

counts, we believe scrap processing costs incurred in this connection should be borne by the Industrial Fund rather than the Deposit Fund. Therefore, we are revising our estimate of reimbursed expenses which should have been borne by the Industrial Fund from \$52,000, which excluded "rip-out" scrap, to \$237,000 based on the relationship of the weight of Industrial Fund scrap to the weight of all scrap received for processing during 1965. We suggest that you consider actions that should be taken to prevent further reimbursements from the Deposit Fund of scrap processing costs incurred by the Industrial Fund.

We trust that these additional comments will assist you in clarifying policy matters and effecting corrective action as may be required. If we can be of further assistance, please advise.

Sincerely yours,

C. M. BAILEY, *Acting Director.*

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., February 14, 1967.

HON. THOMAS B. CURTIS,
House of Representatives.

DEAR MR. CURTIS: Enclosed, on behalf of the Secretary of Defense, are two copies of the letter that has been sent to GAO concerning the Comptroller General's report of March 18, 1966 to the Congress on "Sales of surplus property and disposition of proceeds," B-140389 (OSD Case #2430).

Copies of any supplemental comments, which are sent to GAO concerning this report, will also be sent to you.

Sincerely,

J. L. BREWER, Jr.

(For George W. Bergquist, Deputy Assistant Secretary of Defense).

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., February 8, 1967.

MR. C. M. BAILEY,
Acting Director, Defense Accounting and Auditing Division, General Accounting Office, Washington, D.C.

DEAR MR. BAILEY: Reference is made to your letter of December 8, 1966 in which you furnished additional comments and suggestions concerning items contained in your report dated March 18, 1966 to Congressman Thomas B. Curtis on the cost of sales of surplus property and disposition of proceeds, and our reply thereto dated June 17, 1966 (OSD Case #2430).

The Defense-wide audit of disposal activities, which we initiated as a result of your report, was completed the latter part of December 1966. The audit findings are currently being reviewed within the Department of Defense. We will advise you of the findings and our actions pertaining thereto at the earliest possible date.

In regard to the two suggestions presented in your December 8, 1966 letter, the following comments are furnished:

1. *Application of proceeds from sale of "rip-out" material to reduce general overhead costs of industrial-fund activities.*—We are in accord that the proceeds from the sale of "rip-out" scrap generated by industrial-fund activities should be applied, wherever possible, as a reduction in the cost of specific customer orders. The Navy will be advised to take appropriate action to assure compliance with the overall DoD policy in this area.

2. *Prevention of reimbursement from the deposit fund account of scrap processing costs incurred by industrial-fund activities.*—It is our understanding that this suggestion primarily concerns the scrap processing costs which are incurred by disposal activities reimbursed from the Deposit Fund Account. It appears that the problem concerns the equitability of the current policy of withholding ten percent of sales proceeds to offset processing costs incurred by disposal and sales activities. We are considering a proposal whereby the Defense Supply Agency will be assigned the responsibility for determining the equitable percentages or percentages to be withheld from proceeds as the expense of disposal in all cases where total proceeds are not credited to the Deposit Fund. In addi-