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# REPORT TO THE CONGRESS



LM092331

## Improvements Needed In The Operation Of Government-owned Vessels In Support Of Military Activities In Southeast Asia

B-118779

Maritime Administration  
Department of Commerce

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

FEB. 24, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D C 20548

B-118779

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on improvements needed in the operation of Government-owned vessels by the Maritime Administration, Department of Commerce, in support of military activities in Southeast Asia. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of Commerce; the Secretary of Defense; the Secretary of the Treasury; the Secretary of the Navy; and the Maritime Administrator.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General  
of the United States

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ABBREVIATIONS

ACD	Atlantic Coast District
DOD	Department of Defense
GAA	General Agency Agreement
GAO	General Accounting Office
MARAD	Maritime Administration
MSTS	Military Sea Transportation Service
MSTSPAC	Military Sea Transportation Service--Pacific Area
NDRF	National Defense Reserve Fleet
PCD	Pacific Coast District
ROS	reduced operational status

D I G E S T

WHY THE REVIEW WAS MADE

The Maritime Administration is responsible for the operation of Government-owned vessels used in support of military activities in Southeast Asia. These vessels are activated from the National Defense Reserve Fleet by Maritime at the request of the Department of the Navy and are operated by private shipping companies under General Agency Agreements with Maritime. From July 1, 1965, through December 31, 1968, the cost of activating and operating these vessels amounted to about \$614.3 million.

Because of this amount and the importance of these activities to U.S. military operations in Southeast Asia, the General Accounting Office (GAO) undertook a review of Maritime's management of these activities.

FINDINGS AND CONCLUSIONS

During the 3-year period ended December 31, 1968, crew shortages caused delays in 592 of 1,405 scheduled sailings despite significant efforts by Maritime, other Federal agencies, and private organizations to alleviate the problem. These delays resulted in additional operating costs of about \$7 million. (See p. 6.)

The U.S. Coast Guard recognized the problem of crew shortages and waived its normal vessel-manning requirements as did the unions. During the 3-year period ended December 31, 1968, 1,145 of the 1,405 sailings were made without full crews. (See p. 10.)

During a period of considerable reduction in sealift requirements, additional costs of about \$658,000 were incurred because vessels taken out of service were placed initially at commercial piers rather than at Government reserve fleet sites. GAO believes that this situation occurred because consideration was not given to the use of these other facilities. (See p. 13.)

GAO reported in 1967 that Maritime had advanced excessive amounts of cash to its general agents for the operation of Government-owned

vessels. Although these balances have since been reduced significantly, further reductions are believed possible. (See p. 20.)

#### RECOMMENDATIONS OR SUGGESTIONS

The Maritime Administrator should take action with Navy to provide for either Maritime or Navy to determine, prior to placing each vessel in reduced operational status, whether use of a reserve fleet site, rather than a commercial site, would be preferable.

Maritime headquarters should also maintain closer surveillance over the adequacy of its coast districts' implementation of prescribed procedures for advancing funds to general agents.

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

Maritime and Navy stated that actions would be taken to provide for consideration of use of reserve fleet sites under appropriate circumstances. (See p. 17.)

Maritime stated that cash advances had been the subject of much discussion and action and that its efforts to hold cash balances to a minimum had been very effective. (See p. 22.)

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being issued to the Congress because of continued congressional interest in the effectiveness of support provided to U.S. military forces in Southeast Asia.

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has made a review of selected activities of the Maritime Administration, Department of Commerce, concerning the operation of Government-owned vessels by general agents in support of military activities in Southeast Asia.

Our review was directed primarily toward examining into Maritime's practices regarding, and surveillance over, crew shortage problems; use of Government-owned facilities for vessels taken out of service; and advancing funds to general agents. These matters are discussed in detail in the following sections of this report. Our review also included an examination of Maritime's guidance to general agents in the areas of maintenance and repair of Government-owned vessels, procurement, contracting, and auditing activities which indicated no areas warranting further discussion in this report. Our review did not include an evaluation of the effectiveness of Maritime's overall support of military activities in Southeast Asia.

Our review did cover a limited examination of the activities of the Military Sea Transportation Service (MSTS), Department of the Navy, relative to its role in the general agency program; however, it did not include an evaluation of the need for, or manner in which MSTS uses, Government-owned vessels. The scope of our review is further described on page 25.

A list of the principal officials responsible for the administration of the activities discussed in this report is included as appendix III.

### BACKGROUND ON GENERAL AGENCY PROGRAM

Maritime is responsible, under delegation of authority by the Secretary of Commerce, for the administration of programs authorized by the Merchant Marine Act, 1936 (46 U.S.C. 1101), as amended, and related statutes to aid

in the development, promotion, and operation of the American merchant marine.

Maritime is responsible also for the maintenance and preservation of vessels in the National Defense Reserve Fleet (NDRF). NDRF, established pursuant to the Merchant Ship Sales Act of 1946 (50 U.S.C. app. 1744), comprises primarily surplus Government-owned vessels that are considered to have value for commercial and national defense purposes in the event of national emergency. NDRF sites are located in the States of Alabama, California, New York, Texas, Virginia, and Washington.

When requested, Maritime activates vessels from NDRF and operates them through General Agency Agreements (GAAs) for other Government agencies, principally the Department of Defense (DOD). GAAs are made between the National Shipping Authority--established in 1951 as an integral unit of Maritime--and shipping companies, acting as general agents, to manage and operate Government-owned vessels in accordance with Government directives or with reasonable commercial practices. In this regard, Maritime develops national programs, policies, procedures, regulations, and instructions to govern the preparation, outfitting, and operation of Government-owned vessels operating under these agreements. Maritime also coordinates all GAA activities performed under the direction of its coast directors--located in New Orleans, New York, and San Francisco--who are responsible for carrying out these activities.

In July 1965, Maritime, at the request of MSTTS, began to withdraw vessels from NDRF and activate them for use only in support of military activities in Southeast Asia. Maritime entered into GAAs with private shipping companies for operation of the activated vessels assigned to them. The activated vessels were designed and constructed prior to or during World War II. In October 1966, at the peak of the general agency program in support of military activities in Southeast Asia, 172 vessels (161 activated from NDRF) had been assigned to 40 general agents. By December 31, 1968, the number of vessels had decreased to 144 and were assigned to 34 general agents.



The entire cost of the GAA program is borne by MSTS through a reimbursement arrangement provided for in an agreement between MSTS and Maritime relating to operation of general agency vessels. Maritime advances funds to general agents for working capital to operate the vessels and compensates them for their services. MSTS reimburses Maritime for direct costs incurred in the activation and operation of the vessels and for Maritime's administrative services. MSTS, in turn, receives reimbursement from the organizations within DOD that make ocean shipments under MSTS auspices.

During the period July 1, 1965, through December 31, 1968, the total cost of reactivating and operating Government-owned vessels in the GAA program amounted to about \$614.3 million. During the same period, GAA vessels made 1,464 voyages and carried over 7.8 million measurement tons,<sup>1</sup> or 27 percent of all MSTS cargo carried, from the United States to Southeast Asia. In addition to these GAA vessels, privately owned commercial vessels carried 19.3 million tons, or 66 percent of the total, and the MSTS-owned fleet carried another 1.9 million tons, or 7 percent.

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<sup>1</sup>A measurement ton is a unit of volume for cargo freight, usually 40 cubic feet.

## CHAPTER 2

### ADDITIONAL COSTS

#### RESULTING FROM CREW SHORTAGES

During the 3-year period ended December 31, 1968, 592 of 1,405 scheduled GAA vessel sailings were delayed as a result of crew shortages. On the basis of vessel operating costs of from \$2,700 to \$3,500 a day, exclusive of fuel costs, we estimate that over \$7 million in additional operating costs were incurred due to these delays of up to 36 days. Despite the efforts of Maritime, the Coast Guard, maritime unions, and general agents to alleviate the crew shortage problem during the 3-year period, these GAA vessel sailings from U.S. ports were delayed more than 2,200 days as a result of crew shortages, as shown below.

<u>Year</u>	<u>Sailings</u>	<u>Number of sailings delayed</u>	<u>Percent of sailings delayed</u>	<u>Days delayed</u>	<u>Estimated additional cost</u>
1966	323	160	50	548	\$1,479,600
1967	563	245	44	833	2,708,300
1968	<u>519</u>	<u>187</u>	36	<u>829</u>	<u>2,901,500</u>
Total	<u>1,405</u>	<u>592</u>	42	<u>2,210</u>	<u>\$7,089,400</u>

Examples of some of the more significant delays in sailings and the related costs, based on operating costs during the periods of delay, that have been experienced on GAA vessels because of crew shortages are shown below.

<u>Vessel</u>	<u>Port</u>	<u>Days delayed</u>	<u>Estimated costs due to delay</u>
Allegheny Victory	Sunny Point, S.C.	12	\$ 42,000
Amarillo Victory	Earle, N.J.	12	42,000
Barre Victory	San Francisco, Calif.	10	27,000
Carroll Victory	Savannah, Ga.	36	126,000
Clarksville Victory	Earle, N.J.	18	63,000
Lindenwood Victory	Seattle, Wash.	13	35,100
Minot Victory	Sunny Point, S.C.	15	52,500
Rutgers Victory	San Francisco, Calif.	14	37,800
St. Augustine Victory	Bayonne, N.J.	12	42,000
Southwestern Victory	Savannah, Ga.	15	52,500
Xavier Victory	Sunny Point, S.C.	<u>14</u>	<u>49,000</u>
Total		<u>171</u>	<u>\$568,900</u>

Although MSTs officials have assigned the highest shipping priority to military unit movements, followed by shipments of ammunition, refrigerated products, and other types of cargo, delays for vessels involved in military unit movements have also been experienced. For example, during one military unit movement, two GAA vessels' sailing dates were each delayed more than 1 week because of crew shortages, which resulted in late arrivals of the two vessels at destinations in Southeast Asia by 8 days and 15 days, respectively. We did not ascertain what problems might have arisen in Southeast Asia as a result of the delays; however, these delays within the United States that were caused by crew shortages resulted in additional operating costs of about \$49,000.

Ammunition shipments to Southeast Asia have also been delayed considerably as a result of crew shortages. We reviewed 20 of 46 scheduled GAA vessel sailings from the Naval Ammunition Depot, Bangor, Washington, for the 6-month period ended October 15, 1968. Of the 20 scheduled vessel sailings, 10 loaded vessels were delayed a total of 56 days because the necessary crewmen were not available at the time the vessels were scheduled to depart. These delays while awaiting crewmen cost the Government about \$196,000 in operating costs as shown below.

<u>Vessel</u>	<u>Days delayed</u>	<u>Estimated cost due to delay</u>
Canton Victory	4	\$ 14,000
Hope Victory	5	17,500
Great Falls Victory	3	10,500
North Platte Victory	1	3,500
Canton Victory	12	42,000
Green Bay Victory	9	31,500
Grove City Victory	5	17,500
Occidental Victory	11	38,500
Bucknell Victory	5	17,500
North Platte Victory	<u>1</u>	<u>3,500</u>
Total	<u>56</u>	<u>\$196,000</u>

Of all the problems arising from the current GAA program--that is, repairs, procurement of supplies, cargo operations, and crewing--the problem of crew shortages has been considered by Maritime as the most serious and troublesome. According to Maritime, the underlying cause of the problem is the lack of a sufficient number of qualified seamen to meet the needs of this emergency operation. This problem is further complicated by the reluctance of seamen to sail on GAA vessels, primarily because of the relatively poor condition of these older vessels in comparison with the more modern privately owned vessels and because of the reluctance of seamen to sail to Southeast Asia. As described below, Maritime has attempted to alleviate the crew shortage problem although the responsibility for providing the necessary crews is that of the general agents.

According to Maritime's GAAs, crews are to be obtained by general agents in accordance with the customary practices of commercial operators and with the terms and conditions of the general agents' collective bargaining agreements with applicable unions.

Seafaring personnel have traditionally followed an employment pattern allowing for periodic breaks in service to compensate for the confined and restrictive living and working conditions while on board vessels. These breaks in service can be extensive. For example, west coast seafaring unions provide for paid vacations for seafaring personnel of from 60 to 90 days a year. As a consequence, if vessels are to be in service all year, the number of qualified seamen available should exceed the number of shipboard jobs.

The high attrition rate of licensed deck and engine officers contributes to crew shortages. Licensed officers are eligible for retirement after 20 years of service. At the time of Maritime's entrance in 1966 into extensive GAA operations, the average age of licensed officers placed the industry in a high attrition rate category, as shown below.

<u>Officer</u>	<u>Average age</u>
Masters	55.4
Mates	48.9
Marine Engineers	50.6

The attrition rate for deck and engine officers for the past 5 years has been over 1,000 a year. The number of deck and engine officers in 1969 totaled approximately 13,750. In recent years the number of graduates from the State and Federal maritime academies and the union training schools has approximately equaled this attrition rate, as described below, but has not provided an increase in the total number of deck and engine officers available.

Most of the graduates were from the U.S. Merchant Marine Academy at Kings Point, New York, and the five State maritime schools at Vallejo, California; Castine, Maine; Buzzards Bay, Massachusetts; Galveston, Texas; and Fort Schuyler, New York. These schools have contributed to some easing of the officer shortage by advancing their normal graduation dates from 1 to 5 months and by collectively providing from 500 to more than 600 officers each year. In addition, the majority of these graduates are commissioned in the Naval Reserve and therefore are not subject to classification for military duty provided they meet the requirements necessary to maintain a satisfactory status in the Naval Reserve including a requirement to sail in the merchant marine for a specified period of time.

In an effort to alleviate the crew shortage problem, several maritime unions initiated training programs in 1966 to upgrade skills of union members. These training programs are paid for, in part, by general agents' contributions that are reimbursed by the Government and through Government grants to the unions. These contributions, which we estimate amounted to about \$2.8 million in 1968, are based upon the number of GAA vessels operated by the general agents. We were informed by Maritime officials that, although they have no specific information on the effect these training programs have had on the GAA program, approximately 440 deck and engine officers had graduated from union training programs in 1968 and an estimated 560 would graduate in 1969.

As early as March 1966, when there were over 100 GAA vessels in operation, Maritime petitioned the Interagency Advisory Committee on Essential Activities and Critical Occupations to classify officers and seamen as having

critical skills and ratings to be exempt from the military draft. The Committee comprised representatives of (1) the Department of Labor, (2) the Department of Commerce, (3) the Department of Defense, and (4) the Selective Service System. On August 19, 1966, the Committee ruled that ocean shipping was an unessential activity and that licensed and other skilled seamen could not be exempted from the draft. Maritime did not appeal the Committee's ruling. In some instances, however, Maritime and various maritime unions have successfully interceded at local Selective Service Boards in obtaining draft deferments on behalf of seafarers, in categories of short supply, who were facing induction.

The Interagency Advisory Committee on Essential Activities and Critical Occupations was abolished in 1968. According to a memorandum from the Secretaries of Labor and Commerce to the other committee members, the functions of this Committee have been continued by its members on an informal basis.

Maritime has made other efforts to ease the crew shortages, including (1) a program of radio and television announcements publicizing its manpower needs, (2) surveillance of general agents for assurance that they are taking the proper measures to obtain crews including direct contacts with maritime unions, and (3) contacts with State and local governments to obtain leaves of absence for licensed officers to serve in the merchant marine.

The U.S. Coast Guard, recognizing the crew shortage problem, established guidelines to waive normal vessel-manning requirements in the interest of national defense. In order to meet the continuing demand for skilled crewmen, the Coast Guard has also relaxed its regulations, wherever possible, to accelerate the upgrading of seamen and officers to higher skills.

In addition to delays, crew shortages have further affected the GAA program in that the vast majority of GAA vessels have sailed with Coast Guard and union permission without a full-crew complement. During the 3-year period ended December 31, 1968, 1,145 (about 81 percent) of 1,405 scheduled sailings were made without full crews and the

crews were short from one to eight members a vessel. The following schedule shows, by type of crewman, the extent of these shortages.

Year	Sail- ings	Sailings without		Crew shortages by category		
		full crew		Licensed officers		Unlicensed crewmn
		Number	Percentage	Deck	Engine	
1966	323	320	99.1	226	346	83
1967	563	397	70.5	291	416	146
1968	<u>519</u>	<u>428</u>	82.5	<u>313</u>	<u>505</u>	<u>219</u>
Total	<u>1,405</u>	<u>1,145</u>	81.5	<u>830</u>	<u>1,267</u>	<u>448</u>

We noted that during the 9-month period ended September 30, 1969, delays of GAA vessel sailings due to crew shortages declined significantly, apparently as a result of the decreased number of GAA vessels in operation. During this period, 35 (14 percent) of 244 scheduled GAA vessel sailings were delayed as a result of crew shortages.

#### AGENCY COMMENTS

In a letter dated July 22, 1969, commenting on our draft report (see app. I), the Acting Maritime Administrator stated that there was no doubt that crew shortages added several million dollars to the cost of the GAA program. He stated that the crew shortages were a specific problem created by the sudden expansion of the active fleet and that there existed a significant number of industry training programs with very large potential to meet projected manpower demands of the industry. He stated further that Maritime had studied long-range manpower demands accompanying several variations of expanded merchant marine programs and that adequate manpower planning actions would be taken to meet any increased manpower demand.

## CONCLUSION

We estimate that, during the 3-year period ended December 31, 1968, over \$7 million in additional operating costs were incurred by the Government as a result of delays in scheduled sailings of GAA vessels caused by crew shortages. According to Maritime, the underlying cause of the problem was that not enough qualified seamen were available to man GAA vessels in support of military operations in Southeast Asia.

We believe that the Federal agencies and other organizations have made significant efforts to alleviate the problem of crew shortages. Although it is the general agents' responsibility to obtain crews, Maritime has made efforts to alleviate the continuing problem of crew shortages, including an attempt to have Maritime officers and seamen exempted from the military draft.



## CHAPTER 3

### VESSELS IN REDUCED OPERATIONAL STATUS

We estimate that additional costs of about \$658,000 were incurred during a period of a considerable reduction in GAA vessel sealift requirements that began in August 1967, because MSTS requested that vessels taken out of service remain at commercial piers rather than be placed at Maritime's NDRF sites. We believe that this situation occurred because consideration was not given to the use of NDRF sites even though, considering operational requirements, such use would have resulted in overall savings to the Government. During our review MSTS changed its practices, and, in November 1968 when sealift requirements were again reduced, MSTS requested that vessels taken out of service be placed in NDRF sites.

On August 17, 1967, as a result of a decrease in cargo tonnage being shipped to Southeast Asia, MSTS directed Maritime to commence withdrawing from service certain GAA vessels and to place them in reduced operational status (ROS) at commercial piers in San Francisco and Seattle. On the basis of MSTS's request, Maritime's Pacific Coast District (PCD) issued instructions to general agents for placing vessels in ROS and estimated that the period of inactivity would be a minimum of from 15 to 30 days. Between August 17, 1967, and February 2, 1968, the period during which 36 GAA vessels were in ROS at commercial piers on the west coast, costs of about \$780,000 were incurred in maintaining the vessels at the commercial piers.

In accordance with the agreement between MSTS and Maritime, whenever and as soon as it is anticipated that the minimum period of inactivity of a GAA vessel will exceed 10 days, the vessel is placed in ROS. During this period Maritime has the responsibility of minimizing all expenses incident to the vessel. In this connection, Maritime has established policies and procedures for the manning, security, and safety of the vessel. The agreement is silent, however, on whether ROS vessels should be placed in commercial or Government-owned facilities.

Port expenses for a vessel in ROS at a commercial pier average about \$600 a day on the west coast. This amount includes the general agent's compensation, certain crewmen's pay and subsistence, 24-hour security watchmen, wharfage and dockage fees, garbage service, water, and electrical power. Many of the above services and related expenses are eliminated when a vessel is placed in ROS at an NDRF site. We estimate that, excluding towing costs, a vessel could remain in ROS at an NDRF site for the first 60 days for a total cost of about \$500, or \$8.50 a day. A vessel remaining in an NDRF site for a longer period would require preservation measures involving an additional cost of \$1,000 for the first month and \$600 for each additional month, which costs are minimal compared with the daily costs of over \$600 at commercial facilities.

The principal cost involved in placing a vessel in an NDRF site is towage. In the San Francisco port area, as an example, it costs an average of about \$3,750 to tow a vessel from a commercial pier to the Suisun Bay, California, NDRF site, or about \$7,500 for a round trip. Therefore, in the case of a vessel returning to service, round trip towing costs are absorbed by savings effected when a vessel remains in an NDRF site for over 12 days. Therefore, for any vessel going directly into ROS at an NDRF site on the west coast, rather than at commercial facilities, savings would be achieved after 12 days in ROS.

PCD, recognizing the significance of the costs involved in keeping vessels in ROS at commercial facilities, recommended to MSTS early in September 1967 that the vessels in ROS be placed at the NDRF sites located at Suisun Bay, California, and at Olympia, Washington. PCD also informed MSTS that this transfer would result in other advantages, such as better maintenance and preservation of the vessels by NDRF personnel and increased protection and security.

At the time of the transfer of the first GAA vessel from a commercial facility to an NDRF site late in September 1967, however, costs of about \$363,000 had been incurred by placing vessels in ROS at commercial facilities. Among the first group of vessels transferred to the NDRF was one which had previously been designated by MSTS--because of difficulties in obtaining repair parts--for

deactivation but which had not been transferred to the NDRF until 39 days after it was taken out of service. Keeping this vessel in ROS at a commercial pier for 39 days cost about \$24,000 as opposed to estimated costs of \$4,250 if the vessel had been placed in ROS at an NDRF site at the time it was taken out of service.

Each of the 36 vessels on the west coast was placed in ROS for more than 12 days. We estimate that costs of about \$658,000 (actual costs of \$780,000 incurred at commercial piers less estimated costs of \$122,000 if the ROS period at commercial piers had been at an NDRF site) could have been avoided if the vessels had been initially placed in ROS at an NDRF site.

Of the 36 vessels, 14 were in ROS at commercial piers for periods ranging from 18 to 83 days, or an average of 47 days, which was beyond the 12-day period after which savings would have been realized if they had been placed in ROS at an NDRF site. On the basis of the average daily cost of \$600 for maintaining a vessel at a commercial pier, costs of about \$284,000 could have been avoided.

Of the remaining 22 vessels retained at commercial piers before being transferred to an NDRF site 14 were retained for periods ranging from 13 to 101 days and eight were retained for less than 13 days. On the basis of the average daily cost of \$600 a vessel, costs of about \$374,000 could have been avoided if these 22 vessels had been initially placed in ROS at the NDRF site.

In January 1969 we brought this matter to the attention of Maritime's Pacific Coast Director and the Commander, MSTSPAC, who agreed with our findings. We noted, however, that there was a lack of agreement between MSTS and Maritime officials regarding which agency was responsible for determining the site for the individual vessels being placed in ROS.

The Commander, MSTSPAC, stated that MSTS did reduce costs during the August 1967 through February 1968 period of ROS by taking out of full operational status those vessels that were in excess of current needs. He recognized, however, that additional savings could have been achieved

if the vessels had been in ROS at NDRF sites, rather than at commercial facilities, during the entire ROS period. He said that the uncertainty of the period of ROS was the primary reason for keeping vessels at commercial facilities.

The Director, Cargo Operations Division, MSTS, stated that the agreement between Maritime and MSTS places responsibility with Maritime to minimize expenses while a vessel is in ROS, which includes the determination of the most economical ROS locations.

The Deputy Chief of Maritime's Office of Ship Operations stated that, although Maritime usually suggested ROS locations, MSTS made the final decision regarding the location, that is, a commercial pier or an NDRF site, for any vessel's ROS, because it had overall responsibility of the GAA sealift program and it was in a better position than Maritime to determine when a vessel in ROS would be needed again for active service. He stated further that the present ROS policy was also in effect in August 1967 and that there was still no written agreement between Maritime and MSTS which requires that vessels be placed in ROS at NDRF sites.

In addition to the 36 GAA vessels placed in ROS on the Pacific Coast, three GAA vessels were placed in ROS for a total of 182 days at commercial piers on the Atlantic and Gulf coasts. Although we did not review the circumstances of their placement in ROS, we did ascertain that estimated costs of about \$102,000 were incurred in maintaining these vessels at commercial piers. We believe that, had these three vessels been initially placed in ROS at an NDRF site, the cost of maintaining them in ROS would have been less than the costs incurred at the commercial piers.

#### AGENCY ACTION TAKEN TO MINIMIZE COSTS OF VESSELS DURING PERIODS OF ROS

During our review MSTS experienced another reduction in vessel sealift requirements and in November 1968 directed Maritime to withdraw from service GAA vessels in excess of its needs. This time, however, MSTS directed Maritime to place such vessels in ROS at NDRF sites. As of March 31, 1969, 59 GAA vessels were in ROS at NDRF sites. As of

June 30, 1969, because of an increase in sealift requirements, 27 of these vessels in ROS had been returned to full operational status.

### CONCLUSION

Additional costs of about \$658,000 were incurred by the Government because MSTS ordered GAA vessels taken out of service to remain at commercial piers during the period of ROS, rather than at NDRF sites where ROS costs are considerably less. We believe that this situation occurred because consideration was not given to the use of NDRF sites even though, considering operational requirements, such use would have resulted in overall savings to the Government. We believe that the situation was further complicated by the apparent disagreement between MSTS and Maritime concerning responsibilities for determining the ROS site. Although MSTS has changed its practices, we believe that there is need for a clear, formal policy agreement between Maritime and MSTS, providing for maximum utilization of NDRF sites for vessels placed in ROS in the future when it is determined to be in the best interests of the Government.

### RECOMMENDATION

We therefore recommend that the Maritime Administrator take action with MSTS to provide for either Maritime or MSTS to determine, prior to placing each vessel in ROS, whether utilization of an NDRF site, rather than a commercial site, would be consistent with operational requirements and would result in overall savings to the Government.

### AGENCY COMMENTS AND OUR EVALUATION

In commenting on this matter, officials of both the Maritime Administration and the Department of the Navy stated that there would be no objection to the inclusion of a statement in the Memorandum of Agreement between the Maritime Administrator and the Commander, MSTS, to establish procedures for deciding whether a ship going into ROS should be placed at a commercial pier or an NDRF site. The Acting Maritime Administrator advised us that action would be taken to recommend to MSTS that such a statement be included in the agreement. The agencies commented further that the

criteria for selecting the ROS site would be the operational requirements at the time that the vessels are placed in ROS.

Regarding the use of commercial piers for vessels in ROS during the period of reduced sealift requirements beginning in August 1967, the Assistant Secretary of the Navy stated:

"Readiness is an essential factor which must be considered, recognized, and planned for in order to provide responsive sealift support for military operations. In retrospect, it may appear that the costs to maintain readiness of ROS ships at commercial piers was not warranted. The projected operational requirements for DOD sealift capability at the desired degree of readiness to meet fluctuating needs of the DOD, however, justified the day-to-day decisions to maintain ROS ships at commercial piers where they are in a much higher state of readiness than at NDRF sites."

We recognize that the decision on the selection of the ROS site must be based upon operational requirements at the time the vessel is being placed in ROS, and we do not contend that this decision should be based solely on monetary considerations irrespective of operational requirements. Certain facts that came to our attention during our review, however, indicated that MSTS was aware that the need for the GAA vessels was such that their placement at NDRF sites would not have impaired MSTS' ability to respond to military sealift requirements.

We found, for example, that, during the initial placement of vessels in ROS in August 1967, MSTS, in a departure from existing policy, ordered that no repairs be made on vessels placed in ROS without prior authorization from MSTS apparently because it did not believe that these vessels would be needed on short notice. In addition, the authorization to the general agents to place ships in ROS stated that the estimated duration of the idle status period was from 15 to 30 days. In our opinion, the above facts indicate that NDRF sites could have been used initially for

vessels being placed in ROS during the reduction in sealift requirements beginning in August 1967.

We believe that the action being taken by Maritime and the Navy is responsive to our recommendation and, if properly implemented, should result in reduced costs for any future reduction in sealift requirements either in the Southeast Asia operation or in any future sealift operations of this type.

## CHAPTER 4

### ADVANCEMENT OF FUNDS TO GENERAL AGENTS

Our follow-up review of the procedures for advancing funds to general agents showed that, although Maritime had significantly reduced the cash balances of general agents, funds were being advanced before they were actually needed because the coast districts had not completely followed established Maritime procedures for advancing funds to agents.

It is established Government policy to avoid making premature advances of funds to preclude unnecessary borrowing and related interest costs. Treasury Department Circular 1075, revised, dated February 13, 1967, and its second revision, dated April 10, 1969, states that cash advances should be timed with the actual cash requirements of the recipient in carrying out the program and, for larger operations, the amount of cash in the hands of the recipient be as close to daily needs as administratively practicable.

### SUMMARY OF PRIOR REPORT AND AGENCY ACTION TAKEN THEREON

In a report submitted to the Congress on July 27, 1967 (B-118779), we noted that Maritime had advanced funds to general agents for the operation of Government-owned vessels used in support of military operations in Southeast Asia in amounts sufficient to maintain a cash balance of not more than \$100,000 per vessel or \$500,000 per agent rather than in amounts sufficient to meet only anticipated current needs. As a result, funds were being advanced in excess of current requirements.

In that report we pointed out that this practice was contrary to the policy set forth in Treasury Department Circular 1075. We estimated that annual savings in interest costs of about \$239,000 could be realized if Maritime would time its cash advances to meet the general agents' anticipated current needs rather than to maintain prescribed cash balances.

We were advised by the Acting Maritime Administrator that, in accordance with our proposal, he was taking action



to make funds available to general agents only on the basis of current needs. New accounting instructions, which became effective March 15, 1967, require general agents to request cash advances not more often than weekly to cover cash to be disbursed the following week and to support each request by a schedule of anticipated disbursements. The instructions also provide that the Maritime District Finance Officer review the supporting schedule for propriety, determine the amount to be advanced, and process the voucher for timely delivery of the advance to the general agent.

NEED TO FURTHER IMPROVE SURVEILLANCE OVER  
ADVANCEMENT OF FUNDS TO GENERAL AGENTS

To determine the effectiveness of the revised procedures, we reviewed the policies and procedures followed by the Atlantic Coast District (ACD) and PCD for advancing funds to general agents. We found that, as a result of Maritime's prior actions, there was a reduction of about \$4 million in the cash balances maintained by the 40 general agents. However, our detailed review of the cash balances of 10 of these agents--six under the jurisdiction of PCD and four under ACD--showed that the cash balances of certain general agents continued to exceed their needs.

In our opinion, the high cash balances were attributable to ACD's and PCD's not following the provisions contained in the revised accounting instructions. These instructions provide that advances be timed to be in accord with actual cash requirements, that general agents request cash advances generally in such amounts that can be disbursed during the following week, and that the coast districts review the supporting schedules for propriety.

Although the revised instructions provided that general agents request cash advances generally in amounts to cover cash to be disbursed during the following week, our analysis of disbursements showed that the replenishments, when added to the cash on hand, provided funds that, in many cases, were sufficient to meet disbursement requirements for excess periods of from 8 to 23 days.

PCD, contrary to Maritime's revised procedures, allowed each of its general agents to maintain, in addition

to anticipated cash needs, a balance of \$50,000 to accommodate unforeseen cash requirements, regardless of the number of GAA vessels operated. This practice resulted in PCD's 10 general agents holding a total of \$500,000 of Government funds in addition to their anticipated cash requirements.

We believe that ACD's surveillance of general agents' replenishment requests and cash balances needs improvement to ensure that balances being maintained by general agents are reasonable and necessary to meet current needs. Although Maritime procedures require general agents to submit, and Maritime coast districts to review, requests for funds supported by schedules of anticipated disbursements, ACD did not always require the submission of supporting schedules and did not always review those that were submitted. For example, one general agent requested 17 cash advances during the 6-month period ended June 30, 1968. Of these 17 requests, four contained limited explanations of anticipated disbursements. The remaining 13 requests were for amounts which, in most cases, would bring the general agent's cash balance to \$200,000 and, although they contained no schedules of anticipated disbursements supporting the requests, all were approved.

#### AGENCY COMMENTS AND OUR EVALUATION

We proposed that the Maritime Administrator (1) reemphasize to the District Finance Officers the need to advance funds to general agents in accordance with established Government and Maritime policy, (2) require adequate surveillance of general agents' cash balances by coast districts, and (3) test the adequacy of such surveillance through periodic supervisory reviews of district operations.

In commenting on this matter, the Acting Maritime Administrator stated that the first two parts of our proposal had been the subject of much discussion and action. He stated that the cash balances were (1) discussed at Maritime's District Finance Officers conferences, (2) looked into by Maritime's Assistant Chief, Division of External Audits and Financial Analysis, during his visit to the District Finance Offices in 1968, and (3) included in general agency audit and policy guidelines issued by Maritime to the

districts in July 1968 as an item to be reviewed. He stated further that:

"Lastly, a memorandum issued to Maritime's District Finance Officers under date of February 14, 1969, directed tighter control procedures wherever necessary so as to assure strict adherence to the provisions of NSA Accounting Instruction No. 2. The memorandum contained the further caution that in no event should a cash advance be made in an amount that would result in a General Agent having cash on hand in excess of his estimated cash requirements for the coming week."

With regard to our comments concerning the practice of allowing PCD agents to maintain a cash balance of \$50,000 for unforeseen contingencies, we were advised that this practice was discontinued on March 13, 1969.

We agree with the Acting Maritime Administrator that the matter of cash advances to general agents has been the subject of much discussion and action and that the cash balances maintained by the general agents have been reduced considerably since our previous review as evidenced by a decrease in the average month-end balance per operating vessel from about \$50,400 on December 31, 1966, during our previous review; to about \$31,400 on July 31, 1968, at the time of our follow-up review; and to about \$26,100 on June 30, 1969.

We question, however, the significance of certain of the actions taken with respect to solving the problem of excess cash balances. For example, we found that the section of the revised general agency audit and policy guidelines issued in July 1968 pertaining to cash balances was substantially the same as the comparable section in previous guidelines which were in effect during the period covered by our review.

We believe that our current review has indicated the need for continued attention by Maritime headquarters to the effectiveness of the monitoring by the district offices of the cash balances maintained by the general agents.

RECOMMENDATION

We recommend therefore that the Maritime Administrator provide for closer surveillance by Maritime headquarters over the adequacy of the coast districts' implementation of the provisions of Maritime's prescribed procedures for advancing funds to general agents.

## CHAPTER 5

### SCOPE OF REVIEW

Our review of selected activities of the Maritime Administration concerning the operation of Government-owned vessels by general agents in support of military activities in Southeast Asia included an examination of applicable laws; Maritime's policies, procedures, and regulations; and selected records of Maritime in Washington, D.C., and in the coast district offices located in New York and San Francisco. We also interviewed Maritime officials at these locations and MSTS officials in Washington, D.C., and Oakland, California.

We reviewed selected records and interviewed officials of certain general agents at their offices located in New York; San Francisco; and Seattle, Washington. In addition, we reviewed selected records of MSTS at Oakland, California. The review was completed in April 1969.

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APPENDIXES

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**U.S. DEPARTMENT OF COMMERCE**  
**Maritime Administration**  
Washington, D.C. 20235

OFFICE OF THE ADMINISTRATOR

JUL 22 1969

Mr. Henry Eschwege  
Associate Director, Civil Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

Reference is made to your letter of June 25, 1969, which forwarded a draft of a report to the Congress of the United States reviewing General Agency operations in support of military activities in Southeast Asia.

The report contained two recommendations. The first dealt with the need for a formal policy to determine the most economical site for vessels placed in reduced operational status (ROS).

The decision regarding whether a ship going into ROS should be placed at a commercial pier or in the National Defense Reserve Fleet must be made by MSTs. There would be no objection on the part of the Maritime Administration to a statement in the Memorandum of Agreement between the Maritime Administrator and the Commander, MSTs (COMSTS) that this determination be made by the COMSTS. Action will be taken to recommend to COMSTS that such a statement be included in the agreement. It is apparent, however, that each decision would have to be made on the basis of operational requirements at the time the vessels are being placed in ROS.

The second recommendation concerned cash advances to General Agents and is set forth in three parts. They are that the Maritime Administrator (1) re-emphasize to District Finance Officers the need to advance funds to General Agents in accordance with established Government and Maritime policy, (2) require adequate surveillance of General Agents' cash balances by Maritime districts, and (3) test the adequacy of such surveillance through periodic supervisory reviews of district operations.

The first two parts of the recommendation have been the subject of much discussion and action. They were discussed at Maritime's District Finance Officers conferences, and looked into by Maritime's Assistant Chief, Division of External Audits and Financial Analysis, during his visit to the District Finance Offices in 1968. Also, they were provided for in the General Agency Audit and Policy Guidelines issued by Maritime to the Districts in July 1968.

Lastly, a memorandum issued to Maritime's District Finance Officers under date of February 14, 1969, directed tighter control procedures wherever necessary so as to assure strict adherence to the provisions of NSA Accounting Instruction No. 2. The memorandum contained the further caution that in

no event should a cash advance be made in an amount that would result in a General Agent having cash on hand in excess of his estimated cash requirements for the coming week. The level of cash balances in the hands of some 40 General Agents of \$2.2 million on May 31, 1969, indicates the effectiveness of Maritime's efforts to hold cash balances to a minimum.

The opportunity to review and offer our comments on this draft report is appreciated. In formulating these comments affected offices were required to submit detailed observations and comments, which are attached for your consideration in finalizing the report.



Robert J. Blackwell  
Acting Maritime Administrator

Enclosures

GAO note: A portion of the enclosure has been deleted to eliminate comments no longer relevant to the matters discussed in this report.

COMMENTS ON THE SECTION OF THE GAO REPORT OF JUNE 25, 1969, PERTAINING TO  
"ADDITIONAL OPERATING COSTS BEING INCURRED AS A RESULT OF CREW SHORTAGES"

There is no doubt that crew shortages add several millions of dollars to the cost of the GAA program. We appreciate the mention in the conclusion section of the report that the GAO investigators believe that significant efforts were made by Marad to minimize the problem of crew shortages.

In its conclusion (page 14) the report turns its principal attention to the relationship between a "general problem" of crew shortages and any action by Congress "in the expansion and revitalization of the merchant marine." The matter specifically referred for consideration of the Congress is the supply of skilled manpower in relation to an expanded U.S. flag merchant marine.

There now exist a significant number of industry training programs with very large potential to meet projected manpower demands of the industry. We have studied long range manpower demands accompanying several variations of expanded merchant marine programs. While it is true that careful management of training capacity must take place, there are no indications that any significant expansion of existing training capacity is required to meet manpower demands over the next decade.

We do not agree with that portion of the conclusion which states that "crew shortages are a general problem." On the contrary crew shortages were a specific problem created by the sudden expansion of the active fleet. It was promptly recognized by Marad that the reactivation of government-owned tonnage would create a critical need for skilled manpower. Projections of seafaring manpower requirements clearly indicating the projected shortage situation were available in January 1966. It was recognized that institution of government-controlled upgrade training programs would provide a ready source of critical skills for direct assignment to GAA ships. Such government-sponsored programs were not instituted in view of union commitments to training and concern over the long range consequences on the significantly expanded manpower pool created for a short term emergency.

If the Congress acts on policy and program to create an expanded U.S. flag merchant marine, this expansion will be gradual by its nature, based on construction schedules, and adequate manpower planning actions will be taken to meet any increased manpower demand.

COMMENTS ON THE SECTION OF THE GAO REPORT OF JUNE 25, 1969, PERTAINING TO  
"NEED FOR FORMAL POLICY TO DETERMINE MOST ECONOMICAL SITE FOR VESSELS PLACED  
IN REDUCED OPERATIONAL STATUS"

The final decision regarding the site of ROS for any particular vessel must be made by MSTIS. We recognize that the problems of MSTIS with respect to the need for ships at any particular time or at any specific port, is difficult to pre-determine. It is therefore, no doubt, a real problem for MSTIS to make an absolute decision in every case that all ships going into ROS must go to the fleet, because MSTIS might have advice that a ship will be required for Full Operating Status at an early date only to find out that logistic requirements have changed and the ship will not be required as originally planned.

While it is true that the Pacific Coast Director did have knowledge of some of the facts regarding the decision to lay-up ships in ROS in port, the Pacific Coast Director did not have the opportunity to review the decision as a whole, and the Commander of MSTIS PAC exonerated the Maritime Administration with respect to any of its actions by bringing out fully that MSTIS still had to decide whether a vessel should be kept at commercial piers or moved to the NDRF sites. MSTIS often has advance information upon which to arrive at this decision, but such information often changes very rapidly.

The final recommendation in this section regarding ROS, on page 21, recommends a formal policy agreement with MSTIS to provide for either Marad or MSTIS to determine, prior to the placement of the vessel in ROS, whether it should go to a commercial pier or NDRF. It is our belief that in actual operating conditions this would be a most difficult type of agreement to prepare. The very nature of the General Agency operation, with its varying demands for ocean lifts by MSTIS, certainly would make a firm formal policy on this subject most difficult.

We wish to point out that MSTIS accepted the lay-up of GAA ships in NDRF sites after strong urging by Marad, at which time we pointed out to them that large amounts of money were being spent because of long periods of time ships were being held in port as result of changing military requirements. Whereas the initial decision to hold the ships in port was a correct one, after the ships arrived in port, the conditions changed to the extent that it was no longer economical or practical to continue to hold them there. Thus, we recommended they be moved to the fleets, and that no more be sent to the ports unless unusual circumstances justify a decision of this nature.



DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C. 20350

28 AUG 1969

Dear Mr. Bailey:

The Secretary of Defense has asked me to reply to your letter of 26 June 1969 which forwarded the GAO draft report on general agency operations in support of military activities in Southeast Asia.

I am enclosing the Navy reply to the report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert A. Frosch".

Mr. Charles M. Bailey  
Director, Defense Division Assistant Secretary of the Navy  
U. S. General Accounting Office  
Washington, D. C. 20548

ROBERT A. FROSCH

Encl:

- (1) Department of the Navy Reply to GAO Draft Report of 26 June 1969  
on General Agency Operations in Support of Military Operations  
in Southeast Asia (CSD Case #2966)

Department of the Navy Reply  
to  
GAO Draft Report of 26 June 1969  
on  
General Agency Operations in Support  
of Military Activities in Southeast Asia  
(OSD Case No. 2966)

1. Summary of GAO findings and recommendations.

The GAO reported that, beginning in August 1967 when a reduction in the need for General Agency Agreement ships developed, excessive costs were incurred because Commander, Military Sea Transportation Service (COMSTS), requested that ships taken out of active service remain at commercial piers rather than being moved to National Defense Reserve Fleet (NDRF) sites. GAO reported that it was believed that this situation resulted due to absence of a formal agreement between the Maritime Administration (MARAD) and COMSTS concerning the use of NDRF sites for ships in Reduced Operational Status (ROS). The report shows that, during the review, COMSTS changed its practices and requested that ships being placed in ROS be positioned at NDRF sites. The findings, however, indicate that an estimated \$658,000 of costs were incurred by placing ships in ROS at commercial piers, and that it was believed that savings could have been achieved had ships coming out of service gone directly to NDRF sites.

The report recommends that the Maritime Administrator take action to establish a formal policy agreement with COMSTS to provide for either Maritime or COMSTS to determine, prior to placing each ship in ROS, whether utilization of an NDRF site rather than a commercial site would result in overall savings to the Government.

2. Department of the Navy Position.

The Navy has no objections to the GAO recommendation that the Maritime Administrator initiate action to establish a formal MARAD/COMSTS agreement relative to the positioning of ROS ships. During the period of the GAO review, however, the Navy Single Manager Operating Agency for Sealift Service and the Maritime Administration enjoyed close liaison at all levels of contact. It is not believed that a formal agreement between COMSTS and the Maritime Administration, in itself, would have prevented the costs of holding ROS ships at commercial piers.

Enclosure (1)

COMSTS reviews total sealift requirements, current and projected, and arranges with MARAD for the disposition of GAA ships being withdrawn from service. The criterion for holding ships in ROS or for selecting the site at which they are to be held is the operational requirement. This operational requirement to meet the projected and continually changing sealift needs of the four military services is such that day-to-day changes, which require a ready reserve capability, do not permit an immediate decision to move a ship which becomes excess to the most economical ROS site. In the past, surplus ship capability in one area has been utilized in another area in a short period of time; and it is believed that having ships temporarily at commercial facilities resulted in the least overall cost to the Government, in the long run.

Readiness is an essential factor which must be considered, recognized, and planned for in order to provide responsive sealift support for military operations. In retrospect, it may appear that the costs to maintain readiness of ROS ships at commercial piers was not warranted. The projected operational requirements for DOD sealift capability at the desired degree of readiness to meet fluctuating needs of the DOD, however, justified the day-to-day decisions to maintain ROS ships at commercial piers where they are in a much higher state of readiness than at NDRF sites. During recent months, sealift requirements have stabilized, permitting more extensive use of NDRF sites without an unacceptable degradation of readiness to meet currently projected requirements.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE,  
DEPARTMENT OF THE NAVY, AND DEPARTMENT OF COMMERCE  
RESPONSIBLE FOR THE ADMINISTRATION OF THE  
ACTIVITIES DISCUSSED IN THIS REPORT

<u>Tenure of office</u>		
	<u>From</u>	<u>To</u>

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Melvin R. Laird	Jan. 1969	Present
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

John H. Chafee	Jan. 1969	Present
Paul R. Ignatius	Sept. 1967	Jan. 1969
Charles F. Baird (acting)	Aug. 1967	Aug. 1967
Robert H. B. Baldwin (acting)	July 1967	July 1967
Paul H. Nitze	Nov. 1963	June 1967

COMMANDER, MILITARY SEA  
TRANSPORTATION SERVICE:

Vice Adm. Lawson P. Ramage	Mar. 1967	Present
Vice Adm. Glynn R. Donaho	June 1964	Mar. 1967

DEPARTMENT OF COMMERCE

SECRETARY OF COMMERCE:

Maurice H. Stans	Jan. 1969	Present
C. R. Smith	Mar. 1968	Jan. 1969
Alexander B. Trowbridge	June 1967	Mar. 1968
Alexander B. Trowbridge (acting)	Jan. 1967	June 1967
John T. Connor	Jan. 1965	Jan. 1967



PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE,  
DEPARTMENT OF THE NAVY, AND DEPARTMENT OF COMMERCE  
RESPONSIBLE FOR THE ADMINISTRATION OF THE  
ACTIVITIES DISCUSSED IN THIS REPORT (continued)

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF COMMERCE (continued)

MARITIME ADMINISTRATOR:

Andrew E. Gibson	Mar. 1969	Present
James W. Gulick (acting)	June 1966	Mar. 1969
Nicholas Johnson	Mar. 1964	June 1966

CHIEF, OFFICE OF SHIP OPERATIONS:

Randall G. Kriner (acting)	Nov. 1969	Present
Martin I. Goodman	Dec. 1960	Oct. 1969

