Appendix V

Followup Action on GAO Report on Cost of Sales of Surplus Property and Disposition of Proceeds

Assistant Secretary of Defense,
Installations and Logistics,
Washington, D.C., June 17, 1966.

B–140389.

Hon. Elmer B. Staats,
Comptroller General of the United States,
General Accounting Office.

Dear Elmer: Reference is made to your letter dated March 18, 1966, which transmitted copies of your report to Congressman Thomas B. Curtis on Cost of Sales of Surplus Property and Disposition of Proceeds (OSD Case #2430). The survey on which you reported was directed toward the use of sales proceeds to reimburse the Military Departments and the Defense Supply Agency (DSA) for expenses incurred in disposal operations and to determine whether proceeds have been diverted for nonauthorized purposes.

Your report indicated that approximately $1 million was not available for return to the Treasury at the end of Fiscal Year 1965 because of alleged improper withholding of disposal proceeds and/or improper reimbursement of disposal expenses. Most of the specifics cited in the report were based on the opinion that the actions taken were contrary to DoD policy as expressed in applicable Directives and Instructions.

Your report has been reviewed by the Military Departments and the Office, Secretary of Defense and it has been concluded that most of the actions cited in the report were fully in accord with established DoD policy. Specific explanations follow:

1. *Withholding of sales proceeds by Navy industrial fund.*—The report cited the improper withholding from the deposit fund of $329,000 in sales proceeds, which represented about 50 percent of the transactions tested. Your conclusion was based on the interpretation that DoD Instruction 7310.1 requires that property must be "owned" by an industrial fund before proceeds from disposal sale can be withheld from the deposit fund and credited to the industrial fund. This is not the case. Both DoD Instructions 7310.1 and 5410.4 use the term "generated" by industrial funds, not "owned" by industrial funds. The intent of both of these Instructions is that proceeds from the sale of scrap *generated* in the course of rebuild, modification, or overhaul should be offset against the cost of doing the work, thereby resulting in reduced billings to the customer. With prior approval, this same procedure is authorized for nonindustrial fund activities by subpararaph VI3 of DoD Instruction 7310.1. The DoD position is that the Navy policy on this matter and the specific actions taken are in agreement with DoD policy.

2. *Improper reimbursement for disposal expense.*—

(*a*) *Reimbursement of costs for processing industrial fund scrap.*—Your report cites as improper the reimbursement to the Norfolk Naval Shipyard, for disposal expenses on the basis that the Shipyard also received the proceeds from the sale. DoD policy is that an industrial fund should receive all proceeds from sale if it bears the cost of disposal and only the net proceeds from the sale, i.e., gross proceeds less all expense of disposal, if it does not bear the costs of disposal. Since it is impractical to determine disposal expense for each transaction, the DoD uses an estimated amount of 10 percent of gross proceeds as representing the costs of disposal.

In the case cited, the Norfolk Naval Shipyard did not bear the costs of disposal since the work was performed under a reimbursable service order. Accordingly, the industrial fund was entitled to only the "net" proceeds, which would