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STATEMENT OF
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UNITED STATES GENERAL ACCOUNTING OFFICE
BEFORE THE
SENATE JUDICIARY COMMITTEE
STATE OF CALIFORNIA
ON
[AUTOMOBILE REPAIR] 4256
MARCH 28, 1980

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We are pleased to be here today to discuss the General Accounting Office's recent report on consumers' auto repair problems 1/ and some of the initiatives your committee is considering to deal with those problems.

I'd like to briefly discuss our report, and then address the specific topics being considered by the committee.

The Congress has long been aware that consumers generally regard auto repair as one of their top problems. In 1972 it directed the Department of Transportation, through the National Highway Traffic Safety Administration (NHTSA), to look at selected aspects of the auto repair problems by designing a rating scheme for new cars based on their repairability and by demonstrating whether independent diagnostic centers would result in fewer unnecessary or unsatisfactory repairs.

Consumers were still experiencing serious problems in 1978 when both the House and Senate Commerce Committees held extensive hearings. After receiving testimony from officials of Federal, State, and local government agencies, industry members, and consumer groups, the Senate Commerce Committee and its Consumer Subcommittee asked GAO--as the Congress' investigative arm--to help clarify the Federal role in dealing with the auto repair problem, including the relationship

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1/Public and Private Coordination Needed if Auto Repair Problems are to be Reduced (HRD-80-30, January 11, 1980)

of Federal agencies to State and local governments. We examined the auto repair-related activities of 11 Federal agencies and obtained information on similar efforts of 7 States, 4 domestic auto manufacturers, and several industry and consumer groups. We also received views from more than 250 government and industry officials on causes and potential solutions to consumers' auto repair problems, and what role, if any, the Federal government could play in those solutions.

Auto repair problems include a variety of interrelated situations. The most serious problems can be categorized as faulty repairs, unnecessary repairs, and unanticipated repair costs. While government officials consider these problems to be serious, expensive, persistent, and increasing, industry representatives acknowledge they exist but contend that they are exaggerated and that most consumers are satisfied with repair service. We concluded that the available evidence clearly indicates that the problems are serious enough to warrant substantially improved efforts by all concerned parties.

We believe that consumers' auto repair problems are most directly caused by a shortage of skilled mechanics and certain business practices, such as a repair shop's failure to provide an estimate or to obtain authorization for work, which, although not illegal, are nevertheless questionable.

Public and private efforts to deal with auto repair problems fit into three major categories. The first involves consumer information and education. Consumers are at a disadvantage in the market place because they are generally not well informed about auto repair. Recognizing this, many of the States or other groups we contacted tried to help consumers by

--requiring repair facilities to disclose

- (1) how much the repair work will cost,
- (2) the work that was actually done,
- (3) warranties offered, and (4) a variety of other information;

--providing information to consumers

about such things as their legal rights and how to communicate with their mechanic;

--rating local repair shops to provide consumers with some indication of the relative quality of the shops; and

--providing diagnostic inspections to tell consumers more specifically what needs to be fixed.

Second, both government and industry groups actively help consumers resolve their problems. States try to mediate complaints either through broad consumer protection units or specialized groups dealing only with auto repair.

The domestic auto manufacturers have begun experimenting with new dispute resolution programs which have some form of binding arbitration, and many members of the National Automobile Dealers Association offer Automotive Consumer Action Panels as a swift, accessible, and inexpensive forum for resolving sales or service problems.

Third, public and private groups are giving more attention to the basic problems themselves--mechanic competency and industry repair practices. We found, however, that expanded training for new and existing mechanics had not overcome the shortage of skilled mechanics. Voluntary or mandatory mechanic certification may be effective in reducing unsatisfactory repairs, but existing programs have never been evaluated. Finally, several States including California have laws which in one form or another require repairs to be done properly or in accordance with accepted trade standards, but there seems to be a shortage of accepted standards.

Clearly these programs provide some benefits to consumers, particularly in resolving their auto repair disputes; however, the extent of their effectiveness in reducing the problems has not been clearly established. In some instances the programs are relatively new and in others the available data are inconclusive. Further, we found no evaluations comparing programs using similar or different approaches.

Better information is important because about half of the States have no specific auto repair regulations and could benefit from the experience of other groups. Since this information is lacking, existing program funds may not be used as effectively as possible. About two-thirds of the State and local officials believe that their jurisdictions' authority to control all types of auto repair problems is less than adequate.

The Federal government has done little to reduce consumers' auto repair problems. Only two agencies--NHTSA and the Federal Trade Commission have ongoing programs specifically directed at reducing the problems, and in fiscal year 1979 the budgets for these programs were less than \$1 million. Several other agencies indirectly touch on auto repair in their programs, such as those for training mechanics or controlling air pollution.

To date Federal agency activities have had very little effect on reducing consumers' auto repair problems. But we did identify a Federal initiative that has the potential to more effectively deal with the problems.

NHTSA has developed an interagency coordinating committee to facilitate the planning and coordinating of Federal programs involving motor vehicle inspection, maintenance, and repair. Through working groups of Federal agency officials, the committee

plans to study auto repair issues such as mechanic training, standardization, and diagnostics.

We believe the most essential Federal role in reducing consumers' auto repair problems lies in the area of coordinating public and private efforts. No one group can solve all the problems; cooperation among various levels of government and industry is essential. To effectively coordinate the activities of these groups, we recommended that the Congress strengthen the concepts of the interagency coordinating committee by expanding its objectives to cover more than just Federal programs and activities, and by encouraging State and local governments, consumer groups, and private industry to actively participate.

The interagency coordinating committee is proceeding in its formative work. One of its first tasks is to form a "Panel of Experts" to comment on committee activities and, when requested, to review material produced by the committee. The Committee has invited representatives of consumer groups (e.g., the Consumer Federation of America), special interest groups (e.g. Center for Auto Safety, Automotive Information Council), the automobile industry (e.g. major domestic manufacturers), and the auto repair industry (e.g. Automotive Service Councils) to participate on its "Panel of Experts." The California Bureau of Automotive Repair has also been invited to participate.

We were asked to comment on what we believe the California legislature could do about auto repair problems. Although several States have had programs dealing with the auto repair problem, there have not been evaluations of the effectiveness of the various programs. The California legislature could (1) support the participation of the Bureau of Automotive Repair with other public and private groups to evaluate existing approaches to reducing auto repair problems, (2) require that the Bureau use these evaluations to assure that whatever State initiatives are undertaken have been shown to be effective in solving or reducing consumers' auto repair problems, and (3) undertake new regulatory initiatives on a pilot basis and provide for evaluation of the pilot programs to determine their impact on resolving consumers' problems.

We were asked also to comment on four specific proposals under consideration.

- diagnostic centers,
- certification of mechanics,
- extension of the Automotive Repair Act to include incompetent repair, and
- voluntary shop certification.

Although we obtained information on the four areas during our review, we did not evaluate their effectiveness.

Diagnostic Centers

The Federal government funded an extensive study of diagnostic centers under Title III of the Motor Vehicle Information and Cost Savings Act of 1972. The study was designed to test the feasibility of diagnostic inspections and concentrated on systems and components involving vehicle safety and exhaust emissions.

NHTSA issued a report on the study's results in 1977. The agency concluded that diagnostic inspections are feasible, effective, and publicly acceptable, particularly if adopted as part of a combined vehicle inspection system covering fuel economy, safety, noise, emission control, and other auto repair needs. To foster greater public credibility, the agency believes the diagnostic centers should be totally separated from the repair industry.

Despite some favorable results, none of the five diagnostic demonstration projects were continued on a full scale basis. Most of the diagnostic equipment is being used for other purposes. One State which participated in the project--Alabama--is considering a proposal to use the diagnostic center approach as part of a vehicle inspection program covering safety and emission control systems.

Most State officials responding to our questionnaire believe that independent diagnostic centers would help reduce auto repair problems. But, in personal discussions, some of these State officials told us that initial funding was a major obstacle. Each diagnostic center can cost hundreds of thousands of dollars. NHTSA is aware of this problem and is currently exploring alternative ways States can finance them.

In deciding whether to operate or sanction diagnostic centers, we believe consideration should be given to the following questions:

- Can private, independent diagnostic centers be profitable?
- Should diagnostic centers be independent of repair shops?
- Are mandatory, State-operated diagnostic centers, which are tied into safety, noise, and emissions inspections feasible or necessary?
- To what extent does independent diagnosis help mechanics in repairing cars?
- Is equipment compatibility and calibration a problem?
- Can diagnostic centers keep pace with changes in cars?

--Is there public acceptability of diagnostic centers?

--To what extent will diagnostic centers increase the demand for competent mechanics by allowing mechanics to specialize as diagnostichans?

--To what extent would diagnostic centers decrease the demand for competent mechanics by reducing the incidence of unnecessary repairs?

Certification of mechanics

Widespread dissatisfaction with auto repairs has focused attention on the quality of auto mechanics. Yet, for the most part, mechanics are not required to have any qualifications.

Only two States, Michigan and Hawaii, require mechanic certification. These programs are relatively new and at the time of our review had not been systematically evaluated.

The auto repair industry supports a different approach--voluntary mechanic certification. The National Institute of Automotive Service Excellence, (NIASE) a nonprofit corporation, has operated its national voluntary certification program since 1972.

Like the Hawaii and Michigan programs, NIASE certifies mechanics who pass one or more of their tests in categories such as brakes, engine tune-up, and front end work. NIASE officials estimate that only half of the auto mechanics currently

working in the U.S. are ready to take their tests. Being "test ready" means having the competence to perform a full range of diagnostic and repair functions in one or more automotive systems.

Michigan and NIASE officials note an important distinction between their programs. Michigan's mandatory certification seeks to assure that each mechanic meets a minimum level of competence, whereas the NIASE program seeks to acknowledge mechanic excellence.

In the absence of effectiveness evaluations for these programs, there are still unanswered questions. For example, do certified mechanics perform more competent repairs and make fewer unnecessary repairs? Will mandatory mechanic certification create a barrier to entry in the occupation that could limit competition?

Officials from Michigan, Hawaii, and NIASE probably provide this committee with valuable information concerning the issues involved in mechanic certification.

Extension of the Automotive Repair Act to
include incompetent repair

We found that one of the most common auto repair problems is faulty repair, also referred to as incompetent repair. This is directly related to the lack of a sufficient number of skilled mechanics.

Incompetent repairs are among the most difficult for consumer protection agencies to resolve and eliminate because of the absence of generally agreed upon standards for defining a competent repair, and the need for agency staff with automotive expertise.

States have approached this problem in different ways. California has begun to address the problem by adopting trade standards. The ball joint standard does not tell the mechanics how to repair a car but rather requires them to disclose certain information to consumers. This is intended to document the need for the replacement of the ball joint and thereby reduce unnecessary repair.

Massachusetts passed a law making it illegal for repair shops to fail to remedy promptly, at no charge, any repairs not performed in a good or workmanlike manner in accordance with accepted trade standards. However, the State has not developed repair standards for enforcement purposes. Thus, complaints of incompetence are generally handled informally, via mediation with the repair shop.

New York adopted a more general standard for repairs which it uses on a case-by-case basis in enforcement actions. New York law requires that repair shops provide "quality" repairs. Evidence demonstrating a failure to provide quality repairs can result in repair shops having their registration (permit to do business) suspended or revoked.

In dealing with the issue of incompetent repair, this committee might consider how effectively California's standards have reduced incompetent repairs and whether those results could be improved by alternative means, such as mandatory mechanic certification.

Voluntary shop certification plan

A State-run, voluntary shop certification plan based on programs operated by several affiliates of the American Automobile Association has considerable appeal. The voluntary approach is particularly attractive since it avoids the complexities of the regulatory/enforcement process at a time when there is concern about over-regulation of business in general.

Voluntary shop certification could provide an excellent source of information for consumers who have difficulty in identifying good quality repair shops. The availability of such information in the marketplace could cause repair shops, for competitive reasons, to be more attentive to the consumer's needs and problems.

In our opinion, the most important feature of such a plan is the dispute resolution process requiring the repair shop to be bound by the decision of the plan's board or panel. With such a provision, consumers are more likely to get a final resolution either for or against their claim. They are also more likely to avoid having to hire a lawyer or to become involved in the small claims court process.

Our discussions with auto manufacturers disclosed another positive benefit. Auto manufacturers are experimenting with their own dispute resolution approaches. Most of these also include a feature binding the manufacturers, and/or their dealers to third-party decisions. They note that the mere existence of such a feature encourages dealers to quickly resolve complaints when they occur to avoid appearing before a third-party arbitrator or panel.

During our review we also noted some drawbacks that should be considered. First, systems with strict requirements covering items such as shop equipment or the scope of repair services might discriminate against small or specialty repair shops performing good quality work. Second, requirements for extensive facilities and equipment might lead to higher repair prices without improving repair quality. Third, shop certifications must be kept current. Fourth, the plan should assure adequate disclosure of any significant limitations, such as the fact that the State does not guarantee satisfactory repair services, or certified repair shops may or may not have the lowest repair prices.

Another important point to consider is the need to assure an objective evaluation of the plan's impact after implementation.

This concludes our prepared statement. We would be pleased to answer any questions you may have.