



United States
General Accounting Office
Washington, D.C. 20548



National Security and
International Affairs Division

B-277007

August 4, 1997

The Honorable Strom Thurmond
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

Subject: Defense Transportation: Army's Personal Property Pilot Project

As requested, we reviewed the correspondence dated February 20, 1997, from an official of the American Movers Conference, an association of commercial moving companies. The correspondence was directed to the Commander of the Military Traffic Management Command and stated that the cost of the Army's pilot project to outsource personal property transportation services at Hunter Army Airfield, Savannah, Georgia, would greatly exceed the current cost for commercial moving services.

Specifically, the correspondence stated that the Army's cost per shipment under the pilot project scheduled to begin in early 1997 would be \$7,000, whereas the cost per shipment under the current program is substantially less, \$1,672, based on Military Traffic Management Command data for fiscal year 1995 domestic and international shipments from the Hunter area, or \$1,779, based on American Movers Conference statistics for average line-haul of all domestic military shipments. The correspondence stated that the data do not compare equal programs. However, the industry believes the data are sufficient to raise questions about whether the Army would obtain improved service that is commensurate with its increased cost. We discussed the data presented in the correspondence with officials of the Army and a representative of the American Movers Conference. This letter addresses (1) the estimated costs of an average shipment under the pilot project and current program and (2) our analysis of the basis for the American Movers Conference's estimates.

NO 115

GAO/NSIAD-97-145R Army Personal Property Pilot Project

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BACKGROUND

The contract for the pilot project was awarded to PHH Relocation, Bethesda, Maryland, on January 31, 1997, at an evaluated price of \$22.5 million for 3 years--a base year and two 1-year option periods.¹ According to the Army, the objective of the pilot project is to improve the quality of life for Army personnel and families during the relocation process. The Army's solicitation informed potential offerors that the contract would be awarded to the responsible firm whose offer was determined to be the most advantageous to the government, based upon price, technical factors (including operations, quality and service, staffing and organization, use of small business), experience, and past performance. The solicitation also provided that in the evaluation, the combination of technical factors and past performance would be considered significantly more important than price. The contract provides for a single transportation and relocation management point of contact to furnish all services necessary to accomplish the management and movement of household goods (including unaccompanied baggage), mobile homes, and boats of Army personnel and their families from Hunter Army Airfield to other places in the United States and overseas. In early February 1997, two unsuccessful offerors protested the award to PHH. Our office issued a decision denying the protests on May 19, 1997.²

RESULTS IN BRIEF

Until the Army accumulates sufficient data on actual Hunter Army Airfield shipments, we cannot determine an average shipment cost for the pilot project. However, absent actual data, the model the Army used to estimate costs during its evaluation of proposals provides a means of making preliminary cost estimates. Therefore, using the model and available data, we estimate that the cost of an average shipment under the planned pilot project is about \$6,900 and that the cost of an average shipment under the current program is about \$6,400, or roughly 8 percent less than our preliminary estimate for the pilot project.

While we recognize our estimate is subject to change based on the actual data generated from the pilot project, our estimate for the pilot project is about the same as the American Movers Conference's estimate of \$7,000. However, our

¹The price was based on an evaluation model developed by the Army to compare offerors' prices and is only an estimate of the contract's value.

²Suddath Van Lines, Inc.; The Pasha Group, B-274285.2; B-274285.3, May 19, 1997.

\$6,400 estimate for the current program is substantially different from the American Movers Conference's estimates because they are based on different models, prices, cost factors, and time frames. We believe our approach represents the most appropriate method for making a preliminary cost comparison of the pilot project and current program until actual data are available. Further, our estimates are based on the more current price data and include more comprehensive cost data.

AVERAGE COSTS OF THE PILOT PROJECT AND CURRENT PROGRAM

At present, data to determine the actual average cost of Hunter Army Airfield shipments under the pilot project do not exist. There is no universe from which a statistically valid average can be determined. The Army and the Department of Defense (DOD) have specific plans to collect cost data and to analyze it as part of their overall evaluation plan.

The Army used a model in its evaluation of proposals to compare offerors' prices for the pilot project. We believe that the model is a valid basis for estimating the average shipment costs of both the pilot project and current program. The model establishes average shipment characteristics for each of three parts of the project—interstate, intrastate, international—and provides numbers of shipments in each part. The data reflect historical shipment characteristics for Hunter moves in calendar year 1995. For example, the model indicates that the Army would have 646 shipments, weighing 8,000 pounds each, moving 1,400 miles in its interstate part; 104 shipments, weighing 8,000 pounds each, moving 250 miles in its intrastate part; and 323 shipments, each weighing 8,000 pounds, moving to Germany, Korea, and Hawaii in its international part. The model also details how many shipments would require storage, how long the shipments would be stored, and how many servicemembers would be relocating.

Using this model and prices from the PHH contract, we estimate that the cost of an average shipment under the planned pilot project is about \$6,900. Using the same model and prices from the currently applicable military rate schedules, we estimate the cost of an average shipment under the current program is about \$6,400, or roughly 8 percent less than our estimate for the pilot program. The estimated costs, broken down by type of shipment and overall average, are shown in table 1.

Table 1: Estimated Average Cost Per Shipment under the Pilot Project and Current Program

Part of the pilot project or current program	Pilot project	Current program
Interstate ^a	\$3,400	\$3,000
Intrastate ^a	\$1,600	\$1,200
International ^a	\$15,200	\$12,800
Overall ^b	\$6,900	\$6,400

^aDoes not include management fees and Army administrative costs.

^bThis is the sum of the total cost of each part, management fees, and Army administrative costs, divided by the total number of shipments (1,073).

COMPARABILITY OF OUR ESTIMATES WITH THOSE OF THE AMERICAN MOVERS CONFERENCE

Our estimate of the \$6,900 pilot project's average shipment cost is close to the American Movers Conference's estimate of \$7,000. Our estimate is based on a specific model (weighted by the number of shipments in each part of the overall project), for a specific time frame (the base year, at a baseline date of contract award), and at known prices (PHH contract). The American Movers Conference's estimate, in contrast, was based on the overall price of the contract as evaluated (\$22.5 million) divided by 3 years (the contract period) and 1,073 shipments (the total number of shipments included in the price evaluation model). It was not weighted by individual parts of the project, nor was it based on any specific year of the contract or on specific PHH contract prices because such prices were not available to the American Movers Conference at the time due to the bid protest.

Our current program average shipment cost estimate of \$6,400 is different than the American Movers Conference's per shipment cost estimates because the estimates are based on different models, prices, cost factors, and time frames. We use the Army model and prices from the currently applicable military rate schedules and include cost factors such as the Army's administrative expense. The American Movers Conference used a broad based model that showed two different estimates: (1) one showing the average cost as \$1,672 based on 2-year old (fiscal year 1995) Military Traffic Management Command data that included all domestic and international shipments moving not only from Hunter Army

Airfield but also from Fort Stewart³ and (2) the other showing the average cost per shipment as \$1,779. Both models did not include the Army's administrative expenses. In commenting on this correspondence, the American Movers Conference stated that its more current data now show the estimate is closer to \$2,000 per shipment.

Our estimates for both the pilot project and current program use the best available information at this time. The actual average costs will likely vary from our estimates, depending on actual shipping patterns. The Army and DOD have made specific plans to collect cost data and to analyze it as part of their overall pilot project evaluation plan.

COMMENTS AND OUR EVALUATION

We asked the Department of the Army and the American Movers Conference to comment on a draft of this letter.

The Army concurred with the conclusions in our draft letter. Its response is included as enclosure I.

The American Movers Conference provided comments to us in a letter dated July 3, 1997. Subsequently, it provided more detailed comments in a letter dated July 23, 1997, which we have included as enclosure II. The American Movers Conference stated that it could not accept the comparisons and conclusions in our letter as accurate because it did not have the opportunity to review Army data and believes the data contain miscalculations and errors, such as for international storage and accessorials. In addition, the American Movers Conference stated that it believes (1) the management fee in the PHH contract is too small to cover the contractor's operating costs, (2) the PHH offer was higher than another firm's offer, and (3) more current American Movers Conference data show that the \$1,779 line-haul average per shipment cost for all domestic military shipments is now closer to \$2,000.

As stated in our letter, we estimated the costs of the pilot project and current program based on the use of an Army model and the best available information at the time. We recognize that our estimate is subject to change based on actual data generated from the pilot project. The Army and DOD have specific plans to collect cost data and analyze it as part of their evaluation plan. While

³Fort Stewart is the servicing DOD personal property shipping office for Hunter Army Airfield for moves that are not part of the pilot program.

we independently verified the Army's methodology in calculating estimates for both the current program and pilot project, we did not independently verify the source data provided by the Army or the American Movers Conference. For example, we accepted the data provided by the Army regarding certain international program accessorials and overall program administrative expenses. In considering the American Movers Conference comments, we determined that the Army data we used to calculate storage charges for international shipments should be adjusted to reflect a single, 30-day storage charge, rather than a daily charge, resulting in a \$400-reduction in the current program's estimate. However, there continues to be a significant difference between the American Movers Conference's and our estimates for the current program costs. We did not find a basis to change our estimates for the interstate or intrastate programs.

In our analysis of the pilot project costs, we used the contract award prices as a basis for calculating our estimates. However, we did not attempt to determine the basis of the contract prices for making our assessments. Thus, we did not assess PHH's management fee and did not compare the PHH prices with other offerors' prices.

In addition, we changed the American Movers Conference's estimate of the current program to reflect an increase in the per shipment cost to \$2,000. The complete response of the American Movers Conference and our specific comments to the points raised are included as enclosure II.

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As you know, we are currently monitoring the Army's management of the pilot project. We will continue to periodically inform you of the progress in implementing the project, and as directed, we will report to you the results of the pilot project, including its cost.

We are providing copies of this letter to the Secretary of the Army, the American Movers Conference, and other congressional defense committees. We will make copies available to other interested parties upon request. If you have

B-277007

any questions, please contact me on (202) 512-8412, or Nomi Taslitt, Assistant Director, on (202) 512-8474. Major contributors were J. Kenneth Brubaker and Leo G. Clarke III.


David R. Warren, Director
Defense Management Issues

COMMENTS FROM THE DEPARTMENT OF THE ARMY

DALO-TSP

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Transportation Policy Division

Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Warren:

This is the Army response to the General Accounting Office (GAO) draft report 'Preliminary Cost Estimate of the Army's Personal Property Pilot Program,' dated June 20, 1997 (GAO Code 709261/OSD Case 1391)."

Concur with conclusions in your draft report.

Boyd E. King
Brigadier General, U.S. Army
Director for Transportation,
Energy and Troop Support

Copies Furnished:
The Inspector General, Department of Defense
Vice Chief of Staff, Army
The Adjutant General, U.S. Army
The Inspector General, U.S. Army
Commander, U.S. Army Materiel Command

COMMENTS FROM THE AMERICAN MOVERS CONFERENCE

JOSEPH M. HARRISON
President

July 23, 1997

David R. Warren, Director
Defense Management Issues
UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, DC 20548

Dear Mr. Warren:

Thank you for the opportunity to comment on GAO's draft letter (B-277007) to be sent to Senator Thurmond.

- See comment 1. It is clear from the draft response that GAO has chosen to use both the Army's methodology (comparing hypothetical shipments) and the Army's self-serving data, rather than review AMC's statistics or MTMC's statistics, both of which are based on actual shipments. Since GAO is unable to provide us with the Army's data, and the Army has refused our July 1 fax request and oral requests to release this data (see enclosed letter), AMC is obviously unable to timely comment on the validity of the Army's computations, which GAO has adopted for its review, apparently without attempting to independently verify its accuracy.
- See comment 2. In one area that AMC was able to validate the Army's data, international storage costs, we found that the Army overstated these costs by a factor of 16. The Army multiplied the storage charge in the current International program by 16 to account for 16 days of storage. However, this charge applies once for every 30-day period, not daily. It is noted that GAO has now fixed this discrepancy. We assume that the Army's other calculations may be similarly flawed, but we are unable to test the veracity of the Army's data since the Army is treating its information as confidential.
- See comment 3. GAO recently reported that the PHH bid for the Army Pilot Program was 31% higher than another bidder's offer (from a participant in the current program), so it is surprising that GAO is now accepting "on faith" the Army's assertions that the cost of its pilot program is not any higher than the current program. This should have been sufficient to prompt GAO to review the Army's numbers more closely, especially for international accessories, which MTMC agrees are rare and unlikely to amount to \$5,000 per shipment.
- See comment 4. The second sentence in the last paragraph on page 4 should be amended to read: "We use the Army model and prices from the currently applicable military rate schedules and include cost factors such as the Army's administrative expenses and the Army's unsubstantiated estimates of international accessories of over \$5,000 per shipment." This use by GAO of the Army's estimate for international accessories is the primary

-2-

reason for the high cost of the current program. MTMC sources confirm that few accessorials are ever charged on international shipments in the current program, since the single factor rate includes most accessorials. No reputable source has been able to verify this \$5,000 per shipment figure which was provided by the Army personnel at Hunter and is clearly self-serving.

Similarly, the second sentence in the last paragraph on page 3 should be amended as follows: "Using the same model and prices from the currently applicable military rate schedules, along with the Army's unsubstantiated estimate of over \$5,000 per shipment in international accessorials, we estimate the cost of an average shipment under the current program is about..."

Clearly, the first sentence on page 5 needs to be updated, as the best information available at this time is that the Army's figure for international shipments in the current program is vastly inflated, yet GAO is still using it.

See comment 3.

We also note that the management fee charged by PHH (approximately \$100 per shipment) is clearly too small to generate enough revenue to cover the cost of maintaining an office at Hunter with several people and the other administrative costs associated with this program. PHH must be intending to collect additional revenues from its subcontracting carriers by assessing a commission in the form of the revenue difference between the rate PHH is charging the government and the rate it is paying its subcontractors, which may violate the Anti-Kickback Act and inflate the alleged administrative savings.

In summary, AMC, without the opportunity to review the Army's data, cannot accept the comparisons and conclusions in the GAO draft letter as accurate. In addition, we are somewhat dismayed that GAO appears to have accepted the Army's data without independent verification, especially when you consider the Army's flawed storage cost data.

AMC will advise Senator Thurmond of our inability to accept the Army's data absent an opportunity to verify its accuracy.

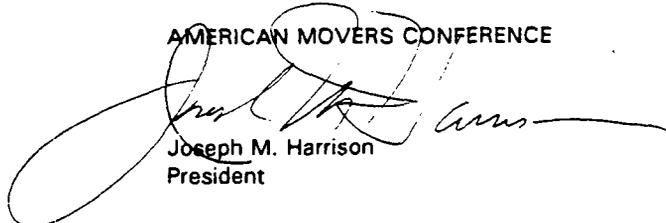
See comment 5.

Minor corrections: in paragraph 2, the \$1,672 figure is based not on "industry estimates" but on MTMC data. AMC's February 20 letter indicated that our data showed an average of \$1,779 per shipment in linehaul costs. Our more current data now available is closer to \$2,000 per shipment. The last paragraph on page 2 also refers to the \$1,672 as AMC's estimate without noting that this is MTMC data.

Thank you for the opportunity to comment.

Sincerely,

AMERICAN MOVERS CONFERENCE



Joseph M. Harrison
President

Enclosure

The following are GAO's comments on the American Movers Conference's letter dated July 23, 1997.

GAO Comments

1. We estimated the costs of the pilot project and current program based on the use of an Army model and the best available information at the time. We independently verified the Army's methodology. We did not independently verify the data from the Army or the American Movers Conference sources.
2. We estimated the costs of the pilot project and current program based on the use of an Army model and the best available information at the time. As stated previously, we recognize that our estimate is subject to change based on actual data generated from the pilot project. In this regard, the Army and DOD have specific plans to collect cost data and analyze it as part of their evaluation plan. While we independently verified the Army's methodology in calculating estimates for both the current program and pilot project, we did not independently verify the source data provided by the Army or the American Movers Conference. We did make an adjustment, however, to our estimate for the current program regarding the calculation of storage charges. In considering American Movers Conference comments, we determined that the Army data we used to calculate storage charges for international shipments should be adjusted to reflect a single, 30-day storage charge, rather than a daily charge, resulting in a \$400-reduction in the current program's estimate. However, there continues to be a significant difference between the estimates for the current program costs. We did not find a basis to change our estimates for the interstate or intrastate programs.
3. In our analysis of the pilot project costs, we used the contract award prices as a basis for calculating our estimates. We did not attempt to determine the basis of the contract prices for making our assessments. Thus, we did not compare the PHH prices with other offerors' prices. The information the American Movers Conference cited was contained in a losing firm's protest to the Comptroller General and in our decision denying that protest. We did not assess PHH's management fees. The basis for the PHH offer was not part of our analysis.
4. We did not independently verify the source data provided by the Army or the American Movers Conference in calculating the estimates for the current program or the pilot project. For example, we accepted the data provided by the Army regarding certain international program accessorials and overall program administrative expenses. Therefore, we did not independently determine the factors or amounts comprising the estimates, which would involve, for example, taking a sample of bills of lading to see how much was paid in the past for these accessorials and conducting a study to identify all

the administrative costs of the current program. Such expenses should be reviewed, however, as part of DOD's evaluation of the pilot project.

5. We clarified the letter regarding sources of data used and changed the American Movers Conference's estimate of the current program to reflect an increase in the per shipment cost to \$2,000.

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