

to the accumulation of the excesses. The accumulation of unneeded supplies at the Map Service was particularly significant since the excess inventory included sizable quantities of film and photographic supplies which deteriorate if stored too long and which have to be disposed of at a fraction of their cost. In the past, the Map Service disposed of significant quantities of supplies that had deteriorated and, at the time of our review, its inventories included significant quantities of film and other photographic supplies that had been on hand longer than the recommended periods. In addition to the fact that the Government incurs a financial loss when supplies are disposed of, the maintenance of excess inventories results in added costs for storage, handling, and interest.

We brought our finding to the attention of the Department of Defense and pointed out that appropriate reductions in inventories could produce savings not only by decreasing losses through deterioration and obsolescence but also by reducing storage and handling costs. Also we advised the Department that it appeared that satisfactory measures had been taken to improve the accuracy of stock records but that further action was needed to provide for the correct usage data and the establishment of more reasonable stock levels.

We were subsequently advised that various corrective measures were instituted to maintain the inventory at an absolute minimum for mission requirements, including the establishment of new supply levels for individual items. On the basis of our review, we estimate that the adoption of the new supply levels resulted in a reduction of about \$870,000 in procurement costs during fiscal year 1966. Furthermore, smaller inventories will result in (1) future savings in storage and handling costs, (2) reduction in losses due to deterioration, and (3) reduced interest on funds invested in inventory.

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REVIEW OF THE RELOCATION OF RAILROAD FACILITIES, WALTER F.
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Our review of the railroad's general ledger accounts indicated that the Corps paid about \$770,000 more than it cost the railroad to have the relocation work performed. The railroad was able to perform the relocation work for less than the contract price, primarily because of favorable terms received in subcontracting certain work and because of a Government allowance for additional operation and maintenance costs, which the Corps should have known would not be incurred because of a change in the type of bridge to be constructed. Also included in the relocation costs recorded by the railroad were the costs of certain facility betterments valued at about \$21,000. This amount should be considered an added payment to the railroad because the Government generally is reimbursed for the cost of betterments.

Although it is the general policy of the Corps to use cost-reimbursable-type contracts for major relocations, the Corps entered into a firm fixed-price relocation contract with the railroad because it believed that the use of the fixed-price contract would result in savings