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# REPORT TO THE CONGRESS 097/16



## Methods Of Purchasing Food For The Military Services Are Costly And Inefficient

Department of Defense

**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

LCD-74-430

JAN. 14, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-146700

① To the President of the Senate and the  
Speaker of the House of Representatives

This is our report pointing out that the Department of Defense's methods of purchasing food for the military services are costly and inefficient.

We made our examination 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).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

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cussed in this report.

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ABBREVIATIONS

DOD	Department of Defense
DPSC	Defense Personnel Support Center
DSA	Defense Supply Agency
GAO	General Accounting Office
OASD(I&L)	Office of Assistant Secretary of Defense (Installations and Logistics)

D I G E S T

WHY THE REVIEW WAS MADE

GAO inquired into the system for determining requirements; developing specifications; and procuring, storing, and distributing food for the military services--a costly and complex process requiring cooperation of several Government agencies and the U.S. food industry.

FINDINGS AND CONCLUSIONS

With the current concern for worldwide food shortages; high prices; and proper food planning, production, and use, all food purchasers, whether military or civilian, need to have the authority to meet variable market conditions. Purchasers must be flexible enough to buy, in terms of quality, weight, and price, what is available at a time of need. (See p. 2.)

The Department of Defense (DOD) food purchasing agency, however, is unable to respond effectively to market conditions. Its inability to depart from rigid specifications quickly results in higher costs and quite frequently in shortages of required items. This could be reduced if DOD's food purchasing agency had the flexibility

to adjust to market conditions. (See p. 2.) For example, it took the military agencies almost 25 years to accept a revision of the coffee specifications. (See p. 8.)

A large part of the food required by the military services is purchased centrally by the Defense Personnel Support Center of the Defense Supply Agency. The Center, in turn, sells the food, at cost, to the military services. During fiscal year 1973, the Center reported sales of \$536 million for troop feeding and \$310 million to the resale commissary stores. (See p. 2.)

In addition, the resale stores, under brand-name contracts the Center administered, purchased about \$1 billion worth of brand-name items. (See p. 2.)

The food industry tends to be a seller's market, and, in an increasing number of situations, the industry submits none or few bids in response to the Center's solicitations. Requirements may not be filled or competition may not be adequate to insure favorable prices. (See p. 3.)

For the Center to improve its ability to compete in the marketplace with other food buyers, it needs authority to substitute alternative styles, forms and grades and needs product specifications and purchase descriptions that

do not contain nonessential requirements. (See p. 12.)

Requirements in the military food specifications and purchase descriptions that differ from those in commercial practice may not necessarily result in higher quality items or in items that differ appreciably from the commercial products. However, such requirements may seriously reduce the number of interested suppliers and may increase product costs. (See p. 5.)

Although the Center frequently proposes to use substitutions or to make specifications and purchase descriptions less restrictive, the military services tend to resist its proposals. Moreover, many proposed changes must be acted on by the service representatives on the Armed Forces Product Evaluation Committee. (See p. 6.)

This committee is an important channel of communication on subsistence matters. However, it is oriented too heavily to product improvement to deal effectively and efficiently with specification and procurement problems. (See p. 13.)

The annual appropriation acts permit the services to use appropriations to pay for personnel and construction costs incurred to operate commissaries. Commissary patrons are required to pay the costs for food; purchase and maintenance of equipment; supplies and services; and losses due to shrinkage, spoilage, and pilferage. Some costs are to be paid from appropriations or

passed on to the commissary patrons, depending on where the costs were incurred. For example, appropriations can be used to pay transportation and utility costs incurred outside the United States, but the patrons are required to pay such costs incurred within the United States. (See p. 15.)

In general, costs the Defense Supply Agency incurs--as the food wholesaler--which are to be passed on to the commissary patron are paid from the Defense Stock Fund and are recovered, over a period of time, through prices the Agency charges resale and troop-issue customers, whereas such costs as personnel, warehousing, and administration are paid from appropriations and are not recovered. (See p. 15.)

It cannot readily be determined whether costs at the wholesale level are being recovered from the resale activities as required by law, because, whether paid from the stock fund or from appropriations, the costs pertaining to troop-issue and resale transactions are commingled. Consequently, total cost of support for the resale activities is obscure. (See p. 15.)

About \$1.2 million a year is estimated to be paid also from appropriations of the military services to transport resale commissary goods from inland depots to embarkation ports. (See p. 15.) Paying this cost from appropriated funds is according to DOD policy but is contrary to the legislative requirement that transportation in the United States be passed on to commissary patrons.

#### RECOMMENDATIONS

The Secretary of Defense should:

--Improve the Center's ability to respond to the changing market conditions previously described. (See p. 13.)

--Segregate costs applicable to the resale and troop-support functions at the wholesale level. (See p. 19.)

--Revise DOD Directive 7420.1 and affected subordinate regulations and procedures so that the domestic part of transportation costs of resale subsistence items is paid by the commissary patron. (See p. 19.)

AGENCY ACTIONS AND  
UNRESOLVED ISSUES

DOD said that whenever it developed or changed food specifications, it considered the ability of the Center to procure the item. DOD said that the services, working through the Armed Forces Product Evaluation Committee, were best able to determine their own needs. DOD maintains that the purpose of the Center is to buy what the services request, advising them of procurement problems which may occur.

DOD agreed to further study GAO's recommendation that DOD segregate costs applicable to the installation resale and troop-support functions at the wholesale level.

DOD disagreed with GAO's recommendation that it identify the domestic part of transportation costs for resale subsistence items destined for overseas commissaries. In fact, DOD believes there is no legal requirement to make such identification. (See app. I.)

Apparently DOD does not recognize any problem in the Center's current subsistence procurement procedures. The lack of adequate response to the Center's bid solicitations resulting in shortages in DOD food items and in increased costs is important enough for DOD to reexamine its entire food procurement role. (See pp. 13 and 14.)

This report shows that the existing procedures are not effective. (See p. 5.)

If GAO's recommendations are adopted, DOD will be in a better position to eliminate nonessential requirements without an adverse effect on nutritional needs, menus, or recipes. (See p. 12.)

The law requires that domestic transportation costs for resale commissary items be identified and paid by overseas commissary customers. In addition, DOD has information readily available to easily identify land-haul costs even though through bills of lading are used. (See p. 20.)

GAO does not foresee any major accounting and pricing problems in handling the transportation costs, since these costs are similar to other operating costs being reimbursed by the commissaries. (See p. 21.)

MATTERS FOR CONSIDERATION  
BY THE CONGRESS

The Congress should question DOD about the rationale for its continued adherences to rigid food specifications. (See p. 14.)

The Appropriations Committees should question DOD's practice of using appropriated funds to pay the domestic cost of transporting items to overseas commissaries, which is contrary to the appropriation acts. (See p. 21.)

## CHAPTER 1

### INTRODUCTION

The military services feed about 600,000 personnel daily. To provide proper logistics support, menu planning, and nutrition in their daily meals, the Department of Defense (DOD) has established an elaborate Food Service Program. The Deputy Secretary of Defense assigned overall policy guidance for this program to the Assistant Secretary of Defense (Installations and Logistics) (OASD(I&L)). At the direction of OASD(I&L), the Department of Defense Food Planning Board was established to guide the program and develop nutritionally sound menus and recipes.

In addition, the Armed Forces Product Evaluation Committee was established to assist the Food Planning Board. This interservice committee is the control point for determining essential characteristics and acceptability of food items the military services use.

The Army's Natick Laboratories, Natick, Massachusetts, provide specification development and other technical assistance. The Defense Personnel Support Center (DPSC), a primary level field activity of the Defense Supply Agency (DSA), procures most subsistence items in direct response to requisitions or to replenish stocks. DSA has an extensive network of procurement offices and supply depots in the United States to provide subsistence support for troop-issue and commissary resale requirements.

In general, DPSC headquarters (in Philadelphia, Pennsylvania) purchases the nonperishable items and DPSC's four Subsistence Regional Headquarters (in Oakland, California; New Orleans, Chicago, and New York) and their various supply points purchase the perishable items.

DPSC's activities are financed by the Defense Stock Fund and by appropriations for operations. The stock fund is used to pay costs DPSC incurs for merchandise, inventory adjustments, and domestic transportation. These costs are passed on to DPSC's customers when the items are sold. Various additional costs, funded through annual appropriations, are not passed on to customers. These costs include personnel costs at DPSC and depots and other costs of maintaining these depots.



## CHAPTER 2

### NEED FOR MORE FLEXIBILITY IN ADJUSTING TO

#### MARKET CONDITIONS

With the current concern for worldwide food shortages; high prices; and proper food planning, production and use, all food purchasers, whether military or civilian, need to have the authority and flexibility to meet variable market conditions. Purchasers must be flexible enough to buy, in terms of quality, weight, and price, what is available at a time of need.

DOD's primary food purchasing agency, DPSC, is unable to respond effectively to changing market conditions, because of the rigid product specifications placed on it by the military services through the Armed Forces Product Evaluation Committee. Its inability to depart from these rigid specifications quickly results in higher costs and quite frequently in shortages of required items.

#### DEFENSE PERSONNEL SUPPORT CENTER-- DOD'S FOOD PURCHASER

As mentioned in chapter 1, DPSC procures most of the food required by the military services centrally. DPSC, in turn, sells the food to the military services at cost. During fiscal year 1973 DPSC reported sales to troop-issue and resale customers as follows:

	<u>Troop issue</u>	<u>Resale</u>	<u>Total</u>
	(000,000 omitted)		
Perishables	\$372	\$191	\$563
Nonperishables	<u>164</u>	<u>119</u>	<u>283</u>
	<u>\$536</u>	<u>\$310</u>	<u>\$846</u>

Amount 60 percent of the \$846 million sales were shipped from DSA warehouses or supply points; the balances were delivered directly from suppliers to DPSC's customers. In addition, the resale commissary stores in the United States, under contracts DPSC headquarters administered, purchased about \$1 billion worth of brand-name items.

RESTRICTIVE SPECIFICATIONS LIMIT  
COMPETITION AND CREATE SHORTAGES

Since the food industry tends to be a seller's market, DPSC often encounters serious difficulties in procuring the specific subsistence items described in its solicitations to prospective suppliers. In an increasing number of situations, the industry submits no or few bids. This lack of response can be attributed to a combination of factors, including crop shortages, competing demand by other users, and a preference by industry to sell to the private sector because of its less demanding requirements for inspection, packaging, and product composition. As a result, requisitions may not be filled, competition may not be adequate to insure that prices are favorable, and considerable time and effort may be spent to minimize the impact of the problem.

Virtually all food items for troop feeding are brought under product specifications. These specifications, along with supplementary descriptive data, inform prospective suppliers of the minimum needs of the military services. For example, the specifications for canned tomatoes provide for two can sizes and cite U.S. standards for grades A, B, and C. When soliciting bids DPSC must supplement the specifications with such descriptive data as the needed quantity, grade, can size, delivery points, and type of pack. The specifications, and inspection procedures specified therein, also provide an objective basis for determining whether suppliers' products meet requirements.

About 60 percent of the 1,353 subsistence items in DOD's supply catalog are procured under Federal specifications. Most of the remaining items are procured under military specifications or item descriptions that serve as specifications. Federal specifications are developed for use by any agency, but the military specifications are developed for items normally used only by the military services. Either type of specification may incorporate commercial practices or standards or U.S. Department of Agriculture standards--in fact, use of Department of Agriculture standards for grades, where they exist, is mandatory.

Military services often develop specifications that differ from these for comparable commercial products, because the services have determined that commercial standards are not adequate to meet their requirements for storage, handling, or quality. Requirements that differ from normal commercial practices generally increase the product's cost to DPSC and decrease the number of suppliers who are able to provide the product.

PRODUCT EVALUATION COMMITTEE  
EXERCISES BROAD RESPONSIBILITIES

Under the existing subsistence support system, changes to specifications or purchase descriptions which affect essential characteristics of the item normally must be approved by the military services through the Armed Forces Product Evaluation Committee. Natick Laboratories can authorize specification changes that do not affect essential characteristics, for example, a change in inspection procedures. The military services' revised requirements, suggestions, and complaints that affect food specifications are brought to the attention of the Natick Laboratories and/or the Product Evaluation Committee through the food services offices of the military services.

The military services, DPSC, food inspectors, and the industry are invited to comment on specifications that are being developed or revised. While the specifications are in use, Natick Laboratories, DPSC, and inspectors have direct contact with suppliers through which problems may become known. Vendors may submit specification analysis sheets--a form attached to the specifications on which suggestions may be inserted--and value-engineering proposals. If necessary, Natick Laboratories can authorize specification changes by telephone, but the preferred procedure is that the vendors submit proposals in writing.

During February and March 1973, the proper areas of responsibility for the Product Evaluation Committee were discussed within DOD. It was pointed out that the committee had become involved in a wide range of matters relating to subsistence, although its primary functions under its basic charter were evaluating unsolicited food items, new items generated through research and development, and existing items for possible improvement; establishing the need for new items or packaging; and coordinating new or improved items or packaging changes into the military feeding program.

OASD(I&L) has pointed out that, because the committee meets regularly and includes representatives from each military service, the Office of the Surgeon General, Natick Laboratories, and DPSC, it often is the organization that can best handle problems involving specifications, procurement, supply, and standardization. OASD(I&L) also pointed out that there was no other specific organization to act on such problems.

MARKET FLUCTUATIONS IN SUPPLY AND DEMAND-FREQUENT OCCURRENCE

Requirements in specifications that differ from those in commercial practice may not necessarily result in higher quality items or in items that differ appreciably from commercial products. Such specifications, however, may seriously reduce the number of interested suppliers and may increase product costs, particularly when shortages exist in the industry. Within the present system, it is difficult to bring about changes to specifications, product mix, and packaging.

Fluctuations in supply and demand are common in the food industry. They may result from crop shortages, deviation in crop quality, changes in consumer preference, and other factors. In addition, the availability of one product can affect the availability of other products.

For example, apples have been in short supply due to the crop situation and the large use of apples by the "pop wine" industry. This situation has reduced the availability of apples and increased the price of vinegar made from apples.

Fluctuations in supply and demand often cause or contribute to procurement difficulties for DPSC. For example, in November 1973 DPSC advised its customers that:

"\* \* \*There are insufficient commercial stocks of many items to fill all demands being received. Sometimes no offers are submitted to fill military requirements. In other cases, only one or two responses are received, and at prices not considered fair and reasonable."

During the same month, DPSC told the Product Evaluation Committee that DPSC was having difficulty in procuring canned fruits and vegetables and that it had met in September 1973 with members of the National Cannery Association to attempt to encourage industry to respond to DPSC's solicitations. As a result of the meeting, the association wrote to industry and DPSC conducted a telephone blitz to industry. DPSC reported that these actions had stimulated some response to solicitations; however, it still had a major problem in getting responses to military requirements for canned fruits and vegetables.

At that time cherries, peaches, and pimientos were reported to be unavailable. By January 1974, DPSC was telling its customers of 15 items which were not available

and for which all requisitions would be rejected. Many other items were listed as reserved for troop support; i.e., not available to resale commissaries, due to short supplies. Troop-issue customers were warned that, as stocks were exhausted, requisitions would be rejected for many of these items.

For fiscal year 1974, DSA established as a goal that 6 percent of its subsistence procurements be formally advertised. One reason that this goal was not higher was the lack of interested suppliers, which necessitated negotiating many contracts. DPSC officials told us that the food industry had become a seller's market and that the military services no longer were preferred customers, because vendors were reluctant to become involved with requirements for inspection, palletization, product compositions which differ from commercial practices, and other special considerations.

#### RECEPTIVENESS TO CHANGE NEEDS TO BE CULTIVATED

Although the Center frequently proposes using substitutions or making specifications and purchase descriptions less restrictive, the military services tend to resist its proposals. Moreover, many proposed changes must be acted on by the service representative on the Armed Forces Product Evaluation Committee.

The negative impact of the fluctuations in supply and demand and of vendors' preferences for selling to the private sector can be lessened by keeping special Government requirements to a minimum. Vendors can help by pointing out provisions of specifications or purchase descriptions that they consider to be restrictive. However, Natick Laboratories and DPSC records showed that vendors were submitting few comments of this nature. Our discussions with several vendors showed that they were not inclined to submit proposals for changes to specifications and purchase descriptions because they believed that the Government would not be responsive to their suggestions.

On the other hand, DPSC files show that during fiscal year 1973 DPSC initiated 120 value-engineering proposals and about 315 engineering-support requests proposing changes to specifications or purchase descriptions. These proposed changes resulted from problem areas DPSC identified through its contacts with vendors and its awareness of market conditions. Although many of DPSC's proposals were approved by Natick Laboratories and/or the representatives of the military services who served on the Product Evaluation Committee, many of the proposals were not approved, were

approved only on a temporary basis, or were not approved promptly.

In our discussions DPSC and Natick Laboratories officials told us that changes requiring approval of the services are usually decided by consensus and that definite objection by a service representative to a proposal would be tantamount to a veto. A DPSC official told us that the military services tended to approve changes only when they had no alternative; i.e., when DPSC was unable to find suppliers of the specified item. Recently the Product Evaluation Committee agreed to give DPSC a list of acceptable substitutes for certain hard-to-procure specification items. Although for these items DPSC will solicit and buy the specified item, if a supplier can be found, there will be advance agreement on the products that can be substituted.

#### EXAMPLES OF RESTRICTIVE SPECIFICATIONS AND THEIR IMPACT

The examples that follow illustrate some of the problems DPSC had in getting adequate competition, in filling requirements, and in getting approval of proposed changes. Some of the examples show that the problems were alleviated by making the specifications or purchase descriptions less restrictive.

##### 1. Ground beef

Usually the contractor supplying ground beef will also have a contract for beef roasts and steaks, because the ground-beef contracts provide that, in lieu of wholesale cuts, trimmings under roast and steak contracts may be processed into ground beef. As early as May 1973, meat inspectors questioned whether, after removal of the steaks and roasts, certain cuts could be diverted to commercial customers (as had been the practice) with only the remainder being used in making the ground beef.

A meat contractor told us that requiring higher priced cuts of meat to be used in ground-beef preparation does not necessarily increase the quality of the product because, after the meat is ground, the determinants of quality are the lean and fat content. These factors are already controlled, on DPSC orders, by military veterinary inspections.

Although DPSC initially authorized the practice of diverting certain cuts to commercial customers, discussions between representatives of DPSC and Natick Laboratories led to a December 1973 meeting.

The service representatives who attended concluded that trimmings under the roast and steak contracts could be used in making ground beef but that additional cuts could not be diverted to commercial customers.

A DPSC meat procurement agent calculated that the price increased 6.5 cents a pound for ground beef and 8.5 cents a pound for beef patties during the week following the change. The procurement agent and two vendors we contacted attributed the increased cost to the new restrictions.

A price difference of 6.5 cents a pound for ground beef would amount to nearly \$3 million annually for the quantities DPSC bought.

## 2. Catsup, canned

The U.S. standards for grades of tomato catsup provide three alternatives as to grade--grade A (U.S. fancy), grade B (U.S. extra standard), and grade C (U.S. standard).

Although all three grades apparently are used in commercial products, the military services require grade A. As this is a seasonal product, DPSC attempts to purchase the total annual requirement in September, when supplies are most plentiful.

During September 1973, DPSC solicited bids for 305,824 cases of number 10 cans (7/8 gallon) of grade A catsup. Awards were made for a total of 80,000 cases to the three suppliers who responded. DPSC immediately resolicited, eliminating a requirement for palletization and was able to buy an additional 14,240 cases.

Beginning in December 1973, the services permitted DPSC to buy grade B and C catsup and subsequently agreed to accept various size bottles rather than cans. From December 1973 through mid-March 1974, DPSC succeeded in buying the equivalent of 43,720 cases under 7 different contracts. However, in total, it was still 167,864 cases short of the original requirement. DPSC has told its customers that existing stocks are reserved for troop issue and that troop-issue requisitions will be rejected as stocks are exhausted.

## 3. Coffee

In response to a congressional inquiry, we inquired into the services' almost 25-year-old requirement that ground roasted coffee supplied to the services be a blend of 70-percent Brazilian and 30-percent Colombian coffees. We

noted that DOD had not approved past proposals by vendors and DPSC to modify the blend requirements. In August 1973 we urged DOD to consider developing acceptable alternatives to the existing blend in view of the potential for broadening the competitive base and reducing product costs.

The Product Evaluation Committee considered the suggestion at meetings in September and November 1973 and in January 1974. After the January meeting, DOD told us that it agreed that selective changes to the coffee blend could reduce costs without appreciably altering the quality of the coffee. The services have approved a flexible, sliding formula that allows processors to take advantage of the differences in price of the various types of coffee and to give the services the least expensive blend possible under the formula and existing market conditions. Actual savings will depend on future market conditions.

#### 4. Vinegar

The Federal specification for vinegar covers several types of vinegar, but until recently the military services normally were buying only cider vinegar. In the latter part of calendar year 1972, DPSC was able to find only one interested supplier of cider vinegar, and this supplier's prices were considered too high. In February 1973 DPSC submitted a proposal to the Product Evaluation Committee pointing out that use of distilled (white) vinegar would save about 6 cents a quart, or \$93,000 annually, would broaden the competitive base, and would provide a more stable product.

The Product Evaluation Committee rejected the proposal at its March 1973 meeting on the basis that the less acceptable flavor and aroma of the substitute would make it unsuitable for use in salad dressings. Minutes of the November 1973 meeting of the Committee state, however, that the Natick Laboratories recently had completed tests which showed no major difference in acceptability of salad dressings prepared with cider and distilled vinegars. Accordingly, the minutes stated that the services concurred in using the substitute during the current crop shortage.

On the next solicitation, November 30, 1973, suppliers were invited to offer either cider or distilled vinegar. Offers were received from five suppliers.

#### 5. Frankfurters

The military specifications for frankfurters call for a product similar to the high commercial grade product, except that the military product must be 50 percent pork and



50 percent beef, but the all-meat commercial product can be up to 70 percent either pork or beef. This flexibility in the content of the commercial product allows processors to use the higher percentage of the lower cost meat. DPSC files show that about August 1973 DPSC recommended that the military services use the 70 percent pork-30 percent beef frankfurters until the market became stabilized. The recommendation was not accepted. A meat processor told us that supplying the 50-50 ratio increased costs about 5 cents a pound. We estimate that the potential annual savings would be about \$400,000.

#### 6. Flour, pastry

In January 1973 DPSC told the Product Evaluation Committee of industries' reluctance to produce pastry flour to the high standards in the specification in less than depot-stockage quantities. After receiving only one responsive offer to an April solicitation for 1.2 million pounds, DPSC proposed broadening the specification to permit suppliers to offer a modified hard-wheat flour in addition to the soft-wheat flour that had been specified.

This modification was put in effect in October. Although the next solicitation, which was for 1 million pounds of flour, resulted in offers from only two suppliers, both offered the modified hard-wheat flour.

#### 7. Restrictive size and style requirements

The Product Evaluation Committee has rejected several DPSC proposals that alternative forms of items be accepted. The following proposals were not accepted because the Committee felt that the products might be of poorer texture, appearance, or taste in their alternative forms.

--Sweet potatoes. In January 1973 DPSC told the Committee that it had been able to fill only two-thirds of the quantity requirement in response to solicitations for canned whole sweet potatoes. The item had been resolicited in November 1972, but no offers had been received. DPSC recommended that the services permit suppliers to furnish potato pieces (with size restrictions) rather than whole potatoes.

--Asparagus. DPSC has had difficulty procuring canned asparagus spears. In January 1973 DPSC recommended using cuts and tips, which were more readily available and which previously had been authorized for procurement in the frozen form. As the

recommendation was not accepted, DPSC formally advertised for the year's requirement of 71,400 cases of spears in May 1973. Only one supplier bid, and DPSC made the award for only 4,300 cases. In November 1973 DPSC again recommended using cuts and tips. DPSC has told its customers that this product is not available to resale commissary stores to conserve short supplies for troop support.

--Frozen greens. (Includes spinach, mustard, collard, and turnip greens.) DPSC told the Committee that the industry was urging use of the chopped, rather than the whole, product. We noted that during June and July 1973, DPSC received letters from three companies pointing out that the common commercial form for these items was the chopped form, that only the chopped form was consistently available, and that the chopped form was slightly more economical.

Procurement problems with the following items resulted from size or weight restrictions.

--Chicken, fryers. In July 1972 DPSC asked each of the military services to approve a 10-percent increase in the specified weight range for fryer chickens. DPSC pointed out that the existing weight range (2 to 2-3/4 pounds) was the one in greatest demand by the retail markets and the carryout trade and that the Department of Agriculture, which also procured fryers, was having more success than DPSC in getting market coverage due to the Department's acceptance of a higher top weight (3-1/4 pounds). Also DPSC said that surveys of nonparticipating suppliers showed that the weight was the deterrent cited by all. The minutes of the September 1972 meeting of Committee showed that the services did not concur in the proposal because the increased issue rate would negate any savings realized in procurement and because there would be problems in preparing, serving, and storing the larger sizes. The Committee rejected a similar DPSC proposal in September 1973.

--Canned plums. A DPSC official told us in December 1973 that during a shortage of canned plums an opportunity arose to procure plums of irregular sizes-- sizes which differed from the specifications. However, by the time DPSC got the required approval, the items were no longer available.

- Canned pears. Halved pears were very difficult to obtain because pears from the recent crop had been too large for the number 2-1/2 can and therefore had been cut in quarters by the industry. Nevertheless the military services requested that DPSC buy the quarters only if it could not get the halves.
- Olives. DPSC requested authority to procure all sizes of olives, pitted and unpitted and from the current or prior year's crop. The Product Evaluation Committee agreed to accept either pitted or unpitted olives but did not change the size (medium through jumbo) and would not accept the prior year's crop.

### Conclusions

For DPSC to improve its ability to compete in the marketplace with other food buyers, it needs authority to substitute alternative styles, forms, and grades; product specifications; and purchase descriptions that do not contain nonessential requirements.

Officials who have responsibility for subsistence specifications and purchase descriptions need to consider the impact of their decisions on DPSC's ability to purchase the products and on the services' costs for these products.

The increased flexibility for DPSC that we envision is such that nutritional requirements, menus, and recipes would not be affected. Rather, greater flexibility would result from elimination of nonessential requirements; from more timely and more positive responses by officials who have responsibility for approving specifications and purchase descriptions when problems are identified; and from advance agreement on the action that will be taken when anticipated procurement problems materialize.

When feasible, specifications and purchase descriptions should be designed to accommodate anticipated fluctuations in market prices. The change recently approved for coffee blends, for example, enables processors to provide the Government with the least expensive blend under a sliding formula without adversely affecting the quality of the product. Similar changes are feasible for other products.

DPSC's ability to react to market shortages also should be improved by the recently agreed-on technique whereby substitutes will be approved in advance for certain troublesome items. However, the continuing obligation to purchase the

specification product, if available, means that DPSC still may be forced to deal with a single supplier. We believe that this technique could be more effective if, when a problem with market coverage is anticipated, DPSC were to solicit bids on acceptable alternative grades, forms, and sizes of the product with the view to awarding contracts for one or more of the alternatives determined to be best in view of availability and price.

The Product Evaluation Committee has been an important focal point and channel of communications for matters affecting subsistence management. However, the Committee is too heavily oriented to product improvement to deal effectively and efficiently with specification and procurement problems.

#### RECOMMENDATIONS

We recommend that the Secretary of Defense improve DPSC's ability to respond to changing market conditions by requiring the Product Evaluation Committee to provide acceptable alternative grades, forms, and sizes, when feasible, with awards being on the basis of determination of which alternatives are best, in view of availability and price. We recommend also using the sliding formula, such as that used in soliciting bids for coffee, for those items susceptible to this procurement technique.

#### AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report, the Assistant Secretary of Defense (Installations and Logistics) (see app. I) said that DOD did consider the impact on costs and DPSC's ability to buy when specifications were developed or changed. He said that food requirements and changes could be made only by the military services and that the Product Evaluation Committee had worked well with DPSC in resolving appropriate problems. The assistant Secretary also expressed concern that we had some misunderstandings of the material reported and that we had not discussed the report with the services, the Committee, or his staff.

After we received DOD's comments, we met with a representative of OASD(I&L) to discuss any misunderstandings of reported material. It was basically agreed that we did not have a misunderstanding but a difference of opinion. DOD believes its current system for buying subsistence items is adequate. However, we believe our findings show that DOD, although it may consider the impact on costs and DPSC's ability to buy, does not do so soon enough and does not let

DPSC exercise flexibility in the marketplace at the time the problem arises.

The market is constantly changing; therefore the specifications, purchase descriptions, and procurement process need to be so structured that DPSC can react quickly. We fully agree that the military services should provide input to the requirement determination; however, if requirements do not reasonably conform with usual commercial standards, the Government is at a distinct disadvantage in the marketplace because fewer suppliers will compete for DOD's business.

It must be recognized that the Product Evaluation Committee's concern for improving and maintaining food quality and taste must be balanced with the need to conform requirements to market conditions so that DPSC can obtain available products at reasonable prices.

DPSC's role has been restricted to that of procuring the foods required by the services and advising them of procurement problems. The examples we included in this report show DPSC often had considerable difficulty in resolving the problems and procuring the required items. We believe DPSC needs more flexibility so that, when a problem arises, it has the alternative to buy available reasonably priced items without being hampered by restrictive specifications or the obligation to obtain approval of the services before making a procurement.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should question DOD as to the rationale for its continued adherence to rigid food specifications, especially in view of the current concern for worldwide food shortages and for proper food planning, production, and use.

As stated in our report, it took the military services almost 25 years to accept a revision to the coffee specifications. As a result of our review, DOD approved a sliding formula which permits the services to get the best blend of coffee at the most favorable price.

### CHAPTER 3

#### NEED TO IMPROVE COST VISIBILITY AND COMPLY WITH LEGISLATIVE REQUIREMENTS CONCERNING RESALE ACTIVITIES

Provisions of the annual Department of Defense Appropriation Acts, in conjunction with the basic legislation, permit the services to use appropriated funds to pay for personnel and construction costs for operating commissaries. Commissary patrons are required to pay food costs; purchase and maintenance of equipment; supplies and services; and losses due to shrinkage, spoilage, and pilferage. Some costs are to be paid from appropriations or passed on to the commissary patron, depending on where the costs were incurred. For example, appropriations can be used to pay transportation and utility costs incurred outside the United States but the patrons are required to pay such costs incurred within the United States.

In general, costs DSA incurs--as the food wholesaler--which are to be passed on to the commissary patron are paid from the Defense Stock Fund and are recovered through prices DSA charges to resale and troop-issue customers, whereas the costs, such as those for personnel, warehousing, and administration, are paid from appropriations and are not recovered. It cannot readily be determined whether costs at the wholesale level are being fully recovered from the resale activities as required by law, because, whether paid from the stock fund or from appropriations, the costs pertaining to troop-issue and resale transactions are commingled. Consequently the total cost of support for the resale activities is obscure.

We estimate that about \$1.2 million a year is paid from appropriations of the military services to transport resale commissary goods from inland depots to ports of embarkation, despite the legislative requirement that costs for transportation in the United States be passed on to the commissary patron.

#### COST OF SUPPORT TO RESALE COMMISSARIES NOT IDENTIFIED

Most nonperishable items carried by the resale commissaries are the brand-name products available in the neighborhood grocery store or supermarket. The commissary patron can buy these products at favorable prices because major

costs of operating the stores are paid from appropriated funds. To provide their patrons with additional choices, the resale commissaries may also carry specification (troop-issue-type) items. Data DPSC gathered for fiscal year 1973 shows that DPSC's sales to the resale commissaries totaled \$310 million, or about 37 percent of the \$846 million of total DPSC sales.

Many of the specification items are available in both large and small containers with troop-issue requirements filled, for the most part, by the large containers and with resale requirements filled, for the most part, by the small containers. From a DPSC listing of the 279 nonperishable specification items stocked as of July 1973, we identified 18 items that were stocked in both large and small containers for which 80 percent or more of the sales in the small containers were to the resale commissaries. Several of the 18 items, including canned applesauce, green beans, fruit cocktail, peaches, pears, and tomatoes, had sales volumes for the year of nearly \$1 million or more to the resale commissaries.

We also identified 31 additional items, stocked in small containers, for which at least 50 percent of the sales were to resale commissaries. Since all administrative and warehousing costs are paid from appropriated funds, it is obvious from the above statistics that the Government incurs considerable costs to support the retail commissary stores.

The pricing procedures are designed to recover the costs paid from the Defense Stock Fund. In individual accounting periods, recovered costs will exceed costs incurred or the opposite situation will occur. For example, during fiscal year 1973 transportation costs DPSC recovered were \$4.6 million less than the recorded transportation costs; also a net loss of \$10.3 million resulted from differences between merchandise costs and prices charged to customers. At the end of the fiscal year, such losses (or gains, when gains occur) are merged with gains and losses from other activities financed through the stock fund and no effort is made to allocate them between resale and troop-support activities.

The failure to distinguish between troop-issue and resale store functions by the purchasing activities was the subject of recommendations in a report by the Special Subcommittee on Exchanges and Commissaries of the House Armed Services Committee, No. 91-77 (1970). The Subcommittee noted that "commissaries, unlike exchanges, are required by

law to operate on a self-sustaining basis," and stated (at p. 12367) that:

"The commingling of commissary store and troop-issue functions in the Army and Air Force, which is done primarily to ease the load on various logistic systems, makes it virtually impossible to measure the precise amount of resources required to support the commissary store system."

The Subcommittee's recommendation that these two functions be distinguished was reiterated in a report by the Special Subcommittee on Nonappropriated Fund Activities within the Department of Defense of the House Armed Services Committee, No. 92-75 (1972).

COSTS OF TRANSPORTING RESALE ITEMS  
NOT RECOVERED

Since 1952 annual appropriation acts have required that the costs of commercial transportation in the United States be included in the sales price of the goods sold in resale commissary stores. We estimate that costs amounting to about \$1.2 million a year are being charged to appropriations of the military services and not being passed on the commissary stores. Inasmuch as these commissaries' sales amounted to about \$275 million in fiscal year 1973, the additional costs would represent a relatively small increase in prices to the patron.

Other than awarding the contract and furnishing supply bulletins DPSC is not directly involved in procuring or paying transportation costs of brand-name items for commissaries in the United States. However, for many of the overseas commissaries, DPSC places the orders with the suppliers under the brand-name contracts. Unless the size of the order justifies direct delivery to the port of export, the goods are shipped to the defense depots in Pennsylvania (Mechanicsburg) or in California (Tracy), where the goods are repacked in containers for direct shipment on through bills of lading to the overseas destinations. When shipped under a through bill of lading, the cost to move the goods from the depot through the port of embarkation to the overseas destination is paid by the military services from operation and maintenance appropriations and is not passed on to the resale store.

DOD Directive 7420.1 dated January 26, 1967 states that:



"\* \* \* transportation costs from aerial or ocean ports of embarkation in the Continental United States to points of use or storage outside the United States will be paid from applicable operating appropriations of the consignee. All transportation costs on thru-bill of lading shipments direct from points in the Continental United States to points of use or storage outside the United States will be financed on the same basis as shipments from aerial or ocean ports of embarkation."

The directive indicates that the domestic portion of transportation costs for goods moving under a through bill of lading to overseas commissaries is to be financed from appropriated funds and is not to be included in the sales price of the resale stores.

However, section 628 of the Defense Appropriation Act of 1952 stated that:

"No appropriation contained in this act shall be available \* \* \* in connection with the operation of commissary stores of the agencies of the Department of Defense for the cost of purchase (including commercial transportation in the United States to the place of sale but excluding all transportation outside the United States) and maintenance of operating equipment \* \* \*."

Similar provisions have been included in subsequent annual appropriation acts.

This provision has been interpreted to mean that, when goods are procured within the United States and are then shipped to commissaries outside the United States, only those transportation costs relating to transportation between our border and the "foreign" commissary can be paid from appropriated funds. This interpretation is consistent with statements by various DOD representatives in congressional hearings and a previous decision by our Office (B-138800, Nov. 18, 1959, 39 Comp. Gen. 385) in which we concluded that all costs to transport resale goods to Alaska must be borne by the resale customers. With regard to this legislative provision, we stated:

"Looking to the purpose of the enactment, which was to require the fixing of commissary prices adequate to cover at least a substantial part of the costs of operations of the commissary store system, we believe that it should be regarded as remedial in nature and,

therefore, is to be liberally construed, and that the exception as to transportation outside the United States should be applied strictly. References in the hearings and committee reports clearly show that the exception intended was as to overseas transportation \* \* \*."

### CONCLUSIONS

The Government incurs costs at the wholesale level to support resale commissary operations. Although the law does not require that all costs be passed on to the resale stores, it does require recovery of the costs of the food and the domestic portion of the transportation.

Segregation of costs applicable to the resale and troop-support functions is essential to a determination of whether costs are being recovered from the resale commissaries as required by law. In addition, segregating and accumulating the total cost of the wholesale level support provided to the resale commissaries would improve the cost visibility for this fringe benefit.

The provisions of DOD Directive 7420.1, which indicate that the domestic portion of transportation costs for goods moving under a through bill of lading to overseas commissaries is to be financed from appropriated funds, are in direct conflict with the relevant provision of section 628 of the 1952 Defense Appropriation Act and similar provisions found in subsequent annual appropriation acts.

### RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Segregate costs applicable to the resale and troop-support functions at the wholesale level.
- Revise DOD Directive 7420.1 and affected subordinate regulations and procedures to insure that the domestic part of transportation costs of resale subsistence items in the future be paid by the commissary patron.

### AGENCY COMMENTS AND OUR EVALUATION

In commenting for DOD on our suggestion that DOD segregate costs applicable to the resale and troop-support functions at the wholesale level, the Assistant Secretary (I&L) agreed that DOD would study this area.

DOD did not agree with our suggestion that identification be made of the domestic portion of transportation costs for resale subsistence destined for overseas commissaries. DOD said that such action would create serious accounting and pricing problems. DOD also argued, from a legal standpoint, that it was not required to segregate the domestic transportation costs since the shipments were moving under a through bill of lading. (See app. I.)

In our opinion using a through bill of lading to transport resale commissary goods from an inland depot to ports of embarkation does not change the legal requirement that the transportation costs within the United States be passed on to commissary patrons instead of paid from appropriated funds.

We do not agree with the DOD's argument that, since there is no place of sale in the United States, DOD is precluded from identifying and charging domestic transportation costs to the commissaries. Although no place of sale exists within the United States, the fact remains that a portion of the total transportation costs represents transportation occurring within the United States "toward" the point of sale, no matter whether within or outside the United States.

DOD's reference to 39 Comp. Gen. 385 is somewhat misleading since DOD omitted a very pertinent section. According to this citation "the more natural understanding of the phrase 'transportation outside the United States' would be that it was intended to encompass carriage from one place to another without the United States." Thus transportation outside the United States includes two factors; it must be outside the United States and going from one place to another outside the United States. Since these shipments must move from a point inside the United States to an embarkation point, the first transportation leg is not overseas transport. Therefore we believe that goods moving under a through bill of lading to a point overseas can be prorated as domestic and overseas transportation.

The actual domestic and overseas costs are readily determinable by DOD in the Military Sealift Command Container Agreement and Rate Guide. The guide identifies, by shipper name, the costs associated with each leg (land-sea-land) of the trip. For example, one shipper, U.S. Lines, charged during the period January to June 30, 1974, \$3.12 a measurement-ton to transport a container from the Defense Supply Depot at Mechanicsburg, to its Elizabeth, New Jersey, facility for overseas export. Thus on a given day DOD may

ship one 40-foot seavan from the Mechanicsburg depot thru Elizabeth to the Army commissary in Mannheim, Germany, at a total cost of \$1,454.98 (\$186.89 for stateside domestic transportation, \$821.83 for ocean freight, and \$446.26 for overseas transport). Consequently, the transportation costs on a through bill of lading are easily segregated.

We believe that, since the domestic transportation costs are readily identifiable, the requirement to have commissaries reimburse the stock fund to pay domestic transportation would not place a large burden on the agency's accounting systems. Currently overseas commissaries reimburse the stock fund for such expenses as supplies, utilities, equipment.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

We believe the Appropriations Committees should question DOD's practice of using appropriated funds to pay the domestic costs of transporting items to overseas commissaries. The annual Defense Appropriation Acts, enacted since 1952, require that these costs be borne by the overseas commissary patron.

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## CHAPTER 4

### SCOPE OF REVIEW

We made our review principally at DPSC headquarters in Philadelphia, Pennsylvania, and at the DPSC Subsistence Regional Headquarters--Oakland, in Alameda, California. We visited the Defense Depot, Tracy, California; U.S. Army Natick Laboratories, Natick, Massachusetts; U.S. Department of Agriculture regional office, Alameda; U.S. Army Veterinary Corps, Office of Quality Assurance, Oakland; and the Air Force Services Office, Philadelphia. We also contacted several additional Government offices and numerous vendors.

We interviewed officials of these organizations regarding the DOD Food Services Program management and operation and reviewed applicable legislation, policies, reports, correspondence, and other records.



ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

SS

INSTALLATIONS AND LOGISTICS

8 7 AUG 1974

Mr. F. J. Shafer, Director  
Logistics and Communications Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Shafer:

This is in reply to your letter of May 29, 1974 to the Secretary of Defense Requesting Department of Defense (DoD) comments on General Accounting Office (GAO) Draft Report, "Management Problems in Acquiring and Accounting for Subsistence for the Military Services" (OSD Case #3847).

The DoD is firmly committed to eliminating nonessential requirements from subsistence specifications and to keeping special military requirements to a minimum. I believe improvements have been and are being made in these areas through our constant efforts, and further improvements will be made as problem areas are uncovered. The DoD does consider what impact a food specification might have on the costs of the item and on the Defense Personnel Support Center's (DPSC's) ability to buy the item when these specifications are developed or changed.

The determination of specification requirements is a complex matter based on acceptability, menus, mission and logistical considerations, storage life, cost, and usability of the item by food service personnel. Therefore, these requirements and changes thereto can only be made by the users--the Military Services. The DPSC is responsible for the procurement of the foods required by the Services and for advising the Services of procurement problems.

The Services individually or collectively through the Armed Forces Product Evaluation Committee (AFPEC), of which DPSC and the Natick Laboratories are members, have worked with the DPSC to resolve appropriate problems such as the latest difficulty in buying canned fruits and vegetables. The AFPEC is well constituted to handle these problems and I am pleased with its performance of its responsibilities. I am sure that the Services and the AFPEC will continue to cooperate fully with DPSC to improve DPSC's ability to respond to changing market conditions. However, it is essential that DPSC maintain a close liaison with industry so as to anticipate impending problems and be better able to respond to them, and that DPSC give consideration to changing its procurement methods and procedures to

## APPENDIX I

make DoD more of a preferred customer. Industry has long regarded DoD specification troop issue food contracts as opportunity business. Due to the DoD method of procurement, industry cannot rely on DoD contracts and DoD does not become an established customer of any vendor. It appears that GAO has some misunderstandings of the material reported and I regret that GAO did not discuss this report with the Services, the AFPEC, or with my staff.

Procedures for the segregation of costs applicable to the installation resale and troop support functions are being developed by the Army and Air Force as requested by the House Armed Services Subcommittee and directed by the Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs) on December 3, 1973. To segregate costs incurred by the DPSC, as the subsistence wholesaler, would necessitate a cumbersome and expensive accounting procedure requiring extensive allocation of costs at numerous Defense Supply Agency (DSA) activities, and at this time it does not appear to be cost effective or feasible. DoD will give this recommendation further study to determine to what extent these functions can be separated from a practical, cost effective management point of view.

The Direct Commissary Support System (DICOMSS) was designed to improve the efficiency and effectiveness of the DoD logistical support of overseas commissaries. A saving in excess of \$1 million was documented for the first year of operation under this system. As stated in the Report, containers are filled with the materiel in question at the Tracy, California and Mechanicsburg, Pennsylvania depots and move to destination under thru-bills of lading. It is our opinion that to require "identification" of the transportation costs for the short distance from the aforementioned depots to the ports of embarkation would create serious accounting and pricing problems.

Moreover, the Department of Defense believes that the law is clear in requiring exclusion of transportation costs to a place outside the United States. The General Provision of the Defense Appropriation Act (section 714 in the FY 1974 Act) requires charges to be added for "transportation in the United States to the place of sale but excluding all transportation outside the United States . . ." There is no place of sale in the United States. The last point in the United States where the DoD performs any managerial or discretionary functions with respect to such goods is at the depot where they are received, assigned to a commissary, packed, and placed under a thru-bill of lading to their overseas destination.

No proprietary act takes place thereafter until the overseas destination is reached. The Department of Defense exercises no control over the goods at the dock. To divide the costs of the trip because at one point carriers are changed is not logical. Containers are under a thru-bill of lading in the course of a single trip to a point outside the United States. All transportation from the depot is a direct and necessary part of transportation to a point outside the United States.

The Act makes an exception for all transportation costs outside the United States. The pivotal issue is when does overseas transportation start; i.e., at the border of the United States or when it is enroute from a point in the United States moving on a thru-bill of lading to a point outside the United States.

On page 386 of 39 Comp. Gen., the term "Transportation outside the United States" is defined as connoting "carriage away from, or to a point beyond or without the United States." On page 387 of 39 Comp. Gen., the following interpretation is given of the exception dealing with overseas transportation:

". . . References in the hearings and committee reports clearly show that the exception intended was as to overseas transportation, and we believe that the accepted connotation of that expression--particularly in time of war, as in 1952--is that it is synonymous with transportation to foreign areas, and does not refer to transportation between States of the Union."

It is believed that goods moving under a thru-bill of lading to a point overseas cannot be prorated as domestic and overseas transportation but rather are to be considered as an overseas shipment. (As a practical matter, it should be mentioned that to administer a program of identifying inland transportation costs (for overseas shipment) would require issuance of almost a quarter million additional Government Bills of Lading yearly.)

The fact that multiple surface carriers are used from the depot to the overseas destination should not affect the nature of accessorial charges.

It would be illogical for a shipment of goods by air freight from the location of the depot to the overseas destination to have no transportation charge while surface shipment was charged transportation costs for a portion of the same distance. The fact that carriers change during the course of the shipment should make no difference in the determination to charge accessoria fees.

In relation to enhanced visibility of the total cost of transportation to the DoD, this would be accommodated as DSA assumes responsibility for worldwide management of the "Subsistence" materiel category. In Phase One of the implementation, DSA assumes responsibility for the pipeline to the base boundary. Hence, that Agency will appropriately finance first and second destination movements to the intermediate level of supply.

Sincerely,



**ARTHUR I. MENDOLIA**  
Assistant Secretary of Defense  
(Installations & Logistics)



APPENDIX II

PRINCIPAL OFFICIALS  
 OF THE DEPARTMENT OF DEFENSE  
 RESPONSIBLE FOR THE MATTERS  
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF DEFENSE:		
James R. Schlesinger	June 1973	Present
William P. Clements, Jr. (acting)	Apr. 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
Clark M. Clifford	Mar. 1968	Jan. 1969
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):		
Arthur T. Mendolia	Apr. 1973	Present
Hugh McCullough (acting)	Jan. 1973	Apr. 1973
Barry J. Shillito	Feb. 1969	Jan. 1973
DIRECTOR, DEFENSE SUPPLY AGENCY:		
Lt. General Wallace H. Robinson, Jr.	July 1971	Present
Lt. General East C. Hedlund	July 1967	June 1971

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