

~~101-17-0~~
~~101-17-0~~
~~CAT 4042~~

~~75-0003~~

097029



REPORT TO THE CONGRESS



The Military Commissary Store: Its Justification And Role In Today's Military Environment

Department of Defense

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

BEST DOCUMENT AVAILABLE

FPCD-75-88

MAY 21, 1975

702337

097029



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

B-146875

c1
To the President of the Senate and the
Speaker of the House of Representatives

This report describes the criteria the Department of Defense has used to justify commissaries in areas where the Congress had not intended.

We made our review 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, and the Secretaries of Defense, Army, Navy, and Air Force.

A handwritten signature in cursive script, reading "James A. Atasko".

Comptroller General
of the United States

BEST DOCUMENT AVAILABLE

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	EVOLUTION AND CURRENT STATUS OF THE MILITARY COMMISSARY STORE IN THE UNITED STATES	1
	Current status	2
2	CRITERIA USED TO JUSTIFY COMMISSARIES ARE SO STRUCTURED AS TO PERPETUATE THE COMMISSARIES	3
	Convenience criterion	3
	Price criterion	4
	Adequacy criterion	5
3	COMMISSARIES NOT JUSTIFIED IN METROPOLITAN AREAS	6
4	OTHER FACTORS WHICH THE SERVICES BELIEVE WARRANT COMMISSARIES	8
	Economic fringe benefit	8
	Moral commitment to retirees	8
	Service studies concerning the importance of the commissary to the serviceman	8
5	AGENCY COMMENTS AND OUR EVALUATION	10
6	MATTERS FOR CONSIDERATION BY THE CONGRESS	12
7	SCOPE OF REVIEW	13
APPENDIX		
I	Result of latest DOD surveys (1972) to justify commissaries	14
II	Letter dated September 13, 1974, from the Assistant Secretary of Defense (Manpower and Reserve Affairs)	15
III	Principal officials of the Department of Defense and Military Departments responsible for activities discussed in this report	18

BEST DOCUMENT AVAILABLE

ABBREVIATIONS

CONUS continental United States
DOD Department of Defense
GAO General Accounting Office

BEST DOCUMENT AVAILABLE

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE MILITARY COMMISSARY STORE:
ITS JUSTIFICATION AND ROLE IN
TODAY'S MILITARY ENVIRONMENT
Department of Defense

D I G E S T

Commissary stores are not justified at military installations in metropolitan areas of the United States because enough commercial food stores sell food at reasonable prices.

In 6 U.S. metropolitan areas, GAO found at least 8 large commercial food stores within a 5-mile radius of 25 of 27 commissaries and at least 4 stores within the same radius of the other 2 commissaries.

Commissaries in metropolitan areas are contrary to the original intent of the Congress that they be located in remote areas where the serviceman does not have the benefit of metropolitan sales.

During fiscal year 1974, the services operated 279 commissaries in the United States with sales totaling \$2.2 billion.

Appropriated funds totaling \$226 million were used to subsidize the commissaries during the same year, principally for salaries of the 19,600 civilian and 1,300 military personnel employed in commissary operations. (See ch. 1.)

The legal background of the establishment of military commissary stores is as follows.

Commissary stores were authorized by the Congress in the 19th century to provide a convenient means for servicemen at isolated stations to purchase food and necessities.

In 1949, the military services received congressional approval for a regulation

stating that commissaries would not be authorized where

"* * *adequate commercial facilities are conveniently available and sell commissary merchandise at reasonable prices* * *."

In 1953, the Congress required the Secretary of Defense to certify the need for commissaries. That certification was based on Department of Defense (DOD) criteria--commercial stores are an unreasonable distance from the installation, stores prices are unreasonable, or stores are inadequate. 5

In each subsequent year the Congress has required the Secretary to certify the need for commissaries. The criteria on which the annual certification has been based, have remained unchanged and no commissary has been closed because of failure to meet the criteria.

Criteria used to justify commissaries are so structured as to perpetuate the commissaries. We reported to the Joint Economic Committee in 1964 (B-146875) that the criteria used to justify commissaries were unrealistic and consequently distorted the generally accepted understanding of what are reasonable prices and reasonable distances. (See ch. 2.)

Though lower commissary prices are not considered fringe benefits to the military families for pay raise determinations, they are nevertheless fringe benefits which the services do not want to give up. Service officials contend that the commissary privilege:

--Has become ingrained as an economic benefit and its loss would adversely affect personnel recruiting and retention. This is particularly important now, in light of attempts to establish an all-volunteer force.

--Is a moral commitment to military retirees.

In 1966, an Army study disclosed that officers ranked the commissary as the second most important fringe benefit and enlisted personnel ranked it third.

In 1969, another Army study revealed that the commissary, as a benefit, has a positive influence on junior officers to remain in the service.

In 1973, a Navy survey disclosed that 75 percent of those surveyed preferred commissary/exchange benefits to a raise in pay. (See p. 9.)

DOD has been allowed to construct and operate commissaries on the basis of its criteria because there has been no law to provide a specific basis for their establishment or discontinuance.

The Congress may want to consider whether it wishes to allow DOD to continue to operate commissary stores in competition with commercial grocery stores at added expense to the taxpayer.

Several courses of action available to the Congress are:

- Close the commissary stores.
- Allow DOD to continue using the current criteria.
- Allow DOD to continue justifying commissary stores only in remote areas.
- Authorize the commissary stores as a fringe benefit.
- Authorize the commissary stores to operate on a self-sustaining basis.

The basis chosen should be clearly set out in public law.

CHAPTER 1

EVOLUTION AND CURRENT STATUS OF

THE MILITARY COMMISSARY STORE IN THE UNITED STATES

In 1825 the Army was authorized to sell food and other items at cost to its officers at certain frontier posts. In 1856 this authority was expanded to include enlisted personnel. The Air Force, Navy, and Marine Corps were subsequently authorized to establish commissaries.

By 1948 there were 210 commissaries in the continental United States (CONUS). A subcommittee of the House Committee on Armed Services was appointed in 1949 to look into the extent to which commissaries were necessary. At the close of hearings held by the Committee, the chairman stated:

"The whole theory of the commissary privilege * * * was originally to give it to the people who were at isolated stations who did not have the benefit of metropolitan sales. That is the whole theory and the only justification for it. It was never intended that the Government should go in the business of providing for its personnel where they have the privilege and opportunity to go to a private place to buy. It was intended on account of the remoteness of stations to accommodate them."
(Underscoring supplied)

A commissary store regulation submitted by the services to the subcommittee stated that "commissary stores shall not be authorized in areas where adequate commercial facilities are conveniently available and sell commissary merchandise at reasonable prices." After these hearings, the Department of Defense (DOD) issued criteria for implementing the regulation. These criteria--commercial store prices are unreasonable, the stores are an unreasonable distance from the base, or they are inadequate--were used to justify existing commissaries and for establishing new ones.

In 1953 the Congress reinforced its intent that commissaries be justified only at remote stations and required the Secretary of Defense to certify annually the need for commissaries. The basis for this annual certification is a triennial survey made by the services using the three criteria that have remained unchanged since 1953.

In 1963, when the services operated 269 commissaries in CONUS, the Congress requested that we review the legal background for and the authorization of military commissary stores. We reported in 1964 that the criteria were unrealistic and did not meet the intent of the Congress.

CURRENT STATUS

In fiscal year 1974 sales at the 279 commissaries in the United States were \$2.2 billion. These stores sell groceries, meats, produce, and household supplies to authorized personnel at cost plus a surcharge of between 3 and 5 percent. The surcharge covers the cost of certain commercial transportation, commissary operating equipment, supplies, utilities, and merchandise losses and spoilage. Authorized patrons are predominantly the regular, active duty reserve, and retired personnel of the uniformed services.

Appropriated funds are used to subsidize other costs of operating commissaries. However, not all appropriated funds associated with commissaries are readily determinable. Numerous organizations within DOD incur costs of procuring, inspecting, receiving, and issuing items sold in the commissaries. The services' accounting systems do not provide for accumulating the costs of these organizations that are chargeable to commissaries.

Appropriated funds, readily identifiable, which subsidized commissary operations in fiscal year 1974, totaled \$226 million. Almost \$15 million of this total was spent for construction. The remaining \$211 million was spent primarily for the salaries of 19,619 civilian and 1,317 military employees.

In his recent budget submission for fiscal year 1976, President Ford proposed changes to the standard wording of the annual DOD appropriation act which would eliminate commissaries' appropriated fund support for military and civilian pay and the cost of utilities. Legislation has been introduced in the Congress that would require the continuation of commissaries and their appropriated fund support, and other legislation has been introduced which would require closing all commissaries.

CHAPTER 2

CRITERIA USED TO JUSTIFY COMMISSARIES ARE SO STRUCTURED AS TO PERPETUATE THE COMMISSARIES

The criteria developed by DOD in 1949 to justify establishing or continuing commissaries are so structured that they perpetuate the commissaries. We reported to the Joint Economic Committee in 1964 (B-146875) that the criteria used to justify commissaries were unrealistic and consequently distorted the generally accepted understanding of reasonable prices and reasonable distances. Nevertheless, the criteria have not changed, and commissaries continue to operate in metropolitan areas, contrary to the original intent of the Congress that they be located only in remote areas where the serviceman does not have the benefit of metropolitan sales. In fact, no commissary has been closed for failing to meet the criteria since 1953 when the Congress first required the Secretary of Defense to certify the need for commissaries.

DOD currently requires each service to triennially reexamine the justification for each commissary store that has been certified by the Secretary of Defense for operation. For the 2 years between reexamination, the services simply update their listing of the number of commissaries and an administrative certification is made. In their justification surveys, the services use the criteria established in 1949.

- Commercial stores are an unreasonable distance from the installation (convenience criterion).
- Store prices are unreasonable (price criterion).
- Stores are inadequate (adequacy criterion).

CONVENIENCE CRITERION

The distance to the nearest adequate store surveyed is considered unreasonable by DOD if the time to travel to it from the center of base housing exceeds 10 minutes by private vehicle. If only one commissary patron on base does not have the use of a private vehicle, commercial or military transportation is considered. To be considered reasonable, this transportation must be able to provide, every 30 minutes, a one-way trip of no longer than 15 minutes to the nearest adequate store.

Evaluation

* In order for this criterion to be meaningful, it should be applicable to the majority of persons it affects. This criterion applies to only 40 percent of married active duty military personnel who reside in base housing. Over 60 percent of married personnel and all reservists and retirees live off base in civilian communities where, according to a recent grocery trade magazine survey, food stores are quite convenient. This survey of the shopping habits of families in the United States showed that over 70 percent of the families surveyed traveled no more than 3 miles to commercial stores.

There may be instances where adequate commercial stores are within the established convenience criterion but families do not have the use of private transportation. In such instances a study should be made to determine whether it is more economical to provide transportation to commercial stores or to provide food sales through a commissary or other means, such as a concession.

PRICE CRITERION

If food items cost as much as 20 percent more in commercial outlets than they do in the commissary, the commercial price is deemed unreasonable by DOD and the commissary is considered to be justified. The retail price for at least 83 brand-name food items is obtained from the two adequate commercial stores closest to the commissary. The prices are averaged and totaled. The result is compared to the cost of those items in the commissary.

Evaluation

The price criterion is based on 1947 data when the average grocery store markup was 20 percent of cost. Today, that markup has increased to about 26 percent. It ranges from 25 percent in the South to 30 percent in the West. In 1959 the Army recognized the changing conditions and recommended raising the percentage differential. However, the Air Force disagreed, stating that "any further instructions limiting the present criteria would jeopardize continued operations of our commissary stores."

A DOD-sponsored study in 1969 concluded that probably no commissary would ever show less than a 20-percent differential between the commissary cost and the commercial retail price. The report on the study commented that, if present market trends continued, there was no reason to believe that the survey would not perpetually insure that

commercial prices would appear unreasonable in comparison with commissary prices.

We believe that the price criterion is unrealistic because it ignores the competitiveness of the grocery industry. Reasonable prices usually result from free and open competition. In fact, DOD's instruction for selecting the commercial stores to be used in the survey recognizes the influence that competition has on prices. That instruction provides, in part, that stores selected should be within such distance of each other so as "to permit free and open competition, which will allow prices to react in accordance with demand."

The grocery industry is indeed highly competitive, as evidenced by the large number of both chain and independent stores vying for the consumer's grocery dollars. A recent Standard and Poor's study shows that profit margins in the grocery industry are quite low. It is reasonable to assume that the theory of supply and demand and free and open competition will insure reasonable prices in the grocery industry. Therefore we believe that price should be considered on an exception basis only in unusual circumstances, such as at remote locations where commercial stores may meet convenience and adequacy criteria but charge prices that are clearly unreasonably high when compared with those in the nearest metropolitan area.

ADEQUACY CRITERION

To be considered adequate by DOD, commercial facilities must sell goods normally found in commissary stores: groceries, meats, meat products, seafoods, dairy products, frozen fruits and vegetables, and authorized miscellaneous household items. These broad categories need not be found in any one store but must be available from commercial sources within the immediate shopping area. The commercial stores must have the capacity to serve all commissary patrons quartered on the installation and those quartered closer to the commissary than to adequate commercial stores.

Inasmuch as there are enough stores considered adequate in most areas, the adequacy criterion alone is not currently used to justify any commissary. However, it is used with the price and convenience criteria to justify some commissaries.

CHAPTER 3

COMMISSARIES NOT JUSTIFIED IN

METROPOLITAN AREAS

Commissaries are not justified at military installations in metropolitan areas of the United States because there are enough commercial food stores reasonably close to where commissaries are now located to meet the shopping needs of the service members living on or in the immediate vicinity of the installation, and, since commercial food stores in metropolitan areas are very competitive and operate on a low profit margin, their prices are reasonable.

Furthermore, commissaries in metropolitan areas are contrary to the original intent of the Congress that they be located only in remote areas where the serviceman does not have the benefit of metropolitan sales.

To illustrate the convenience of commercial food stores, we identified supermarkets within a 5-mile radius of commissaries in 6 of the 243 U.S. metropolitan areas. In San Diego and San Francisco, California; San Antonio, Texas; Norfolk, Virginia; Honolulu/Pearl City, Hawaii; and Washington, D.C., the services operate 27 commissaries, many within 5 miles of another commissary. We identified at least 8 large commercial food stores within a 5-mile radius of 25 of the 27 commissaries. The other two commissaries each had at least four commercial stores within this same radius. The table on the following page shows the distribution of the stores, by mileage radius, for each commissary in the six areas.

BEST DOCUMENT AVAILABLE

Metropolitan area and commissary location	Number of commercial food stores within radius of				
	1 mile	2 miles	3 miles	4 miles	5 miles
Norfolk:					
Naval Base	-	1	2	10	26
Little Creek Amphibious Base	2	2	6	10	18
Oceana Naval Air Station	-	-	6	11	13
Naval Shipyard	5	11	15	16	17
Honolulu/Pearl City:					
Fort Shafter (Schotfield Barracks Annex)	3	4	6	9	11
Hickam Air Force Base	-	1	1	5	8
Pearl Harbor	1	1	4	6	3
San Antonio:					
Brooks Air Force Base	1	3	9	15	20
Fort Sam Houston	-	3	10	21	40
Kelly Air Force Base	-	1	7	19	30
Lackland Air Force Base	-	1	3	6	14
Randolph Air Force Base	-	3	4	4	4
San Diego:					
Naval Station	1	3	6	11	15
Naval Training Center	1	3	8	11	15
Miramar Naval Air Station	-	1	4	4	5
North Island Naval Air Station	1	2	2	3	11
San Francisco:					
Alameda Naval Air Station	1	3	10	20	(a)
Hamilton Air Force Base	1	3	3	9	12
Oakland Army Base	-	2	4	15	(a)
Presidio of San Francisco	2	11	23	(a)	(a)
Treasure Island Naval Station	-	-	3	9	17
Washington, D.C.:					
Andrews Air Force Base	1	3	5	12	(a)
Bolling Air Force Base	1	7	18	(a)	(a)
Cameron Station	2	10	14	(a)	(a)
Fort McNair	1	10	19	(a)	(a)
Fort Myers	3	9	21	(a)	(a)
Walter Reed Army Hospital	1	4	11	(a)	(a)

a/Many commercial stores were within a closer radius; therefore, we did not attempt to identify additional stores.

In our opinion, DOD's continued operation of commissaries in metropolitan areas cannot be justified on the basis of their being needed to provide military families convenient access to facilities from which to purchase reasonably priced food and necessities. If the Congress wishes DOD to continue commissary operations as a fringe benefit or for other reasons, the basis should be clearly stated in public law.

BEST DOCUMENT AVAILABLE

CHAPTER 4

OTHER FACTORS WHICH THE SERVICES BELIEVE

WARRANT COMMISSARIES

The services believe that commissaries are warranted for reasons other than the criteria. Foremost is their contention that the commissary has become ingrained as an economic benefit and plays an important role in personnel recruitment and retention and that role is even more critical today with the advent of the all-volunteer force. The services also feel there is a moral commitment to provide commissary benefits to retirees.

ECONOMIC FRINGE BENEFIT

At one time, the services treated the commissary as an economic fringe benefit--it was considered part of the serviceman's pay in determining the need for pay raises. Although it is no longer considered part of his pay, DOD contends that the serviceman continues to look upon the commissary as an economic benefit. In recent congressional testimony, an Army official said the commissary was, indeed, part of the serviceman's "compensation." The official further quoted a saving of \$62 per family per month that accrued to the serviceman by shopping in the commissary.

The services believe that eliminating the commissary would have a detrimental effect on recruiting and retaining personnel. According to the services, the role of the commissary is even more critical today in light of attempts to establish an all-volunteer force.

MORAL COMMITMENT TO RETIREES

Since an individual's decision to make the service his career may have been influenced by the benefits he would receive in retirement, the services believe that there is a moral commitment to provide those benefits. According to a DOD representative, retired people do use their benefits, including the commissary. About 80 percent of military retirees reside within 50 miles of commissaries. From other studies we have made at commissary stores, we estimate that about 25 percent of commissary patrons are retirees.

SERVICE STUDIES CONCERNING THE IMPORTANCE OF THE COMMISSARY TO THE SERVICEMAN

The services have made limited studies to determine the commissary's importance to military personnel. The Army has

periodically surveyed both officer and enlisted personnel attitudes toward the commissary. In a 1966 survey, officers ranked the commissary as the second most important fringe benefit and enlisted personnel ranked it third. A 1969 Army survey of junior officers disclosed that the commissary helped influence junior officers to remain in the service. The Army plans another survey in the near future.

According to an April 1973 Navy "patron attitude survey," 75 percent of those surveyed preferred commissary and exchange benefits to a pay raise.

The Air Force has contracted for a study to assess the role of the commissary as a fringe benefit in affecting the morale, recruitment, and retention of servicemen. The Navy has contracted for a similar study.

CHAPTER 5

AGENCY COMMENTS AND OUR EVALUATION

In 1964 we reported to the Joint Economic Committee that the criteria for authorizing commissaries were unrealistic and did not meet the intent of the Congress. These criteria have not been changed. The Assistant Secretary of Defense (Manpower and Reserve Affairs) in his letter of September 13, 1974 (see app. II), noted that DOD Directive 1330.17 (Armed Services Commissary Store Regulations), which includes the criteria, was approved by the House Armed Services Committee subsequent to our 1964 report and, because there had been no concerted effort on the part of the Congress to have the certification criteria altered or changed, present certification procedures must on the whole be satisfactory.

Changes to the regulations have been submitted to the House Armed Services Committee for approval. During hearings in 1970 the regulations were first presented to the Committee as a single directive. A subcommittee report recommended approval of numerous administrative changes for clarity and updating and three policy changes which did not affect the criteria.

As reported on page 1, the Chairman of the House Armed Services Committee in 1949 stated that the commissary privilege was justified only for people at isolated stations who did not have the benefit of metropolitan sales. In 1953 the Senate Appropriations Committee expressed concern with failure of the military departments to reduce the number of commissary stores. It failed to find any justification for commissaries surrounded by or abutting metropolitan areas and suggested that commissary operations be curtailed at those installations removed from metropolitan trading centers. Our report to the Joint Economic Committee in 1964 was in response to a recommendation of that Committee in 1963 that GAO investigate military commissary stores.

A special subcommittee of the House Armed Services Committee in 1970 closely questioned DOD representatives whether commissary stores met the reasonable price, reasonable distance, and adequacy criteria. An Army representative replied that they did--as set forth in the regulations--and the primary reason was the difference in price. We submit that the price criterion is unrealistic because it is out of date and ignores the competitiveness of the grocery industry.

Further, much interest in the commissaries and the need for them has been recently expressed by several Committees and Members of the Congress.

The House Appropriations Committee recently has asked whether commissary stores are needed in metropolitan areas. In today's military environment and considering the relative comparability of regular military compensation with civilian pay, the need for many U.S. commissaries is questionable and their continuation should be judged on a more reasonable basis than the one now used.

CHAPTER 6

MATTERS FOR CONSIDERATION BY THE CONGRESS

The need for the military to continue operating commissary stores, especially in metropolitan areas where grocery stores are readily available and provide adequate competition, has been questioned from time to time during the last 25 years. In spite of this, DOD continues to use the criteria to perpetuate the commissaries, asserting that they are a form of compensation to active duty personnel and a moral commitment to retirees and thus are an important fringe benefit necessary to maintaining an all-volunteer service.

Because of several increases in recent years, regular military compensation (composed of basic pay, basic allowance for quarters, basic allowance for subsistence, and the income tax advantage related to these nontaxable allowances) is now reasonably competitive with pay in the private sector. Nevertheless military personnel receive many fringe benefits not generally available to civilian workers. Among these are total medical benefits, a noncontributory retirement program, and the many community services available on most installations, chief among which are the exchange and commissary.

The Congress may now wish to take a close look at the need for maintaining commissary stores in competition with commercial grocery stores and at added expense to the taxpayer. Several alternatives are available. Among these are:

- Close the commissary stores.
- Allow DOD to continue justifying commissary stores using the current criteria.
- Allow DOD to justify commissary stores only in remote areas.
- Authorize the commissary store as a fringe benefit to be justified on the basis of the size of the population served.
- Authorize commissary stores to operate on a self-sustaining basis similar to the exchanges.

The basis chosen, whether or not one of the above alternatives, should be clearly set out in public law.

CHAPTER 7

SCOPE OF REVIEW

* Our study focused on the reasonableness of the criteria developed and used by the military services to justify commissaries.

We obtained and analyzed the results of the latest application of those criteria in justifying commissaries and discussed with DOD and service officials those factors which they believe warrant commissaries and their continuation.

We made our review at the Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs) and at the office responsible for commissary operations within each service headquarters.

BEST DOCUMENT AVAILABLE

RESULT OF LATEST DOD SURVEYS (1972)TO JUSTIFY COMMISSARIES

	<u>Number of commissaries justified</u>							<u>Total</u>
	<u>Adequacy</u>	<u>Convenience</u>	<u>Price</u>	<u>Adequacy, convenience, and price</u>	<u>Convenience and price</u>	<u>Adequacy and convenience</u>	<u>Adequacy and price</u>	
Army	-	4	12	23	30	1	-	70
Navy	-	-	16	-	43	-	-	59
Air Force	-	10	43	25	51	-	4	133
Marine Corps	-	-	-	3	8	-	-	11
Total		<u>14</u>	<u>71</u>	<u>51</u>	<u>132</u>	<u>1</u>	<u>4</u>	<u>273</u>

14



MANPOWER AND
RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301

September 13, 1974

Mr. Forrest R. Browne
Director, Federal Personnel and Compensation
Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Browne:

This is in reply to your letter of June 28, 1974 to the Secretary of Defense, requesting Department of Defense (DoD) comments on General Accounting Office (GAO) draft report, "The Military Commissary Store: Its Justification and Role in Today's Military Environment" (Reference Code 964013) (OSD Case #3861).

The commissary stores operated by the Department of Defense in the continental United States were authorized to continue operation based on the criteria established in DoD Directive 1330.17, "Armed Services Commissary Store Regulations," dated October 29, 1971. The GAO stated in 1964 that the criteria were unrealistic and consequently did not meet the intent of Congress. It is noted that subsequent to the 1964 report, DoD Directive 1330.17, which includes the criteria, was approved by the House Armed Services Committee. Moreover, these regulations limiting the extent of commissary store operations are still monitored by the Committee. The criteria provide for the establishment and continued operation of commissary stores in those cases where available commercial facilities are inadequate or inconvenient, or if the average total cost, less sales tax of comparable items in these facilities exceeds by 20 percent that charged by the commissary store, less individual store markup or applicable surcharge. If the 20 percent differential is exceeded, the prices are considered unreasonable, but only for purpose of comparison, not unreasonable per se.

Present certification procedures must on the whole be satisfactory to the Congress since there has been no concerted effort on the part of

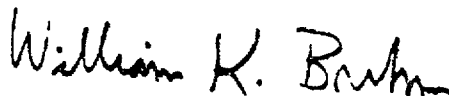
that body to have the certification criteria altered or changed. We also consider present criteria and procedures adequate for compliance with the law. The reason that all commissary stores recommended to the Secretary of Defense are ordinarily certified is that (1) if they did not meet the criteria, they would not be recommended by the Secretaries of the Military Departments, and (2) adequacy, convenience and price differential factors are generally subject to little, if any, appreciable change from year to year.

(See GAO note, p. 17.)

(See GAO note, p. 17.)

The proposed draft addresses several aspects of the commissary store system and cites the importance that is placed on commissary store patron privileges by the DoD. Among these is the role commissary stores play in personnel recruitment and retention and the commitment to retirees. It is viewed that future reviews of retention incentives should consider the cumulative impact rather than examining each benefit incentive in isolation.

Sincerely,



William K. Brehm

GAO note: Certain comments were deleted because changes in the final report made the comments no longer appropriate. Comments and suggested wording changes were considered and incorporated where appropriate.

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF DEFENSE AND MILITARY
DEPARTMENTS RESPONSIBLE FOR ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE: James R. Schlesinger	June 1973	Present
DEPUTY SECRETARY OF DEFENSE: William P. Clements, Jr.	Jan. 1973	Present
ASSISTANT SECRETARY OF DEFENSE (MANPOWER AND RESERVE AFFAIRS): William K. Brehm	Sept. 1973	Present
<u>DEPARTMENT OF THE ARMY</u>		
SECRETARY OF THE ARMY: Howard Callaway	May 1973	Present
UNDER SECRETARY OF THE ARMY: Kenneth E. Belieu	Sept. 1971	Present
ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS): M. David Lowe	Feb. 1974	Present
<u>DEPARTMENT OF THE NAVY</u>		
SECRETARY OF THE NAVY: J. William Middendorf	June 1974	Present
UNDER SECRETARY OF THE NAVY: David S. Potter	Aug. 1974	Present
ASSISTANT SECRETARY OF THE NAVY (MANPOWER AND RESERVE AFFAIRS): Joseph T. McCullen, Jr.	Sept. 1973	Present
COMMANDANT OF THE MARINE CORPS: General Robert E. Cushman, Jr.	Jan. 1972	Present

DEPARTMENT OF THE AIR FORCE

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF THE AIR FORCE: Dr. John L. McLucas	May 1973	Present
UNDER SECRETARY OF THE AIR FORCE: James W. Plummer	Dec. 1973	Present
ASSISTANT SECRETARY OF THE AIR FORCE (MANPOWER AND RESERVE AFFAIRS): David P. Taylor	June 1974	Present