terms, costs to the contractor—Global Associates of Oakland, Calif.—in operating these facilities were to be reimbursed by the Government. The Government would subsequently recover its cost through revenues derived from charges to consumers.

The Department of Defense concurred with our findings and advised us that the Army agreed that the contractor should take steps to insure that losses in messing and merchandising would be recovered by revised pricing; that the contractor should establish in its accounting records a reserve for losses on disposition of obsolete, damaged, or spoiled merchandise; and that the Army should review the contractor's buying and storage records to reduce future losses on merchandise.

In addition, the Department of Defense stated that our findings would be furnished to the military departments calling attention to the need for reviewing messing and merchandising at other similarly remote locations.

We believe that the corrective actions taken or proposed by the Department of Defense and the Department of the Army should, if properly implemented, help to insure that costs incurred in this and similar contractor operations of messing and merchandising activities will be recovered in charges to customers.

[Index No. 19—B-118779, July 27, 1967]

Potential Savings in Financing Operation of Government-Owned Vessels Supporting Military Activities in Southeast Asia, Maritime Administration, Department of Commerce

Our review of the policies and procedures followed by the Maritime Administration, Department of Commerce, relating to the advancing of funds to general agents for the operation of Government-owned vessels used in support of military operations in Southeast Asia, indicated that annual savings in interest cost of about $239,000 could be realized if the Maritime Administration would time its cash advances to meet the general agents anticipated current requirements rather than to have the general agents continue to maintain prescribed cash balances.

The Maritime Administration generally followed the practice of advancing funds to its general agents on the basis of their maintaining a cash balance not in excess of $100,000 for each vessel assigned, subject to a maximum of $500,000 per agent. It is established Government policy to avoid premature advances of funds and thereby preclude unnecessary borrowings and the related interest cost. Treasury Department Circular 1075 provides that cash advances should be timed in accordance with the actual cash requirements of the recipient in carrying out the purposes of the program.

In a letter dated February 8, 1967, we proposed that Maritime modify its procedures in a manner that would result in submission and approval of general agents' requests for advances on the basis of anticipated current operating requirements in order to avoid the premature advancing of Government funds and to help prevent unnecessary interest costs. The Acting Maritime Administrator informed us by letter dated March 6, 1967, that in keeping with our proposal and the announced policy of the Treasury Department, general agents