

amount to 90 percent of the gross proceeds. The report does not bring out the fact that the industrial fund received credit for only 90 percent of the gross proceeds with the remaining 10 percent being credited to the DSA deposit fund to cover the estimated disposal costs. Assuming that the 10 percent did represent the actual disposal costs, then the final effect of the transactions was that the industrial fund received only "net" proceeds from sale, which is in agreement with DoD policy.

(b) *Reclamation and modification of usable items.*—Your report cited, as improper, the reimbursement for costs of removing parts from end-items on the basis that this action was not essential to the disposal process, as required by DoD Instruction 7310.1. The point of contention appears to hinge on the interpretation of the word "essential." It is true that the items cited could have been disposed of without removing the parts. However, since it is the policy of the Department of Defense to remove all required parts from end-items before disposition, it is "essential" to the disposal process that these parts be removed. This is the interpretation that was intended by DoD Instruction 7310.1 and, accordingly, the specific actions cited are considered to be in accord with DoD policy.

Your report also cited two cases where work performed at the Yorktown Naval Weapons Station and at the Tooele Army Depot was related to modification of ammunition and not disposal. To the extent that these installations received reimbursement for modification work, an adjustment will be made because such actions would be contrary to DoD criteria.

(c) *Costs related to transfer of excess material to property disposal offices.*—Your report cites inconsistent practices of Military Departments pertaining to the practice of reimbursing for predisposal costs, implying that disposal costs incurred prior to the delivery of such material to the property disposal office should not be reimbursed. Department of Defense Instruction 7310.1 intended to make all disposal costs reimbursable. Specifically, the instruction provides that such costs as reporting excess personal property to the Defense Supply Agency (DSA) and to the General Services Administration (GSA), and utilization screening functions performed by DSA are reimbursable. Also, the instruction specifically cites the cost of packing, handling and crating excess and surplus materials as being reimbursable. It is the intent of DoD Instruction 7310.1 that the types of costs being reimbursed to the Navy were to be reimbursable. To the extent that Army, Air Force, and DSA practices are at variance with DoD policy, appropriate corrective action will be taken.

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Your report also stated that there is a need for improving (1) the identification of disposal costs, (2) the reporting of disposal operations, and (3) the review of disposal activities by internal auditors. As a result of your report, a Defense-wide audit of disposal activities has been initiated. This audit will cover, in depth, the issues raised in your report and will provide a basis for taking corrective action as required.

You suggested four measures for improving disposal operations, i.e., strengthening of DSA's supervisory role, implementing a uniform cost accounting system, establishing an improved reporting system, and validating the propriety of disposal expenses through internal audit. With regard to the first suggested measure, DSA's role as the property disposal program manager was strengthened by Deputy Secretary of Defense memorandum dated November 27, 1964, subject: "Implementation of Secretary of Defense Project 26 as it Relates to the Management of the Department of Defense Property Disposal Program" was further strengthened by the December 9, 1965 revision of DSA's basic charter (DoD Directive 5105.22, subject: "Defense Supply Agency"). It is believed that sufficient guidance has been provided to enable DSA to manage and control the disposal program. With regard to your other suggestions, it is considered desirable to await the results of the Defense-wide audit before determining the extent of corrective measures required and initiating specific actions. We will be happy to advise you of the results of our audit and of the additional actions we will take, about the end of the year.

Sincerely,

PAUL R. IGNATIUS.