



*REPORT TO THE COMMITTEE
ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES*



1969

**Selected Significant Audit Findings
In The Department Of Defense**

B - 106190

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

JAN. 31, 1969

770274/087463



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-106190

Dear Mr. Chairman:

We are pleased to submit our annual report of selected significant audit findings relating to activities of the Department of Defense. A similar report relating to the civil departments and agencies of the Government was submitted separately.

In this report we have included items, selected from audit reports previously submitted to the Congress, which we believe should be of interest and use to the Committee during the appropriations hearings for fiscal year 1970. Some of the matters commented on in this report are matters on which the Department has indicated that corrective action either has been or will be taken. The items have been included, however, in view of their significance and of the fact that we have not had an opportunity to evaluate the adequacy of corrective actions taken.

We shall be pleased to furnish any additional information that you may desire.

These findings and recommendations have previously been brought to the attention of responsible departmental officials by means of audit reports. We are sending copies of this report to the Department of Defense and to the military departments so that they may be in a position to answer any inquiries that may be made during the appropriations hearings with respect to these findings and recommendations.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Peets".

Comptroller General
of the United States

The Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives

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DETERMINATION OF REQUIREMENTS

FOR SUPPLIES, EQUIPMENT, AND FACILITIES

NEED FOR IMPROVEMENT IN EXCHANGE
OF INFORMATION AFFECTING PLANNED
USAGE OF WEAPON SYSTEMS

Department of the Army

In a report issued to the Congress in April 1968, we stated that Army procedures did not, in our opinion, provide a systematic method for the communication and consideration of recommended changes in plans that affect equipment requirements. We found that, had Army officials given timely consideration to recommendations that usage of the M-132 flamethrowers be more limited than had been originally planned, the flamethrowers might not have been purchased in excess quantities.

The contracts for the excess quantities were subsequently terminated at an estimated loss to the Government of about \$2.7 million. (Termination and related costs of about \$4 million less value of usable components of \$1.3 million.)

We advised the Secretary of Defense that there was a need for systematic procedures to accomplish two things: First, to ensure formal consideration of recommendations affecting procurement by top levels of command; second, to ensure timely follow-up action by subordinate commands to determine whether their recommendations had been accepted or rejected. Accordingly, we suggested that the Army establish appropriate procedures to accomplish this.

The Army concurred in our suggestions and advised us of procedural changes that had been recently completed or were nearing completion which, if properly carried out, should correct the situation disclosed by our review. (B-146802, Apr. 24, 1968.)

NEED FOR UPDATING OF ORIGINAL PLANS
FOR ACQUISITION OF FACILITIES PRIOR
TO ACTUAL ACQUISITIONS

Department of the Air Force

In July 1968 we issued a report to the Congress on our review of the acquisition by the Air Force of certain test, launch, and tracking facilities for the TITAN III booster program and a classified satellite program. We found that these facilities had been acquired in accordance with the original plans which had not been reevaluated and updated despite indications that requirements, because of changing circumstances, were substantially less than originally estimated. Had the plans been reevaluated and updated, we believe that a substantial portion of the estimated costs of about \$26.3 million, incurred for the following facilities, could have been saved.

Rapid-launch, mobile features of the TITAN III launch complex, Cape Kennedy, Florida--estimated construction cost of about \$23.8 million.

Basic data recording instrumentation and four storage buildings, Edwards Air Force Base, California--estimated procurement and construction cost of about \$820,000.

Tracking and readout equipment installed prematurely in Alaska--estimated cost of about \$1.7 million to maintain equipment in a caretaker status until needed.

In response to our findings and proposals for strengthening the planning procedures for facilities acquisition, the Air Force advised us that it had recognized the problem and was developing criteria specifications for application within its existing review system. The Director of Defense Research and Engineering advised us that the Army and Navy had reviewed their regulations and that the Navy would modify its existing procedures to provide additional safeguards.

We recommended that the Secretary of Defense take action to ensure that the procedures of the military departments limit the acquisition of facilities to those actually needed to fulfill firm program requirements. On September 4, 1968, the Director of Defense Research and Engineering replied to this recommendation on behalf of the Secretary of Defense. The Director stated that the Department of Defense believed that existing procedures of the Army, Navy, and Air Force were adequate if fully adhered to. He stated also that the Air Force and the Navy were taking steps to strengthen their existing procedures. (B-164027, July 3, 1968.)

NEED FOR IMPROVEMENT IN COMPUTATION OF
REQUIREMENTS FOR MISSILE REPAIR PARTS

Department of the Army

Our review of requirements computations for expensive missile repair parts by the Army Missile Command showed a number of problem areas. In a report issued to the Congress in May 1968, we pointed out that these areas related primarily to (1) inadequacy of asset and demand data received from user activities, (2) failure of inventory managers to accurately compile, review, and use historical supply data, and (3) inconsistency in the implementation of supply management procedures and guidelines. These problem areas contributed to imbalances in the supply system. In some instances underprocurements were made which could lead to supply shortages. In other instances overprocurements were made which could lead to excess material.

The Army agreed, in general, with our findings and conclusions and initiated several corrective actions which, we believe, should improve requirements computations. (B-163706, May 27, 1968.)

PROCUREMENT PRACTICES AND

CONTRACT ADMINISTRATION

NEED FOR IMPROVEMENT IN CONTROL
OVER GOVERNMENT-OWNED PROPERTY
IN POSSESSION OF CONTRACTORS

Department of Defense

We found a need for the Department of Defense (DOD) to improve its system of controls over Government-owned facilities, special tooling, and material in the possession of contractors. Our review revealed weaknesses, in general, with regard to effective use of industrial plant equipment; rental arrangements; and accounting for, and control of, special tooling and material. Certain aspects of the work of Government property administrators and internal auditors were also in need of improvement. Our report on these findings was issued to the Congress in November 1967.

We made a number of proposals to improve the administration over Government-owned property. Actions taken or planned in response to most of our proposals, if properly implemented, should result in significant improvements in the control and utilization of such property.

DOD did not fully agree with, or indicate any specific corrective action on, our proposals to (1) require contractors to furnish machine-by-machine utilization data and to obtain prior Office of Emergency Planning approval on an item-by-item basis for the commercial use of industrial plant equipment and (2) strengthen the controls over special tooling and special test equipment by use of financial accounting controls. We recommended to the Secretary of Defense that he reconsider DOD's position on these matters. We also recommended to the Director, Office of Emergency Planning, that prior approvals for planned commercial use of industrial plant equipment be administered on a machine-by-machine basis.

Subsequent to the issuance of our report, DOD advised us that it had reconsidered its position. DOD stated that a 3-month test, starting on July 1, 1968, would be made at 20 contractor locations to determine the feasibility and cost of maintaining machine-by-machine utilization records and that the Armed Services Procurement Regulation Committee would review the matter of financial accounting controls over special tooling and special test equipment. DOD stated also that the Office of Emergency Planning was revising the applicable Defense Mobilization Order in order to tighten controls over commercial use of Government-owned equipment and to ensure equitable rentals for such use. (B-140389, Nov. 24, 1967.)

INCREASED COSTS TO THE GOVERNMENT
THROUGH LEASE RATHER THAN PURCHASE
OF LAND AND BUILDINGS BY CONTRACTORS

Department of Defense

We found that the leasing by contractors of land and buildings to be used almost exclusively in the performance of Government contracts resulted in greater costs to the Government than would have been the case if the facilities had been purchased by the contractors. Had the facilities been purchased, acquisition costs recoverable by the contractors would have been limited to the amount of depreciation.

We reviewed this matter as it related to the land and buildings at 20 locations of 17 major contractors. As pointed out in our report issued to the Congress in October 1968, the additional costs to the Government are significant. The additional costs could amount to about \$55.8 million by the end of the initial periods of the leases at the locations we reviewed. They could amount to as much as \$99.3 million if all renewal options of the leases are exercised.

The decision to lease or purchase rests with the contractor. However, because contractors stand to gain by leasing or, in some cases, at least avoid the risk attendant on ownership, we believe that contractors may be swayed

toward a course of action more costly to the Government since equal treatment is accorded costs associated with either course of action in negotiating profits and fees.

The weighted guidelines of the Armed Services Procurement Regulation for the negotiation of contractors' profits or fees do not make appropriate distinction between owned and leased facilities and therefore do not offer any motivation to contractors to select the method of acquisition most economical to the Government. We suggested to the Department of Defense that, in negotiating profits and fees, consideration be given to the methods used by the contractor in acquiring real property for use under Government contracts.

The Department of Defense is considering new guidelines for negotiating profits and fees that will give consideration to the contractor's investment in facilities. (B-156818, Oct. 23, 1968.)

NEED TO INCREASE COMPETITION
IN PROCUREMENT OF AERONAUTICAL
SPARE PARTS

Department of Defense

In response to the expressed interest of the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, we made a Defense-wide survey of the procurement of aeronautical spare parts. Our report on this review was issued to the Congress in June 1968. We found that problems which we had previously identified as restricting competition in procurement continued to require management attention and correction. In addition, many of the procurements reported by procuring activities as having been made competitively had not, in our opinion, been made under competitive conditions.

The Department of Defense advised us of the following corrective measures.

1. Procedures were being revised to provide for earlier reviews of items to determine whether they could be procured competitively.

2. A management reporting system would be established to document reasons for procurement without competition.
3. A means for coordinating interservice spare parts procurement was under study.
4. Rules for reporting procurement actions had been revised.
5. Aggressive action would be taken to correct the technical data deficiencies revealed by our survey.

On September 12, 1968, the Department of Defense advised us that it expected to be able to provide us with its evaluation of the effectiveness of the corrective measures by April 30, 1969. (B-133396, June 25, 1968.)

NEED TO INCREASE COMPETITION
IN PROCUREMENT OF COAL FOR
USE IN EUROPE

Department of the Army

We reviewed the procurement of anthracite coal by the Army in fiscal years 1962 through 1967. The coal involved was mined in the United States and was procured by the Army from European importers under negotiated fixed-price contracts awarded on a competitive basis. Our report on this review was issued to the Congress in June 1968.

We concluded that the competition was not sufficiently effective to ensure the lowest price. The contractual practices permitted the sources of supply to be limited almost entirely to one American exporter. The exporter, in turn, procured the coal from only a limited number of producers. Restrictive specifications may also have limited competition.

The major anthracite suppliers have, under the provisions of the Webb-Pomerene Act, entered into agreements among themselves to set prices and to allocate quantities of coal for export and ultimate sale to the Army. The

general policy of most of the larger American anthracite suppliers is to offer their coal only to a certain coal export company. This company advised us that it had purchased coal for the Army procurements only from members of the Anthracite Export Association--an association representing the larger anthracite producers--although there were other producers, not members of the association, that were qualified to meet specifications of the Army.

Because of these arrangements, the company was the only exporter in position to furnish enough coal to meet total needs of the Army. Furthermore, the exporter's quotations to European importers were conditioned on their purchasing from the exporter all of their requirements for the Army procurements. Members of the Anthracite Export Association, when participating in these procurements, furnished statements that, under the provisions of the Webb-Pomerene Act, they were not required to submit unqualified certifications of independent price determination. Therefore, what little competition existed was limited to the importer functions where the costs generated--principally transportation costs--represented only a small fraction of the total cost of the coal to the Army.

Also, we found considerable evidence that the Army's specifications for ash content and ash-softening temperature might have been more restrictive than necessary and might have limited competition.

In response to our findings, the Army stated that, for the fiscal year 1969 procurement, offerors would not be permitted to claim exemption under the Webb-Pomerene Act from certifying that prices proposed were arrived at independently. The Army stated also that tests were being conducted by the Bureau of Mines to determine the minimum quality of coal which could be used economically in Europe and that the results of the tests would be considered in the specifications for the fiscal year 1970 procurement.

On August 7, 1968, the Army advised us of certain additional steps it had taken to increase competition in the procurement of anthracite coal for use in Europe. These steps included strengthening the language in the certificate of independent price determination to be signed by

offerors and relaxing the ash content specifications.
(B-159868, June 4, 1968.)

POTENTIAL SAVINGS IN PROCUREMENT OF
PETROLEUM PRODUCTS FOR USE BY CONTRACTORS

Department of the Navy

Our review showed that substantial annual savings could be realized if the Navy would furnish to its contractors the petroleum products used by them in the testing of aircraft and aircraft engines instead of permitting the contractors to supply these products as a part of their contracts.

Our review was made at three plants where estimated requirements represented about 86 percent of the total petroleum needs of Navy aircraft and aircraft engine contractors. As stated in our report issued to the Congress in February 1968, we estimated that during 1964 the Navy paid two of the contractors about \$229,000 more for such products than it would have paid if the products had been furnished to the contractors. We estimated that about \$250,000 and about \$400,000 could have been saved in 1965 and 1966, respectively.

With regard to the third contractor, our review showed that the contractual arrangements in effect were different and the cost differential was considerably less.

The Navy advised us that, in the case of one of the contractors, substantial savings might be realized and that negotiations were taking place to change the contractual treatment of these products.

The Navy stated that, with regard to the second contractor, the savings would be small and that it was to the overall advantage of the Government for the contractor to continue to furnish the petroleum products. Although the potential savings were not substantial, the Navy should consider negotiating new arrangements with the contractor.

We therefore recommended that, in the case of the second contractor and other contractors under similar conditions, the Navy consider negotiating new contractual arrangements. The Navy concurred. (B-160334, Feb. 6, 1968.)

NEED FOR IMPROVEMENT IN
ADMINISTRATION OF CONTRACTS
FOR RESEARCH STUDIES

Department of the Army

We found that, of the 11 study reports submitted by a contractor under three research study contracts, seven were considered by the Office of Civil Defense, Department of the Army, to be less useful than had been expected or to require major revision. Our report on these findings was issued to the Congress in March 1968.

We recognized that contracting for studies of this type was relatively new and involved uncommon questions. However, it was our belief that the Office of Civil Defense could improve its administration of such contracts and thereby obtain study reports that would furnish the information sought.

The improvements which we considered to be needed involved more specific statements of the scope of work to be performed; more effective monitoring of studies; more frequent, timely, and complete progress reports from the contractor; and written records of agreements with contractor personnel. The Office of Civil Defense has taken steps to improve its procedures in these areas. (B-133209, Mar. 25, 1968.)

STOCK RECORDS AND CONTROLS

NEED FOR IMPROVEMENT IN MANAGEMENT OF SUPPLIES IN VIETNAM

Department of the Army

We reviewed certain aspects of the Army's management of supplies in the Republic of Vietnam. Our report on the review was issued to the Congress in June 1968. In our opinion, the Army supply system had been responsive to the combat needs of the military units in Vietnam despite adverse conditions. The high level of support had been achieved, however, through costly and inefficient supply procedures.

The Army had recognized many of its supply management problems and had initiated certain corrective actions prior to the time of our review. We noted, however, areas which, in our opinion, warranted additional management attention as follows:

1. The development of accurate data relating to stocks on hand and consumed in order to facilitate determinations of supply requirements and preclude imbalances of stock.
2. The identification and redistribution of the large quantities of excess material now in Vietnam.
3. The development of programs which will ensure the prompt return of repairable components to the supply system.
4. The institution of procedures designed to increase both intraservice and interservice utilization of available supplies.
5. The enforcement of greater supply discipline in order to reduce to a minimum the costly shipment of supplies under high-priority requisitions.

Although the Army agreed with our findings, it did not agree with certain of our proposals for improved procedures.

We recognized that the management emphasis being applied by the Army would tend to improve supply discipline and help to correct the problems. We believed, however, that such emphasis by itself was not sufficient. Therefore, we recommended to the Secretary of the Army that certain of our proposals for improved procedures be reconsidered. On October 8, 1968, the Office of the Assistant Secretary of the Army (Installations and Logistics) advised us that the Army was taking steps to implement our proposals. (B-160763, June 21, 1968.)

NEED FOR IMPROVEMENT IN REPORTING
INVENTORIES OF NONEXPENDABLE EQUIPMENT

Department of the Air Force

Our follow-up review showed that, although the Air Force had, since our earlier review (report issued to the Congress in June 1961), significantly improved its procedures for the management of nonexpendable equipment, there was a need for further improvement in management controls over the two major elements of the equipment management system--the validity of authorizations and the accuracy of reported inventories of in-use equipment.

As stated in our report issued to the Congress in December 1967, we found that incomplete inventory information was reported and used in the fiscal year 1966 requirements computations. Our review showed that equipment valued at about \$44 million was neither reported for use in computing requirements nor otherwise accounted for. We found also that the practices followed at the base level in taking physical inventories did not provide the necessary controls to ensure that all assets would be counted and that the same assets would not be counted twice.

Our review of the data used in computing fiscal year 1966 procurement requirements showed that, of the \$65 million worth of computed requirements, over \$8 million worth was not needed and, of the remaining \$57 million worth about \$20 million worth was questionable. We discussed this with Air Force officials and, as a result, the requirements for several high cost items were recomputed and about \$3 million worth of planned procurement was canceled.

The Air Force generally concurred in our findings and proposals for improvements in the equipment management system. We were advised of actions either taken or planned to ensure closer adherence to prescribed procedures for forecasting and controlling equipment authorizations. We were advised also that the Air Force intended to study the feasibility of incorporating additional data into its computer programs for managing nonexpendable equipment to provide a basis for periodic verification and reconciliation of reported inventories of in-use equipment. (B-133361, Dec. 5, 1967.)

NEED FOR IMPROVEMENT IN THE
SUPPLY MANAGEMENT DATA SYSTEM OF
THE ARMY TANK-AUTOMOTIVE COMMAND

Department of the Army

The Army Tank-Automotive Command (TACOM) has the mission of providing tank and automotive vehicles and repair parts for all the military services in the United States and overseas. As a part of our continuing program of review of management activities at TACOM, we examined into supply management, giving particular attention to problems in its computerized supply management data system. Our report on the examination was issued to the Congress in September 1968.

For several years, TACOM has been unable to achieve the desired levels of supply support. During the period February 1965 to November 1967, for example, stock requisitions filled on time ranged between 33 and 78 percent compared with the objective of 85 percent established by the Army Materiel Command. In November 1967, only about 46 percent of the requisitions were filled on time.

The situation stemmed primarily from the presence of inaccurate data in the computerized supply management records. Although TACOM and higher command officials had recognized the seriousness of this problem and had taken action to improve the accuracy of the data, these efforts generally had been unsuccessful. A 1967 study showed, for example, that about \$94 million worth of material recorded as due-in had, in fact, been received and that about \$83 million worth of material had been received but had never been

recorded as due-in. These conditions can cause inventory managers to either procure unneeded supplies or fail to procure needed supplies.

In our opinion, the prime factor retarding improvement of supply support effectiveness has been the lack of coordination, evaluation, and follow-up efforts to clear up the computerized supply management records. Other factors--imposition of additional workloads, major reorganizations, and saturation of computer capacity--also have had an adverse effect.

We proposed that the Secretary of Defense establish a coordinated supply management program at TACOM to

- Improve supply records.
- Prevent additional invalid data from entering the records.
- Review additional workloads or special programs to be imposed on TACOM to prevent unnecessary interference with the current management improvement program.
- Establish measures to maintain organizational stability at TACOM and to prevent the constant movement of experienced supply personnel.
- Review the use being made of the existing automatic data processing equipment with the objective of eliminating or reducing lower priority projects so that the equipment can be used for matters vitally in need of correction.

The Army, in its reply on behalf of the Secretary of Defense, agreed with these proposals and stated that actions in keeping with the proposals either had been already taken or were planned. (B-146772, Sept. 23, 1968.)

NEED FOR IMPROVEMENT IN THE RECORDS
USED IN MATCHING REQUIREMENTS AGAINST
AVAILABILITY OF STOCK AND EFFECTING
REDISTRIBUTION

Department of Defense

We examined into the effectiveness of the automated centralized screening system, maintained by the Department of Defense (DOD), for matching material available at various of its locations with the material needs of other locations. The system includes a master screening file of information on the needs and the availability of material maintained by the Defense Logistics Services Center on the basis of periodic reports submitted by inventory control points. Our report on the examination was issued to the Congress in May 1968.

Although this system has greatly benefited DOD, we found that certain improvements could make the system more effective.

As operated at the time of our examination, the system depended on the voluntary cooperation of the organizations involved. We found many instances where inventory control points had not reported the necessary information or had reported information which was not accurate or current. It appeared to us that there was a need for an organization vested with the responsibility for ensuring that DOD organizations followed prescribed operating policies and procedures.

We recommended that, since the responsibility for establishing basic policies related to the centralized screening system is vested in the Office of the Assistant Secretary of Defense (Installations and Logistics), the Secretary of Defense assign to that organization the responsibility for surveillance of the system.

On August 6, 1968, DOD advised us that it considered our recommendation to be an excellent one but, in view of certain actions already taken, had decided that adoption of the recommendation was not necessary. DOD cited the actions which, in its opinion, would achieve the objectives of our recommendation. (B-163478, May 14, 1968.)

NEED FOR IMPROVEMENT IN CONTROL
OVER REPAIRABLE SPARE PARTS

Department of the Army

Our review of about 12,000 issues of spare parts at seven Army installations that should have resulted in the return of a like quantity of unserviceable parts showed that some 70 percent of these parts were not returned to maintenance activities for repair and reissue. The principal reasons, as stated in our report issued to the Congress in January 1968, were (1) incorrect and inconsistent recoverability codings in publications issued by the National Inventory Control Points and (2) inaction by supply activities to obtain the return of repairable items.

The Department of the Army concurred in our findings and took action to improve its management of repairable spare parts. These actions, if properly carried out, should improve substantially the recovery of repairable items. (B-146874, Jan. 23, 1968.)

NEED FOR IMPROVEMENT IN CONTROL
OF STOCK LEVELS OF NONSTANDARD
AERONAUTICAL REPAIR PARTS

Department of the Navy

In May 1968 we issued a report to the Congress on our review of the Navy's management of the manufacture of non-standard aeronautical repair parts at four naval air stations. We found that as much as 80 percent of the dollar value of these items on hand at the four stations were excess. The excess stock on hand amounted to about \$3.7 million. In addition, we found that these four stations had disposed of about \$2.2 million worth of excess quantities of such stock during the period July 1, 1963, to March 31, 1966.

We proposed that the Navy review its management of non-standard aeronautical repair parts and develop realistic criteria to govern manufacturing and stocking and that periodic follow-up reviews be made to ensure adherence to these

criteria. The Navy agreed and advised us of specific actions which, we believe, should prevent the future accumulation of excess nonstandard aeronautical repair parts. (B-133396, May 21, 1968.)

SUPPLY MANAGEMENT, GENERAL

NEED FOR IMPROVEMENT IN THE PROCESSING OF STOCK REQUISITIONS

Department of Defense

In a prior review of the ability of the military supply systems to respond to increased demands, we observed that the manner in which supply requisitions were processed under the Military Standard Requisitioning and Issue Procedures (MILSTRIP) system precluded realization of the maximum benefits of the system. Therefore we undertook a limited examination, at selected installations of the Army, Navy, and Air Force, of the processing of requisitions under the MILSTRIP system. Our report on the examination was issued to the Congress in September 1968.

The MILSTRIP system is designed to

- Provide uniformity of procedures for all requisitioners and suppliers of stock.
- Meet essential requirements of all the military services.
- Provide for interservice supply transactions and intraservice supply-support operations.
- Accommodate the requisitioning on stocks of the General Services Administration.

We found that MILSTRIP had improved the processing of requisitions. Maximum benefits of MILSTRIP had not been realized, however, because large numbers of requisitions contained erroneous or incompatible data and could not be processed routinely. As a result, many of the requisitions were returned to the originators for additional information or revision and resubmission. Resubmission of requisitions is time consuming, causes significant delays, and reduces supply-support effectiveness.

The primary causes of erroneous or noncurrent information on requisitions, in our opinion, were

- Preparation of requisitions by untrained and inadequately supervised individuals.
- Inadequate review of requisitions before forwarding them to the next higher supply level.
- Absence of current and compatible catalog data at various supply levels.

We also found that the Defense Supply Agency (DSA) had not fully carried out its responsibility for surveillance of MILSTRIP. Surveillance by the DSA on a systematic basis could have identified the problems so that appropriate corrective actions could have been taken.

The Department of Defense agreed generally with our findings and proposals for corrective measures. The Department stated that its directive on MILSTRIP had been revised to define responsibilities more explicitly and that a study was being made of the requirement for, and the frequency of, catalog changes. The Department stated further that, pending completion of the study, a moratorium had been declared on unit-of-issue changes. (B-164500, Sept. 17, 1968.)

NEED FOR IMPROVEMENT IN SUPPLY MANAGEMENT OF MAGNETIC COMPUTER TAPE

Department of Defense

At June 30, 1967, the Federal Government operated about 3,700 computers at various locations throughout the world. The Government has accumulated over 10 million reels of magnetic tape, valued at about \$200 million, to serve these computers. The magnetic tape inventory of the Department of Defense--about 6 million reels valued at about \$125 million--is about 60 percent of the Government-wide total.

We reviewed the practices of the Department of Defense in the procurement, use, and disposition of its magnetic

computer tape. Our report on the review was issued to the Congress in September 1968.

There is a need for the Department of Defense to centralize its management of magnetic tape. Although the Department has generally established centralized controls over its automatic data processing operations, it has, in our opinion, given inadequate attention to similar controls over its magnetic tape activities. At the time of our review, the Air Force was the only service that had centralized its management of magnetic tape activities.

We found that, in the absence of centralized management, local military commands had

- Computed tape requirements without adequate knowledge of the quantity or condition of the tape on hand.
- Procured tape with little regard to quantity discounts and other advantages of centralized procurement.
- Accumulated large quantities of used tape without testing or attempting to rehabilitate it for further use.

We found also that in some cases no specific instructions had been established for determining when tape was unserviceable, for disposing of unserviceable tape, or for reporting and screening serviceable excess tape for possible use by others.

The Department of Defense was in general agreement with our proposals for corrective action. The Department advised us that

- Action had been taken to screen tape for reuse.
- Consideration would be given to the feasibility of consolidating tape procurements throughout the Department.

--Studies would be made on the need for a uniform method of computing requirements for tape and the need for guidance in the control and use of tape. (B-164392, Sept. 18, 1968.)

NEED FOR IMPROVEMENT IN FUNDING PRACTICES
AFFECTING PROCUREMENT OF SPARE PARTS

Department of Defense

In a prior review of the ability of the military supply systems to respond to increased demands, we observed that some supply-support problems were apparently the result of the practice of releasing procurement funds on a piecemeal basis. Therefore we undertook a limited examination into the effects of such funding practices on the procurement of aeronautical spare parts by the Air Force. Our report on the examination was issued to the Congress in August 1968.

We found that in fiscal years 1966 and 1967 the Department of Defense released funds to the military departments on a piecemeal basis. The Air Force, in turn, released funds to its procurement centers on a piecemeal basis and without advance notice as to the amounts that would be made available or when they would be made available.

The funds made available to the procurement centers were less than the funds needed to cover computed requirements. The incremental funding created additional difficulties for the procurement centers in their management of the limited funds in that

- Spare parts could not be purchased in larger, more economical quantities.
- Prices were increased by contractors because of delays in placing orders.
- Administrative costs of procurement were increased because of additional paperwork.
- Procurement on a piecemeal basis increased the likelihood of shortages of spare parts which could adversely affect the operational readiness of aircraft.

The Assistant Secretary of Defense (Comptroller) stated that the numerous fund releases in fiscal years 1966 and 1967 were neither desirable nor economical but were necessary under the then-existing circumstances. Further, we were informed that the Air Force attempted in fiscal year 1968 to reduce the number of separate fund allocations to the Air Materiel Areas. We were informed also that the other military departments pursued the same objective and that the Office of the Secretary of Defense was cooperating in every way possible.

We pointed out that similar conditions could recur and could again necessitate close fund control and incremental releases of funds. We recommended that, in that event, consideration be given by the Department of Defense and the military departments to the additional costs and other adverse effects of incremental fund releases and that efforts be made to reduce the practice to a minimum. We recommended also that as much information as possible be furnished to inventory management activities as to amounts of funds that will be available and the probable release dates to facilitate the planning of their procurement programs. (B-164301, Aug. 27, 1968.)

POTENTIAL SAVINGS THROUGH INCREASED RECAPPING OF AIRCRAFT TIRES

Department of Defense

We found that the Air Force and Navy do not recap aircraft tires as extensively as commercial airlines do because of arbitrary restrictions on the number of times a tire may be recapped and, in the case of the Navy, because of ineffective administration of the tire recapping program. The Army has not established a program for recapping aircraft tires.

In our report issued to the Congress in February 1968, we pointed out that the use of recapped aircraft tires often saves as much as 50 percent of the cost of new tires and--as shown by the practices of the commercial airlines--is considered consistent with safety requirements.

We found that all three services could realize significant savings by recapping aircraft tires more extensively. These savings could be as much as \$1,650,000 annually for the Air Force and the Navy. If it were found to be practicable to increase the recapping of tires for high-speed and jet aircraft, substantial additional savings could be realized.

The Air Force and Navy advised us of actions taken or planned to increase the effectiveness of their respective aircraft tire recapping programs.

We recommended that the Secretary of Defense issue policy guidance to the military departments relative to the recapping of aircraft tires. We recommended further that the Department of Defense periodically review the recapping policies and procedures established by the military departments.

The Department of Defense advised us in April 1968 that it had established a study group which comprised representatives from the military departments to develop criteria and policies for uniform application. (B-146753, Feb. 1, 1968.)

POTENTIAL SAVINGS THROUGH ELIMINATION
OF DUPLICATE INVENTORIES

Department of the Navy

We reviewed the Navy's practice of stocking, for further distribution, material which is normally procured, stocked, and distributed to Government organizations by the General Services Administration (GSA). Our report on this review was issued to the Congress in May 1968. On the basis of our review, we concluded that Navy wholesale inventories, and similar GSA inventories held for Navy use, unnecessarily duplicated each other and resulted in duplicate management and warehousing functions in the Government supply system as a whole.

We concluded that inventories valued at about \$8.5 million, and related management and warehousing functions, could be eliminated from the wholesale stocks of either the Navy or GSA. To the extent that duplication of stock could be eliminated, the Government would realize not only increased efficiency in stock management, but also annual savings of up to \$940,000. We suggested that, for those items stocked by GSA, the Navy overseas stock points, supply ships, and fleet activities within the continental United States waters requisition their requirements directly from GSA.

The Navy did not believe that this would be feasible with respect to overseas stock points and supply ships but did agree to review the existing arrangements for supply support. GSA expressed the opinion that the procedure of direct requisitioning from GSA was the most economical method of supply support except in those cases where the volume of issues warrants the shipment of wholesale quantities direct from the manufacturers to the Navy.

We recommended that the Secretary of Defense and the Administrator of the General Services Administration jointly establish a working group to formulate the necessary policies and procedures for a supply-support system which will eliminate the duplications cited in our report. On May 22, 1968, the General Services Administration advised us that it had informed the Department of Defense of

its readiness to establish such a group. On July 23, 1968, the Department of Defense advised us that it concurred in this approach to the problem. (B-146828, May 16, 1968.)

POTENTIAL SAVINGS THROUGH ELIMINATION
OF UNECONOMICAL SHIPMENTS OF STOCK

Department of the Air Force

Our review of the Air Force system for redistributing excess parts and other material from Air Force bases to supply depots showed that, during the last 3 months of 1966, three Air Force supply depots received over 370,000 such shipments. In our report issued to the Congress in January 1968, we pointed out that over 125,000, or about 34 percent, of these shipments were uneconomical for two reasons. They involved material with which the Air Force was already well supplied or was in an excess position or material with a value less than the costs incurred for its return.

We estimated that the packaging, handling, and other administrative costs incurred in connection with the uneconomical shipments totaled about \$1.3 million for the 3 months.

In general, the uneconomical shipments were made because (1) the Air Force screening of items reported as excess did not include a determination of stock-level status of all the items before authorization of their return, (2) unserviceable items were returned without a determination as to whether there was sufficient serviceable material in Air Force stocks, and (3) the Air Force redistribution system did not provide for the identification of items valued at less than shipping costs.

After we brought these matters to its attention, the Air Force took certain actions to effect improvements. These actions included establishment of retention levels for excess stocks at Air Force bases, revision of criteria for shipment of low-value items, and initiation of surveys by the Air Force Auditor General. The Air Force expressed the belief that these actions would effectively eliminate the problem. (B-133019, Jan. 22, 1968.)

POTENTIAL SAVINGS THROUGH REPAIRING
RATHER THAN SCRAPPING UNSERVICEABLE
SPARE PARTS

Department of the Air Force

Air Force regulations provide for the return of certain unserviceable items to designated depots for repair if they cannot be repaired at the Air Force base level. However, the regulations permit the bases to condemn the items as scrap if (1) they are beyond repair, (2) repair costs exceed 65 percent of replacement cost, or (3) their condemnation is specified by applicable technical orders. During 6 months of 1967, Air Force bases condemned about \$6.7 million worth of the type of items designated for repair at the depots managed by the three Air Materiel Areas included in our review. The condemnation of a substantial portion of these items was based on determinations that repair costs were excessive in relation to replacement cost.

We tested 78 items that had been condemned at five bases and found that 51 of them could have been repaired for amounts significantly less than replacement cost. Many of the condemned items were in short supply and, in some cases, action had been taken to procure additional items. These findings were presented in a report issued to the Congress in October 1968.

The primary reason for improper condemnation was that maintenance personnel at the bases had made their determinations without adequate knowledge of depot repair costs, procedures, and capabilities. We proposed that the Air Force regulations be revised to require the bases to return the items to the depots unless the bases have been advised that the items are (1) not needed in Air Force stocks, (2) obviously beyond repair, or (3) authorized for disposition under Air Force technical orders.

The Air Force advised us that its analyses indicated that the magnitude of improper condemnations did not warrant instructing the bases to return such items to the depots. The Air Force stated, however, that certain revisions were being made in existing regulations to require (1) the reporting of cost data to, and approval of the cost

data by, the item managers prior to condemnation of items by the bases and (2) establishment of a review board at each base to maintain surveillance over condemnations based on cost criteria.

We were of the opinion that the specialized repair activities at the depots were the only organizations qualified to estimate the costs to repair items for which they were responsible, and for that reason the action taken by the Air Force would only serve to reduce but would not prevent improper condemnation of repairable items. We therefore recommended that the Air Force reconsider our proposal. The Air Force stated that a program was being initiated to ship selected items, selected on the basis of dollar value, to the specialized repair activities for the purpose of determining their repairability. (B-146874, Oct. 23, 1968.)

POTENTIAL SAVINGS THROUGH REUSE OF SHIPPING CONTAINERS

Department of the Army

As stated in our report issued to the Congress in February 1968, we found a need for improvement in the Army's procedures for making shipping containers available to manufacturers of electronic equipment for shipment of newly produced electronic equipment. Use of Government-furnished shipping containers would reduce procurement costs. Reusable containers were not being furnished to the contractors because Army procedures did not require procurement and supply personnel to coordinate their efforts and identify containers available in the supply system.

The Army concurred, in general, with our findings and proposals and revised its applicable regulation to require all national inventory control points to establish procedures and controls to ensure maximum use of reusable containers for all types of equipment.

The Department of Defense informed us that the military departments and the Defense Supply Agency had been directed to review their procedures for management of reusable containers and to correct any deficiencies. (B-146917, Feb. 15, 1968.)

EQUIPMENT MANAGEMENT, GENERAL

NEED FOR IMPROVEMENT IN MANAGEMENT OF INACTIVE INDUSTRIAL EQUIPMENT

Department of the Army

In May 1968 we issued to the Congress a report on our review of inactive industrial plant equipment--such as wood-working and metalworking machines, crane and crane shovel attachments, compressors, power and hand pumps, and electric motors--in Army arsenals. We found that millions of dollars worth of equipment had been permitted to lie idle in Army arsenals for periods up to 10 years while similar equipment had been purchased for use elsewhere in the Department of Defense.

The Department of Defense agreed that there had been instances of Army retention of inactive industrial plant equipment for considerable lengths of time and stated that Army regulations relating to authorization for retention of such equipment for current and mobilization needs were being revised. We believe that the actions of the Departments of Defense and of the Army should substantially reduce the quantities of unused and unneeded equipment at the arsenals. (B-163691, May 23, 1968.)

NEED FOR IMPROVEMENT IN MANAGEMENT OF MISSION-SUPPORT AIRCRAFT

Department of the Army

We evaluated the management of the aircraft used by the Army to maintain readiness proficiency for combat flying and for administrative purposes. Our report on the evaluation was issued to the Congress in May 1968. We found that, based on recent flying experience and the utilization criteria established by the Departments of Defense and of the Army, the number of aircraft authorized at the locations we reviewed was about 25 percent more than the justifiable requirements. We believe that the overauthorizations resulted from the incomplete criteria and procedures prescribed and used for determining aircraft requirements and from

insufficient evaluation of the justifications for aircraft submitted by the user organizations.

We found also that the utilization of some military aircraft was uneconomical and inconsistent with the transportation and traffic management policies of the Department of Defense. Furthermore, at most of the locations we reviewed, effective management and control over the use of aircraft for mission-support purposes was, in our opinion, lacking. The procedures in effect at the time of our review generally did not provide for a determination, although required by Department of Defense policy, of whether use of commercial or other means of transportation would be practicable and more economical.

We recommended that the Army establish an effective integrated system for managing aircraft for mission-support purposes and outlined the elements which we believe should be included in such a system. The Army agreed, in general, with our recommendations and cited actions already taken and being developed toward that end. (B-163453, May 10, 1968.)

NEED FOR IMPROVEMENT IN MANAGEMENT
OF TRACTOR-TRAILER FLEET IN EUROPE

Department of the Army

In January 1968 we reported to the Congress our findings in a review of the Army's management and utilization of highway transportation equipment in Europe. We pointed out that management procedures of the 37th Transportation Group were inadequate. We found that (1) daily inventory reports were insufficient to monitor the status and location of its trailers at all times, (2) control units were not making the required analyses of equipment use, and (3) full use of available equipment would have avoided the hiring of commercial carriers at substantial increase in costs.

There were also indications that costs were increased unnecessarily because Army European commands failed to promptly unload trailers and report them as available for further use.

The Army took corrective action in accordance with all but one of our proposals. We believed that action should have been taken on that proposal and, accordingly, we recommended that available refrigerated equipment be transferred and utilized to the maximum extent possible for the transportation of frozen food products. Subsequent to the issuance of our report, the Army advised us that it concurred in this recommendation. (B-162771, Jan. 30, 1968.)

ADMINISTRATION OF MANPOWER MATTERS

POTENTIAL SAVINGS THROUGH CONVERSION OF MANUALLY OPERATED FURNACES TO AUTOMATIC-TYPE HEATING UNITS

Department of Defense

We reviewed costs of operating heating units of the types generally used at military bases to heat single buildings. We found that costs could be reduced several million dollars annually at Army and Air Force installations if manually operated furnaces were converted to automatic-type heating units. Such conversions at the 12 military installations covered in our review could reduce costs about \$3.5 million each year, primarily by releasing military personnel for other duties. These findings were stated in our report issued to the Congress in December 1967.

Department of Defense officials expressed the opinion that (1) there could be no actual reduction of military personnel requirements if the function were eliminated since no personnel spaces had been authorized for this function, (2) the Congress was reluctant to support requests for fuel conversion, (3) military labor should not be considered an economic factor in fuel conversions except where such labor was permanently assigned to the installation engineer and a reduction in strength could be made, and (4) these duties were usually performed as an additional duty or by transient personnel. We found, however, that the majority of the military personnel used to fire furnaces were on the job full time for 30 days or longer.

However, the Department of Defense requested the Army and Air Force to make a study of this matter, including a comprehensive review of all small hand-fired heating systems using either military or civilian firemen. On September 8, 1968, the Department reported to us on the progress of the study. The Department stated that the study showed that there were 8,053 heating systems in the Army and Air Force which were hand fired by military or civilian firemen, that 4,059 of them had thus far been tentatively selected for inclusion in a conversion program, and that the study was continuing.

In view of the need to achieve the most efficient and effective utilization of military manpower in assignments requiring military skills and to realize the economies possible through conversion of manually operated, coal-heating units to automatic gas- or oil-heating units, we suggested in our report that the Congress may wish to inquire into the practice of using military labor to perform the function of tending furnaces. (B-160931, Dec. 27, 1967.)

NEED FOR IMPROVEMENT IN ADMINISTRATION
OF MILITARY PAY AND ALLOWANCES

Department of Defense

Our report on an earlier review, issued to the Congress in April 1963, presented our findings of significant overpayments and underpayments of military pay and allowances and our recommendations for improving the administration of military pay and allowances. Our report on a follow-up review, issued to the Congress in April 1968, presented our findings that serious deficiencies in administration still exist. The main cause continues to be the use of inexperienced and untrained clerks and supervisors in the local disbursing and personnel offices.

The Department of Defense and the military services had taken a number of actions which had improved the administration of military pay and allowances in some areas. Also, the Department of Defense is implementing its Joint Uniform Military Pay System (JUMPS), a system for maintaining military pay and leave accounts by electronic data processing equipment and techniques at one central site for each military service. However, most of the input data in this system will originate at the local office level where we found inexperienced and untrained clerks and supervisors. Further efforts in correcting existing weaknesses in training and staffing at local levels should therefore be made to ensure the most accurate input possible and the effective operation of the new system.

Errors in basic allowance for subsistence for enlisted men accounted for about 30 percent, or the largest category, of errors we found. We believe that there is a need for a change in legislation to place basic allowance for

subsistence for enlisted men on a monthly rate basis rather than the present daily rate basis. In our opinion, this would reduce the administrative burden and the administrative costs of handling the large volume of transactions and could substantially reduce the number of errors in making payments. The Department of Defense stated that it is considering a proposal for a legislative change. (B-125037, Apr. 2, 1968.)

NEED FOR IMPROVEMENT IN MANAGEMENT
OF DETAILING OF CIVILIAN EMPLOYEES

Department of Defense

In April 1968 we issued a report to Congressman John E. Moss on an investigation, made at his request, of the practices at McClellan Air Force Base in detailing (assigning) civilian employees to work on other than their regular jobs. Our findings at McClellan led us to an expanded review at 10 industrial-type military installations in the Department of Defense (DOD). A report on this review was issued to the Congress in November 1968.

The basic law provides that the head of an executive department or a military department may detail employees among the bureaus and offices of his department, except those employees required by law to be exclusively engaged on some specific work. Records of details in excess of 30 days are required to be maintained permanently in the official personnel records. We found many instances where large numbers of employees were being "loaned" or "borrowed" between shops for extended periods in excess of 30 days without appropriate personnel action to credit the individuals for the time involved and instances where details either were not recorded or were improperly recorded.

Details in excess of 6 months (now 120 days) are required to be approved by the local office of the Civil Service Commission. We found many instances where the required approvals were not being obtained. We found instances also of employees' being detailed to higher and lower grade positions and instances of temporary promotions to fill vacancies.

We found little evidence that internal audit and review staffs of the military departments or the Civil Service Commission inspection teams had found these types of deficiencies or that, if they did, they had identified the causes and made appropriate recommendations.

The Secretary of Defense and the Chairman, Civil Service Commission, agreed, in general, with our suggestions for corrective measures. DOD outlined to us the actions that would be taken in each of the military departments and the Defense Supply Agency, advised us that DOD would provide surveillance over the actions, and stated that we would be kept advised of the progress. The Civil Service Commission advised us that it would issue further guidelines to its inspectors to ensure more specific coverage of detailing in their inspections. We requested that we be furnished a copy of the guidelines when issued. (B-160879, Nov. 15, 1968.)

POTENTIAL SAVINGS THROUGH USE OF
CIVIL SERVICE PERSONNEL IN LIEU OF
CONTRACT PERSONNEL

Department of the Air Force

Our review confirmed Air Force studies--undertaken after we issued a report to the Congress in January 1966 on our survey of research management functions at the Air Force Cambridge Research Laboratories--which showed that savings would be realized if some of the research functions performed by contractors were performed by civil service personnel. The savings would result primarily from reduction, or elimination, of overhead costs and of profits paid to the contractors. Our report on the review was issued to the Congress in November 1967.

The Air Force study of contracts for services at the Laboratories--costing about \$3 million annually--showed a savings potential of \$750,000 a year. The amount of the savings, however, would be less than estimated if consideration were given to Federal income taxes forfeited, to the possibility that the contractors' other Government business might absorb part of the overhead being applied to these contracts, and to other factors.

We believe that (1) administrative ceilings on the availability of civil service personnel for these jobs and (2) excessive delays in approving or disapproving amendments to the manpower ceilings have, in the past, been major factors in the continued use of contractor services.

We therefore proposed to the Secretary of Defense that

- Manpower ceilings made available to the Laboratories be sufficiently flexible to enable the Laboratories to acquire civil service employees to assume the long-term research work being performed within its facilities by contractor-furnished personnel.
- The personnel ceilings of the Laboratories be related to the facilities and research project approval processes and that appropriate adjustments be made consistent with such approvals.
- A more expeditious manner of processing manpower requirements be established within the Department of Defense.

The Department of Defense concurred, in general, in our finding and advised us that the civil service personnel authorization at the Laboratories had been increased to permit conversion of 25 service contracts to Government operation. The Department did not agree, however, with our conclusion that manpower ceiling practices prevent economical management of programs and resources. (B-146981, Nov. 28, 1967.)

MILITARY ASSISTANCE PROGRAM

NEED FOR SCREENING EXCESS PROPERTY FOR FEASIBILITY OF RECOVERY FROM RECIPIENT COUNTRIES PRIOR TO RELEASE TO THEM FOR DISPOSAL

Department of Defense

In July 1967 we issued to the Congress a report, classified "Secret," on our review of the military assistance program (MAP) property which had become excess to the needs of recipient countries. The discussion which follows was selected from the unclassified material in that report.

We found that a significant portion of the property was released to those countries by the Department of Defense without first determining, on a case-by-case basis, whether it would be economically beneficial to recover the property for either redistribution or disposal purposes by the United States. We found also that there were billions of dollars worth of MAP property still in possession of recipient countries, which would eventually become excess.

The proceeds from the sale of such property by the recipient countries have the effect of adding millions of dollars of additional U.S. aid to those countries, and, since this is not a part of the usual aid program, it is not readily apparent. We expressed the opinion that the proceeds could have been realized by the United States had case-by-case economic recoverability determinations been made and that these proceeds would have had a favorable effect on the U.S. balance-of-payments position.

The U.S. practice of disposing of excess MAP property differed in many recipient countries. We expressed the opinion that the Department of Defense could increase U.S. revenues from the disposal of excess MAP property in foreign countries by recovering, for disposal by U.S. disposal agencies, a greater portion of the property which is declared by recipient countries to be excess to their needs. We expressed the opinion also that the release of property which might have been determined to be economically recoverable

had deprived the United States of foreign currency which could otherwise have been realized by the United States and used to reduce dollar expenditures.

In classified comments, the Departments of State and Defense pointed out some of the foreign policy and other considerations involved in the matters discussed in this report. Since we were not in a position to deal directly with such issues, we brought the matter to the attention of the Congress to advise it of how the excess property was handled and the agencies' reasons for their actions. (B-161049, July 12, 1967, Secret.)

NEED FOR IMPROVEMENT IN MANAGEMENT OF
EQUIPMENT HELD IN STORAGE FOR THE
MILITARY ASSISTANCE PROGRAM

Department of Defense

In a report issued to the Congress in November 1967, we pointed out that improvement was needed in the management of equipment held in storage for the military assistance program (MAP). We found that

- Certain unassigned MAP-owned equipment in Army storage was not being used to satisfy requirements.
- Significant amounts of MAP funds had been required to obtain equipment to fill grant-aid and sales requirements which could otherwise have been filled from stocks of identical items of unassigned MAP-owned equipment in Army storage.
- Because such equipment was not used, additional MAP funds were expended for storing and maintaining the unassigned equipment.

We attributed the failure to use available MAP-owned equipment to (1) the absence of accurate inventory data and of definitive procedures for systematically screening and using unassigned MAP-owned equipment, (2) the lack of necessary controls to assure higher echelons of command that existing policies were being implemented by operating units,

and (3) the use of verbal hold orders to reserve equipment, unassigned because of cancellation of certain grant-aid recipient country programs, for potential but unconfirmed sales, barter, or coproduction agreements.

We also pointed out that there was a need for improvement in management of Army-owned equipment reserved for MAP, to ensure that, upon termination or reduction of the MAP requirement for which the equipment was reserved, it would be promptly released for general-issue purposes. Our review at three Army locations showed that only one had local written procedures in effect to cover this management area.

At the conclusion of our review, Defense and Army officials agreed generally with the findings, conclusions, and proposals for corrective actions contained in our report and informed us that measures had been taken or were in process to improve management procedures and controls over MAP inventories.

We believe that the Department's plans, if properly carried out, should result in more effective utilization of MAP-owned equipment and equipment reserved for MAP and should reduce costs to the United States. We intend to review the Department's actions as part of our continuing review of MAP. (B-162479, Nov. 14, 1967.)

AUTOMATIC DATA PROCESSING EQUIPMENT

NEED FOR GREATER CONSIDERATION TO USE OF IN-HOUSE MAINTENANCE OF GOVERNMENT-OWNED AUTOMATIC DATA PROCESSING EQUIPMENT

Department of Defense (and other departments and agencies)

The Federal Government is a large user of automatic data processing (ADP) equipment in its operations. In most cases, maintenance services for Government-owned computers are being obtained from computer equipment manufacturers. Only a relatively small number of Government computer installations have adopted a policy of in-house maintenance for their equipment. Because of the increasing investment of the Federal Government in computer facilities and the related increase in direct maintenance costs, we made a study of the many factors involved in decisions on obtaining adequate maintenance service at reasonable cost.

On the basis of our study, we concluded that greater consideration should be given to in-house maintenance of Government-owned ADP equipment because of the potential for cost reduction in obtaining this necessary service and other possible advantages, including greater management control over maintenance work, increased acceptance of computer operations by other employees, and a higher level of computer efficiency (i.e., little downtime).

Although in-house maintenance of ADP equipment in the Federal Government is not a common practice, we did visit several Government installations that have followed this practice successfully. We also visited several non-Federal and private organizations that do their own maintenance work.

No simple, precise criteria for determining the feasibility of in-house maintenance can be set forth which will apply uniformly to all Government installations. During our inquiries at Government and private industry installations which had adopted in-house maintenance policies, we noted that the following operational and cost factors were considered before making in-house maintenance decisions.

- Operational character of systems.
- Location of equipment.
- Split maintenance responsibility.
- Quality of maintenance.
- Modification by equipment manufacturers.
- Size of computer installation.

We pointed out in our report issued to the Congress in April 1968 that the investment of the Federal Government in computer facilities and related direct maintenance costs, currently about \$50 million annually, could be expected to continue to increase. We concluded that there was need for more management attention toward ascertaining the most efficient, effective, and economical methods of maintaining Government-owned ADP equipment. For these reasons, we recommended that

- the Bureau of the Budget require the executive agencies to consider in-house maintenance in reaching procurement and maintenance decisions and that the General Services Administration accelerate its studies now under way on this subject with an objective of promulgating more specific policies for the guidance of Federal agencies in obtaining adequate maintenance service at the least cost to the Government.
- the head of each Federal agency arrange for the establishment of procedures for arriving at the most advantageous decisions for maintenance of ADP equipment.

We also suggested that, pending issuance of more specific policy guidance in the executive branch, the Federal agencies use the detailed operational and cost factors we included in the report in arriving at maintenance decisions for their ADP equipment.

The Bureau of the Budget has advised us that it is taking steps to amend its Circular No. A-54 which relates specifically to acquisition and use of ADP equipment to ensure that agencies give appropriate consideration to the use of in-house maintenance.

The General Services Administration accelerated its study by awarding a contract for consulting services to conduct a survey "to identify the optimum least cost alternative means for maintenance of ADP within appropriate parameters such as make, size and type of equipment; type and priority of applications; and geographical considerations." The General Services Administration advised us that it would issue a Federal Property Management Regulation containing some interim guidelines to assist agencies in their evaluation of alternative means of maintenance. These guidelines will cover the factors brought out in our report. (B-115369, Apr. 3, 1968.)

POTENTIAL SAVINGS THROUGH DIRECT PURCHASE
OF COMPONENTS AND SPARE PARTS FOR
AUTOMATIC DATA PROCESSING EQUIPMENT

Department of Defense (and other departments and agencies)

During our study of maintenance practices of ADP equipment users in the Federal Government and several non-Federal and private organizations, we noted instances where aggressive managers saved their activities significant sums of money by not purchasing ADP system components and repair parts from the computer manufacturer but by purchasing the items direct from the actual manufacturers of the components or from other sources of supply. For instance:

- The United States Fleet Numerical Weather Facility performed its maintenance on an in-house basis. As a result, it was in a position to determine the best method of procurement. The Facility, for example, made two procurements of drum-storage devices and related controllers for \$900,300 from the actual manufacturers of the items. Equivalent equipment procured from the computer manufacturer could have cost an additional \$475,200.

--Repair parts for the large-scale computer system at the Data Processing Center, United States Army Deputy Chief of Staff for Logistics (DCSLOG), were not usually purchased from the manufacturer. Some of the repair parts were obtained by the purchase of a complete computer system, deemed obsolete, at salvage or scrap price on the open market. This contributed to the relatively low cost of maintenance at this installation.

--A private computer service bureau followed the same practice as DCSLOG (above). The modest price that this company paid for spare parts contributed to the relatively low overall cost of maintenance of the company.

In our report issued to the Congress in April 1968, we expressed the view that the cost savings from direct procurement, illustrated by the cases we encountered, suggested that this method of procurement should be more extensively explored in procuring ADP components and parts needed in maintaining Government-owned ADP equipment. We are conducting further studies of this question as a preliminary to making specific recommendations. (B-115369, Apr. 3, 1968.)

MANAGEMENT CONTROL SYSTEMS

NEED FOR A STUDY OF THE COORDINATION OF THE MANAGEMENT REVIEW EFFORTS OF GROUPS OUTSIDE THE INTERNAL AUDIT ORGANIZATIONS

Department of Defense

In a report issued to the Congress in March 1968, we stated that the organization, audit policies, directives, plans, and operations of the internal audit organizations in the Department of Defense complied substantially with requirements for an effective internal audit system. We stated also that the Department's internal audit policies, directives, and plans were being implemented in a generally satisfactory manner. Our review was directed primarily to obtaining current information on the adequacy of the auditing activities of the Department's five formally designated internal audit organizations.

In view of the existence in the Department of numerous separate internal review and surveillance organizations performing management reviews, we also gave consideration to the need for coordination of review work in order to avoid omissions and duplications and to direct the total effort so as to maximize results. Because of our lack of knowledge of the management review activities of the Inspectors General of the military departments, which stems from constraints on making the related records available for our review, we indicated that we were unable to ascertain whether the activities of the designated audit organizations and the Inspectors General are effectively coordinated so as to avoid duplication and obtain the best results from the total review effort.

We made a number of proposals for consideration in the performance of future internal audit activities. The Department of Defense concurred except with respect to our proposal that a study be made of the work of the numerous organizations and activities conducting management reviews, with a view to strengthening overall control, direction, and coordination of such efforts. The Department doubted whether such a study would be productive but proposed to consider the matter further. (B-132900, Mar. 8, 1968.)

FAVORABLE OPINION ON THE ACCOUNTING
SYSTEM FOR OPERATIONS PROPOSED FOR
IMPLEMENTATION JULY 1, 1968

Department of Defense

Section 640(b) of the Department of Defense Appropriation Act, 1968, provided that none of the funds were available to the Department of Defense (DOD) to install or utilize any new "cost based" or "expense-based" system or systems for accounting until 45 days after the Comptroller General of the United States, after consultation with the Director of the Bureau of the Budget, had reported to the Congress that the design of the system or systems had met certain criteria. The section specified that the design should (1) meet the requirements of all applicable laws governing budgeting, accounting, and the administration of public funds and the standards and procedures established pursuant thereto, (2) provide for uniform application to the extent practicable throughout DOD, and (3) prevent violations of the antideficiency statute (Rev. Stat. 3679; 31 U.S.C. 665).

In April 1968 we reported to the Congress that, in our opinion, the DOD accounting system for operations, as outlined in a system design description dated March 19, 1968, prepared by DOD and proposed for implementation July 1, 1968, met the criteria specified in section 640(b). Our opinion was based on analysis and evaluation of the system design description, supporting directives and instructions, and other documentation of DOD, and on limited tests of operational feasibility of certain of the features of the proposed system. Our opinion was reached in consultation with the Director of the Bureau of the Budget. A copy of his favorable opinion and a copy of the system design description dated March 19, 1968, were enclosed in our report.

Implementation of the DOD accounting system for operations is in progress. We are cooperating actively with DOD to facilitate the implementation. (B-159797, Apr. 12, 1968.)

NEED FOR IMPROVEMENT IN RELIABILITY OF
THE AIR FORCE PERSONNEL DATA SYSTEM

Department of the Air Force

The Air Force maintains a computerized personnel data system to provide the information needed for management of its military personnel. The information provided by the system is used as the basis for management decisions affecting overall planning and budgeting and decisions affecting individual officers and enlisted men in such personnel actions as assignments, promotions, separations, and retirements. We examined the operation of the system for the period April through October 1967. Our examination was directed primarily toward the evaluation of the data recorded in the system and did not include an overall evaluation of the operation. Our report on the examination was issued to the Congress in July 1968.

We found that the data in the system was not sufficiently reliable to serve management purposes effectively. Our examination of the recorded personnel data for 378 officers--an average of about 85 items of information for each officer--showed that 366 of the 378 records had one or more errors. The errors averaged five for the record of each officer. A similar examination of the recorded personnel data for 480 enlisted men--an average of about 52 items of information for each enlisted man--showed that 457 of the 480 records had one or more errors. The errors averaged three for the record of each enlisted man.

In our opinion the errors stemmed from

- Lack of adequate review procedures to ensure the accuracy of personnel information.
- Absence of standards for evaluating the reliability of the data in the system.
- Ineffective guidance and instruction to personnel at base level by higher levels of command.
- Inadequate staffing and training of personnel at base level.

The Air Force agreed generally with our findings and proposals for corrective action and informed us of steps taken to strengthen its management of the personnel data system. These actions, if properly implemented and monitored, should improve the reliability of the data in the system. (B-164471, July 25, 1968.)

MOVEMENT OF AMERICAN FORCES
FROM FRANCE (OPERATION FRELOC)

PROBLEMS INCIDENT TO RELOCATION
OF SUPPLIES AND EQUIPMENT

Department of Defense

In response to strong congressional interest concerning the movement of American Forces from France (Operation FRELOC), we undertook a broad survey covering military supply matters, disposition of surplus material, disposition of real property and related personal property, and construction requirements arising from the movement of supplies and personnel by the Army and Air Force. In May 1967 we issued to the House Appropriations Committee and to certain other committees of the Congress a report which presented our observations to that date. In August 1968 we issued to the Congress a report which supplemented the earlier report and summarized our overall findings.

Despite the magnitude of the move from France and the relatively short period of time available (March 1966 to April 1, 1967), the Army and the Air Force were able to relocate their personnel, supplies, and equipment on time and in a generally effective manner. However, as could be expected in an operation of this nature, many difficulties arose, some of which were directly related to problems existing prior to the move.

The most significant problems noted by us were the following:

- Control was lost over large quantities of supplies and equipment, including weapons, ammunition, and medical supplies. Inaccurate inventory records contributed to this situation.

- Supplies were shipped to locations with inadequate storage facilities although available facilities were not being used.

- Requirements for construction of additional ammunition storage facilities were overstated.
- Some of the fixtures and personal property removed from former French bases were used ineffectively.
- Some usable personal property was not removed from French bases.

Some of these problems were complicated by the fact that the Secretary of Defense did not approve new locations until relatively late dates. Officials of the Department of Defense stated that the delays were caused by problems associated with gold flow, relations with foreign governments, and the need to formulate acceptable lines of communications to support American Forces.

We made no recommendations in the report. We intend to issue detailed reports on specific aspects of Operation FRELOC and to make appropriate recommendations at that time. (B-161507, Aug. 7, 1968.)

OTHER AREAS OF OPERATIONS

POTENTIAL SAVINGS THROUGH CONSOLIDATION OF REAL PROPERTY MAINTENANCE FUNCTIONS IN AREAS OF HIGHLY CONCENTRATED MILITARY INSTALLATIONS

Department of Defense

We examined into the feasibility of consolidating the eight separate real property maintenance activities operated by the military services on the island of Oahu, Hawaii, and the 16 in the area of Norfolk, Virginia. These locations were selected for examination because the relatively limited geographical areas involved contained a large concentration of military installations and facilities. Our findings were presented to the Congress in a report issued in August 1968.

On the basis of our examination, we concluded that consolidation of the maintenance activities at each of the two locations was feasible and would result in economies. We estimated that the consolidations would result in:

- Annual savings of about \$3.4 million in operating costs (\$2.4 million on Oahu; \$960,000 at Norfolk).
- Annual savings in an indeterminate amount in replacement costs for equipment.
- Release of equipment valued at about \$2.2 million for possible use elsewhere (\$1 million on Oahu; \$1.2 million at Norfolk).

We proposed that the Secretary of Defense consider consolidating real property maintenance organizations on Oahu and in the Norfolk area, each under a single manager, with supporting subactivities as appropriate. We proposed also that the Secretary conduct studies at other locations having large concentrations of military installations, to ascertain the feasibility of consolidation. We cited New Orleans, Los Angeles, San Francisco, New York, and Washington, D.C., as examples of such concentrations.

In response, the Assistant Secretary of Defense (Installations and Logistics) advised us that his office had established an interdepartmental committee, under the Department of the Navy, to develop measures for effecting maximum consolidations on Oahu, at Norfolk, and at other locations of highly concentrated military installations. We were further advised that the committee was establishing local interdepartmental committees on Oahu and at Norfolk.

The guidelines provided to the local committees indicated that the installation commanding officers involved would decide the extent of consolidation. In our report we recommended that decisions as to the extent of consolidation of real property maintenance activities be made on the basis of independent studies and that such decisions be made binding on the installations involved.

On October 4, 1968, the Assistant Secretary of Defense (Installations and Logistics) advised us that the recommendations of the local interdepartmental committees would be made binding on the installations involved after review and approval by the military departments, by the Washington Interdepartmental Committee and by his office. (B-164217, Aug. 5, 1968.)

NEED FOR IMPROVEMENT IN CONTROL OVER AMMUNITION DEVELOPMENT

Department of the Army

The Army Materiel Command is responsible for developing conventional ammunition required by the Army, Air Force, and Marine Corps. In September 1968 we issued to the Congress a report on our review of the management controls over these operations.

The Army has established procedures reasonably adequate to enable management to identify and to correct deficiencies in ammunition prior to completion of development. The procedures include five distinct in-process reviews, or periodic evaluations, at specified points in the development process.

In our opinion, Headquarters, Army Materiel Command, was not adequately monitoring the development programs or requiring project managers to perform the necessary reviews. Insufficient management control had been in large part responsible for the development and production of unacceptable ammunition in the past.

In our review of 11 items of conventional ammunition that were in the developmental stage, we found that the following items had been approved for production although none of the required reviews and evaluations had been performed during the course of their development:

--73,000 rounds of howitzer cartridges at a cost of \$21 million.

--115,000 rounds of recoilless rifle cartridges at a cost of \$31 million.

In the remaining 9 of the 11 items we reviewed, we found that, on the basis of their respective stages of development, a total of 30 reviews and evaluations should have been made. However, only 6 had been made.

In bringing our findings to the attention of the Department of Defense we proposed that

--The Army clarify existing reporting instructions to ensure that proposed and completed actions in development programs are recorded and reported through command channels.

--The Army maintain closer supervision over research and development activities to ensure that in-process reviews actually are made.

--The Army Audit Agency include in-process reviews in its audit programs.

The Army, in its reply on behalf of the Department of Defense, stated its agreement with these proposals and cited corrective measures that had already been taken. (B-157535, Sept. 27, 1968.)

NEED FOR IMPROVEMENT IN AIRLIFT
OF CARGO TO SOUTHEAST ASIA

Department of the Air Force

The Military Airlift Command has responsibility for providing overseas airlift services for all military departments. Most of the flights to Southeast Asia originate at Travis Air Force Base, California.

We estimated that the aircraft dispatched from Travis Air Force Base during July 1, 1965, through October 31, 1966, had unused airlift capacity of about 21 million pounds although ample and critically needed cargo was on hand awaiting shipment. The unused space was valued at about \$15 million based on the contract rates then in effect.

We believe the situation at Travis stemmed from (1) a scarcity of personnel having the experience necessary to supervise adequately and carry out efficiently air cargo shipping operations and (2) a weakness in procedures for communicating and coordinating information on availability of cargo space on special military flights to the Far East not originating at Travis. We brought our findings to the attention of the Air Force and proposed certain corrective measures which the Air Force accepted.

A follow-up review showed improvement in the use of available cargo space on flights out of Travis, with the exception of flights not originating there. In our report issued to the Congress in May 1968, we recommended that the Air Force require the Military Airlift Command to take the necessary steps to ensure that accurate load information is properly prepared and forwarded to appropriate air bases. We recommended also that the Secretary of Defense require the internal audit staff to review the matters covered in our report to provide additional assurance that the necessary corrective actions are taken and effectively implemented. The Department of Defense and the Air Force agreed with these recommendations. (B-157476, May 14, 1968.)

POTENTIAL SAVINGS THROUGH USE OF AVAILABLE SPACE
ON MILITARY AIRCRAFT TO TRANSPORT BAGGAGE
BETWEEN THE UNITED STATES AND EUROPE

Department of Defense

In a report issued to the Congress in January 1962 we pointed out that unaccompanied personal baggage of military personnel, transported by commercial air carriers, could have been transported in unused space on aircraft of the Military Airlift Command (MAC) at less cost. The Department of Defense stated at that time that steps had been, or would be, taken to ship as much of this baggage as possible on MAC flights.

In our follow-up review we found, as stated in our report issued to the Congress in September 1968, that the problem reported on in 1962 was continuing. We estimated that, of the 13.2 million pounds of unaccompanied baggage moved by commercial air carriers between selected points, 6.8 million pounds could have been moved in unused space on MAC flights at savings of about \$1 million. The space was unused because of a Department of Defense policy which impeded the flow of unaccompanied baggage into MAC air terminals.

The Department of Defense concurred in our findings and conclusions but stated that priority military cargo, rather than baggage, would be used in the future to achieve fuller use of space on MAC aircraft. In our opinion unaccompanied baggage should be reintroduced into the MAC system to achieve maximum use of available space, because the Department of Defense has experienced difficulty in supplying sufficient quantities of high-priority military cargo to make full use of space on MAC aircraft. (B-133025, Sept. 26, 1968.)

NEED FOR IMPROVEMENT IN CONTROL OVER
CHARGES FOR SERVICES PROVIDED
NONAPPROPRIATED FUND ACTIVITIES
AND PRIVATE INTERESTS

Department of Defense

We found that the military departments did not uniformly or consistently implement Department of Defense policy with respect to charges for services provided to nonappropriated fund activities and private interests. The practices varied among military installations. The military installations did not recover fully the costs of services provided, and they used military personnel in lieu of civilian employees for nonmilitary activities without first attempting to employ civilians.

We pointed out, in a report issued to the Congress in February 1968, that the Office of the Secretary of Defense had not required military departments to issue uniform instructions and to comply fully with Department of Defense instructions relating to such charges. Also, the military departments had not in all cases provided adequate surveillance at the installation level to ensure that charges for services, sufficient in amount for the recovery of applicable costs, were properly developed and consistently applied. Moreover, surveillance was not adequate to ensure that assignments of military personnel to nonmilitary and quasi-military activities were limited to positions of command supervision or were made only when qualified civilians were not available.

The Department of Defense concurred, in general, with our findings and acknowledged the need for added measures to improve the controls over user charges and military personnel assignments. The Department stated that it was re-evaluating its directive governing the funding of morale, welfare, and recreational activities with a goal of establishing uniform and consistent practices. (B-163136, Feb. 26, 1968.)

POTENTIAL SAVINGS THROUGH USE OF
CERTIFIED MAIL RATHER THAN REGISTERED MAIL
TO TRANSMIT CONFIDENTIAL MATERIAL

Department of Defense

Executive orders, a Department of Defense directive, and service regulations permit the use of certified mail for transmitting confidential material within the continental United States. As stated in a report issued to the Congress in April 1968, we found that certified mail was not being used for this purpose to the fullest extent practicable because regulations do not require its use and because opinions differ regarding the adequacy and suitability of certified mail.

In our opinion considerable savings could be realized and adequate security could be maintained if certified mail rather than registered mail were used in the Department of Defense for transmitting confidential material. The Department of Defense agreed and took steps to revise its directive to require that, as a general policy, certified mail be used to the maximum extent practicable.

We recommended that the Director, Bureau of the Budget, in consonance with his responsibilities under the President's cost reduction program, inquire into the practices of other Government agencies with a view toward the use of the least costly and most suitable method of mailing classified material. The Bureau of the Budget concurred. (B-146979, Apr. 8, 1968.)

OBSERVATIONS ON THE UNITED STATES
BALANCE-OF-PAYMENTS POSITION

Department of Defense (and other departments and agencies)

Over the past several years, we have issued a number of reports to the Congress on the subject of the United States balance-of-payments position. Many of these reports have been cited in our annual reports on selected significant audit findings that are made to the House Committee on Appropriations.

The problem of balance-of-payments is one of Government-wide importance and is one which is identified with several departments and agencies. It has been an area of increasing interest to both the Congress and to the Executive branch. Because of this interest we felt that a compilation-type report of all our prior reports was in order.

This report was issued to the Congress in October 1967 and pointed out that over the years we had sought ways and means of benefiting the United States balance-of-payments position. The report, and a separate classified supplement, summarized the results of our efforts since 1961.

A wide range of Government programs has been developed to deal with continuing balance-of-payments deficits. Some of these programs depend for their success on the voluntary cooperation of a broad segment of the American business community and public; others involve largely matters of domestic or foreign policies.

We have directed our efforts toward identifying specific situations which lend themselves to achieving additional balance-of-payments benefits. We have examined into the management of Government-owned foreign assets and claims; the negotiation and enforcement of bilateral agreements that result or should result in the accrual of proceeds to the Government; efforts made to encourage multinational participation in foreign aid programs; and areas where operations could be carried out abroad with more efficiency or at less cost.

As we discovered situations having beneficial balance-of-payments implications, we brought them to the attention of the Congress and of the appropriate officials of the agencies involved. In many cases remedial action was taken.

While it is not possible to estimate precisely how much the United States balance-of-payments situation was benefited because of the actions later taken by agency officials, we believe that such actions with respect to the matters included in the report and in the separate classified supplement have resulted in benefits of many millions of dollars. In a number of cases, little or nothing was

done about the matters we identified because agency officials maintained that the adoption of our proposals would not be in the interest of the foreign policy of the United States. It appears that significant balance-of-payments advantages in these areas are not likely until and unless basic policies change.

We issued our report to the Congress because the problem of coping with chronic balance-of-payments deficits is prominent among the contemporary economic issues confronting the United States. The report outlined areas of Government operations where balance-of-payments advantages may be possible, the status of agencies' efforts in these areas, and reasons why in some cases the potential advantages have not been pursued to date. (B-162222, Oct. 31, 1967.)