The report of the audit review contained findings indicating a need for: (1) improving the identification and reporting of disposal expenses; (2) conducting periodic audits of expenses charged to the disposal fund at all locations where expenses are incurred; (3) establishing a more meaningful method of measuring cost effectiveness and efficiency of the disposal operations; (4) specifying expenses to be withheld for disposal of special types of property (industrial fund scrap, Military Assistance Program (MAP) and exchange/sale property) and centralizing disbursement of the net proceeds from the sale of such property; (5) considering the establishment of a single manager to administer the disposal program, including the control over all resources; and (6) initiating at the Office of the Secretary of Defense (OSD) level the positive management of the military services' lumber and timber programs.

You will recall that in our letter of February 8 we mentioned that we were in the process of implementing an improved cost accounting and reporting system for all disposal activities. This new system, which has a July 1, 1967 target date for implementation, was developed after special consdieration of the findings and recommendations reflected in both your report of March 18, 1966 and the DoD audit review report. Specifically, the new system will establish a uniform cost accounting structure and provide uniform procedures for accumulating and reporting cost and performance data pertaining to all disposal operations. The new cost definitions will provide more detailed descriptions of expenses authorized for reimbursement than existed previously.

We believe that this new system of accounting and reporting, once implemented, will provide the basis and means for improving the management and efficiency of the disposal operation within the DoD. For instance, this new reporting system, in providing more detailed definitions of reimbursable expenses, will allow all management levels, and particularly the Defense Supply Agency (DSA), the program administrator, to compare and appraise financial data in sufficient detail to permit a meaningful evaluation of program operations. Such evaluation will tend to ensure the financing of only those functions which are properly chargeable, and to focus attention to those activities requiring increased management attention.

The finding that the financial and fiscal aspects of disposal operations should be audited periodically will be implemented. With reference to the finding concerning the management of lumber and timber programs, an office has been established within this organization for the specific purpose of managing this program.

In general, we believe that most of the past deficiencies in this program have been operational and procedural rather than of a policy nature, and that the new system will enable us to remedy them. We also believe that DSA can effectively administer the program under the authority it now possesses, and with the additional and more specific guidance which will be provided by the new cost accounting system.

Your continuing interest in the surplus personal property disposal program is appreciated.

Sincerely,

PAUL H. RILEY,
*Deputy Assistant Secretary of Defense*
*(Supply and Services).*