



087498

Unrecovered Costs For
Utility Services Furnished To
Non-Appropriated-Fund
And Non-Government Activities

B-163196

Department of Defense

*UNITED STATES
GENERAL ACCOUNTING OFFICE*

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-163136

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

Our report concerns the area of unrecovered costs for utility services furnished to non-appropriated-fund and non-Government activities in the Department of Defense.

We want to invite your attention to the fact that this report contains recommendations to you which are set forth on page 10. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Secretaries of the Army, Navy, and Air Force=

Sincerely yours,

A handwritten signature in black ink, appearing to read "F. J. Shafer".

F. J. Shafer
Director

D I G E S T

WHY THE REVIEW WAS MADE

In 1968, GAO reported that the Department of Defense (DOD) was not collecting certain charges for utility services because of weaknesses in its administration of user charges. Although DOD agreed, in general, with GAO's recommendations for corrective actions, a GAO survey in 1972 indicated that the weaknesses had not been corrected.

GAO made a followup review to determine the circumstances and extent of the indicated weaknesses. The review concerns charges for utility services furnished to non-appropriated-fund and non-Government activities at four Army, four Navy, and four Air Force installations.

FINDINGS AND CONCLUSIONS

The weaknesses GAO found 6 years ago in connection with charges for utilities used by non-appropriated-fund activities have not been corrected. For fiscal year 1973, about \$370,000 in utility charges was not collected from users at the 12 installations reviewed; unrecovered utility costs could amount to much more DOD-wide. (See p. 10.)

Commenting on GAO's 1968 report, DOD said the military departments' lack of uniformity in following regulations might be attributable, in part, to the broad language of DOD

Directive 1330.2 (the basic policy regulation) and promised that the language would be revised. DOD, however, has not changed the language, and military department and installation-level implementation continues to be inconsistent and in need of improvement. (See p. 10.)

Department policies and installation practices have operated either to exclude altogether or to inconsistently treat charges to non-appropriated-fund and non-Government activities for utilities services. For example:

- The Navy does not collect charges for refuse and sewage disposal services but the Air Force and Army do. (See p. 4.)
- Liberal interpretations of policy have resulted in exempting Army and Air Force officers' open messes (essential messes) from all utility charges. (See p. 3.)
- Installation controls have not been sufficient to insure collection of all charges for utilities furnished. (See p. 6.)
- Usage estimates and billing rates for utility services have been inaccurate and noncurrent. (See p. 6.)

Six of the 12 activities had not made internal reviews of utility

charges for 3 or more years before GAO's review. (See p. 9.)

DOD should provide (1) more specific policy direction for recovering utility service charges from non-appropriated-fund activities and (2) **necessary** surveillance, through internal reviews and reports, to insure that the military departments consistently implement the policy.

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

The Secretary of Defense should re-evaluate and clarify policies for collecting utility charges from non-appropriated-fund and non-Government activities. Specifically the Secretary should:

- Establish more definitive criteria regarding the extent to which open messes providing essential feeding are exempt from utility charges and require reimbursement of utility charges for activities not related to essential feeding.

--Have the Navy charge for sewage and refuse disposal.

--Monitor utility charges through internal reviews to insure that all charges are proper and collected. (See p. 10.)

AGENCY ACTIONS

GAO discussed its findings with representatives of the Office of the Secretary of Defense and was informed that a proposed revision to DOD Directive 1330.2 had been drafted **but** not yet approved. There is a difference of opinion within the Office of the Secretary of Defense regarding the final form the changes should take. GAO was informed that further study (a survey is proposed for early January 1975) will be required before a final position can be established. Because the difference of opinion involves interpretation and consolidation of a basic policy position, final resolution may require intervention by the Secretary of Defense. Meanwhile, the existing directive continues to be in effect. (See p. 11.)

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

Department of Defense (DOD) installations generally must be reimbursed for the cost of utility services furnished to non-appropriated-fund and non-Government activities. Utility services here include electricity, heat, gas, water, sewage disposal, and refuse collection and disposal.

In title V of the Independent Offices Appropriation Act of 1952 (5 U.S.C. 140), the Congress set forth the policy that special beneficiaries of services furnished by Federal agencies should be self-sustaining as much as possible. Office of Management and Budget Circular A-25 sets forth the implementing executive policy regarding user charges for furnishing certain services. The circular, however, does not apply to fringe benefits for military personnel and civilian employees, which are governed by separate policies.

DOD Instruction 7230.7, dated July 1973, sets forth DOD policy on user charges for services furnished to organizations outside the Federal Government. It implements the policies expressed in the act and the circular.

DOD Directive 1330.2, dated January 1953, as amended, sets forth DOD policy regarding funding of morale, welfare, and recreation facilities. The policy states, in part, that morale, welfare, and recreation activities (including exchanges, clubs, officers' open messes, etc.) which sell goods or services will be self-sustaining with respect to expenses for heat, water, electricity, and other utilities. Exceptions to this general policy permit utilities to be furnished free to activities outside the continental United States, to enlisted clubs and messes, and to officers' messes required for essential messing because of lack of other appropriate facilities.

In 1968, we issued a report entitled "Need for Improved Controls in Military Departments to Ensure Reimbursement for Services Provided to Nonmilitary and Quasi-Military Activities" (B-163136). We stated that DOD had failed to recover significant costs for utility services because of weaknesses in its administration of user charges.

DOD agreed, in general, with the findings in our 1968 report and said that the military departments' lack of uniformity in following regulations might be attributable, in part, to the broad language of DOD Directive 1330.2. Regarding our recommendations, DOD said that (1) it would reevaluate the directive to provide better direction to the

military departments, (2) it would act appropriately to insure compliance with directives and policies, and (3) it would adjust audit programs to properly emphasize the audit of user charges. We said we would consider the effectiveness of such actions in any future reviews of user charges.

Our survey in 1972 indicated that DOD had not corrected the weaknesses and had not changed the directive. We made our followup review to determine the circumstances and extent of the indicated weaknesses.

CHAPTER 2

EXEMPTIONS GRANTED TO USERS

The three military services are inconsistent in their interpretation of DOD policy regarding the types of utility costs to be recovered and the amount of utility costs to be exempted for open messes required for essential feeding. Of the 12 installations reviewed, 8 had designated their officers' clubs "essential messes," while 4 others had not. Additionally, 4 of the 12 installations were not charging non-appropriated-fund activities for refuse collection and disposal services. Further, two of four Navy installations were not being reimbursed for sewage disposal services.

UTILITY CHARGE EXEMPTIONS FOR OFFICERS' OPEN MESSES

Officers' open messes, or officers' clubs, as they are usually called, pay for utilities unless the clubs provide "essential messing." DOD Directive 1330.2 states, in part, that utilities will be furnished from appropriated funds (i.e., without charge) to officers' open messes designated as being required for essential messing because of lack of other appropriate facilities, e.g., an officers' appropriated-fund (or closed) mess. The DOD directive does not make it clear whether the utility charge exemption applies to all club operations or just to the essential messing activities. (Club operations may include package liquor stores, banquet rooms, ballrooms, cocktail lounges, barber shops, and golf clubhouses.) The individual services have inconsistently interpreted the DOD directive, as shown below-

- Air Force Regulation 34-67 states that all utility services will be furnished without charge to officers' open messes required for essential feeding.
- Army Regulation 210-55 states that the cost of utility services will be furnished from appropriated funds to the extent that open messes furnish essential feeding.
- The Navy Comptroller's Manual states that, when part of the commissioned officers' open mess is used to provide essential meals, a portion of the cost of utilities will be charged to appropriated funds on the basis of the proportion of facilities and equipment used for essential messing. The Navy defines essential meals as breakfasts, luncheons, and dinners

furnished to personnel authorized to use closed-mess facilities.

Officers' clubs were designated as essential feeding facilities at the four Air Force and the four Army installations included in our review. In our opinion, one such designation was unjustified, on the basis of present criteria, and the other seven officers' open messes should have been charged on a pro rata basis for utility services related to nonessential feeding activities. In fiscal year 1973, unrecovered utility costs for the clubs were estimated at \$70,000. The officers' clubs at the four Navy bases had not been designated essential messes and were charged for those utility services not exempted by Navy policy. The Air Force clubs had not been charged for any utilities. The Army clubs at two installations were not charged, while the other two Army clubs paid a pro rata charge until late 1972; these two clubs stopped paying their charge following advice through Army channels that there was no requirement to do so.

Conclusion

The exclusion of all utility charges, rather than the proportionate share applicable to essential messing operations, appears to be contrary to the principle of self-sustainment expressed in the DOD directive. The directive should be clarified to foster a consistent and equitable interpretation by all services.

NAVY DOES NOT RECOVER COSTS OF REFUSE AND SEWAGE DISPOSAL SERVICES

Four Navy installations were not charging non-appropriated-fund activities for refuse collection and disposal services. Also, two of the four installations were not being reimbursed for sewage disposal services. This practice is inconsistent with those of the Army and Air Force, which recover the costs of these services from users. The unrecovered costs of providing such services at the four selected Navy installations amounted to over \$90,000 in fiscal year 1973. The main beneficiaries of these free services were Navy exchanges and officers' clubs.

Conclusion

We see no practical distinction between the handling of refuse and sewage at a Navy base or station and its handling at an Air Force or Army installation. The practices should be uniform. We found no reasonable justification for the

Navy's exempting **refuse** and sewage services from **charges** while charging for other utilities=

OTHER EXEMPTIONS

We noted that noncommissioned officers' and chief petty officers' clubs sometimes include retail or package liquor store operations. As a result of recommendations by the Special Subcommittee on Non-appropriated-Fund Activities within the Department of Defense (H.A.S.C. No. 92-75, Oct. 30, 1972), the military services have been segregating and are continuing to segregate package liquor store operations from individual **club operations** and are making their profits available to recreation and welfare **activities**.

Conclusion

We believe that **such** operations are capable of being self-sustaining and under the criteria of DOD Directive 1330.2 should, therefore, not be **exempt from** utility charges.

CHAPTER 3

NEED TO IMPROVE LOCAL PRACTICES

Non-appropriated-fund and non-Government activities at the 12 installations (see app. I) were undercharged about \$200,000 during fiscal year 1973. The same or similar deficiencies in prior years resulted in comparable losses.

We categorized the problem areas as follows:

- Unbilled operations or services.
- Inadequate estimates and use of meters.
- Unsatisfactory vending machine management.
- Inaccurate or noncurrent rates.

We were generally satisfied that the actions taken or promised by base officials would correct many of these problems at the 12 installations. We feel that bringing these problems to the attention of all appropriate DOD installations will contribute to better utilities management. However, we believe the cause of some of the management shortcomings lies in the lack of clarity or specifics in DOD policies which provide fundamental guidance for the military services.

UNBILLED SERVICES

We believe the controls over utility charges have generally been inadequate. Military officials termed the failure to charge non-appropriated-fund and non-Government activities for utilities an "oversight," because they were unaware of the operation's existence or charge status. The following typical situations existed for a long time.

- A base exchange was not billed in 10 years for utilities used by its service station.
- A school district has not been charged for water and sewage since 1959.
- An exchange retail facility was not charged for any utilities in its 2-1/2 years of operation.
- A private cafeteria was not charged for any utilities in 10 years.
- At 1 location 14 exchange facilities were not charged for certain utility services over different periods going back to 1964.

Installation officials agreed to initiate corrective action but, in most instances, decided not to bill retroactively.

INADEQUATE ESTIMATES AND USE OF METERS

Where meters were not used, utilities for non-appropriated-fund activities were usually estimated. The estimates often were not documented or current. For example :

- - At one base, non-appropriated-fund activities were billed on the basis of estimates for which no supporting data was available.
- - At another base, electricity estimates were based on surveys made 10 years ago but never updated; test metering showed that some 1973 electricity estimates were understated by \$9,000.
- 1973 refuse estimates at one base were understated by \$14,000.
- - At two bases, all utility costs for non-appropriated-fund activities were based on estimates rather than on meter readings.

Where estimates are necessary, they should be current and adequately supported. However, electricity **and** water meters should be used more. In some instances, meters had been **installed** but were not being used for billing purposes. Air Force regulations provide for installing electric meters when the estimated annual charges are more than \$250. The regulations of the other services are less specific. At some installations, the need for meters was recognized, but action was delayed for months or years because funds had not been approved or because of uncertainty as to who should pay for meter and installation costs--the user or the **base**.

Installation officials generally agreed with our **recommendations** to install meters where appropriate. In our opinion the use of utility meters promotes an equitable and uniform system of charges. DOD policy directives should provide guidelines for the uniform use of utility meters where practicable.

VENDING MACHINE UTILITY CHARGES

Most military installations have many vending machines operated by non-appropriated-fund activities or their concessionaires. Unless a vending machine is located in a

metered building occupied solely by the non-appropriated-fund activity, base engineers have to maintain control over the numbers, types, and locations of machines for billing purposes. DOD installations were not recovering the full costs of electricity used by vending machines because (1) billings to users did not cover **all** vending machines and (2) electricity use was otherwise underestimated.

We identified over 1,000 vending machines that had not been included in utility billings to non-appropriated-fund users at 6 of the 12 installations reviewed. At 1 location, the non-appropriated-fund restaurant had not been charged for electricity used by over 600 vending machines. At another base, the exchange had not been charged for utilities provided to 280 of its machines. These oversights indicate a lack of supervision and control by the responsible base activity.

Vending machines consume varying amounts of electricity, depending on the type and size of the machine. At Army and Air Force installations, a vending machine rate was usually established for different types of machines on the basis of an estimated use of kilowatt hours. However, the estimates were often undocumented, differed significantly between bases for similar types of machines, and were low in many cases.

The Navy Comptroller's Manual specifies a flat-rate charge of \$1.75 per month for each vending machine. The **prescribed rate was generally inadequate for recovering** the costs of electricity used by vending machines. Our review disclosed that one Navy base had been using higher rates based on its own usage estimates; however, the other three Navy installations were generally using the \$1.75 rate and were reluctant to increase it without approval of higher Navy authority.

Vending machine operations at the approximately 490 major military installations in the country are extensive and worthy of specific DOD policy guidance to insure an equitable and uniform system of utility charges.

INACCURATE AND NONCURRENT RATES

At 9 of the 12 installations the billed utility rates were sometimes insufficient to cover the full cost of utilities because:

- The current year's rates were not used in billings.
- Contract rates effective in one year were not billed until the following year.

- Cost increases were not reflected in rate computations.
- Costs were excluded in computing rates.
- Rate computations were incorrect.

Some of these deficiencies had existed for a number of years. Supervisory oversight would have disclosed and corrected most of them.

INTERNAL REVIEWS

Six of the 12 activities we visited had not made internal reviews of utility charges for 3 or more years before our review. Some of the activities advised us that no specific requirement for conducting such reviews existed. Where audits had been made, the scope was generally not sufficient to eliminate all the deficiencies noted in this report. Generally, internal audits did not question policies or practices dealing with officers' clubs.

CHAPTER 4

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY ACTIONS

CONCLUSIONS

The weaknesses we found 6 years ago relating to charges for utilities used by non-appropriated-fund activities have not been corrected. In fiscal year 1973, about \$370,000 in utility charges was not collected from non-appropriated-fund activities at the 12 installations reviewed. (See app. I.) The policies and administrative practices for collecting utility charges apply to the approximately 490 major DOD installations across the country; consequently, uncollected utility costs would amount to much more DOD-wide.

Commenting on our 1968 report, DOD said the military departments' lack of uniformity in following regulations might be attributable, in part, to the broad language of DOD Directive 1330.2; DOD promised to revise the directive. DOD, however, has not changed the directive, and military department and installation-level implementation continues to be inconsistent and in need of improvement.

Department policies and practices at installations have excluded altogether, or inconsistently treated, charges to non-appropriated-fund and non-Government activities for utility services.

In our opinion, DOD should provide (1) more specific policy direction for recovering utility service charges from non-appropriated-fund activities and (2) surveillance, through internal reviews, that would insure satisfactory policy implementation by the military departments.

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

The Secretary of Defense should reevaluate and clarify policies for recovering utility charges from non-appropriated-fund and non-Government activities. Specifically the Secretary should:

1. Establish more definitive criteria regarding the extent to which open messes providing essential feeding are exempt from utility charges and require reimbursement of utility charges for activities not related to essential feeding.
2. Have the Navy charge for sewage and refuse disposal.

We also recommend that periodic internal reviews be made to insure reasonable control and collection of all proper charges.

AGENCY ACTIONS

We discussed our findings with representatives of the Office of the Secretary of Defense and were informed that a proposed revision to DOD Directive 1330.2 had been drafted but not yet approved. There is a difference of opinion within the Office regarding the final form that changes to the directive should take. We were informed that further study (a survey is proposed for early January 1975) will be required before a final position can be established. Because the difference of opinion involves interpretation and consolidation of a basic policy position, final resolution may require intervention by the Secretary of Defense. Meanwhile the existing directive continues to be in effect.

CHAPTER 5

SCOPE OF REVIEW

We examined the policies, regulations, procedures, and practices related to charges for utility services furnished non-appropriated-fund and non-Government activities. Our review covered fiscal years 1972 and 1973 and was made at the 12 DOD locations listed below.

Air Force

Kelly Air Force Base, Texas
Lackland Air Force Base, Texas
McGuire Air Force Base, New Jersey
Sheppard Air Force Base, Texas

Amy

Fort Bragg, North Carolina
Fort Eustis, Virginia
Fort Lee, Virginia
Fort Monmouth, New Jersey

Navy

Marine Corps Air Station, California
North Island Naval Air Station, California
Philadelphia Naval Base, Pennsylvania
San Diego Air Station, California

APPENDIX I

SUMMARY OF UNRECOVERED UTILITY COSTS

FISCAL YEAR 1973

	<u>Refuse and sewage services</u>	<u>Officers' open messes</u>	Local implementation-- unbilled activities and inadequate estimates and rates	Annual unrecovered <u>costs</u>
<u>Air Force</u>				
Kelly Air Force Base, Tex.	-	x	x	\$ 15,000
Lackland Air Force Base, Tex.	-	x	x	-11,000
McGuire Air Force Base, N.J.	-	x	x	60,000
Sheppard Air Force Base, Tex.	-	x	x	37,000
<u>Army</u>				
Fort Bragg, N.C.	-	x	x	43,000
Fort Eustis, Va.	-	x	x	23,000
Fort Lee, Va.	-	x	x	25,000
Fort Monmouth, N.J.	-	x	x	14,000
<u>Navy</u>				
Marine Corps Air Station, Calif.	x	-	x	40,000
North Island Naval Air Station, Calif.	x	-	x	30,000
Philadelphia Naval Base, Pa.	x	-	x	58,000
San Diego Naval Station, Calif.	<u>x</u>	<u>-</u>	<u>x</u>	<u>36,000</u>
Annual unrecovered costs	<u>\$97,000</u>	<u>\$73,000</u>	<u>\$200,000</u>	<u>\$370,000</u>

Note: X denotes unrecovered utility costs.

APPENDIX II

PRINCIPAL OFFICIALS
 RESPONSIBLE FOR THE ADMINISTRATION OF
 ACTIVITIES DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James R. Schlesinger	July 1973	Present
William P. Clements, Jr. (acting)	Apr. 1973	July 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Howard H. Callaway	June 1973	Present
Robert F. Froehlke	July 1971	June 1973
Stanley R. Resor	July 1965	June 1971

CHIEF OF ENGINEERS:

Lt. Gen. W. C. Gribble, Jr.	Aug. 1973	Present
Lt. Gen. Frederick J. Clarke	Aug. 1969	July 1973

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

J. William Middendorf	June 1974	Present
John W. Warner	May 1972	Apr. 1974
John H. Chafee	Jan. 1969	May 1972

COMMANDER, NAVAL FACILITIES

ENGINEERING COMMAND:

Rear Adm. A. R. Marschall	June 1973	Present
Rear Adm. Walter M. Enger	Aug. 1969	June 1973

Tenure of office
From To

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

Dr. John L. McLucas	July 1973	Present
Dr. John L. McLucas (acting)	June 1973	July 1973
Dr. Robert C. Seamans, Jr.	Jan. 1969	May 1973

DEPUTY CHIEF OF STAFF

(Systems and Logistics):

Lt. Gen. William W. Snavely	Jan. 1973	Present
Lt. Gen. Harry E. Goldsworthy	Aug. 1969	Dec. 1972

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