DOCUMENT RESUME

06517 - [B2087100] (Restricted)

Inadequate Methods Still Used To Account for and Recover Personnel Costs of the Foreign Military Sales Program. FGMSD-78-47; B-174901. July 25, 1978. 18 pp. + 2 appendices (4 pp.).

Report to Sen. Warren G. Magnuson, Chairman, Senate Committee on Appropriations; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting: Collection of Amounts Owed (2803).
Contact: Financial and General Management Studies Div.
Budget Function: Miscellaneous: Financial Management and Information Systems (1002).
Organization Concerned: Department of Defense; Department of the Army; Department of the Air Force; Department of the Navy.
Congressional Relevance: Senate Committee on Armed Services. Sen. Warren G. Magnuson.
Authority: International Security Assistance and Arms Export Control Act of 1976 (P.L. 94-329). Foreign Military Sales Act of 1968, as amended (22 U.S.C. 2761). Department of Defense Appropriation Act of 1978. S. Rept. 95-325. DOD Instruction 2140.1.

Reliable estimates of personnel requirements for Foreign Military Sales Program activities are needed by the Congress so it can establish Department of Defense (DOD) personnel ceilings and assess the impact of personnel used in these activities on the overall capabilities of the armed services. DOD management officials also need reliable estimates of the program's personnel requirements for use in developing a budget. Findings/Conclusions: The Security Assistance Manpower Accounting System which DOD began developing late in 1977 will not provide accurate and reliable data on the number of personnel needed to administer the Foreign Military Sales Program. In fact, the Department has developed no method of manpower accounting for the system. Instead, a new standard personnel-reporting format was used, and personnel data have continued to be developed under practices and procedures previously considered to be inadequate. The Security Assistance Manpower Accounting Report will not produce reliable estimates of personnel needs because: implementing instructions contained no provisions for control over the gathering and assembling of personnel data; instructions for preparing the report did not clearly define administrative personnel; and methods used by the military services to develop data for the report and the budget were inconsistent. DOD has no assurance that the 3% surcharge on the sales price of military equipment and services sold under the program is sufficient to recover the full cost of administering the program. Recommendations: Administrative personnel estimates in the Security Assistance Manpower Accounting Report and the administrative budget should be

improved by: requiring all commands and activities providing administrative personnel data to submit their method of compiling the data to the Assistant Secretary and Director, Defense Security Assistance Agency, for approval; developing a consistent definition of administrative personnel for use in reporting personnel statistics and developing budgets; and requiring that pricing guidelines for Foreign Military Sales items be revised to allow full recovery of the cost of retirement benefits in establishing surcharge rates to recover the program's administrative expenses. (ABS)

7100

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

REPORT BY THE

Comptroller General

OF THE UNITED STATES

RELEASED 8/4/78

Inadequate Methods Still Used To Account For And Recover Personnel Costs Of The Foreign Military Sales Program

The Defense Department has not yet developed reliable estimates of personnel required to administer the Foreign Military Sales program, nor has it included the full cost of employee benefits in calculating the costs of these personnel. As a result, the Department has no real basis for determining if all administrative costs of the program are recovered, as required by law, from foreign purchasers of U.S. military equipment and services.

GAO is recommending that the Secretary of Defense revise the guidelines for estimating the number of personnel working on the program and for estimating the cost of employee benefits.

FGMSD-78-47

JULY 25, 1978

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

B-174901

The Honorable Warren G. Magnuson
Chairman, Committee on
Appropriations
United States Senate

Dear Mr. Chairman:

In response to your Committee's request of October 5, 1977, we have reviewed the Defense Department's fiscal year 1979 administrative budget submission for the Foreign Military Sales program and the Department's system of accounting, reporting, budgeting, and recovering the administrative costs of the program.

On October 21, 1977, we reported to the Chairman of the Senate Armed Services Committee (FGMSD-77-22) on the problems that the Defense Department has had in developing data on Foreign Military Sales personnel. The policies and systems used to develop personnel statistics and cost data for the administrative budget still need improvements and we are making several relevant recommendations to the Secretary of Defense.

As arranged with your office, we will provide copies to the Secretary of Defense and make a general distribution of this report 10 days after you receive it.

At the Committee's request we did not take the additional time to obtain written Defense Department comments. The matters covered in the report, however, were discussed with Department officials, and their comments are incorporated where appropriate.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

INADEQUATE METHODS STILL USED TO ACCOUNT FOR AND RECOVER PERSONNEL COSTS OF THE FOREIGN MILITARY SALES PROGRAM

D I G E S T

Neither a new Security Assistance Manpower Accounting Report developed by the Department of Defense nor the administrative budget for fiscal year 1979 provided the Congress accurate, reliable data on the personnel required to administer the Foreign Military Sales program.

The Security Assistance Manpower Accounting Report was developed because the Defense Department had difficulty in obtaining reliable data on the program. However, the procedures used to develop data for the report did not define administrative personnel adequately, did not provide for controls over the gathering of data, and permitted inconsistent methods to be used to develop the data. As a result, the report for fiscal year 1979 did not produce reliable estimates of Foreign Military Sales administrative personnel requirements. (See ch. 2.)

Inaccurate and incomplete personnel data was used to develop the administrative budget for the Foreign Military Sales program. The data in this budget was furnished to the Senate Committee on Appropriations as part of the backup for the Defense Department's fiscal year 1979 budget request. (See pp. 13 to 15.)

GAO's efforts to reconcile administrative personnel data in the Security Assistance Manpower Accounting Report with that contained in the administrative budget disclosed inconsistencies and inaccuracies in the personnel statistics in both the report and the budget. For example, a comparison of personnel data reported by 8 major commands for the Security Assistance Manpower

FGMSD-78-47

Tear Sheet. Upon removal, the report cover date should be noted hereon.

Accounting Report and the administrative budget for fiscal year 1979 shows a net difference of 545 staff-years. These differences occurred primarily because the procedures for compiling the Security Assistance Manpower Accounting Report did not adequately define administrative personnel. (See pp. 6 to 10.)

Defense Department policies and systems used to estimate the administrative costs of the program do not adequately account for the number of personnel who administer the program nor provide for the full recovery of costs to the U.S. Government of the retirement and other employee benefits. As a result, the Defense Department has no assurance that the prices of military equipment and services sold under the program are sufficient to recover the full cost of administering the program. (See ch. 3.)

GAO pointed out in an October 21, 1977, report to the Chairman of the Senate Committee on Armed Services that the Defense Department used inadequate methods to develop estimates of Foreign Military Sales administrative personnel in fiscal year 1977 and that factors included in the administrative surcharge for retirement benefits for these personnel were not high enough to recover their full costs. Although Department officials agreed, they still used these inadequate methods when they developed personnel data for the fiscal year 1979 program.

Defense Department officials advised GAO that they plan to increase the retirement cost factors included in the administrative surcharge when they develop the fiscal year 1980 administrative budget for the Foreign Military Sales program.

Reliable estimates of personnel requirements for Foreign Military Sales activities are needed by the Congress so that it can establish Defense personnel ceilings and assess

the impact of personnel used in the Foreign Military Sales program on the overall defense capabilities of the armed services. Reliable estimates are also needed by Defense Department management officials to develop a budget as a basis for obtaining the resources required to administer the Foreign Military Sales program and to establish a method of updating the administrative surcharge on Foreign Military Sales items to insure that the Department is recovering all such costs.

GAO recommends that the Secretary of Defense require the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) and the Director of the Defense Security Assistance Agency to improve administrative personnel estimates in the Security Assistance Manpower Accounting Report and the administrative budget by:

--Requiring all commands and activities providing administrative personnel data for the report to submit their method of compiling the data to the Assistant Secretary and the Director, Defense Security Assistance Agency for approval. Methods should be approved only if they are based on actual experience adjusted for projected changes in workload. These estimates should be based on actual and projected workload data, time standards, and staff-hour accounting reports to the extent feasible.

--Developing a consistent definition of administrative personnel for use in reporting personnel statistics and developing budgets so that the same set of data can be used for budgeting and all other management functions.

--Requiring that pricing guidelines for Foreign Military Sales items be revised to allow full recovery of the cost of retirement benefits in establishing surcharge rates used to recover the program's

administrative expenses. These revisions should be made before the next administrative budget call by the Defense Security Assistance Agency.

At the request of the Senate Committee on Appropriations GAO did not obtain written comments on the matters discussed in this report. However, they were discussed with Defense officials and their comments are incorporated where appropriate.

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Fiscal year 1979 administrative budget for the Foreign Military Sales program	2
2	SECURITY ASSISTANCE MANPOWER ACCOUNTING SYSTEM NOT DEVELOPED	4
	Need for reliable data on Foreign Military Sales personnel requirements	4
	Status of the Security Assistance Manpower Accounting System Report	5
	Lack of control over personnel data submitted for the report	5
	Inconsistencies in reporting personnel data	6
	Conclusions	10
	Recommendations	11
3	IMPROVEMENTS STILL NEEDED IN PROCEDURES USED TO RECOVER ADMINISTRATIVE COSTS OF THE PROGRAM	12
	Cost recovery requirements	12
	Personnel data used for administrative budget not adequate	13
	Need to consider full retirement costs when developing the administrative budget	15
	Conclusion	16
	Recommendation	17
4	SCOPE OF REVIEW	18
APPENDIX		
I	Letter dated October 5, 1977, from Senator John L. McClellan	19
II	Principal officials responsible for administering activities discussed in this report	21

CHAPTER 1

INTRODUCTION

On October 5, 1977, the Senate Committee on Appropriations requested that we review the Department of Defense's fiscal year 1979 administrative budget submission for the Foreign Military Sales program. The Committee also requested that we:

--Determine whether a new Foreign Military Sales manpower accounting system being developed by the Defense Department would be implemented in time to provide estimates for the fiscal year 1979 President's budget.

--Determine whether the new system provides adequate controls to insure that reasonable estimates can be made of personnel administering the Foreign Military Sales program.

--Compare manpower data produced by the new system with data in justification material submitted to the Congress for fiscal year 1979 program manpower requirements.

--Determine whether the administrative surcharge on Foreign Military Sales is adequate to recover the full costs of administering the program.

The Foreign Military Sales program permits friendly foreign governments to purchase defense articles, services, and training through the U.S. military departments. Defense Department statistics show that sales have increased greatly during the 1970s and in fiscal year 1977 totaled $11.3 billion. Under the program, the U.S. Government is to charge no less than the value of materials and services sold.

The Defense Department uses logistical systems and other facilities of the military services to obtain the articles and services it furnishes to foreign governments. Articles are obtained from the inventories of, or are specifically purchased by, the military departments to be sold to the foreign countries. Services furnished are obtained through Defense contracts or are furnished directly by military and civilian employees.

The Defense Department incurs substantial costs to administer the program--primarily for personnel who operate the logistical, supply, and procurement services. Their functions include sales negotiations; case implementation; procurement; resolution of discrepancy reports; contract administration; and program control, accounting, and budgeting. In addition, the cost of utilities, office supplies, travel, and rent and other overhead expenses are considered part of the administrative costs of the program.

The International Security Assistance and Arms Export Contol Act, as amended (Public Law 94-329), defines the concept of value to include the administrative costs incurred by the U.S. military departments in connection with sales. The act provides that letters of offer issued after September 30, 1976, will include appropriate charges, calculated on an average percentage basis, to recover the full estimated administrative costs of the sales from purchasers. These charges apply to defense articles sold from stock, or purchased for sale and to support services. Beginning October 1, 1977, the percentage charge was 3 percent of the sales price of the article or service.

FISCAL YEAR 1979 ADMINISTRATIVE BUDGET FOR THE FOREIGN MILITARY SALES PROGRAM

The Defense Security Assistance Agency and the Assistant Secretary of Defense (Comptroller) are responsible for assuring that the U.S. Government receives full payment for articles and services provided under the Foreign Military Sales program. To insure the recovery of all administrative costs, the Defense Security Assistance Agency has required that each of the military services prepare a budget identifying these costs. Reimbursements to the military services for the costs incurred in administering the program are based on these budgets.

The Senate Committee on Appropriations, in the July 1977 report No. 95-325 on the Defense Department's fiscal year 1978 budget request, asked that Defense provide these budgets as part of the data justifying personnel costs for fiscal year 1979. In compliance, Defense furnished the following information to the Congress with its fiscal year 1979 budget request.

	Total personnel	Cost of personnel
Army	2,738.4	$ 88,300,000
Navy	2,086.0	42,300,000
Air Force	3,880.0	103,510,000
Total	8,704.4	$234,110,000

The Defense Department had originally planned to use data from a new Security Assistance Manpower Accounting Report to support fiscal year 1979 requirements for administrative personnel for the Foreign Military Sales program. However, the report was not available in time. In fact, preliminary data from the report was not presented to the Senate Committee on Appropriations until May 1978, 4 months after the fiscal year 1979 Defense Department budget was presented to the Congress. In the future, Defense officials plan to have administrative personnel data available in time for use in preparing the administrative budget.

The Security Assistance Manpower Accounting Report is designed to be a comprehensive report on all Foreign Military Sales and Military Assistance Program personnel; administrative personnel for the Foreign Military Sales program are separately identified within the total.

CHAPTER 2

SECURITY ASSISTANCE MANPOWER ACCOUNTING SYSTEM NOT DEVELOPED

The Security Assistance Manpower Accounting System which the Defense Department began developing late in 1977 will not provide accurate and reliable data on the number of personnel required to administer the Foreign Military Sales program. In fact, the Department has developed no method of manpower accounting for that system. Instead, a new standard personnel-reporting format was used and personnel data has continued to be developed under practices and procedures which we have previously reported as inadequate 1/.

NEED FOR RELIABLE DATA ON FOREIGN MILITARY SALES PERSONNEL REQUIREMENTS

Reliable estimates of personnel requirements for Foreign Military Sales activities are needed by the Congress so that it can establish Defense personnel ceilings and assess the impact of personnel used in these activities on the overall capabilities of the armed services. Defense Department management officials also need reliable estimates of the program's personnel requirements for use in developing a budget as a basis for obtaining the resources required to administer the program and in updating the administrative surcharge on Foreign Military Sales items to insure that the Department is recovering all such costs.

Our October 21, 1977, report to the Senate Committee on Armed Services pointed out that there was no adequate system of accounting for and reporting on the actual number of personnel involved with the Foreign Military Sales program that could be used in determining personnel costs. We, therefore, suggested that the Secretary of Defense prescribe procedures for identifying and reporting estimated and actual staff-years devoted to the program. We said that, to the extent feasible, this system should be based on actual effort and that, if estimates are required, they should be based on actual workload data, time standards, and management engineering techniques.

1/"Inadequate Methods Used To Account For and Recover Personnel Costs of the Foreign Military Sales Program" (FGMSD-77-22), Oct. 21, 1977.

In an August 17, 1977, letter, the Assistant Secretary of Defense (Comptroller) agreed that the Department lacked an adequate system for determining the number of personnel involved in the Foreign Military Sales program. He also pointed out that the Department has recently initiated a formal project to develop a standard personnel accounting system for determining the effort that supports the system and that, when completed, the system would provide information for internal management decisions, as well as data to meet reporting requirements established by the Congress. According to him, initial data from the new standard system was to be available for the fiscal year 1979 Defense Manpower Requirements Report to the Congress. This report is used to describe, explain, and justify personnel requirements to the Congress.

STATUS OF THE SECURITY ASSISTANCE MANPOWER ACCOUNTING SYSTEM REPORT

The Security Assistance Manpower Accounting Report is intended to provide accurate, standardized data on all actual and planned use of Defense Department personnel in Foreign Military Sales and the Military Assistance Program. A separate section of the report is to contain data on personnel administering the sales program.

Although originally scheduled to be available for the fiscal year 1979 budget presentation, the initial report was still in the development stage as of April 30, 1978, and personnel statistics for the report were called preliminary by Defense. In fact, the requirements for the report were not even communicated to the military services until January 1978--shortly before Defense presented its budget to the Congress.

Although referred to as an accounting system in the implementing instruction to the military services, the Security Assistance Manpower Accounting System, at the present stage of development, is really only a reporting format and cannot be viewed as a system in any real sense. Instructions for developing the data do not prescribe specific procedures for gathering administrative personnel data and have caused much confusion.

LACK OF CONTROL OVER PERSONNEL DATA SUBMITTED FOR THE REPORT

The implementing instructions for the Security Assistance Manpower Accounting System did not contain any provisions to insure uniformity in gathering or assembling

personnel data. Over 50 commands, installations, and activities in the 3 military services submitted data using a variety of methods to develop the information. Only the data itself was submitted to the Defense officials responsible for assembling the report. Consequently, these officials generally were not aware of the methods used to develop the data and had no means of assessing its adequacy. Moreover, most of the commands, activities, and installations that furnished administrative personnel data for the Security Assistance Manpower Accounting Report submitted personnel data which differed from that submitted for the Foreign Military Sales administrative budget although both sets of data should have been similar.

In response to a question by the Chairman of the Senate Committee on Appropriations during the fiscal year 1979 Defense appropriation hearings, the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) stated that the Department's only control over data is that it is subject to audit by the Department's internal audit groups. In our opinion, since controls were not designed into the system, the Department has no assurance that data reported is accurate and reliable.

INCONSISTENCIES IN REPORTING PERSONNEL DATA

Personnel data in the Security Assistance Manpower Accounting Report for the eight major commands and activities providing most of the administrative support for the Foreign Military Sales program differed significantly from that reported in the Foreign Military Sales administrative budget. According to the Security Assistance Manpower Accounting Report, these commands and activities used about 58 percent or 5,038 of the 8,700 staff-years identified in the report as administrative staff-years for the Foreign Military Sales program; whereas the budget showed 51 percent or 4,493 staff-years. Guidance provided for the accounting report stated that personnel data should be consistent with the administrative budget. The following schedule shows a comparison of the data in the report and the budget for these eight commands.

Inconsistent Staff-years

	Security Assistance Manpower Accounting Report (note a)	Foreign Military Sales Administrative Budget	Differences
Army:			
Depot System Command	85.0	1.5	83.5
Tank Automotive Readiness Command	167.0	420.3	(253.3)
Training and Doctrine Command	473.0	41.7	431.3
Missile Readiness Command	415.0	434.5	(19.5)
Air Force:			
Air Force Systems Command	953.0	1,034.0	(81.0)
Air Force Logistics Command	2,517.0	2,411.0	106.0
Navy:			
Chief of Naval Operations	191.0	109.8	81.2
Chief of Naval Education and Training	237.0	40.3	196.7
Total eight commands	5,038.0	4,493.1	544.9

a/In providing this data to the Senate Appropriations Committee the Defense Department termed it preliminary.

Differences in Army data

Our review of the personnel data in the report and the budget for Army commands disclosed that:

--At the Army Depot Command, 83 persons were included as administrative personnel in the Security Assistance Manpower Accounting Report in error. The costs for these 83 are recovered through the accessorial surcharge.

--At the Army Tank Automotive Readiness Command a difference of 253.3 staff-years occurred because the

administrative budget included all personnel who spent 10 percent or more of their time on the Foreign Military Sales program while the manpower accounting report included only full-time personnel who were permanently assigned to work on the program.

--At the Army Training and Doctrine Command the administrative budget included only 42 staff-years at the command headquarters and at the Command's Security Assistance Training management office and did not include the authorized increase of 20 at the latter. The Security Assistance Manpower Accounting Report, however, included not only these personnel but also the overhead personnel located at training activities whose costs were recovered under Foreign Military Sales tuition rates.

--At the Army Missile Command minor differences in personnel data occurred because the administrative budget did not reflect decreases in personnel assigned to the Command's International Logistics Directorate and the manpower accounting report omitted personnel required in the Command's Directorate for Material Management.

Differences in Air Force data

Air Force data in the administrative budget and the manpower accounting report varied because different methods were used to develop the personnel data for each. As a result the Air Force Systems Command and the Air Force Logistics Command, the two major commands that perform most of the Foreign Military Sales work within the Air Force, presented different personnel statistics. In developing the Security Assistance Manpower Accounting Report, the Air Force used its personnel authorization system as a basis for determining the number of personnel performing administrative functions for the Foreign Military Sales program. This system provides only the number of personnel authorized as of a specific date; it does not take into account projected increases or decreases in staffing.

The method the Air Force Systems Command used to develop personnel data for the fiscal year 1979 administrative budget, on the other hand, included increased personnel requirements for future workloads which had not been included in the personnel authorizations. As a result, the administrative budget contained 81 more personnel than the accounting report.

The Air Force also used its personnel authorization system to develop the Logistics Command's administrative personnel data for the Security Assistance Manpower Accounting Report. This report showed that the Logistics Command had 2,517 administrative personnel supporting the Foreign Military Sales program while the Command's administrative budget showed only 2,411 or 106 fewer persons. The Logistics Command used a computerized Foreign Military Sales forecasting system to develop personnel estimates for the administrative budget. This system produced estimates in terms of the total number of staff-years it should take to accomplish the projected workload. Because equivalent staff-years are projected, the percentage of time each individual spends on Foreign Military Sales activities is not known.

On the other hand, the Air Force personnel authorization system allocates positions based on the percentage of time individuals devote to Foreign Military Sales. Thus, neither the Air Force nor we could reconcile all of the difference in the estimates. Part of the differences did, however, result from the fact that the Logistics Command, in developing the estimates for the administrative budget, did not include estimates for all personnel performing base operating support functions for Foreign Military Sales activities.

Differences in Navy data not reconciled

Major differences in administrative personnel data occurred at two Navy activities: Chief of Naval Operations and Chief of Naval Education and Training. Although we had not selected these two activities for review, we did request personnel in the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) to determine the reasons for the differences. As of May 15, 1978, the Navy had not submitted the data needed to reconcile the variances.

Differences in data at military training commands

Instructions for the Security Assistance Manpower Accounting Report did not clearly define administrative personnel. As a result statistics on personnel who support the training program were erroneously included. The costs of these personnel are included in tuition rates for courses and should not be recovered under the Foreign Military Sales administrative surcharge. However, the Army Doctrine and Training Command and Navy's Chief of Education and Training

erroneously included 519 training personnel in their estimates of administrative personnel.

Continued use of inadequate procedures

Procedures followed by the military services to develop personnel data for the fiscal year 1979 administrative budget are the same as those used to develop estimates of Foreign Military Sales administrative personnel in fiscal year 1977. Our October 21, 1977, report pointed out, and the Defense Department agreed, that these methods did not provide adequate estimates of Foreign Military Sales administrative personnel. Our assessment of the Defense Department's fiscal year 1979 estimate of administrative personnel for budget purposes follows in chapter 3.

CONCLUSIONS

The preliminary Security Assistance Manpower Accounting Report did not achieve the objective of providing accurate, standardized data on all actual and planned use of Defense Department personnel in the Foreign Military Sales program. Although the Department advised us in August 1977 that a new system was being developed to determine the amount of Defense effort used to support the Foreign Military Sales program, no new system was developed. The report merely took existing personnel data and compiled it in a new report format.

It will not produce reliable estimates of Foreign Military Sales administrative personnel because:

--Implementing instructions for the Security Assistance Manpower Accounting Report did not contain any provisions for control over the gathering and assembling of personnel data.

--Instructions for preparing the report did not clearly define administrative personnel, thus, training personnel were erroneously included.

--Methods the military services used to develop data for the manpower accounting report and the administrative budget were inconsistent.

RECOMMENDATIONS

We recommend that the Secretary of Defense require the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) and the Director of the Defense Security Assistance Agency to improve administrative personnel estimates in the Security Assistance Manpower Accounting Report by:

--Requiring all commands and activities providing administrative personnel data for the report to submit their method of compiling the data as well. Methods should be approved only if they are based on actual experience adjusted for future changes in workload. In instances where estimates are required, they should be based on actual and projected workload data, time standards, and staff-hour accounting reports.

--Developing a consistent definition of administrative personnel for use in reporting personnel statistics and developing budgets so that the same set of data can be used for budgeting as well as all other management functions. The definition of administrative personnel should specifically exclude those whose cost is recovered from tuition fees charged for training provided under the Foreign Military Sales program.

CHAPTER 3

IMPROVEMENTS STILL NEEDED IN PROCEDURES USED TO RECOVER ADMINISTRATIVE COSTS OF THE PROGRAM

The Defense Department's methods of estimating administrative costs for the fiscal year 1979 Foreign Military Sales program do not adequately account for the number of personnel involved nor for their retirement costs. Therefore, Defense has no assurance that a 3-percent charge added to the sales price of equipment and services sold under the program is sufficient to recover, as intended by law, the full costs of administering the program.

The surcharge was increased from 2 to 3 percent in October 1977 because Defense officials did not believe 2 percent was adequate; however, there is no assurance that 3 percent is adequate.

We previously reported on these problems in an October 21, 1977, report to the Chairman, Senate Committee on Armed Services, entitled "Inadequate Methods Used to Account For and Recover Personnel Costs of the Foreign Military Sales Program" (FGMSD-77-22). Although Defense Department officials agreed with the findings in that report, they had not completed actions to strengthen their policies and procedures before preparing the fiscal year 1979 Foreign Military Sales administrative budget.

COST RECOVERY REQUIREMENTS

The Foreign Military Sales Act of 1968, as amended (22 U.S.C. 2761), authorizes the sale of defense articles and services to foreign nations if the foreign governments agree to pay not less than their value. In addition, the International Security Assistance and Arms Export Control Act of 1976 (Public Law 94-329) amended the Foreign Military Sales Act to specifically require payment to the U.S. Government for the full cost of administering the program. In this regard, the 1976 amendment requires that letters of offer for the sale to foreign purchasers of defense articles and services include appropriate charges for administrative services (calculated on an average percentage basis), to recover from purchasers the full estimated costs of administration of sales made under this act.

Department of Defense Instruction 2140.1, December 23, 1977, provides that a 3-percent charge should normally be added to the cost of standard articles and service sold under the program to cover the administrative costs. This instruction also provides that the rate be subject to review at least every 2 years and that the military services design their management systems to facilitate timely reviews of the rate.

PERSONNEL DATA USED FOR ADMINISTRATIVE BUDGET NOT ADEQUATE

Personnel data used to develop the administrative budget for the Foreign Military Sales program for fiscal year 1979 was inaccurate and incomplete. The data was furnished to the Senate Committee on Appropriations as part of the backup for the Defense Department's fiscal year 1979 budget request. The Defense Security Assistance Agency requires each of the military services to develop a budget for the administrative cost of the program in order to assure that all such costs are identified and recovered.

We reviewed the procedures used by 11 of the 86 commands and installations reporting administrative costs to the Defense Security Assistance Agency for the budget. These 11 commands and installations reported $121.8 million, or 48.1 percent, of the $253.1 million total costs for the fiscal year 1979 administrative budget. These activities also reported 3,876, or 47.2 percent, of the 8,876 staff-years included.

Many of the problems identified in our earlier review persisted during preparation of the fiscal year 1979 administrative budget. Among the recurring deficiencies were:

--At several commands and installations, rationale and documentation for the administrative cost estimates were either inadequate or nonexistent.

--A number of personnel were not included. As stated in chapter 2, the Air Force Logistics Command's estimate did not include 68 base support personnel who supported the Foreign Military Sales program at its headquarters and at the Ogden Logistics Center. Neither did the Army's Security Assistance Training Management Office include an authorized increase of 20 personnel in its estimates. These omissions resulted in an understatement of about $2.2 million.

--A number of the commands and installations reviewed did not have or did not use a system to regularly compile Foreign Military Sales cost data.

Some examples of these conditions are presented below.

Air Force activities

The Aeronautical Systems Division--a major subordinate activity of the Air Force Systems Command--based its determinations of the percentage of time spent on foreign military sales activities on interviews with personnel performing the administrative functions. On this basis the Division developed an administrative budget that totaled $15.3 million and included 454 staff-years for fiscal year 1979.

Other sources indicated that the estimate was not accurate. The interviews indicated that 257 personnel were administering Foreign Military Sales activities on a full-time basis although only 199 had been authorized, according to the Air Force's manpower authorization listing. Because of this discrepancy, we tested the Division's estimate by comparing the interview data with actual times charged for 70 personnel and found that 71 percent of the interview estimates disagreed with actual times charged. The Aeronautical Systems Division was aware of the questionable accuracy of the personnel data, and it also tested the data developed by the interviews in November 1977 and found 18 of 40 individuals identified as full-time administrative positions in the interviews were not working full-time on the program.

The Ogden Air Logistics Center could not provide adequate documentation showing how it derived 351 of the 396 staff-years in the fiscal year 1979 administrative budget. The 351 staff-years were projected for the Material Management Division. We were told the estimate was based on a 1976 personnel requirements study which was updated to include additional requirements considering the projected workload for fiscal year 1979. Center officials believed that data from the 1976 study did not provide a reliable estimate and adjusted the data for 1979; however, they could not furnish documentation to justify the adjustments. We noted that other Center offices excluded 48 staff-years which should have been included.

Army activities

The Army Communications and Electronics Command could not provide us documentation or statistical data to support 113, or 49 percent, of the estimated 231 administrative staff-years included in the budget. Command officials said they had interviewed personnel to determine how much of their workload involved program administration but no longer had documentation on those interviews. These officials subsequently agreed that a more precise method of estimating personnel on the basis of workload data should be developed.

The Army Security Assistance Center did not compute personnel costs for the administrative budget in accordance with prescribed budget guidance. Instead of using actual salary rates prescribed in the guidance, Center personnel computed personnel costs by using the average fiscal year 1977 salary for all personnel and adding an arbitrary 10 percent. As a result the budget cost of civilian personnel at the Center was overstated by $1.3 million. Center officials could not explain why they did not follow the guidance.

Navy activities

The major Navy activities included in our review used data based on employee time charged to Foreign Military Sales activities, adjusted for pay increases and changes in workload, to develop the fiscal year 1979 administrative budget. From our tests of the data at the Navy Aviation Supply Office, International Logistics Control Office, and Ships Parts Control Office, we believe these activities developed their estimates of personnel required for fiscal year 1979 on a reasonable basis.

NEED TO CONSIDER FULL RETIREMENT COSTS WHEN DEVELOPING THE ADMINISTRATIVE BUDGET

Guidance furnished to the military services by the Defense Security Assistance Agency for developing the administrative budget for fiscal year 1970 prescribed factors for military and civilian retirement benefits and other civilian benefits which were not high enough to recover the full costs of these benefits. Thus, several million dollars of the administrative costs of the Foreign Military Sales program are not provided for in the fiscal year 1979 budget.

In an August 17, 1977, letter the Assistant Secretary of Defense (Comptroller) advised us that the Defense Department was reviewing the factors used to calculate military retirement and civilian retirement and health and life insurance

benefit costs. However, Defense officials had not revised the guidance on these benefits to reflect their real cost prior to the development of the fiscal year 1979 administrative budget, and the budget did not include the full cost of retirement for personnel working on the program.

Guidance furnished by the Defense Security Assistance Agency provides that a factor of 17 percent be applied to the composite pay rate for each military grade to recover military retirement costs and that a factor of 9 percent be added to the base pay for each civilian grade to recover the cost of civilian retirement and health and life insurance benefits. However, these prescribed factors are not high enough to cover the full cost of these benefits.

Defense Department officials have advised us that they have completed their study of the percentage factors and are planning to increase them substantially in the guidance for preparation of the fiscal year 1980 administrative budget. A factor of 26.5 percent rather than 17 percent will be applied to the composite pay rate of military personnel to determine the amount of retirement costs to be recovered. For Defense Department civilians, a factor of 24.4 percent of their base salary rather than 9 percent will be used to determine the amount to be recovered for retirement and employee benefits. Use of these new factors will increase the total costs of the administrative budget for the Foreign Military Sales program by several million dollars.

CONCLUSION

The Defense Department has no assurance that the 3-percent surcharge on the sales price of military equipment and services sold under the program is sufficient to recover the full cost of administering the program as intended by law. The procedures used to estimate the administrative costs of the program for fiscal year 1979 do not provide reliable data on the number of personnel involved nor include the full costs to the Government of the retirement programs for these personnel.

Because factors for employee benefits were not high enough to recover the full cost of the benefits, several million dollars of Foreign Military Sales program costs will not be provided for in the fiscal year 1979 budget. A reliable estimate of this understatement cannot be developed because of the lack of reliable data on the number of personnel working on the program. The failure to use prescribed

factors to account for the cost of retirement benefits for military and civilian personnel could result in an inadequate surcharge rate for fiscal year 1979.

The revisions to the retirement factors which the Defense Department plans to make and the implementation of the recommendations we made in chapter 2 of this report on developing estimates of personnel for the Foreign Military Sales program should result in a more reliable administrative budget for the program and enable the Defense Department to establish an adequate administrative surcharge on Foreign Military Sales.

RECOMMENDATION

We recommend that the Secretary of Defense require that pricing guidelines for Foreign Military Sales items and services be revised to allow full recovery of the cost of retirement benefits in establishing surcharge rates for the program's administrative expenses. These revisions should be made before the next administrative budget call by the Defense Security Assistance Agency.

CHAPTER 4

SCOPE OF REVIEW

We reviewed procedures used by the military services for preparing budget estimates of personnel who administer the Foreign Military Sales program and to determine whether administrative costs were being fully recovered. We examined the accounting records, budget estimates, and reports prepared by the services and their component activities and discussed the basis for Foreign Military Sales administrative manpower estimates with agency personnel.

Our review was performed at the following departments and activities:

--Departments of Defense, Army, Navy, and Air Force, Washington, D.C.

--Defense Security Assistance Agency, Washington, D.C.

--Naval Air Systems Command, Naval Sea Systems Command, and Naval Supply Systems Command, Arlington, Virginia.

--Navy Aviation Supply Office and Navy International Logistics Control Office, Philadelphia, Pennsylvania.

--Navy Ships Parts Control Center, Mechanicsburg, Pennsylvania.

--Army Armament Command, Rock Island, Illinois.

--Army Security Assistance Center, New Cumberland, Pennsylvania.

--Army Communications and Electronics Material Readiness Command, Fort Monmouth, New Jersey.

--Air Force Logistics Command, and the Aeronautical Systems Division, Air Force Systems Command, Wright-Patterson Air Force Base, Dayton, Ohio.

--Air Force Logistics Center, Ogden, Utah.

--Security Assistance Accounting Center, Denver, Colorado.

JOHN L. MC CLELLAN, ARK., CHAIRMAN
WARREN G. MAGNUSON, WASH.
JOHN C. STENNIS, MISS.
PERSONY C. BYRD, W. VA.
WILLIAM PROXMIRE, WIS.
DANIEL K. INOUYE, HAWAII
ERNEST F. HOLLINGS, S.C.
BIRCH BAYH, IND.
THOMAS F. EAGLETON, MO.
LAWTON CHILES, FLA.
J. BENNETT JOHNSTON, LA.
WALTER D. HUDDLESTON, KY.
QUENTIN N. BURDICK, N. DAK.
PATRICK J. LEAHY, VT.
JAMES B. BUCKLEY, TEXAS
DENNIS DECONCINI, ARIZ.

MILTON R. YOUNG, N.
CLIFFORD P. CASE, N.J.
EDWARD W. BROOKE, MASS.
MARK O. HATFIELD, OREG.
TED STEVENS, ALASKA
CHARLES MC C. MATHIAS, JR., MD.
RICHARD S. SCHWEIKER, PA.
HENRY BELLMON, OKLA.
LOWELL P. WEICKER, JR., CONN.

JAMES H. CALLOWAY
CHIEF COUNSEL AND STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

October 5, 1977

The Honorable Elmer Staats
Comptroller General of the United States
Washington, D. C. 20548

Dear Mr. Staats:

The Department of Defense has recently established centralized budgeting, control and accounting procedures for use of the two per cent administrative fee that is collected to pay for administration of the Foreign Military Sales program. In its report on the fiscal year 1978 Department of Defense Appropriation Act (Senate Report 95-325), the Committee requested that the General Accounting Office review and audit the Foreign Military Sales administrative budget submission for fiscal year 1978.

The Committee has learned that the GAO recently reviewed the Department of Defense's method of accounting and reporting on foreign military sales manpower for the Senate Committee on Armed Services. This review revealed that the Department did not have an adequate system to account for and report on the number of personnel involved in the Foreign Military Sales program. In commenting on GAO's report, the Department stated that the standard manpower accounting system for allocating the FMS administrative surcharge fee is being implemented to provide data to meet reporting requirements of the Congress and to furnish information for internal management use.

Initial data from this new manpower accounting system is scheduled to be available for the fiscal year 1979 Defense Manpower Requirements Report to the Congress which is due in February 1978. The Committee requests that GAO review and audit the fiscal year 1979 administrative budget submission for the Foreign Military Sales program rather than the fiscal year 1978 submission. In performing the work, the Committee requests that GAO:

1. Determine whether the new manpower accounting system will be implemented in time to provide estimates for the fiscal year 1979 President's budget.

2. Determine whether the new system provides for adequate controls to insure that reasonable estimates can be made of the number of personnel administering the Foreign Military Sales program.

3. Compare the manpower data produced by this new system with data in justification material submitted to the Congress for the fiscal year 1979 Foreign Military Sales manpower requirements.

4. Determine whether the administrative surcharge on foreign military sales is adequate to recover the full costs of the Defense Department's administration of the Foreign Military Sales program.

Recognizing that the new manpower accounting system is still under development and that manpower data will not be available until January 1978, the Committee requests that the GAO staff discuss the progress of the investigation with the Committee staff in early March 1978. The final report should be available by June 1, 1978, so that the Committee will have use of the report when it considers the fiscal year 1979 Defense Appropriation Bill. In order that the final report will be available in a timely manner, there will be no need for GAO to obtain formal Defense Department comments on the report.

With kind regards, I am

Sincerely,

John L. McClellan

John L. McClellan
Chairman

JLM:ljm

PRINCIPAL OFFICIALS

RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office From		To
DEPARTMENT OF DEFENSE			
SECRETARY OF DEFENSE:			
Dr. Harold Brown	Jan.	1977	Present
Donald H. Rumsfeld	Nov.	1975	Jan. 1977
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):			
Fred P. Wacker	Sept.	1976	Present
ASSISTANT SECRETARY OF DEFENSE (MANPOWER, RESERVE AFFAIRS AND LOGISTICS) (note a):			
Dr. J. P. White	May	1977	Present
Carl W. Clewlow (acting)	Feb.	1977	May 1977
David P. Taylor	July	1976	Feb. 1977
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY			
Lt. Gen. Ernest Graves	Mar.	1978	Present
Lt. Gen. Howard M. Fish	Aug.	1974	Feb. 1978
DEPARTMENT OF THE ARMY			
SECRETARY OF THE ARMY:			
Clifford Alexander, Jr.	Feb.	1977	Present
Martin R. Hoffman	Aug.	1975	Feb. 1977
ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS):			
Robert L. Nelson	June	1977	Present
Paul D. Phillips (acting)	Feb.	1977	June 1977
Donald G. Brotzman	Mar.	1975	Feb. 1977

a/Title changed from Installations and Logistics to Manpower, Reserve Affairs, and Logistics in April 1977.

	Tenure of office From		To
DEPARTMENT OF THE NAVY			
SECRETARY OF THE NAVY:			
W. Graham Claytor, Jr.	Feb.	1977	Present
J. William Middendorf II	June	1974	Feb. 1977
ASSISTANT SECRETARY OF THE NAVY (MANPOWER, RESERVE AFFAIRS AND LOGISTICS) (note a):			
Edward Hidalgo	Apr.	1977	Present
Joseph T. McCullen	Sept.	1973	Apr. 1977
DEPARTMENT OF THE AIR FORCE			
SECRETARY OF THE AIR FORCE:			
John C. Stetson	Apr.	1977	Present
Thomas C. Reed	Jan.	1976	Apr. 1977
ASSISTANT SECRETARY OF THE AIR FORCE (MANPOWER AND RESERVE AFFAIRS):			
Antonia Handler Chayes	July	1977	Present
James P. Goode (acting)	Jan.	1977	July 1977
Mrs. Nita Ashcraft	Aug.	1976	Jan. 1977

a/Title changed from Manpower and Reserve Affairs to Manpower, Reserve Affairs and Logistics in April 1977.

(90374)