

096539

24784



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

72-0323
JUN 8 1972

LOGISTICS AND COMMUNICATIONS
DIVISION

B-158469



LM096539

27
7
19

Dear Mr. Secretary:

We have made a limited review of the Department of Defense (DOD) program for conversion of unofficial telephone service at military installations from Government owned and operated service to commercial service. Although all three military departments are involved in this program, our review was limited to actions taken by DOD and the Department of the Army at selected Army installations.

The DOD program involves an across-the-board approach, the effect of which, we believe, requires (with few exceptions) the conversion to commercial service, without the requisite consideration of economic consequences to the Government. The DOD program was designed to give effect to Government policy stated in the United States Code (10 U.S.C. 2481). Generally this policy does not permit the sale of certain utility (including telephone) services by the military.

The legislative history of 10 U.S.C. 2481, however, shows that the purpose of the law is to encourage private enterprise to construct rental housing to serve the needs of personnel at military installations. Accordingly the law provides that utility services can be furnished by the military departments on a long-term basis if such service is not available from commercial sources. Therefore we believe that, when a utility service has been established by a military activity in accordance with the provisions of 10 U.S.C. 2481, there is no requirement that the service be converted to a commercial source because such commercial service becomes available at a later date. A decision to convert to commercial service should be made on a case-by-case basis and should take into consideration the existing conditions and economic consequences at each location.

We believe that Office of Management and Budget (formerly Bureau of the Budget) Circular A-76, as implemented by

~~701115~~

096539

DOD,¹ provides appropriate policy guidance in these circumstances. In general this guidance requires periodic reviews of existing Government-provided services and comparative cost analyses to support decisions to continue or discontinue the services.

Informal cost analyses, prepared by some Army installations, indicated that conversion of unofficial telephone service to commercial service may not always be the most economical arrangement. For example, according to a Third Army analysis, conversion at nine of its installations would require an annual funding increase of about \$1.4 million, principally because of the loss of reimbursements from military housing and other unofficial subscribers for their use of the Government-owned system.

The informal studies we reviewed were not made as prescribed by DOD instructions implementing Circular A-76. The DOD instruction requires consideration of at least 26 cost elements. However, the informal cost studies did not consider all specified cost elements, such as interest on Government capital, Federal income taxes, depreciation of Government-owned plant and equipment, uninsured losses, and overhead. The inclusion of such cost elements could significantly affect the conclusions of the studies.

It appears that, at the time of our review, the Army was not using an adequate basis for determining whether conversion of unofficial telephone service from Government-provided service to commercial service was in the Government's best interest. Since the DOD conversion program applies to the three military departments, the Navy and Air Force, as well as the Army, may not have performed adequate comparative cost analyses. Accordingly we recommend that you direct the Army, Navy, and Air Force to defer implementation of the conversion program pending performance of a comparative cost analysis, in the form prescribed, at each installation involved.

Our review was conducted at Fort Bragg, North Carolina, and at the Continental Army Command, Fort Monroe, Virginia. We examined data on conversion plans for Third Army installations which were submitted to the Continental Army Command.

¹DOD Directive 4100.15, Commercial or Industrial Activities, July 8, 1971.

DOD Instruction 4100.33, Commercial or Industrial Activities--Operation of, July 16, 1971.

B-158469

We would appreciate receiving, within 30 days, advice of actions taken or planned and any comments you may wish to make concerning this matter. Copies of this letter are being sent to the House and Senate Committees on Appropriations, Government Operations, and Armed Services. Copies of this letter are also being sent to the Director, Office of Management and Budget; the Director, Office of Telecommunications Policy, Executive Office of the President; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

J. K. Fawcett
Director

The Honorable
The Secretary of Defense