not routinely pay the full amount requested by a claimant. (For example, in FY 1986, the DCOs paid an average of 85 percent of the amount claimed.) (p.3, pp. 19-22, p.26/GAO Draft Report)

Now on pp. 2, 15-16, and 19.

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DoD Response: Concur. The blanket scope certificate has been eliminated. As an example, no blanket scope certificate was issued for the division exercise Winter Warrior 88 and the corps exercise Caravan Guard 88. Claims in excess of DM 10,000 from other exercises, such as REFORGER 87, are now being forwarded to the USACSEUR for certification. It should be noted that, although blanket scope certificates obviated the requirement for on-site inspection of most of these claims under past procedures, in most cases the claims were already known and well documented at the end of the exercise when the post-maneuver conference was held. Additionally, elimination of the blanket scope procedure would not have been feasible without an increase of USACSEUR personnel to process these claims and improvement in the USACSEUR automation capability.

- o FINDING F: Processing Procedures--U.S. Responsibilities. The GAO reported that the USACSEUR utilizes (1) blanket-scope, (2) simple, and (3) scope procedures to process claims. The GAO explained that blanket-scope certificates are used for claims resulting from large U.S. and multinational maneuvers, such as the annual REFORGER exercise, to ensure prompt payment of the large number of smaller claims that are filed in a short period of time. Also, the GAO found that simplified procedures cover all claims (except for claims for roads) under \$1,765. The GAO observed that, under the above procedures the USACSEUR role is limited to reimbursing the FRG for the U.S. share of the damage. The GAO found that, of the 25,655 claims for U.S. caused damage in FY 1987, 6,277 (or 26 percent) were processed under blanket-scope procedures, and 13,222 (or 52 percent) were processed under simplified procedures. The GAO also found that, in FY 1987, the DCOs requested \$13.2 million ^{2/} for reimbursement of blanket-scope claims and \$2.2 million ^{2/} for simplified claims. The GAO also noted that a 1986 USAREUR Inspector General study found that the use of blanket-scope certificates did not adequately protect the U.S. The GAO observed that the USACSEUR wants to eliminate the use of blanket-scope certificates, and for REFORGER 1987 reduced the threshold for excluding claims to \$5,882 in most sectors where the United States accepted financial responsibility. The GAO also noted that USACSEUR officials do not believe it would be worthwhile to inspect claims processed under simplified procedures. The GAO found that, in FY 1987, 5,706 damage claims processed under scope procedures totaled more than \$28 million (USACSEUR under this procedure issues scope or, conversely, "not-involved" certificates to the DCOs to either acknowledge or deny U.S. involvement). The GAO noted that USACSEUR issues

^{2/}Based on a rate of 1.7 German marks to the dollar.

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Now on pp. 2-3, 17-18, and
19-21.

"scope-exceptional" certificates when claims are extremely large, or the amount claimed is unspecified or unusually high for the damage. The GAO found that, in FY 1987, the USACSEUR issued scope certificates for 5,304, or 98 percent, of the 5,394 claims certified and not-involved certificates for 29 claims. Finally, the GAO found that road damage claims account for 70 to 80 percent of the cost of maneuver damage annually and, in FY 1987, accounted for over 90 percent of the amount of claims processed under scope procedures. (pp. 3-5, pp. 22-24, pp. 27-29/GAO Draft Report)

DoD Response: Concur.

- o FINDING G: Master Maneuver Damage Reports. The GAO reported that, when available, the USACSEUR uses information contained in Master Maneuver Damage Reports (MMDRs), submitted by maneuvering units, to issue certificates to the DCOs. The GAO observed that this procedure provides only limited verification that damage actually occurred and was caused by U.S. Forces because, for most claims, the USACSEUR can ascertain from the MMDRs only that the damage occurred within the time and geographical limit of a U.S. maneuver, but cannot directly attribute the damage to the maneuver. The GAO noted that the USACSEUR estimates that MMDRs do not provide adequate information on which to issue certificates for about 600 claims annually. (In such cases, it requests that operational units provide additional information.) The GAO concluded that the use of the MMDRs to verify U.S. maneuver damage is ineffective because the data in these reports cannot be used to ensure that the damage exists or was actually caused by U.S. forces. The GAO concluded that the MMDRs list only a portion--at best 20 percent to 30 percent--of damages actually claimed and are not an adequate substitute for physically verifying damage. (p. 4, p. 6, pp. 24-26/GAO Draft Report)

Now on pp. 3-4 and 18-19.

DoD Response: Concur. The 1987 USAREUR Maneuver Study recommended a review of the Master Maneuver Damage Report (MMDR) and procedures to improve verification. This recommendation was approved, and the USACSEUR was designated as the lead agency to look for ways to make the report more useful. Development of a new MMDR is in progress.

- o FINDING H: On-Site Inspections. The GAO reported that the USACSEUR and other Army personnel have conducted some on-site inspections of maneuver damage but, because the USACSEUR does not have procedures to document these inspections, the GAO was unable to verify the total number of inspections made annually or their overall results. The GAO found that, after the maneuver damage prevention officer from the 3rd Armored Division, 2nd Brigade, identified several questionable claims from late 1984 through spring

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1986, the USACSEUR became convinced that it needed more stringent U.S. verification. The GAO found that to test the feasibility of using on-site inspections as a basis for issuing scope and not-involved certificates, a 3rd Armored Division, 2nd Brigade, maneuver damage prevention officer inspected all 94 claims in the Main Kinzig area from May through June 1986. The GAO observed that the results confirmed the USACSEUR position that on-site inspections could lower the number of scope certifications because only about half the inspected claims received a scope certificate. Based on the inspections, the USACSEUR issued 19 not-involved certificates because the damage did not exist or was not caused by U.S. forces and issued 29 scope-exceptional certificates because U.S. forces did not cause all the damage claimed. The GAO pointed out that the 20 percent rate for claims receiving not-involved certificates was significantly higher than the less than 1 percent that received such a certification in FY 1987. The GAO concluded, however, that even though the settlements for these cases were 25 percent of the claim amounts rather than the usual 85 percent and the USACSEUR estimated that up to \$10 million might be saved annually by making on-site inspections, experience from a broader base is needed to confirm this estimate. The GAO observed that, since the Main Kinzig test, the USACSEUR, V Corps, and the Hessen DCO have agreed to more extensive verification tests, but this has not yet been implemented. The GAO noted that, according to a USACSEUR official, the USAREUR maneuver damage study team recommended that the verification procedure developed for this test be implemented USAREUR-wide. (p. 6-8, pp. 29-32/GAO Draft Report)

Now on pp. 4-6 and 21-23.

DoD Response: Partially concur. While the DoD agrees that some claims money will be saved through improved verification, the amount of these savings is purely speculative. Actual savings in a given year would depend on the number and intensity of exercises, the exchange rate applicable to reimbursements, weather conditions, and the cost of the additional on-site inspections. The GAO report places too much reliance on the test results of the Main Kinzig claims. This test confirmed only 94 claims out of an average of nearly 25,000 claims filed annually. Main Kinzig was a heavily maneuvered area serviced by a habitually understaffed Defense Costs Office. The test results provided the basis for developing an area maneuver management system in V Corps that ultimately became the prototype for a USAREUR-wide system. As the GAO draft report implies, however, any attempt to extrapolate from these limited and atypical test results to project potential savings on maneuver damage claims for all of Germany cannot produce reliable figures.

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It should also be noted that, since the USAREUR maneuver study adopted the V Corps program for USAREUR-wide implementation and since the Army agrees that additional inspection of maneuver claims is a necessity, additional tests to confirm the findings in the Main Kinzig area may not be necessary.

- o FINDING I: Internal Controls Need To Be Strengthened. The GAO found that USACSEUR procedures have not provided adequate control over the payment of claims because the limited verification provided has been ineffective and U.S. personnel have not documented on-site verification inspections. The GAO observed that the USACSEUR should apply stronger verification procedures for the higher value claims and develop procedures to adequately document its verification efforts. The GAO concluded that such procedures are called for by the Federal Manager's Financial Integrity Act of 1982, which requires Federal agencies to establish and maintain effective internal controls to safeguard U.S. funds against loss. The GAO observed that USAREUR appears to be taking steps to provide USACSEUR with additional resources to increase inspections by U.S. personnel. The GAO concluded, however, that while this is an essential first step, additional steps are necessary to strengthen the USACSEUR internal controls. The GAO further concluded that the USACSEUR needs to develop specific procedures for collecting sufficient data to ensure that only valid claims are paid, including: (1) identifying a portion of claims processed under scope and blanket-scope procedures to be verified through joint inspections; (2) identifying questionable claims, such as high-cost road damage claims, and ensuring that qualified personnel verify them; and (3) ensuring that U.S. personnel keep adequate records of verification efforts.

The GAO also concluded that Corps of Engineers personnel, already in-country, could be used to review claims and conduct on-site inspections, especially for the higher-cost road damage claims. In summary, the GAO concluded that such USACSEUR internal control procedures could be improved to more effectively ensure that the United States pays only for the damage it causes. (pp.5-7, pp. 9-10/GAO Draft Report)

DoD Response: Concur. Increased personnel authorizations for the USACSEUR, including an engineer, have been approved, and the additional personnel will be hired as soon as possible. The USACSEUR is taking significant action to develop procedures for collecting data to ensure that only valid claims are paid and that US personnel keep adequate

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Now on pp. 3-4 and 6.

records of these verification efforts. Consequently, use of Corps of Engineers personnel to inspect maneuver damage claims may not be necessary. However, use of Corps of Engineers personnel will be considered if other actions do not prove to be adequate.

- o FINDING J: Value-Added Taxes and Interest. The GAO reported that if, under German law, claimants are required to pay value-added tax to repair or replace damaged property, the USACSEUR reimburses the U.S. share of these charges, as the NATO SOFA requires. The GAO also reported that interest charges, at a rate 2 percent above the German prime rate, are also allowed for claims not settled for 120 days. The GAO noted that DCOs do not report the amount of taxes or interest paid; nevertheless, in 1986 the USACSEUR reported more than half a million dollars in interest payment. (pp.34-35/GAO Draft Report)

Now on p. 25.

DoD Response: Concur. Although Defense Cost Officials do not always report interest payments or taxes separately, in many claims these items can be identified.

See p. 25.

RECOMMENDATIONS

- o RECOMMENDATION 1: The GAO recommended that the Secretary of Defense ensure that the actions planned by the USAREUR to improve controls over maneuver damage payments are implemented. (p. 10/GAO Draft Report)

Now on p. 7.

DoD Response: Concur. The USAREUR has already approved five additional positions for the USACSEUR (one engineer, two USACSEUR claims adjudicators, one claims adjudicator in V Corps and one in VII Corps). The USACSEUR has been using military personnel on a temporary basis to perform inspections since January 1988. Additionally, the USAREUR has approved the recommendations of the 1987 USAREUR Maneuver Study, which will allow the USACSEUR to use area maneuver management specialists to inspect maneuver damage claims, study ways to improve the Master Maneuver Damage Report, conduct program evaluation, and provide feedback to commanders.

See p. 7.

- o RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the use of Corps of Engineers personnel stationed in the FRG to review claims and conduct on-site inspections, especially higher cost road damage claims. (p. 11/GAO Draft Report)

Now on p. 7.

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DoD Response: Partially concur. The USACSEUR plan (to hire an engineer who is fluent in the German language and conversant with German engineering standards) is preferable to using Corps of Engineers personnel. Corps of Engineers personnel will be used to assist in the claims process, however, if the USACSEUR augmentation proves inadequate.

- o RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct that procedures be developed to collect and document sufficient data to ensure that only valid claims are paid. (p. 11/GAO Draft Report)

Now on p. 7.

DoD Response: Concur. The USACSEUR is now developing improved procedures to identify claims for inspection, track inspection results, and collect sufficient data to ensure that only valid claims are paid. These procedures will be substantially in place by the end of calendar year 1988, and will be refined as new personnel are obtained and automated programs are designed to improve the verification process. The status of these improvements will be considered in developing the annual assurance statement for 1988 on internal controls.

See p. 7.

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