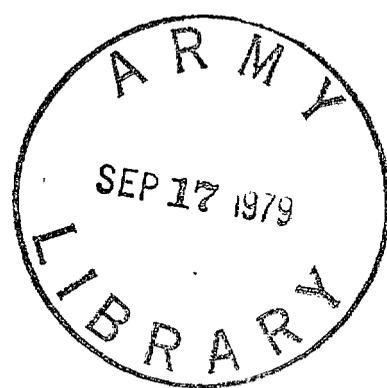


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Summaries Of Conclusions And Recommendations On Department Of Defense Operations



*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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

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Chairman, Senate Committee on Appropriations
Chairman, House Committee on Appropriations

This is our first annual report of summaries of GAO conclusions and recommendations on Department of Defense operations which we believe will be of interest to your Committee in its review of the Department's budget request for fiscal year 1976. Our reports have previously brought these matters to the attention of the Congress and departmental officials. We have not included suggested questions to be asked in appropriation hearings; however, we will suggest specific questions on the items summarized if you desire.

This report replaces our previous annual report of Significant Audit Findings in the Department of Defense. A report summarizing our conclusions and recommendations on civil department and agency operations is being submitted separately.

Copies are being sent to the Department of Defense and the military departments so that they may answer any inquiries made on these issues during the appropriation hearings.

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

Comptroller General
of the United States

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NATIONAL DEFENSE

DEPARTMENT OF DEFENSE--MILITARY

COMMUNICATIONS

Need to Consolidate Responsibility for
Automatic Digital Network (AUTODIN) Terminals

Department of Defense

No single organization in the Department has responsibility and authority for total planning and operating of the AUTODIN system. Problems associated with this fragmented managerial responsibility, are exemplified in two Defense communications programs--a 6-year-old program consolidating existing AUTODIN terminals and a program automating AUTODIN centers.

GAO found that terminals had not been consolidated as much as possible. The consolidation program was initiated in 1968, and AUTODIN terminals had increased from 1,124 to 1,182 by June 1973. In a review of terminals in five geographical areas, GAO estimated that, with an effective consolidation program, \$2.6 million in annual operating costs could be saved.

The automation program was to include equipment for 103 centers at an estimated cost of over \$100 million. The military departments did not effectively justify and coordinate their automation plans: consequently unneeded automation equipment units were being developed. In the areas we reviewed, the military planned to install 15 units although, in our opinion, 4 would have been sufficient.

GAO recommended that the Secretary of Defense (1) designate a single manager with the authority, responsibility, and resources necessary for managing the total AUTODIN system, including terminals, (2) direct the manager to re- view and evaluate the potential for consolidating terminals and the requirements for automating centers on a comprehensive Defense-wide basis and to take necessary implementing actions, and (3) direct the manager to freeze further implementation of automation plans, to the extent economically

and operationally feasible, pending his review.

Although Defense officials agreed that the existing management structure did create some difficulties and that there had been delays and deficiencies in the consolidation and automation programs, they believed that, under the circumstances, the current management arrangements and approach may be the most realistic, viable, and effective.

GAO believes that the most effective solution is to centralize planning and control of resources for configuration of facilities to satisfy approved needs and requirements. This solution would eliminate the current wasteful and duplicative military department planning efforts and the delays and problems incident to obtaining interservice coordination under the present management structure. (B-169857, July 17, 1974.)

Appropriations

Since communication involves research and development, procurement, construction, operations, and personnel, it cuts across most appropriation categories of each of the military departments.

Issues for consideration by the Committees on Appropriations

1. Large savings are available through effective management of the AUTODIN system,
2. The solution to effective management is to designate a single manager with the authority, responsibility, and resources necessary for managing the total AUTODIN system, including terminals,

MAINTENANCE, REPAIR, AND OVERHAUL

Industrial Management Review of
The Maintenance Directorate,
San Antonio Air Logistics Center

Department of the Air Force

The San Antonio Air Logistics Center (formerly Air Materiel Area) could improve its use of direct resources for repairing, overhauling, and modifying end-items. Although the potential savings from strengthening management controls were not fully measured, they could amount to several million dollars.

The Center's work measurement system, which was intended to improve labor productivity and provide decisionmaking data, fell short of its objectives because of inflated or inappropriate labor standards and incomplete productivity analyses.

There are opportunities for reducing accumulations of unneeded parts in maintenance shops by improving direct materiel standards and control over parts removed from components undergoing repair.

The Center's 36 percent general-purpose machine-use rate indicated unneeded machines were on hand. Removing these machines would increase use of the remaining ones, reduce investment in additional ones, make excess ones available to other Department of Defense installations, and increase floorspace in the shops.

Procedures for reviewing repair-or-purchase decisions can be improved. Although the Center was required to compare the expected repair costs with the catalog prices, GAO found the costs of repairing some items had exceeded catalog prices. GAO also found that the Center incurred high sick leave rates, which represented a large loss of potential manpower.

GAO recommended to the Secretary of Defense that the San Antonio Air Logistics Center Commander:

1. Develop valid engineering standards for those jobs having high-volume workloads .

2. Establish a realistic sick leave goal and identify and correct the causes of excessive sick leave.
3. Make a complete physical inventory of parts in the shops and establish reliable inventory records of parts in process.
4. Develop a program for accumulating actual equipment use data.
5. Establish procedures for prompt and reliable decision reviews for repairing or replacing parts.

GAO discussed its findings with San Antonio Air Logistics Center and Air Force Logistics Command officials. They have taken or plan to take actions on most of the problems found. (B-159896, Apr. 11, 1974.)

Appropriation

Operation and Maintenance (Air Force)

Issue for consideration by the Committees on Appropriations

The matters discussed in this report are similar to problems identified at other Defense industrial activities. Our recommendations provide opportunities for more effective maintenance and repair capability utilization and could increase productivity at these activities.

MAINTENANCE, REPAIR, AND OVERHAUL

Depot Maintenance in Germany--a Costly Operation

Department of the Army

The environment in which the Army operates depot maintenance plants in Germany has changed. There is no longer an excess of laborers, and labor costs have increased. Maintenance costs have also increased because of dollar devaluation, high inflation in Germany, and reduced levels of depot maintenance operations.

GAO reviewed three depot maintenance plants in Germany --at Boeblingen, Schwaebisch Gmuend, and Mainz--to determine the effectiveness of their operations. Our review centered on maintenance of tactical and combat tracked vehicles.

In reviewing depot operations, GAO found that the vehicle overhaul criteria were not correctly applied, depots were doing work that should have been done by subordinate repair activities, frequent workload fluctuations adversely affected work scheduling and personnel requirements, and costs were recorded inaccurately or accounted for improperly.

Because of rising costs the Army decided to close the Schwaebisch Gmuend plant.

GAO made recommendations to improve depot operations in Germany and to close the Boeblingen plant. The Army closed the Boeblingen plant effective December 31, 1974.

The Department of Defense generally agreed with GAO's recommendations. (B-163143, June 12, 1974.)

Appropriation

Operation and Maintenance (Army)

Issue for consideration by the Committees on Appropriations

Although the Army has reduced depot support in Europe, there may still be opportunities for further reductions and related savings. Subordinate repair activities could do additional work and some of the workload could be shifted to the continental United States, thereby reducing the maintenance workload in Europe.

MAINTENANCE. REPAIR, AND OVERHAUL

Need for Improvement in Industrial Management at Puget Sound Shipyard

Department of the Navy

GAO made an industrial management review at the Puget Sound Naval Shipyard to determine (1) the impact on shipyard operations of fewer ships in the active fleet, (2) the impact of decreased employment at naval shipyards, and (3) the possibility of improving productivity in shipyards.

GAO concluded that managing a naval shipyard efficiently and economically is difficult because of some limiting factors but that Puget Sound could raise its productivity by improving (1) machine-use data, (2) the shipyard work measurement system and (3) the quality assurance system.

The best way to improve overall shipyard productivity is to increase and stabilize workload and to develop a viable means of balancing manpower requirements with workload.

GAO made several recommendations to the Secretary of the Navy applicable to all shipyards and specifically applicable to the Puget Sound shipyard. GAO developed a mathematical model which, with refinement, could potentially be used as an analytical tool for evaluating gross manpower and facility needs and overall shipyard resource use. The Navy generally agreed with most of GAO's recommendations, but did not agree that a more systematic means was needed for forecasting manpower requirements in relation to shipyard workloads or that the model which GAO developed could be used to measure shipyard performance. Instead, the Navy offered another approach for developing a measure of shipyard performance. GAO believes the Navy's approach is essentially the same as earlier unsuccessful efforts to measure shipyard performance. (B-118733, Aug. 5, 1974.)

Appropriation

Operation and Maintenance (Navy)

Issue for consideration by the
Committees on Appropriations

There is a potential for improved productivity at naval shipyards through **improved** workload forecasting.

MAINTENANCE, REPAIR, AND OVERHAUL

management of Aircraft Modification Programs

Department of Defense

At the beginning of fiscal year 1974, there was a backlog of modification work for all the services totaling 42 million man-hours and requiring \$600 million to complete. Since 1970 the Air Force has increased its backlog slightly while the Army and the Navy have greatly reduced theirs. However, the Navy's materiel inventory is inordinately large when compared to the other services. GAO found a need for management improvements in all of the services.

In a report to the Congress, GAO recommended that the Secretary of Defense issue guidance to the services and insure that they (1) develop and submit standardized backup data showing installation costs and schedules, and (2) make greater use of the maintenance capability that exists below the depot level. GAO recommended that the Navy carefully evaluate its backlog of modifications to be sure they are still needed and warrant the high cost of installing them. GAO also made other recommendations to the services for improving their modification program management.

Defense officials generally agreed with GAO's recommendations. The Air Force disagreed on the need for more modification work below the depot level because this might cause duplication of tools and equipment. GAO recognizes that the equipment used is a consideration in selecting the modifications designated for installation below depot level. Based on our observations, modification might be applied sooner and the existing maintenance capability below depot level could be used more effectively. (B-157373, Oct. 1, 1974,)

Appropriations

Procurement

Operation and Maintenance

Issues for consideration by the
Committees on Appropriations

1. More complete information would be provided if the services developed and submitted additional summary data on installation costs and schedules when they submitted their budget requests for modification funds. This would show both the procurement and operation and maintenance fund requirements and would indicate whether the installation phase of the modification has been effectively planned,

2. Having more modifications installed below depot level would speed up the completion of some modifications and would increase the utilization of the maintenance capacity at that level.

MANPOWER COMPENSATION

Military Departments Inconsistent in Administering Disability Retirements

Department of Defense

After reviewing military disability retirements, GAO reported to the Secretary of Defense that inconsistent policies and practices of the military departments might be resulting in undue costs to the Government and inequitable treatment of disabled service members. It was noted that excessive time elapsed between the date Army and Air Force members were declared medically unfit for active service and the effective date of their retirements. For the 2-month period sampled, GAO estimated that the Army and Air Force could have saved between \$825,000 and \$1,845,000 by processing disability retirements as expeditiously as the Navy and Marine Corps. The report included recommendations for overcoming this problem.

GAO also noted that (1) there were important variances among the services in the ratios of permanent to temporary disability retirements and (2) it appeared that consolidating the disability processing functions of the military departments would eliminate some of the inconsistencies discussed above. GAO suggested these two matters be considered by the Department of Defense in a military disability retirement study that was then underway.

In its comments on the report, the Department generally agreed with GAO's findings and indicated that it was implementing the recommendations. The actions already taken on the recommendations to expedite processing disability retirements should result in annual savings of about \$8 million to the Government. (B-168308, Mar. 19, 1973.)

Appropriation

Military Personnel (Army) (Navy) (Air Force)

Issues for consideration by the Committees on Appropriations

1. Opportunity exists for eliminating inequities among the various military departments in their treatment of disabled personnel.

2. Further study of the problem areas outlined in GAO's report could result in additional savings in the military disability retirement programs.

MANPOWER COMPENSATION

Adequate Medical Evidence Needed When Approving Extended Sick Leave for Retiring Employees

Department of Defense

Federal civilian employees earn 13 days of sick leave a year, and any unused sick leave increases employees' service time in computing retirement annuities. Nevertheless, it is financially advantageous for employees to use the leave before retiring because they generally obtain a larger annuity and receive full pay while on leave.

GAO reported to the Secretary of Defense that an examination at 5 military bases revealed that (1) on May 31, 1973, 246 employees were on extended sick leave pending optional retirement and received approval for an average of 222 days of sick leave valued at about \$2.7 million and (2) during the previous 6 months, 139 of the 263 employees who optionally retired used an average of 172 days of sick leave valued at over \$1 million after their last day of work.

At three installations, requests for extended sick leave were routinely approved, usually without adequate medical evidence supporting the employees' incapacity for work. One base required such evidence, and the other prohibited extended sick leave in connection with optional retirement. These varying practices may have occurred because the Department of Defense had not issued guidelines for administering this aspect of sick leave.

Employees who used extended sick leave remained on the payroll, and limitations on funds and manpower spaces prevented their being replaced by bringing in additional permanent employees. Consequently, work was deferred, the workload of other employees increased, and overtime was required.

About 300,000 Defense employees either were eligible or were soon to be eligible for optional retirement at the time of GAO's review. The widespread granting of extended sick leave could have become a major problem. Accordingly, GAO recommended that uniform policies be established requiring adequate medical evidence of incapacity for duty before

approving extended sick leave and **that** Defense installations review existing cases of employees using such leave pending optional retirement. The Department has indicated that the recommendations would be implemented. (B-152073, Feb. 19, 1974.)

Appropriation

Operation and Maintenance (Army) (Navy) (Air Force)

Issue for consideration by the
Committees on Appropriations

Establishment of uniform policies throughout the services requiring adequate medical evidence of incapacity for duty before approving extended sick leave prior to retirement could produce significant savings in personnel costs.

MANPOWER COMPENSATION

Substantial Understatement of Obligation for Separation Allowances for Foreign National Employees

Department of Defense

In Far East countries the Department of Defense is required to pay lump-sum separation allowances to about 72,000 foreign nationals when they resign, retire, or are voluntarily separated. The amount of the payment is based generally on length of service, rate of pay at the time of separation, and type of separation.

Obligations for separation allowances should be recorded when employees earn rights to be paid in the future. The Antideficiency Act requires Federal agencies to have an administrative control which restricts obligations or expenditures to amounts appropriated, apportioned, or re-apportioned for applicable fiscal periods.

The Army and Air Force are obligating separation allowances at the time they are paid instead of recording obligations at the time they are incurred; i.e., when employees earn rights to be paid in the future.

As a result, the two military services have understated the amount of obligations recorded and reported to the Congress. We estimate that at June 30, 1973, unrecorded obligations amounted to \$305 million.

The Army and Air Force obligate and pay the major portion of allowances by restoring unobligated balances of expired and merged prior-year appropriations that had been withdrawn to the Treasury instead of requesting sufficient obligational authority each year. Delaying the recording of most of the obligations until after annual appropriation accounts are merged into successor accounts results in inadequate administrative control of funds.

Although the Navy records obligations at the time separation allowances are earned, it does not record all of the obligations against the current appropriation.

To insure adequate administrative control of funds and to charge the period benefiting from the services rendered by foreign nationals, the current appropriation should be obligated for the full amount of the liability which accrues during the year.

In a report to the Congress, GAO recommended that the Secretary of Defense direct the military departments to (1) immediately record all unrecorded obligations for separation allowances and (2) record all future obligations when they are incurred. Further, the Secretary should require that the amount of obligations recorded against current appropriations be equal to the total increase in liability for separation allowances.

Beginning in fiscal year 1976, Defense will record obligations at the time separation allowances are earned; but it did not agree to record all existing unrecorded obligations. It plans to disclose unrecorded obligations in annual statements of financial condition submitted to the Treasury.
(B-179343, Oct. 21, 1974.)

Appropriation

Operation and Maintenance (Army) (Navy) (Air Force)

Issue for consideration by the
Committees on Appropriations

The Department of Defense should immediately record all unrecorded obligations for separation allowances.

MANPOWER PLANNING

Administration of the Military Reenlistment Incentive Program Needs Improvement

Department of Defense

To encourage qualified enlisted personnel--especially those with critical skills--to remain after their first enlistment, the Congress authorized the Department to pay a variable reenlistment bonus to first-term reenlistees who have critical skills (primarily skills having high training costs and being in short supply). In recent years the funds spent for this incentive averaged about \$190 million annually.

GAO reported to the Congress that:

- The bonus does not result in enough first-term reenlistments to eliminate career-manning shortages, and reenlistment rates remain low in many skills.
- The bonus' effect on reenlistment rates in individual skills cannot be predicted accurately because of the strong influence of **factors** other than money on reenlistment decisions. Job satisfaction, job security, and educational opportunities ranked higher.
- Factors influencing negative reenlistment decisions were (1) family separations, (2) lack of personal freedom, (3) poor supervision and leadership, (4) work details, and (5) living conditions,
- An alternative for increasing first-term reenlistments would be to allow reenlistment for an unspecified time.

GAO also reported that certain problems greatly reduced effective reenlistment bonus program administration because:

1. The Army, Navy, and Marine Corps do not have long-range-requirements planning in their enlisted force management systems. As a result, these services use the bonus to correct total career-manning deficits rather than to attract only the required

number of first-term personnel needed, by skill, to enter the career force each year to maintain proper grade structure.

2. The Department of Defense has not established firm criteria for applying, adjusting, and removing bonuses. As a result, the methods used by each service to apply bonuses have not been uniform.

GAO made recommendations to the Secretary of Defense for improving the bonus program administration and recommended that the Congress require the military services to establish priorities for developing long-range requirements planning in their enlisted personnel career management systems. Defense officials generally agreed with our recommendations and told us they had taken or would take a number of corrective actions. (B-160096, July 5, 1974.)

Appropriation

Military Personnel (Army) (Navy) (Marine Corps) (Air Force)

Issue for consideration by the Committees on Appropriations

The **Army**, Navy, and Marine Corps should be required to develop, as soon as possible, long-range requirements planning in their enlisted personnel management systems.

MANPOWER 1

Opportunities for Increased Interservice Use of
Training Programs and Resources

Department of Defense

In a report to the Secretary of Defense, GAO pointed out that the possible economies and increased efficiency obtainable by consolidating common service training requirements had not been achieved. Although there have been some interservice training arrangements, the amount represented only about 6 percent of the total training in all the services. GAO reported that, in its test of seven technical and five medical occupational specialties, training requirements were sufficiently similar in each of the skills to indicate that personnel of two or more services could be trained on an interservice basis.

Although required by regulations, the services generally had not (1) reviewed existing training courses of other departments for possible duplication, (2) examined other departments' training programs before establishing new training courses, or (3) initiated joint studies to determine the feasibility of adapting existing training to interservice use. Neither the Office of the Secretary of Defense nor department headquarters had assessed efforts by the training commands to promote interservice training.

Following an interim report by GAO on its review, and because of congressional interest, the services began a comprehensive and continuing review of training programs and resources to identify interservice training opportunities. Preliminary results substantiate GAO's belief that there are many benefits which can be achieved.

GAO recommended that the Office of the Secretary of Defense take an active role in promoting interservice training to insure that all existing and future opportunities are recognized and acted on. The Office has informed us that its role is under evaluation and will be formalized by directive and other appropriate means when properly defined. (B-175773, Nov. 27, 1973.)

Appropriations

Military Personnel (Army) (Navy) (Air Force)

Operation and Maintenance (Army) (Navy) (Air Force)

Issues for consideration by the
Committees on Appropriations

1. Major economies can be realized through continued consolidation of common service training requirements.
2. The Office of the Secretary of Defense should assert active leadership in promoting interservice training.

MANPOWER TRAINING

Congressional Reporting by the Military Departments on Costs of Training and Education Programs is Incomplete

Department of Defense

Senator William Proxmire asked GAO to obtain cost information on all training and education programs in the Department of Defense. The Office of the Secretary of Defense (OSD) reported that the estimated costs for these programs in fiscal year 1974 were \$6,272,081,000 but did not provide for crew and unit training, and certain other training and education costs which were not readily identifiable. GAO's investigation showed that, in addition to individual training costs, crew and unit training costs were \$4,327,193,000. After adjusting for other unreported training costs of about \$300 million, the total individual and crew and unit training costs we identified were \$10,932,609,000.

OSD officials said that crew and unit training costs were excluded from the individual training report because it was related to OSD's military manpower training report which dealt with individual training loads. These officials said that crew and unit training cost information could be included in future reports if the Congress wanted it.

On a limited basis, GAO verified the reported costs for individual training and observed that downward adjustments of about \$78 million had been made because certain training programs had been reduced. A limited verification of OSD's costs for crew and unit training was also made and identified on unreported programs. Numerous other areas of costs applicable to training programs could not be identified because of the lack of definite information. GAO believes that the area of medical facilities and programs at training bases would involve major costs. (B-175773, Jan. 8, 1974.)

Appropriations

Military Personnel (Army) (Navy) (Air Force)

Operation and Maintenance (Army) (Navy) (Air Force)

Issue for consideration by the
Committees on Appropriations

In the interest of more complete and accurate reporting of all training and education program costs, the Committees may wish to request the Secretary of Defense to include in future reports (1) crew and unit training costs to the extent they are available **and** (2) an allocation of operating costs of medical facilities and programs applicable to training activities .

MANPOWER TRAINING

Full-Time, Fully Funded Education Programs for Military Personnel

Departments of the Army and Navy

The Department of Defense spent over \$170 million during fiscal year 1973 on full-time, fully funded graduate and under graduate education programs for military personnel.

GAO reported to the Secretary of Defense that, in the graduate education area, officers were enrolled in disciplines for which there were no validated requirements or for which a sufficient inventory of officers with advanced degrees already existed. Conversely, there were shortages of officers with advanced degrees in other disciplines and, in some cases, positions requiring an advanced degree were being filled by officers without such degrees.

In the undergraduate education area, the Navy was using its enlisted man's program to satisfy its enlisted personnel's educational aspirations rather than to fill job requirements.

The Department of Defense said it concurred in GAO's recommendations for corrective action and would implement them. (B-175773, Mar. 6, 1974.)

Appropriations

Military Personnel (Army) (Navy)

Operation and Maintenance (Army) (Navy)

Issues for consideration by the Committees on Appropriations

1. Training costs could be reduced or applied more effectively if officer assignments to full-time graduate education programs were limited to those disciplines where shortages exist.
2. Policy guidance is needed in providing full-time, fully funded undergraduate education to enlisted personnel where specific needs of the services are not the primary consideration.

Savings Possible Through Consolidation of
Undergraduate Helicopter Pilot Training

Departments of the Army and Navy

GAO reviewed the two undergraduate helicopter pilot training programs of the military services. The Army program was 36 weeks long and included 210 flying hours in helicopters at Fort Wolters, Texas, and Fort Rucker, Alabama. Air Force students were being trained by the Army. The Army planned to close its training site at Fort Wolters and consolidate training at Fort Rucker in fiscal year 1974.

The Navy program conducted at Pensacola, Florida, was 44 weeks long and included a total of 216 flying hours in both fixed-wing aircraft and helicopters. Marine Corps students were being trained by the Navy. Although the Navy program was 8 weeks longer than the Army's, both programs provided essentially the same number of flight and academic training hours.

GAO recommended that the Secretary of Defense direct the Navy to discontinue the fixed-wing training and consolidate undergraduate helicopter pilot training under a joint, all-helicopter program because :

- After the Army consolidates its program at Fort Rucker, that installation will be used at only 55 percent of capacity and could accommodate all Defense undergraduate training requirements through 1976.
- The Navy could discontinue the fixed-wing portion of training without lowering the quality of its training program. Such action would enable the Navy to cancel plans for buying 93 new fixed-wing aircraft costing \$18 million.
- The Army had 565 excess training helicopters that could be **used** in a consolidated training program.

--The Navy could cancel plans to construct training facilities costing \$1.5 million.

Army officials did not object to GAO's proposal for consolidation, but the Navy did. The Department of Defense told GAO that this matter was under study. (B-157905, May 3, 1974.)

Appropriations

Military Personnel (Army) (Navy)

Operation and Maintenance (Army) (Navy)

Procurement of Equipment and Missiles (Navy)

Military Construction (Navy)

Issue for consideration by the
Committees on Appropriations

Large savings can be achieved in costs of personnel, aircraft, and other equipment, and facilities by further consolidating the military departments' undergraduate helicopter pilot training programs.

POWER UTILIZATION

Personnel and Other Costs Reduced by
Consolidating Reserve C-130 Units

Department of the Air Force

The total force concept, a central part of the U. S. national security strategy, provides that reserve force units be structured like corresponding units of the active forces. The Air Force prescribes that active C-130 airlift squadrons be equipped with 16 aircraft and they are equipped in this manner. However, each of the 28 Air Force Reserve and Air National Guard squadrons in existence at the time of GAO's review had between 4 and 8 aircraft and there was no plan to provide more than 8 to each squadron.

GAO estimated that \$27 million could be saved annually by reducing the 28 reserve force squadrons to 14 and equipping them like active squadrons. About \$24 million of such savings would result from reducing personnel requirements. GAO's report to the Congress recommended that the necessary action be taken to achieve the savings by reducing the number of reserve force C-130 squadrons, consistent with the total force concept.

The Department of Defense told GAO that it had partially implemented the recommendation by consolidating 2 squadrons at each of three locations. This action, according to information provided GAO, resulted in the Department's reducing its fiscal year 1975 budget submission by nearly \$2 million and reducing fiscal year 1976 and subsequent years' submission by almost \$2.5 million. The Department said that further squadron consolidation would have to await the results of an ongoing study. (B-158626, Feb, 20, 1974.)

Appropriations

Military Personnel (Air Force)

Operation and Maintenance (Air Force)

Procurement of Equipment and Missiles (Air Force)

Issue for consideration by the
Committees on Appropriations

Additional savings are available by consolidating remaining reserve C-130 airlift squadrons.

MANPOWER UTILIZATION

Replacing Military Personnel With Civilian Employees

Department of the Navy (Marine Corps)

The work forces at the Marine Corps Finance Center and Automated Services Center in Kansas City, Missouri, include both Marines and civilians. The Finance Center examines financial transactions of disbursing officers, pays claims, collects amounts due, and maintains files and records. The Automated Services Center programs and operates computer equipment used mainly for pay and manpower management systems.

GAO learned during a review of staffing at the centers that the Marine Corps planned to convert some of the military positions in the two work forces to civilian positions. The plan called for reducing to 272 the number of Marines at the centers by June 30, 1975.

GAO reported to the Secretary of Defense that there was no need to continue employing Marines at the centers. The centers' functions are mainly administrative and can be performed by civilians. More than 300 Marines could be replaced by about 250 civilians. GAO estimated that conversion to civilian work forces would reduce the centers' costs by more than \$950,000 a year.

Accordingly, GAO recommended that the Secretary of Defense direct the Marine Corps to civilianize the centers' work forces. GAO also recommended that the Secretary identify similar activities of the Army, Navy, and Air Force where civilianization of military positions would result in increased efficiency and economy. The Office of the Secretary of Defense generally agreed with GAO's recommendations. (B-146890, June 19, 1974.)

Appropriations

Military Personnel (Navy)

Operation and Maintenance (Navy)

Issues for consideration by the
Committees on Appropriations

1. Cost savings can be effected and efficiency increased by filling military positions with civilian employees when there is no legal, training, security, disciplinary, or combat readiness requirement that the positions be filled by military personnel.
2. Where feasible, replacing military personnel with civilian employees would help the services meet their authorized military strengths.

RY CONSTRUCTION

Air-Conditioning Military Family Housing in Hawaii

Department of Defense

GAO reported to the Congress that the Defense directive requiring air-conditioning of all new and existing military family housing in Hawaii was unnecessary. GAO demonstrated that such across-the-board air-conditioning was unwarranted because of the cooling effect of the trade winds and the consistently moderate temperature and humidity conditions that exist in Hawaii. The three military services in Hawaii, the U.S. Coast Guard, the Federal Housing Administration, and private builders in Hawaii all agreed with GAO's position that central air-conditioning was not needed except in certain locations where unusual weather or excessive noise conditions existed.

The Department disagreed with GAO's conclusions and stated unequivocally that central air-conditioning was needed. GAO refuted the Department's comments and reported the findings, conclusions, and recommendations to the Congress, including the fact that if Defense does not revise its policy as much as \$100 million will be spent unnecessarily for central air-conditioning in Hawaii. (B-172376, May 20, 1974.)

Appropriations

Military construction, family housing, and operation and maintenance for Army, Navy, and Air Force

Issue for consideration by the Committees on Appropriations

Substantial savings can be realized by limiting central air-conditioning of military family housing in Hawaii to those instances where the Department of Defense can demonstrate that such air-conditioning is needed because of unusual weather or noise conditions.

Subsequent action taken by the Congress

Section 509, Public Law 93-552, approved December 27, 1974, prohibits the use of funds for installing air-conditioning equipment in any new or existing military family housing unit in Hawaii.

RESEARCH AND DEVELOPMENT

Problems in Managing the Development of Aircraft Engines

Department of Defense

Development of a military aircraft engine continues during its production and operation phases. This happens partly because the military awards development contracts based on specifications which are somewhat below the capability ultimately desired.

Traditionally the military services have developed engines using standard specifications with major milestones, including a model qualification test (MQT). The purpose of MQT is to demonstrate that the engine meets specification requirements and is suitable for production. Successful completion of MQT takes the engine out of research, development, test, and evaluation (RDT&E) funding and qualifies it for production with procurement appropriations. MQT also makes it eligible for engine component improvement programs (CIP), generally funded with procurement appropriations.

Engine CIP is the effort to bring an aircraft engine, qualified for production, to its final operating performance. Thus, the desired level of capability not present when an engine passes MQT is obtained through CIP,

The Department has recognized that some CIP after MQT is a continuation of the development program and has directed that funds for such effort be requested in RDT&E rather than the procurement appropriation. However, since Defense actions applied only to specific CIP programs, GAO recommended that their formal guidance be revised to insure that all research and development work is budgeted and funded through the RDT&E appropriations.

In November 1973, in response to GAO's draft report, Defense officials agreed that their methods of developing aircraft engines might not be the practical optimum and that a reevaluation was in order. In January 1974, Defense furnished GAO a report by the Air Force's Scientific Advisory Board Ad Hoc Committee on Engine Development concluding that MQT is not the proper milestone for full-scale

production release. Key Air Force activities in engine development agreed with the report and recommended major revisions in the milestone and evaluation procedures for future programs.

GAO recommended in its final report that the Secretary of Defense insure that the proposed revisions be expeditiously followed through. The many studies already available should be used to determine what changes in engine procurement methods might promote cost reductions and increase operational effectiveness. (B-179166, May 23, 1974.)

Appropriations

Research, Development, Test, and Evaluation (Air Force)
(Navy)

Procurement (Air Force) (Navy)

Issues for consideration by the Committees on Appropriations

1. Cost reductions can be achieved through revisions to increase the period and scope of engine development.
2. The use of funds other than RDT&E for improvement programs does not present an accurate measure of development costs.

RESEARCH AND DEVELOPMENT

Economies Available Through the Increased Use of Flight Simulators

Departments of the Air Force and Navy

Advancements in technology are continually improving the ability of flight simulators to duplicate the characteristics of flying and flight environment. Commercial airlines, taking advantage of breakthroughs in simulator technology, now do most of their pilot training and various phases of flight training in improved simulators. In contrast, the Air Force and Navy have not placed sufficient priority on developing sophisticated simulators to satisfy complex training needs and have often relied heavily on training in actual flight.

Increased use of simulators could **significantly** lower the military's flight training costs, save fuel, and provide safer training. GAO estimated replacing 25 percent of present flight training with simulator training would result in an annual savings of \$455 million.

In a report to the Congress, GAO recommended the Secretary of Defense require the Air Force and Navy to:

1. Put a higher priority on developing improved simulators which can replace maximum amounts of flight training.
2. Insure that development and use of adequate simulators are integral parts of acquisition or modification programs for sophisticated aircraft.
3. Use simulators as much as possible to reach and maintain desired proficiency, including the establishment of simulator grading methods which will provide a more accurate evaluation of pilot proficiency.

The Assistant Secretary of Defense (Manpower and Reserve Affairs) agreed with the recommendations. (B-157905, Aug. 9, 1973.)

Subsequently, GAO has found that although the military services have taken some action to increase simulator development and use, there continues to be strong resistance to the substitution of crew or pilot simulator time for any flying time. Basic policies and regulations governing flying do not encourage maximum effective use of flight simulators and are hindering progress in realizing the available economies of flying-time reductions. (B157905, May 29, 1974.)

Appropriation

Research, Development, Test and Evaluation (Air Force)
(Navy)

Issues for consideration by the
Committees on Appropriations

1. Significant savings are available through substitution of simulator training for actual flight training.
2. Training and safety benefits would also result from substituting simulators for actual flying.

SUPPLY DISTRIBUTION

Economies Available Through Realignment and Consolidation of Army Depots

Department of the Army

The phasedown of operations in Southeast Asia and the withdrawal of U.S. forces resulted in decreased activities at many installations. GAO reviewed the functions at Sharpe and Sacramento Army Depots in California as a test case to demonstrate that consolidation or realignment of depot functions is practical, feasible, and would result in significant savings.

GAO reported to the Secretary of Defense that other depots could absorb most of Sharpe's current workload and that significant savings could be achieved without disrupting current logistical patterns. Army officials said that Sharpe might be needed for a consolidated maintenance center after depot maintenance facilities in the Far East were closed in 1974. Notwithstanding this possibility, GAO estimated that the Army could still save \$14 million annually in personnel costs alone by transferring the storage of mission inventories and related administrative functions from Sharpe to the Sacramento Depot.

The Army agreed that economies could be realized through realignment, consolidation, and transfer of depot missions and functions within the overall Army depot complex. Further, the Army stated that their own recent study of depot functions recommended realignments and in many instances closure of all or portions of depots. These recommendations were to be used as a base for consideration of Army facilities in a Defense-wide depot facilities study. However, no realignments or consolidations have been accomplished. (B-172707, Mar. 4, 1974.)

Appropriation

Operation and Maintenance (Army)

Issue for consideration by the
Committees on Appropriations

Significant savings are available through realignment, consolidation, and transfer of Army depots' missions and functions.

SUPPLY MANAGEMENT

Management of Handtools

Department of Defense

During calendar year 1972, the Department of Defense purchased handtools valued at about \$25 million for new requirements or for replacement of worn, lost, or stolen tools.

There are primarily two methods of issuing and controlling these tools: (1) issuing a toolkit to each worker and making him accountable for it and (2) issuing composite toolkits to various maintenance units and making supervisors accountable for them. Composite toolkits eliminate individual toolboxes, reduce the number of tools required, and provide greater control over them.

Air Force tests of the composite toolkit concept have shown the potential for significant savings. GAO reported this to the Secretary of Defense and concluded that substantial savings were possible if this concept was more widely applied throughout the Department.

Defense officials generally agreed with the GAO conclusions and said the concept would be expanded gradually throughout the Department. (B-146856, Sept. 12, 1973.)

Appropriations

Operation and Maintenance

Procurement

Issue for consideration by the Committees on Appropriations

Significant savings are possible by continued expansion of the composite tool kit concept throughout the Department of Defense.

SUPPLY MANAGEMENT

An Analysis of Air Force Rates of Aircraft Not Operationally Ready Due to Supply

Department of the Air Force

In fiscal years 1972 and 1973, the Air Force requested the House Appropriations Committee to reprogram funds into maintenance to reduce the aircraft not operationally ready due to supply (NORS) rate. A lack of funds to repair exchangeable spare parts was cited as a cause of the increased NORS rate, so the reprogrammed funds were requested specifically for such repairs. The Air Force stated that the increasing NORS rate was impairing combat capability and reducing readiness.

GAO analyzed a sample of 316 parts which had caused NORS hours on 13 aircraft systems and found that a lack of funds was not the primary cause. NORS was usually caused by unexpected part failures, late repair of parts, and modification or updating of parts.

No direct correlation existed between the application of funds to repair exchangeable spares and NORS rates. In some cases, expenditures increased and the NORS rate went down; in other cases, expenditures increased and the NORS rate went up.

GAO also noted that aircraft not operationally ready due to maintenance (NORM) had a larger affect on aircraft readiness. GAO believes there may be greater opportunities to increase aircraft operational readiness by emphasizing a reduction in NORM time. The Air Force disagreed but said no trade-off studies had been made concerning NORM versus NORS.

GAO recommended that the Secretary of the Air Force:

- Study the relative economies of reducing NORM rather than NORS time.
- Develop operational readiness, NORM and NORS, standards for each type of aircraft on the basis of the aircraft systems' ages.

- Closely monitor data generated by the revised operational performance reporting system to insure that the system is clearly understood and properly implemented,
- Justify future reprogramming requests to increase operational readiness by individual aircraft system. (B-179264, Mar. 29, 1974.)

Appropriations

Procurement (Air Force)

Operation and Maintenance (Air Force)

Issue for consideration by the Committees on Appropriations

Since GAO did not find a relationship between NORS rates and funding for repair of exchangeables in the Air Force, the same would likely be true for the other military services. All the services should attempt to improve combat readiness by reducing NORM rates as well as NORS rates.

SUPPLY MANAGEMENT

Department of Defense Stock Funds--Accomplishments, Problems, and Ways to Improve

Department of Defense

Stock funds have contributed to better supply management. Significant reductions in inventory can be directly attributable to stock fund management.

Since stock funds operate with money generated through sales, they should have greater financial flexibility than programs funded through direct appropriations. However, this flexibility has not been fully used because most stock funds are still subjected to appropriation-type controls.

The Department has urged the military services to discontinue using a horizontal stock fund system (inventory at wholesale level owned by wholesale stock fund managers and inventory at retail level owned by retail stock fund managers) and to use instead a vertical stock fund system (inventory at both wholesale and retail levels owned by same stock fund manager). GAO believes that the vertical system should be used by all military services since it offers several advantages over the horizontal system.

In recent years the military services have greatly expanded their stock funds but a large number of reparable items are not included,

Defense policy allows customers to return materiel, with the volume of returns-materiel totaling about \$4.5 billion in fiscal years 1970, 1971, and 1972. However, the military services do not always follow Defense Policy.

Because of these factors, GAO recommended that the Secretary of Defense:

- (1) Encourage the use of more flexible financial controls.
- (2) Require all military services to use vertical stock funds.

- (3) Issue new instructions directing that field reparable be included in stock funds.
- (4) Establish new cost factors for returned materiel, preferably by commodity category.
- (5) Stop the practice of giving credit for returned materiel when there is no need for the materiel.

Defense officials generally agreed with these recommendations and action to implement them is underway. **The Army** has not progressed as fast as the other services in adopting the vertical **stock** fund concept. (B-159797, Apr. 2, 1974.)

Appropriations

Operation and Maintenance (Army) (Navy) (Marine Corps)
(Air Force)

Issue for consideration by the Committees on Appropriations

The advantages of the vertical stock fund system have been generally accepted and the Army should expedite converting its system to a vertical stock fund.

SUPPLY MANAGEMENT

Need for Improved Management of High-Value Secondary Items ———

Department of the Army

GAO surveyed the Army's Selected Item Management System (SIMS) at three National Inventory Control Points (NICPs)—the Aviation Systems Command, the Missile Command, and the Tank Automotive Command. SIMS was initiated over 4 years ago in response to pressure from the Congress and the Office of the Assistant Secretary of Defense (Installations and Logistics). The system was designed to provide intensive management control over selected high-value secondary items. Over 6,000 items which reportedly represent about 90 percent of the annual value of demand for secondary items are included in SIMS. Item managers at NICPs were to exercise control over these items on the basis of data submitted by using organizations.

The principal objectives of SIMS are to

- increase visibility of assets below the depot level,
- reduce on-hand quantities of assets authorized for operating units, and
- better utilize assets by redistributing excess assets from one location to fill shortages at another location.

GAO found that the objectives have not been met primarily because the current system did not properly report on 6,000 items. As a result the data provided to the NICPs is untimely, incomplete, and inaccurate. Since item managers at the control points are reluctant to use the data, they give SIMS items essentially the same attention as other items. Consequently, inventories have not always been reduced and items have not been effectively redistributed.

GAO also feels that:

1. The selection criteria for SIMS items is inadequate.

2. The procedures for redistribution of **SIMS** assets are ineffective.
3. Operating units improperly order assets in excess of their authorized requisitioning levels.

GAO recognizes that the Army is developing an expanded system to obtain management control over secondary items. Referred to as **SIMS-X**, the proposed system is intended to provide item managers and planners at the national level with more timely data through daily asset status and transaction reporting. Implementation of this system is not expected for at least another year. In the interim, GAO feels strongly that, pursuant to the direction of the Secretary of Defense, the Army should:

1. Establish and maintain control over a limited number of expensive secondary items while **SIMS-X** is being implemented.
2. Direct cognizant Army organizations to cooperate in promoting effective redistribution of assets.
3. Redefine the criteria for selecting items for intensive management to emphasize unit cost, criticality, and mission essentiality. (B-146828, July 3, 1974.)

In response to the GAO report, the Army indicated that it had undertaken a comprehensive review of the current **SIMS** program and identified improvement actions for immediate implementation.

Appropriation

Operation and Maintenance (Army)

Issue for consideration by the Committees on Appropriations

Army's control over its secondary items offers potential for substantial savings.

PPLY MANAGEMENT

Number of Items in the Federal Supply Catalog Can be Reduced

Department of Defense and General Services Administration

Although \$42 million is being spent annually for various standardization projects, such as item reduction studies, these studies are not helping to reduce logistics workloads because Defense and the General Services Administration (GSA) do not follow through and actually eliminate items no longer needed. Many items are still active in the supply system years after they have been classified as nonpreferred.

Defense policy requires that, before preferred items are issued, nonpreferred items be issued until supplies are exhausted; this is known as the force issue concept which GSA does not have. Defense activities generally do not follow the force issue concept. Their practice is to issue on only the item ordered.

If an estimated 178,000 nonpreferred items could be eliminated from the supply and catalog system, the Government could save \$22.3 million a year in supply management and cataloging costs.

GAO recommended that Defense and GSA work more closely on various aspects of item reduction and standardization and made several specific recommendations to achieve this. Defense and GSA officials generally agreed with GAO's recommendations. They disagreed with GAO's recommendation to adopt a force issue policy authorizing the item manager to issue all non-preferred items before issuing the preferred item and making it the requisitioner's responsibility to justify any request which can be met only with the preferred item.

The Department's concern is that without prior query of the requisitioner as to the acceptability of a substitute, a force issue practice could result in issuing the wrong item. GSA believes the requisitioner has little knowledge of the items' end use(s) and could neither justify the use of the preferred item or readily determine the acceptability of a non-preferred item.

GAO found that in an item reduction study the interchangeability relationships between items are made and concurred to by the users. The decisions have subsequently been proved valid when requisitioners have accepted over 90 percent of all substitute items offered. We believe the Government engineers and technicians can make the interchangeability decisions, record the decision in supply management records, and successfully operate under a revised force issue policy which will use nonpreferred assets in a timely manner and thus reduce the logistics costs of holding these items. (B-146778, Oct. 21, 1974.)

Appropriation

Operation and Maintenance

Issue for consideration by the Committees on Appropriations

Defense, GSA, and other Government agencies should be able to improve logistics operations and save millions of dollars annually in operating costs by improving item reduction programs, particularly by implementing an effective force issue policy which would assure that the superseded items get issued before they become obsolete.

SUPPLY I

Progress and Problems in Increasing Industrial Productivity Through Numerically Controlled Equipment

Department of Defense

Numerically controlled (NC) industrial equipment is controlled automatically by coded instructions' It is expensive and complex but offers tremendous productivity increases and savings in industrial operations--particularly for small-1st production. We surveyed military industrial activities' management of NC equipment and found they did not give enough attention to it. The activities did not adequately plan for, manage, or follow up on NC equipment and did not take advantage of such benefits as reducing inventories of low-demand items by stocking tapes instead. One of the biggest problems facing NC equipment users was a lack of standardization in NC systems.

These conditions suggested that a more coordinated, active Department role was needed. We therefore recommended that the Secretary of Defense establish a centralized group to coordinate the services' use of numerical control and to work with private industry in developing the NC field and in encouraging standardization of hardware and software. The Department replied that it planned to establish a tri-service group to improve NC equipment's management and utilization and devote attention to Standardization. The Department also said it would study the feasibility and economy of reducing spare parts inventories. (B-140389, Sept. 24, 1974.)

Appropriations

Facilities and Construction

Procurement

Operation and Maintenance

Issue for consideration by the Committees on Appropriations

Before significant procurements of numerically controlled equipment are authorized and funded, the services should implement the corrective measures we have recommended in our report.

SUPP MANAGEMENT

Improvements Needed In U.S. Contractors Training of Republic of Vietnam Armed Forces

Department of Defense

GAO reviewed 9 of 34 logistics support contracts valued at \$43.3 million held by U.S. contractors as of September 1973 to provide training to the Republic of Vietnam Armed Forces (RVNAF). The 9 contracts examined--6 for the Vietnamese Air Force and 3 for their Army--were administered by the Defense Attache Office and had a value of \$13.1 million. GAO wanted to find out if U.S. contractors were helping RVNAF become self-sufficient in certain logistic functions within the time established in the contracts. GAO found that the effectiveness of contractor training was limited and RVNAF self-sufficiency delayed because:

1. Not enough people were being trained in specific **skills**.
2. Sufficient attention had not been given to training supervisory and middle-management personnel.
3. High percentages of trainees and graduates were absent or idle during the training periods. Contractors have no control over this and were not assisted by Vietnam military officials,
4. Poor logistics support from the Vietnam Air Force supply system resulted in contractors not being provided with the necessary equipment for training.

GAO's recommendations, with which the Department concurred, were threefold:

1. Obtain a commitment from RVNAF that personnel will be assigned to and be active in the program.
2. Involve middle-management personnel in areas introducing new functions.

3. Require contractors to notify the Defense Attache Office of all supply problems which it will communicate to the RVNAF to find satisfactory solution.
(B-159451, June 11, 1974.)

Appropriation

Special Defense Assistance Appropriation for Vietnam,
fiscal year 1975--Account 9751087

Issues for consideration by the Committees on Appropriations

1. The need for improved training of RVNAF.
2. The impact of this on aid appropriations to the Vietnam Armed Forces.

SUPPLY MANAGEMENT

Navy Logistic Support of the 7th Fleet in Southeast Asia: Continuing Logistic Issues and Constraints

Department of the Navy

Through a massive and concerted effort, the Navy was responsive in keeping the ships--carriers and other combatants-- at their battle stations in Southeast Asia. The ships were kept on station by giving them and supporting shore activities priority of resources--financial, materiel, and personnel-- before and during the 7th Fleet deployments. But this reduced resources available to other naval forces, deferred ship repairs, and had a detrimental effect on the Navy's ability to retain qualified personnel.

A shortage of repair parts and components reduced ships' and aircrafts' capabilities to perform their designed missions.

GAO made recommendations to the Secretary of the Navy concerning stockage of low- and no-demand items, increasing the use of air shipment for supply stock, rework of aircraft components, testing of weapons systems, improving personnel retention programs, and centralizing management of contractor and Navy civilian technical representatives.

The Navy concurred with GAO's recommendations and has planned or initiated management actions to improve the logistic support to the fleets. (B-146964, June 25, 1974.)

Appropriation

Operation and Maintenance (Navy)

Issues for consideration by the Committees on Appropriations

1. During hearings on the Navy's budget, the committees may wish to discuss with Navy representatives the impact of the following alternatives:

- Shifting the priority of resource allocation toward the current operational and maintenance needs of the ships, aircraft, and shore activities.
 - Allocating additional operational and maintenance resources to upgrade the status of the fleets and shore activities.
 - Requiring that the size of the fleets and the number of supporting shore activities be reduced to levels which could be supported with available resources.
2. The committees also may wish to discuss the trade-offs and impacts that each alternative will have on the size and combat readiness of the fleets in meeting current and potential threats in certain areas of the world as well **as** on overall U.S. foreign policy.

TRANSPORTATION

Use of Appropriated Funds to Pay for the Transportation of Armed Forces Exchange Goods

Department of Defense

Each year the Department pays about \$60 million of congressional appropriations for the transportation of Armed Forces exchange cargo between the United States and overseas points. Congress is aware of, and apparently approves, the use of appropriated funds to pay some of the transportation costs of the military exchanges. But GAO could find nothing to indicate that the Congress is aware that such funds are being spent to procure transportation solely for exchange goods.

Statutes governing the Army and Air Force permit appropriated funds to be used for transportation costs of exchange cargo when it is carried on public transportation not required for other purposes. Although there is no legislative history defining "public transportation," a reasonable interpretation would include those conveyances owned, leased, or chartered by the Government where the Government is already obligated to pay for the space whether it is used or not,

After reviewing the matter and evaluating the various interpretations of the pertinent statutes, GAO believed there was considerable doubt as to the intent of the Congress with respect to using appropriated funds to finance transportation costs incurred solely for exchange goods.

Defense officials disagreed with GAO's interpretation of "public transportation." Also, they believed that the Congress was aware of and agreed with the use of appropriated funds for exchange shipments.

Despite the Department's position, GAO still believed congressional intent was not clear. GAO therefore recommended that the Congress consider whether it is appropriate for the Government to continue paying the cost of transporting exchange goods by using space on transportation facilities not owned by the Government or for which the Government is not otherwise obligated to pay.

In response to the GAO report, Defense officials reaffirmed their position. GAO is not aware of any action taken by the Congress or congressional committees on the matter. (B-169972, Aug. 6, 1973.)

Appropriation

Operation and maintenance funds of each military service

Issue for consideration by the
Committees on Appropriations

The committees should consider whether appropriated funds should continue to be used for paying the cost of transporting exchange goods on transportation facilities not owned by the Government or for which the Government is not otherwise obligated to pay.

DEPARTMENT OF DEFENSE--PROCUREMENT AND CONTRACTS

CONTRACTS

Ways to Reduce Administrative Costs of
Awarding Negotiated Contracts

Department of Defense

The Department spent \$30 billion under negotiated contracts in fiscal year 1973 for millions of different goods and services. Individuals in and out of Government frequently have expressed the view that Defense can improve its negotiated buying without weakening numerous laws, rules, and regulations designed to safeguard the taxpayer's dollar.

Therefore, GAO examined Defense policies and practices for buying parts and components by negotiation to identify opportunities to improve Defense procurement methods. To gain further insight into this complex subject, GAO inquired into how business firms bought parts and components similar to those Defense bought.

GAO concluded that the Department could reduce the administrative costs of its negotiated procurements without sacrificing adequate competition, reasonable prices, or the nonprocurement goals of the Congress.

GAO recommended that the Congress enact legislation:

- Raising the ceiling price of procurements subject to simplified procurement procedures.
- Authorizing agencies to solicit proposals from a competitive, rather than the maximum, number of sources.
- Repealing the requirement that contracting officers prepare determinations and findings for certain procurements.

Public Law 93-356, signed July 25, 1974, raised the

ceiling price of procurements subject to simplified procurement from \$2,500 to \$10,000.

A bill that would have satisfied the two remaining GAO recommendations was introduced in the House of Representatives in June 1973 and referred to the Committee on the Judiciary. The bill expired with the end of the 93rd Congress without any action having been taken by the Committee. (B-168450, Sept. 17, 1973.)

Appropriations

Operations and Maintenance (Army) (Navy) (Marine Corps)
(Air Force) (Defense Agencies)

Procurement (Army) (Navy) (Marine Corps) (Air Force)
(Defense Agencies)

Issues for consideration by the Committees on Appropriations

1. Annual savings in administration costs of several million dollars may be available at Defense procurement centers due to the higher ceiling for simplified procurement. These potential savings should be considered in Defense appropriation requests.
2. Legislation to permit solicitation of proposals from a competitive number of sources and to repeal the requirement that determinations and findings be prepared by contracting officers for certain negotiated procurements would permit substantial savings in administrative costs. As much as \$150,000 annually could be saved if the determinations and findings documentation did not have to be prepared. If legislation dealing with these matters is enacted, the probable savings should be considered in Defense appropriation requests.

NCIA MANAGEMENT

Action Needed to Recover Costs of Government-Owned Plant And Equipment for Foreign Military Sales

Department of Defense

The Department's industrial activities and many of its contractors use Government-owned plants and equipment in producing weapons. Defense regulations require that its industrial activities charge depreciation of plant and equipment and other unfunded costs to non-Federal customers, including foreign governments.

GAO reported to the Secretary of Defense in 1972 that several Defense industrial activities were not charging foreign governments for unfunded costs nor for the cost of Government-owned equipment used by Defense contractors.

GAO recommended that action be taken to recover these costs on future sales and that internal audits of the pricing of sales to non-Federal customers be performed periodically,

In June 1974 the Department completed an internal audit in which it found that many of its industrial activities were still not making the required charges. The Department identified \$4.7 million of unfunded costs that should have been, but were not, recovered by Defense industrial **activities** during the period January 1971 to January 1974. We also determined, at that time, that the cost of contractor-operated plant and equipment was not being charged to foreign governments. (B-174901, Sept. 7, 1972, Apr. 9, 1973, and Oct. 7, 1974.)

Appropriation

Operation and Maintenance (Army) (Navy) (Air Force)

Issue for consideration by the Committees on Appropriations

Significant losses on foreign military sales are being incurred because the:

--Defense activities have not fully implemented Defense

regulations requiring the recovery of unfunded costs applicable to such sales by Defense industrial activities.

- Army is not recovering the costs of the use of plant and equipment located at Government-owned contractor-operated plants to produce weapons for such sales.
- Office of the Secretary of Defense has not directed the recovery of the costs of using Government-owned equipment furnished to contractors and used by them to produce weapons for such sales.

PROCUREMENT

Ways to Make Greater Use of the Life Cycle Costing Acquisition Technique

Department of Defense

GAO evaluated the life cycle costing (LCC) acquisition technique to determine its potential for broader application in awarding Defense contracts for parts and components. Under LCC, the contract award is based not only on purchase price but also on the useful life and cost of maintaining the product. In 1965 the Department began a test program using this concept and issued implementing guidelines in 1970.

Although the LCC concept has been accepted widely by Defense engineering and procurement managers and by industry, it has been successful in Defense at only the five or six buying activities which have used it aggressively. GAO made various recommendations to the Office of the Secretary of Defense (**OSD**) designed to promote greater use of LCC in the Department. Some of these recommendations were accepted.

OSD advised, however, that it was not prepared to adopt on a wide scale our suggestion to apply LCC to the award of subcontracts. OSD believed there was potential for using LCC with subcontracts under "certain flexible price or cost reimbursement type (prime) contracts"; however, it did not believe such potential existed with firm fixed-price contracts because the contractors would have no incentive to award subcontracts on an LCC basis. GAO believes LCC could be applied to subcontracts under fixed-price prime contracts if the competition for the prime contract specifically provided for consideration of LCC as a source selection factor.

OSD thought our recommendation to place prime responsibility for LCC with engineering and requirements personnel was sound; however, it indicated no plans to encourage this organizational alignment. In view of an OSD comment that this idea was sound and the LCC successes achieved by the Defense component already following the recommended procedure (the Air Force Logistics Command), we believe further

action by OSD is appropriate. (B-178214, May 21, 1973.)

Appropriations

Operations and Maintenance (Army) (Navy) (Marine Corps)
(Air Force) (Defense Agencies)

Procurement (Army) (Navy) (Marine Corps) (Air Force)
(Defense Agencies)

Issue for consideration by the
Committees on Appropriations

1. Cost savings are available if OSD, using appropriate techniques, encouraged its fixed-price prime contractors to award subcontracts on an LCC basis.
2. Cost savings are available if OSD encouraged the military services and other Defense agencies to place prime responsibility for LCC with engineering and requirements personnel.

PROCUREMENT

Improve the System for Collection and Dissemination of Statistics on Procurement

All Government agencies

GAO supports the recommendation of the Commission on Government Procurement for improving the system for collection and dissemination of procurement statistics by commodity and agency to meet congressional, executive branch, and industry needs.

In a report to the Administrator of the General Services Administration, GAO identified a number of additional data elements for inclusion in the system that we believe would be of interest to the Congress. The Administrator agreed to give these elements consideration in implementing the system. The system, as presently envisioned, would be managed by the General Services Administration, which would issue appropriate statistical abstracts and respond to data requirements from the Congress. It is anticipated that the system will be partially implemented by October 1975. Copies of the report were furnished to the House and Senate Committees on Government Operations and Appropriations. (B-160725, June 18, 1974,)

Appropriations

Procurement and Operation and Maintenance (General Services Administration)

Issues for consideration by the Committees on Appropriations

1. The extent that the data bank information will satisfy the needs of the Appropriations Committees and the number of existing reports from executive agencies which can be eliminated as a result.
2. The extent that additional funds will be required to establish, operate, and maintain the data bank.

SUPPLY MANAGEMENT

Effective Control Could Improve Ammunition Logistics

Department of Defense

GAO reported to the Congress that each of the military services had complex and unusual logistics systems for providing conventional ammunition, ranging from rifle bullets to sophisticated bombs, to their operating forces.

GAO's review of the key logistics functions--requirements determinations, procurement, production scheduling, and storage and distribution--showed that management was not satisfactory in terms of economy and efficiency. **The** study concluded that Defense-wide planning, matching requirements with capabilities under strong central management, was needed to improve ammunition logistics and reduce procurement, production, storage, and distribution costs.

GAO recommended that the Secretary of Defense establish central management for conventional ammunition either by creating a new ammunition organization or by assigning this responsibility to one service. The central managers would be responsible for consolidating requirements for ammunition items determined by each service and for the inventory accounting, procurement, production, storage, and distribution functions.

Defense officials agreed with GAO's conclusions that Defense-wide perspective in munition management needs improving and established a Joint Conventional Ammunition Production organization consisting of a coordinating group and working committees operating under the Joint Logistics Commanders. The Department recognizes the inherent advantages and disadvantages of the current organization and has requested the joint logistics commanders to draft an implementing plan and any impact statements by December 1974 for assigning ammunition management to the Secretary of the Army as the single manager.

During July 1975 the Department plans to assess the performance of the Joint Conventional Ammunition Production organization and determine whether ammunition management

should be assigned to the Secretary of the Army. (B-176139, Dec. 6, 1973.)

Appropriation

Procurement (Army) (Navy) (Marine Corps) (Air Force)

Issues for consideration by the
Committees on Appropriations

1. Significant savings are available through central management of ammunition logistics.
2. Improvement in readiness would accrue by stronger central management of ammunition,

SUPPLY MANAGEMENT

Improvements Needed in Managing
Nonexpendable End-Item Equipment

Department of the Air Force

The Air Force uses a mechanized system to manage such nonexpendable equipment items as generators, vehicles, test equipment, and tools. Data from this system is used to make decisions to buy for future needs, retain or release equipment, and support requests for funds from the Congress. The Air Force has about 86,000 line items of nonexpendable equipment with a worldwide inventory of about \$8.3 billion.

On the basis of an analysis of 200 statistically selected computations, GAO concluded that unreliable data was being used to compute requirements which caused gross equipment needs to be significantly misstated and assets available to meet these needs to be incorrectly stated. GAO concluded that the need to buy equipment valued at \$532 million as determined by the Air Force was overstated,

In a report to the Congress, GAO made specific recommendations to the Secretary of the Air Force with regard to:

1. System weaknesses and source data.
2. Command and base reporting.
3. Training and management reviews,

The Assistant Deputy Secretary of the Air Force for Supply and Maintenance acknowledged that errors do exist and said that refinements of the system as well as compliance with the system are necessary. According to the Air Force:

- A group has been established to modernize the system.
- Policies, procedures, and automated management capability to improve system weaknesses and source data will be prescribed in the plan for the system's update.

--Air Force headquarters will work with its commands and subordinate activities to meet objectives of command and base reporting,

--Materiel Management Review Team operating instructions will be revised. Emphasis will be placed on training personnel. (B-133361, Feb. 26, 1974.)

Appropriation

Various Air Force appropriations including other procurements, aircraft procurements, and missile procurements

Issue for consideration by the Committees on Appropriations

The Air Force is to be commended for the corrective action it has already taken; however, the system weaknesses will not be fully corrected until the Air Force's Advanced Logistics System is operational. Until then the Air Force's requests for funds for nonexpendable equipment could be in error.

SUPPLY MANAGEMENT

Better Methods Needed for Canceling Orders for Materiel No Longer Needed

Department of Defense

The Department has established a uniform policy and standardized procedures for verifying the continuing need for materiel on old, unfilled orders. Inventory control points (ICPs) initiate the process whereby requisitioning activities validate and reconcile high-priority orders 30 or more days old and low-priority orders 75 or more days old with their customers four times a year. The requisitioning activity is then required to reconcile those items recorded as on order at the ICPs with its records of outstanding orders and to notify the ICPs of corrections and cancellations to be made to the ICPs' records.

The Air Force, with Defense approval, has implemented *its own* procedures for the requisitioning activities to initiate monthly reconciliation and validation of high-priority requisitions 30 or more days old and low-priority requisitions 60 or more days old with their customers. The ICPs are then required to reconcile these results with their records and either cancel or take other appropriate action for all unreconciled transactions. The Air Force program is more effective than the Defense program and has a much lower ratio of invalid materiel orders to total orders validated. The Air Force program was able to prevent shipment of all but \$600,000 worth of unneeded materiel during 3 monthly validations. The Army and Navy were unable to stop shipment of over \$100 million worth of unneeded materiel during a like period.

Unnecessary transportation and handling costs of about \$15.6 million were incurred during a 3-month validation period because invalid orders were either undetected or were detected too late to stop shipment. In addition, approximately \$22 million worth of materiel was purchased unnecessarily because invalid orders identified during this same validation period were not eliminated from demand histories and were used in requirement computations by the Army and the Navy.

Defense officials agreed with GAO's findings and generally with its recommendations for improvement. The Department directed a one-time automatic cancellation of all requisitions 1 year or older with provisions for customer reinstatement if a valid need still existed. This action resulted in cancellation of materiel orders valued at \$45 million.

In response to recommendations made to the Secretary of Defense in a report to the Congress, GAO was informed that:

- The Navy would conduct a test of monthly customer-initiated validations which is to be accomplished in the 3d quarter, fiscal year 1975. This is to be the first step toward implementation of the policy of monthly validation of unfilled orders for materiel.
- The Navy would complete conversion of computer programs necessary to remove invalid demands from historical data bases used in computing materiel requirements during the 3d quarter, fiscal year 1975. The Navy will implement the converted programs by July 1, 1975.
- Scheduled audits by the Deputy Assistant Secretary of Defense (Audit) and the service audit agencies, beginning with the fiscal year 1975 program, will include verification that all canceled demands are removed from the historical demand data base.
- The Department will initiate a study to determine the feasibility of canceling selective unfilled requisitions over 6 months old on an exception basis. (B-162152, May 21, 1974.)

Appropriations

Procurement and operations and maintenance funds for the military services

Issue for consideration by the Committees on Appropriations

The Office of the Secretary of Defense is to be com-

mended on its efforts to initiate improvements in policy and procedures for identifying and canceling old, unfilled orders for materiel, However, continued surveillance and aggressive management is required to insure that the Navy carries out its test and converts its computer program, *The Navy has* consistently deferred action on the conversion of its computer program to remove invalid past demands since 1969.

Proper Use of the Economic Order Quantity
Principle Can Lead to More Savings

Department of Defense

The economic order quantity principle (EOQ) is a mathematical method for determining the purchase quantity that will result in the lowest total costs for ordering and holding inventory to meet expected supply requirements,

GAO concluded that the Department is not saving as much as it could in operating costs and reduced inventory investments because the military organizations surveyed are not properly applying the EOQ principle,

In a report to the Congress, GAO recommended the Secretary of Defense instruct the military services to comply with existing instructions by

- reviewing and updating cost factors and
- developing additional factors to better reflect ordering and holding costs.

GAO further recommended that the Secretary

- initiate a pilot program to test the feasibility of removing the requirement for minimum supply orders and
- revise the existing instruction to include additional items, particularly reparable, in the EOQ principle and require procuring activities to obtain and use quantity price discount information,

The Principal Deputy Assistant Secretary of Defense (Installations and Logistics) agreed with our recommendations except for the use of additional ordering cost factors and the removal of the minimum buying requirement. He said the use of current ordering costs and the consideration of the additional costs of the Defense Contract Audit Agency on an exception basis for higher dollar procurements would

provide adequate sensitivity for EOQ results. The Department constrained the minimum EOQ to a minimum buy of 3 months to avoid uneconomic repetitive procurements of high-dollar and high-demand items. (B-133396, June 27, 1974.)

Appropriation

Operation and Maintenance (Army) (Navy) (Air Force)

Issue for consideration by the
Committees on Appropriations

The military services can achieve savings by improving the application of the EOQ principle,

TRANSPORTATION

Improve Congressional Awareness of Future
Long-Term Leasing Arrangement
for Non-Real-Estate-Type Assets

Department of the Navy
Military Sealift Command

By leasing instead of purchasing nine commercial oil tankers, the Navy **was** not required to obtain specific congressional authorization and approval. Budgetary constraints on obtaining "procurement" dollars and the relative ease of obtaining "operation and maintenance" dollars was a factor that motivated the Navy to decide on long-term leasing as a means of acquiring new ships, Navy officials agreed that they could improve the manner in which Congress was informed of the plans to build nine new ships and then lease them for 20 years.

In a report to Congress, GAO recommended that the Secretary of Defense improve **the** congressional awareness of future build and charter programs by

- providing it with information on the proposed method of acquisition (long-term leasing or purchasing),
- providing, to the appropriate congressional committees, a detailed cost analysis showing the full impact on future budgets when long-term leasing is the proposed acquisition method, and
- requiring analyses of long-term leasing arrangements to be made on a total-cost-to-the-Government basis, including the direct effects on delayed payments of income taxes.

Since the Navy's build and charter program is similar to Government programs for leasing buildings, the Congress should evaluate the need for legislation similar to Public Law 92-313 of June 16, 1972, which amended the Public Buildings Act of 1959, which requires (1) congressional approval of *leases* greater than \$500,000 a year and (2) a prospectus

containing the details of the transaction be provided to the Congress. Similar legislation may be appropriate for long-term leasing of such assets as ships.

Since the build and charter program can be considered as setting a precedent, legislation could be an effective tool to insure congressional cognizance of future long-term leasing programs. (B-174839, Aug. 15, 1973.)

In January 1975, Defense officials indicated that a draft of proposed legislation designed to provide full disclosure to the Congress on future build and charter programs had been submitted to the Office of Management and Budget for coordination. Also, the Department of Defense is working on a directive which addresses this effort.

Appropriation

Operation and Maintenance (Army) (Navy) (Marine Corps)
(Air Force) (Defense agencies)

Issue for consideration by the Committees on Appropriations

A determination should be made as to whether operation and maintenance funds are being used for acquisition, on a long-term basis, of capital assets.

TRANSPORTATION

Possible Unnecessary Requirements for the Third Increment of 230 Railroad Tank Cars

Department of the Army Military Traffic Management and Terminal Service

The Army intended to update its fleet of railroad tank cars by procuring 750 new cars. The Army planned to purchase 162 cars in fiscal year 1974 with approved funds and to request funds for 358 and 230 cars in fiscal years 1975 and 1977, respectively. Support for the requirement was based on data prepared in 1971 and reflected a possible excess capacity if the full quantity of 750 tank cars are purchased. In a report to the Secretary of the Army, GAO recommended that before funds for the procurement of the third and final quantity of 230 tank cars are allocated, current information on the use of the tank car fleet and projected future requirements should be analyzed to determine how much of the final quantity will be needed to transport future petroleum products for the Department of Defense. (B-182033, Sept. 5, 1974.)

In considering the Defense Appropriation Bill for 1975 the conference committee agreed with the recommendation of the House Committee that the Army's request for \$8.6 million to buy railway tank cars be denied. Late in November 1974 Army officials advised us that consideration was being given to inclusion of the funds denied by Congress for fiscal year 1975 in the fiscal year 1976 budget. However, in January 1975 we learned that the Army did not request funds for railway tank cars in the fiscal year 1976 budget but plans to request funds for the 358 and 230 in fiscal years 1977 and 1978, respectively.

Appropriation

Procurement (Army)

Issue for consideration by the Committees on Appropriations

Although the Army's current plan calls for requesting funds for the second and third increments in fiscal years 1977 and 1978, an analysis of current information on use and requirements for tank cars, in accord with the GAO recommendation, may indicate a need for changes in the Army's plan.

MILITARY ASSISTANCE

FOREIGN ASSISTANCE

U.S. Assistance to The Khmer Republic (Cambodia)

Department of Defense

GAO reported to the Congress on problems concerning compliance with the congressional restrictions and on management deficiencies impairing the effectiveness and efficiency of U.S. assistance programs.

GAO concluded that not all costs of U.S. activities in Cambodia were reported to the Congress, even though expenditure reports were prepared to comply with the legislation, GAO also concluded that, while Military Equipment Delivery Team members were not assigned as advisors to Cambodian combat units, they were acting beyond their primary function of auditing and monitoring equipment deliveries.

Procedures for receipt, transfer, and maintenance of equipment provided under the Military Assistance Program were inadequate in 1971-72, but by 1973 considerable improvements had been made. Other problems reported on by GAO included (1) the failure of the Military Equipment Delivery Team to cancel a \$1.4 million requisition for construction equipment even though it knew the Agency for International Development (AID) had already provided equipment to satisfy the requirement, (2) the improper purchase by Cambodian military personnel of military equipment which had been provided by the United States to the South Vietnamese Armed Forces, and (3) the payment of as many as 100,000 "phantom troops."

GAO recommended that the Secretaries of State and Defense fully inform the Congress of the type and organizational level of advisory assistance provided to the Cambodian military, and that the Secretary of State apply and report all costs against the dollar ceiling, including those funded outside the Foreign Assistance Act and Public Law 480. GAO also recommended several actions to be taken by the Administrator of AID and the Secretary of Defense to correct the problems discussed in the report.

The agencies generally agreed with the recommendations except the Secretaries of State and Defense did not believe that the Military Equipment Delivery Team was performing advisory functions which conflict with legislative restrictions. (B-169832, Oct. 10, 1973.)

Appropriation

Foreign Assistance and Related Programs Appropriations

Issue for consideration by the Committees on Appropriations

The Committees should require that the Secretaries of State and Defense provide a **full** accounting of the type **and** organizational level of advisory assistance provided to the Cambodian military to insure compliance with the legislative restrictions against providing such advisory assistance.

FOREIGN ASSISTANCE

Legislative Ceiling on Expenditures in Laos Reduced Costs But the Ceiling Was Exceeded

Department of Defense

GAO reported to the Congress on how the executive departments and agencies met the legislative requirement to limit expenditures in Laos to \$350 million for fiscal year 1972, and on whether the expenditure reports to the Congress were consistent and complete. The Department of State was delegated overall responsibility for insuring that the Department of Defense (DOD), the Agency for International Development (AID), and the Central Intelligence Agency (CIA) complied with this legislation.

The departments and agencies generally tried to develop systems to insure that all costs they considered within the reportable categories would be included. Nevertheless, an estimated \$28.2 million of assistance-related expenditures were not reported or were not reported adequately by the three reporting agencies in fiscal year 1972. If these expenditures had been reported, the \$350 million ceiling established in section 505 of the Armed Forces appropriation authorization for 1972 would have been exceeded. For example, in fiscal year 1972:

- DOD and CIA did not report certain logistical support costs, including an estimated \$21.6 million for overseas transportation,
- Commodity managers did not follow DOD guidelines for pricing ammunition expenditures,
- AID did not report about \$1.2 million for assistance-related administrative costs, \$441,263 for excess property acquired for Laos, and about \$440,000 for additional transportation costs on Public Law 480 commodities.

Despite the shortcomings in implementing the reporting requirement, imposing a ceiling on expenditures for Laos was beneficial. Program management efforts were intensified, expenditures were reduced, and the Congress was provided with additional information for use in discharging its oversight responsibilities.

GAO recommended that the Secretary of State coordinate the reporting guidelines with the Secretary of Defense, the Director of CIA, the Administrator of AID, and other agency heads to insure that any expenditure reports submitted to the Congress are complete and accurate and that, to the extent possible, accounting and reporting procedures are applied on a consistent basis by each agency. GAO recommended also that the Secretary of State inform the Congress of any inconsistent accounting and reporting methods used by reporting agencies and of the types and estimated amounts of expenditures which in the opinion of the agencies are not within the reportable categories .

The departments and agencies generally agreed with our recommendations that, to the extent possible, accounting and reporting procedures should be applied on a consistent basis and that it should be noted on the reports when different methods are used. They also agreed that the Congress should be informed of the types and estimated amount of expenditures, excluding the normal expenses of operating a diplomatic mission and those unrelated to assistance, which the contributing agencies believed were not within the reportable categories required by the legislation. (B-133003, June 6, 1974.)

Appropriations

Armed Forces appropriation authorization and the Foreign Assistance and Related Programs Appropriation

Issue for consideration by the Committees on Appropriations

Because of the peculiarities of this legislation which imposed an overall ceiling on expenditures from several appropriations without specifying a ceiling on expenditures from an individual agency's appropriation, it was not possible for GAO to determine which agency caused the ceiling to be

exceeded or to ascertain specifically when the ceiling was exceeded. The difficulty of enforcing this ceiling suggests that, if in future legislation the Congress wishes to impose an overall ceiling on expenditures for a particular country, **it** may want to consider fixing, or delegating the responsibility for fixing, a specific allocation of the overall ceiling for each agency involved in that country.

FOREIGN ASSISTANCE

Restriction on U.S. Procurement Activities in Thailand Hinders Competition and Increases Costs

Department of Defense

U.S. Forces occupy bases jointly with Thai Forces. Although the United States paid much of the construction costs of these bases, it has no formal agreement with Thailand covering the status of U.S. Forces there or giving the United States sufficient access to the bases. However, Thailand allows the United States to use the bases rent free. Generally, only Thai base commanders have been authorized to grant access rights to bases occupied by U.S. Forces to contractors with which U.S. military organizations do business. These commanders can thus select the contractors that may do business with the U.S. military organizations, irrespective of the rates the contractors charge. Because of this restriction, maintenance and other types of service contracts have been awarded to contractors that charged excessively high rates. GAO identified a few examples of excess costs (estimated at \$373,000) that resulted from this problem.

Also, Thai Government decrees give the Government-owned Express Transportation Organization of Thailand sole control over certain cargo-hauling activities and stevedoring services at Thai ports. Because of this monopoly, the United States has had to pay considerably more for those services than it would have paid under competitive procurement. GAO identified one stevedoring contract in which excess costs amounted to \$475,000.

In a report to Congress, GAO recommended the Secretaries of State and Defense direct the country team to make every effort to negotiate agreements with the Thai Government that will resolve the sole source procurement and access-to-base **problems**. If such an agreement or agreements cannot be negotiated, they should determine the estimated yearly amount of the excess costs, report them as additional assistance to Thailand, and pay for them from foreign assistance appropriations. The Department of State generally agreed with the finding, but not with the recommendations. (The details of their disagreement are classified.) GAO believes that the

Department of State does not plan to actively negotiate agreements to resolve the source procurement and access-to-base problem. (B-133258, June 5, 1974-classified.)

APPROPRIATION

Foreign Assistance and Related Programs Appropriation

Issue for consideration by
the Committees on Appropriation

Require assurance from Department of Defense and Agency for International Development that the additional costs are properly accounted for as additional assistance and that foreign assistance funds allocated for Thailand are used to pay for them.

FOREIGN ASSISTANCE

Taiwan Should Pay for U.S. Military Assistance

Department of Defense

Since 1966 U.S. military resources transferred to Taiwan have averaged about \$150 million a year and amounted to about \$100 million in fiscal year 1974. The actual net **costs** to the United States, however, are much less because Taiwan has been gradually shifting from predominantly grant aid to other forms of assistance such as credit sales.

Nevertheless, some grant assistance still continues at a cost to the United States of about \$17 million a year, including transportation of previously funded equipment, training of nationals, U.S. administrative support, and donations from the sale of U.S.-furnished surplus property.

Taiwan's gross national product has reached \$7 billion and is growing about 11 percent a year. By mid-1973 Taiwan's foreign exchange reserves amounted to \$1.1 billion. Its trade surplus with the United States reached \$660 million in 1972 and is expected to increase. Because of its healthy economy, GAO believes Taiwan can and should pay for the cost of continuing U.S. military assistance.

GAO recommended the Secretaries of Defense and State periodically review U.S. relations with Taiwan and--when in their judgment the political, military, and economic factors permit--consult with Taiwan officials in an effort to have that country pay all the expenses incurred by the United States in providing military assistance.

Agency plans and views were provided to GAO in a classified response. GAO still believes that the role of advisory staff and long-time cooperation with Taiwan make it reasonable to seek full reimbursement for cost of military assistance to Taiwan, (B-125087, July 22, 1974.)

Appropriation

Foreign Assistance and Related Programs Appropriation

Issue for consideration by
the Committees on Appropriations

Future executive branch budgetary requests for military assistance to Taiwan should be measured against Taiwan's ability to pay. The **Taiwan** experience should give the **Con-**gress a perspective to judge continued need **for** military assistance to other countries.

FOREIGN ASSISTANCE

Costs of Ship Transfers for which the Navy is not Fully Reimbursed Constitutes "Hidden" Military Assistance

Department of the Navy

For over 25 years, the United States has given away, loaned, sold, or transferred Navy vessels to other countries as part of its military assistance program.

Public Law 92-270, approved April 6, 1972, requires that all expenses incidental to the ship transfers be paid by the recipient country or from military assistance program funds. However, the Department of Defense excludes repairs and overhauls from its definition of costs associated with such transfers.

The Department of Navy was not reimbursed for about \$18.2 million, most of which it spent overhauling and providing equipment, outfitting, and services for vessels authorized for loan under Public Law 92-270, and other ship transfers connected with the U.S. base rights agreement with Spain. GAO believes the exclusion of repair and overhaul costs and outfitting costs up to the ship's allowance is contrary to ship loan legislation.

In addition, military assistance program documents submitted to the Congress contain little or no identifiable information on ship loans and leases. As a result, the non-reimbursed costs for ship transfers constitute "hidden" military assistance costs not apparent to congressional committees.

In a report to the Congress, GAO recommended (among several recommendations) that the Secretary of Defense require the Navy to:

- Be reimbursed by the recipient country or from military assistance program funds for all costs incurred,
- Seek reimbursement from Spain or from the military assistance program for all expenses incurred by the Navy not covered in the base rights agreement with Spain.

Navy officials said the repairs and overhauls discussed were not incident to the transfer of ships, and that Public Law 92-270 does not intend for equipment already a part of the ship's basic allowance to be charged to the recipient country. (B-163742, June 25, 1974.) We still believe that the intent of the law was to include bringing the ship's equipment and resources up to its allowances,

Appropriation

Foreign Assistance and Related Program Appropriation

Issue for consideration by the Committees on Appropriation

Foreign assistance legislation should be amended to require that annual presentations to the Congress include all U.S. costs of overhaul, equipment, supplies, and services associated with ship transfers, regardless of the authority for the transfers or the source of funding of such costs.

NATURAL RESOURCES AND ENVIRONMENT

WATER RESOURCES AND POWER

WATER RESOURCE DEVELOPMENT

Improved Federal Efforts Needed to Equally Consider
Wildlife Conservation with Other Features of Water
Resource Development

Department of the Army
Corps of Engineers

As requested by the Chairman, Subcommittee on Fisheries and Wildlife Conservation and the Environment, House Committee on Merchant Marine and Fisheries, GAO reviewed the manner in which Federal agencies were implementing sections 2 and 3 of the Fish and Wildlife Coordination Act. These sections of the act provide that wildlife conservation receive equal consideration and be coordinated with other features of federally funded or licensed water resource developments.

GAO concluded from the projects reviewed that (1) generally wildlife conservation had not been considered equally with other features of water resource developments; (2) there had been significant and numerous break-downs in the coordination process between wildlife and development agencies; (3) the roles and responsibilities of the wildlife agencies needed to be clarified; and (4) there was a need for establishing criteria for determining the nature, extent, and justification of wildlife mitigation or enhancement measures.

GAO recommended that (1) the wildlife and development agencies, with the active participation of the Office of Management and Budget, establish needed procedures to assure an adequate coordination process for carrying out the requirements of the act and criteria to determine mitigation and enhancement measures and (2) the wildlife agencies seek to reach agreement on the respective roles and responsibilities and initiate efforts to obtain needed funds and personnel.

The Federal agencies involved generally agreed with the recommendations. On June 26, 1974, the Subcommittee held hearings on the subject report and on various proposed amendments to the act. (B-118370, Mar. 8, 1974.)

Principal Appropriations Involved

Department of the Army, Corps of Engineers-Civil
General Investigations
Construction General
(Corps' funds are transferred to the Department of
the Interior, U.S. Fish and Wildlife Service)

Department of the Interior, U.S. Fish and Wildlife
Service
Resource Management

Department of Commerce, National Oceanic and
Atmospheric Administration, National Marine Fisheries
Service

Operations, Research and Facilities

Issue for consideration by the Committees on Appropriation

Wildlife agencies will need funds and personnel above their current levels to effectively implement the act's requirements. The development and wildlife agencies should consult each other early in the planning stage of a water resource development proposal and the wildlife agencies should make the necessary wildlife studies so that a detailed wildlife report is available before a proposed development is authorized by the Congress or approved by others who approve water resource projects.

COMMERCE AND TRANSPORTATION

GROUND TRANSPORTATION

PASSENGER SEDANS

Procurement of Larger Sedans in Lieu of Compacts and Subcompacts

Government-wide

At the request of the Ad Hoc Subcommittee on Government Vehicle Use, Senate Committee on Appropriations, a review was performed on vehicle fleet management on a Government-wide basis. One of the areas that surfaced from this review was the type of passenger sedans procured for use by individual departments and agencies.

In January 1974, the General Services Administration (GSA) issued Federal Management Circular (FMC) 74-1 which required that to conserve fuel, all sedans, with few exceptions, be replaced with compacts or subcompacts. Larger sedans could be obtained only by certifying to GSA by agency heads that such sedans were essential to the agencies' missions.

Since FMC 74-1 was issued, GSA has ordered 3,948 compacts and no larger sedans for use in their motor pools. Conversely, individual agencies have requested GSA to order 555 compacts and 2,990 larger sedans for their respective fleets. The requests for the larger sedans were certified by the agencies as being essential to their missions.

The procurement actions indicate that GSA believes compacts are adequate for their needs: whereas individual agencies believe that larger sedans are needed to satisfy their requirements. (B-158712, Sept. 6, 1974.)

Appropriation

All departments and agencies requesting funds for vehicle procurement

Issue for consideration by the
Committees on Appropriation

In view of the divergent opinions on the suitability of compacts to meet passenger vehicle requirements, the Committees may wish to discuss with individual agencies, during their appropriations hearings, their need for larger vehicles.

OTHER AREAS OF OPERATIONS

AUTOMATIC DATA PROCESSING

DATA ELEMENTS

Emphasis Needed on Government's Efforts to
Standardize Data Elements and Codes for Computer Systems

Government-wide

GAO reported to Congress on progress being made under the Federal program begun in 1965 to standardize data elements and codes used in computer operations. Such standardization could help reduce computer operations costs.

GAO found that Federal efforts in this area have been slow and not very successful. Because OMB gave the program low priority, initiative had been left to individual agencies: then in May 1973 the President transferred responsibility for the program to the Secretary of Commerce.

GAO recommended that the Secretary of Commerce should:

- Determine where standards would be most beneficial and establish priorities.
- Issue policy delineating accepted theory and terminology and provide for the preparation of guidelines,
- Assign specific agencies responsibilities for developing codes and elements in specified areas.
- Monitor implementation.

The Secretary of Commerce said the Department considers this matter to be of high priority. The Secretary pointed out recently approved Department regulations embodied recommendations contained in the GAO report. The Department noted that success will depend on the support and cooperation by various agencies, (B-115369, May 16, 1974.)

Appropriation

Various appropriations in each Federal agency will be affected by standardization efforts

Issues for consideration by the Committees on Appropriation

Prompt implementation of standardized data elements and codes could help reduce costs of Federal computer operations by eliminating unnecessary duplication and incompatibilities in collecting, processing, and disseminating data.

OPERATIONS

Tools and Techniques for Improving the Efficiency of Federal Automatic Data Processing Operations

Government-wide

GAO reported to the Congress on tools and techniques Federal agencies could use to improve the efficiency of their computer operations. Some agencies have used these methods and reported significant savings as a result.

The Office of Management and Budget (OMB), National Bureau of Standards (NBS), and General Services Administration (GSA) have taken some steps to help agencies improve their computer operations. But most of these steps are oriented specifically toward using individual tools, and they do not address overall areas affecting computer efficiency or provide specific guidance in these areas.

GAO recommended that the GSA give priority to preparing and issuing detailed guidance on methods available to increase system efficiency. GAO also recommended that GSA consider the extent to which agency managements have evaluated and improved the efficiency of their existing systems before approving procurement of additional or more powerful systems. The GSA generally agreed with the content of the report and reported efforts to take action in the area consistent with provisions of Public Law 89-306. (B-115369, June 3, 1974.)

Appropriation

Various appropriations in each agency for equipment, support, and services

Issues for consideration by the Committees on Appropriations

1. Significant savings are possible by using the tools and techniques cited in the report to increase the efficiency of agencies' computer operations.
2. Agencies should evaluate and improve the efficiency of their existing systems before procuring additional or more powerful systems.

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