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GAO

Report to Congressional Requesters

January 1992

**MILITARY BASE
CLOSURES
U.S. Financial
Obligations in the
Philippines**



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**United States
General Accounting Office
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**National Security and
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The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

This report covers the U.S. obligations in the Philippines when the U.S. military facilities close. It responds to your request that GAO determine (1) what the U.S. liability is for separation allowances to local national employees in the Philippines and for contract termination costs, (2) whether the United States can recover any equipment for reuse elsewhere, and (3) whether the United States has any obligation for environmental cleanup or restoration of these bases. It also contains several recommendations on future accounting and funding for severance pay.

We are sending copies of this report to the Secretaries of Defense and State and other appropriate congressional committees. The report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be contacted on (202) 275-4128 if you or your staff have further questions. Other major contributors to the report are listed in appendix II.

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Executive Summary

Purpose

The United States has approximately \$2.199 billion invested in military facilities in the Philippines. It has maintained these facilities—Clark Air Base and the Subic Bay Navy Facility—under the Military Bases Agreement of 1947, as amended. However, this agreement became subject to termination in September 1991, effective upon 1 year's notice by either government. Under this agreement, the United States is liable for certain costs upon withdrawal from these facilities. The Chairman and the Ranking Minority Member of the Subcommittee on Defense, Senate Committee on Appropriations, requested that GAO determine the U.S. potential financial obligations to the Philippines. Specifically, GAO's objectives were to determine

- the costs of separation allowances and contract termination and arrangements for covering these liabilities,
- the U.S. investment in removable and nonremovable property on these bases and the effect of the basing agreement on this investment, and
- the nature of any environmental damage and the U.S. obligation for any environmental cleanup or restoration.

Background

The United States has use of two bases in the Philippines: Clark Air Base and the Subic Bay Navy Facility. In May 1990, the United States and the Philippines began negotiating a new basing agreement. However, because of damage to Clark Air Base caused by the eruption of Mt. Pinatubo, the United States decided to withdraw. On August 27, 1991, the two countries signed a new basing agreement that allowed the United States to remain at the Subic Bay Navy Facility another 10 years. On September 16, 1991, this agreement was rejected by the Philippine Senate. The President of the Philippines briefly proposed a referendum on the new agreement. On October 3, 1991, however, this effort was abandoned and she proposed a 3-year period for the United States to withdraw from Subic Bay.

Under the military basing agreement, when the United States leaves these facilities, it is liable to pay Filipino civilian employees separation allowances including severance pay, payments for accrued sick and annual leave, and the pro rata portion of the year-end bonus. As of March 1991, approximately 5,000 and 14,200 Filipino civilian employees worked for the Air Force and the Navy, respectively. The United States is also liable for contract termination costs.

Results in Brief

U.S. liabilities for separation allowances totaled approximately \$71.3 million as of March 31, 1991. These allowances include liabilities of approximately \$52.7 million for severance pay, \$15.5 million for accumulated sick and annual leave, and \$3.1 million for the pro rata share of the year-end bonus.

Air Force and Navy activities in the Philippines had obligated approximately \$39.8 million for severance pay liabilities as of March 31, 1991, resulting in a \$12.9 million shortfall. Some Navy appropriated fund activities and Air Force and Navy nonappropriated fund activities had underfunded their severance pay liability by \$11.1 million and \$4.7 million, respectively. Other activities had overfunded their severance pay liability by \$2.9 million. With the exception of Navy industrial fund's \$10.1 million liability, DOD stated that sufficient resources are available to cover the shortfall.

Most activities had not set aside funds for their sick and annual leave liabilities because under DOD policy these liabilities are not funded until they are actually ready to be paid. U.S. liabilities for contract termination costs are estimated to be approximately \$3.7 million, but additional funds should not be required to cover these costs because funds have already been obligated to cover the full cost of these contracts.

The United States has invested approximately \$2.199 billion in military facilities in the Philippines—\$1.436 billion in removable property and \$763 million in buildings and structures. At the time of the eruption of Mt. Pinatubo in June 1991, neither the Air Force nor the Navy had determined what the condition of this removable property was or whether a requirement for it existed elsewhere. Subsequently, the Air Force finalized plans to remove about 75 percent of the removable property and declare the balance excess to U.S. requirements.

The Air Force and the Navy have identified significant environmental damage to their facilities in the Philippines. However, the current basing agreement does not impose any well-defined environmental responsibility upon the United States either while it operates the base or for cleanup upon withdrawal. Nevertheless, Air Force and Navy officials said that if the United States applied U.S. environmental restoration standards, cleanup and restoration costs could approach Superfund proportions.¹

¹The Superfund is administered by the Environmental Protection Agency to clean up the nation's worst hazardous waste sites. The average cost of construction per site is about \$25 million.

Principal Findings

Separation Allowances Not Fully Funded

Although most activities funded their severance pay liabilities, as required, GAO identified one Navy industrial-funded activity that did not have cash reserves to cover its severance pay liability of approximately \$10.1 million. According to a Navy official, industrial funds have no requirement to reserve funds for severance pay liability. The Navy Public Works' financial statement showed that it had limited current assets to cover all of their current liabilities. Navy officials believe that if the Center has time to plan an orderly withdrawal from Subic Bay, it may be possible to build up its cash balances.

GAO identified other Navy appropriated activities that had also underfunded their severance pay liabilities as of March 31, 1991. However, Navy officials stated that by September 30, 1991, these other Navy appropriated activities had funded their severance pay liabilities. In addition, because of variations in the accounting methods used and the internal borrowing of funds reserved for severance pay, the Navy and Air Force exchanges, as of March 31, 1991, had underfunded their severance pay liability by approximately \$3 million. However, the exchanges informed GAO that if payments exceed their reserves, they have sufficient internal financial resources to meet their full severance pay obligations.

GAO identified one Air Force appropriated fund activity that had overfunded its severance pay liability by approximately \$2.8 million. This overfunding occurred because the activity used an inflated currency exchange rate to obligate funds for severance pay, contrary to DOD guidance.

U.S. Investment in the Philippines

DOD, in response to a directive in the conference report accompanying the fiscal year 1989 military appropriations bill, reported to the Congress that, given the uncertainty surrounding the Philippine government's intentions, it would not be advisable to proceed with some military construction projects. DOD planned to defer projects relating to operations and proceed with projects relating to the safety of U.S. personnel and their dependents assigned to Navy and Air Force activities.

Between fiscal years 1989 and 1991, the Air Force and the Navy invested approximately \$182 million in buildings and structures in the Philippines

under the assumption that the United States would remain at Clark Air Base and the Subic Bay Navy Facility. Most of these projects, such as construction of 560 family housing units and construction of dormitories, were related to security concerns. However, a few projects, such as a \$25-million contract for a parallel runway and \$114,000 for construction of two tennis courts at Subic Bay, were more related to operational and recreational requirements.

Given the U.S. decision to leave Clark, the United States had limited use from its recent investments. Despite volcanic damage, the Subic Bay Navy Facility, including the naval air station, remains operational, according to Navy officials. The 3-year withdrawal notice suggests that any further U.S. military construction should be limited.

No Current U.S. Liability for Environmental Damage

The services have identified contaminated sites, such as fire-fighting training facilities and underground storage tanks. The cost of bringing all contaminated sites into compliance with U.S. environmental standards could approach Superfund proportions, according to Air Force and Navy officials. However, under the current agreement, the United States has no liability for this damage. DOD regulations require the services to comply with the environmental pollution control standards of general applicability in the host country, but they do not impose any specific responsibility for environmental restoration, and the services have no plans for restoration. While the proposed new basing agreement contained an expanded environmental provision, the Philippine Senate's rejection of the agreement made the issue of increased U.S. environmental liability a moot point.

Recommendations

GAO makes several specific recommendations to the Secretary of Defense to ensure that severance pay obligations are reconciled to current liabilities.

GAO also recommends that the Secretary of the Navy direct the Navy Comptroller to ensure that funds will be available to cover severance pay liabilities related to the Navy industrial-funded activity that had not set aside funds to cover its severance pay liability.

Agency Comments

GAO did not obtain written comments from DOD on this report. However, DOD, the U.S. Pacific Command, and the military exchanges reviewed a draft of the report, and their comments have been incorporated where appropriate.

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Abbreviations

DOD	Department of Defense
PCB	Polychlorinated biphenyl

Introduction

Clark Air Base, one of the largest U.S. air bases overseas, has five primary activities, including (1) the 13th Air Force headquarters; (2) a tactical fighter training group, which hosts the Pacific Air Force's primary air-to-ground weapons delivery training; (3) military airlift support; (4) the Air Force Communications Command, which manages, operates, and maintains communications data automation systems and air traffic control systems; and (5) a special operations wing. At the time of our review, Clark Air Base was also home to the Third Tactical Fighter Wing.

The Subic Bay Navy Facility provides ship and aircraft maintenance and supply support to Seventh Fleet ships and aircraft. Primary activities include a naval station, a naval air station, intermediate aircraft repair, a supply depot, and a ship repair facility.

The United States also had use of four smaller facilities, which were returned to the Philippines during 1991: Wallace Air Station and Camp O'Donnell, attached to Clark Air Base; the San Miguel Communications Station, attached to the Subic Bay Navy Facility; and Camp John Hay Air Station, a morale, welfare, and recreational facility. The Crow Valley training range, adjacent to Camp O'Donnell, was also returned.

The U.S. military presence in the Republic of the Philippines is authorized by and subject to the Military Bases Agreement of 1947, as amended. One of the most significant of the more than 40 amendments to the agreement is the 1966 Ramos-Rusk Exchange of Notes, which reduced the term of the agreement from 99 years to 25 additional years. As a result of the amendment, the current basing agreement was to continue in force until September 16, 1991, after which it became subject to termination upon 1 year's notice by either government. The "transitory provision" of the Philippines Constitution of 1987 requires that any extension must be pursuant to an agreement that is ratified by the Philippines and respected as a treaty by the United States.

In May 1990, during the initial discussions on continued U.S. presence in the Philippines, the Philippine government notified the United States that the 1947 agreement, as amended, would terminate on September 16, 1991. After the Philippine Senate rejected a new basing agreement, the Philippine notice of termination was withdrawn; thus the 1947 agreement remains in effect.

Uncertainty Continues Over U.S. Presence in the Philippines

The eruption of Mt. Pinatubo in June 1991 caused significant damage to U.S. facilities. As a result, the United States decided to relinquish Clark Air Base and negotiate only for the Subic Bay Navy Facility. On August 27, 1991, the governments of the United States and the Philippines signed a new 10-year basing agreement. The agreement was subject to acceptance by the United States and approval of the Philippine Senate, which rejected the new agreement on September 16, 1991.

On September 17, 1991, the Philippine President announced that the Philippine government would propose a national referendum to overturn the Senate vote and approve a new 10-year treaty for Subic Bay. On October 3, 1991, the Philippine President abandoned the referendum approach and proposed a plan to give the United States a 3-year period to withdraw from Subic Bay.

U.S.-Filipino Employee Labor Agreement

As the United States withdraws its forces from the Philippines, it will have to make certain payments under the 1968 Base Labor Agreement, as amended, and the Collective Bargaining Agreement between the U.S. Armed Forces Facilities and the Federation of Filipino Civilian Employees Associations. These agreements set forth the benefits and rules of employment of all Filipino civilians directly employed by U.S. forces in the Philippines. They also include provisions regarding payments to employees for retirement, reduction-in-force, accrued leave, and bonuses. The agreements apply to all Filipino civilian employees of Air Force and Navy appropriated and nonappropriated fund activities, including morale, welfare, and recreation and exchange service activities as well as the Military Banking Facility in the Philippines. The agreements do not apply to individuals employed under contract and privately employed by military members.

Most Filipino civilian employees whose employment is terminated as a result of a reduction-in-force are eligible to receive the following benefits as their lump-sum separation allowance: severance pay, a cash payment for accumulated sick and annual leave, and a pro rata portion of the calendar year-end bonus. Severance pay is paid to each employee in the amount of 100 percent of 1 month's pay, at the current wage rate, for each year of creditable service. Accumulated hours of sick leave and days of annual leave carryover are paid at the basic hourly wage rate, up to a maximum of 480 hours and 45 days, respectively. A prorated share of the year-end bonus, equal to 200 percent of the employee's monthly pay, is also paid.

Separation Allowances and Contract Termination Costs

The United States is liable for payments to Filipino civilian employees and contract termination costs when it leaves the military facilities in the Philippines. We determined the total cost of separation allowances to these employees to be approximately \$71.3 million as of March 31, 1991.¹ These allowances include liabilities of approximately \$52.7 million for severance pay, approximately \$15.5 million for accumulated sick and annual leave, and approximately \$3.1 million for the pro rata share of the year-end bonus. When the Air Force leaves Clark Air Base, it will owe approximately \$16.7 million in separation allowance liabilities and any liabilities that accrue after March 31, 1991. The United States will also be liable for termination costs on some contracts, estimated to be approximately \$3.7 million, and subject to other potential contract-related claims.

In general, Air Force and Navy appropriated and nonappropriated fund activities in the Philippines were accurately estimating severance pay liabilities. As required, most activities also set aside funds for these liabilities, although as of March 31, 1991, some activities, as indicated in table 2.1, were not fully funded to cover their severance pay liabilities because of variations in the accounting methods. Four of the seven activities will not have set aside an amount required to fully cover their actual severance pay liabilities by the end of fiscal year 1991. Three of these activities involve nonappropriated fund activities and believe that they have sufficient internal resources to pay all of their liabilities. However, table 2.1 shows only those funds specifically reserved for severance pay liability by those organizations. While we agree that other assets, such as inventory and materials and supplies, may be available for these organizations to use for their severance pay liability, the paying activity may have to liquidate such assets to do so.

¹This figure represents the liabilities for 98 percent and 94 percent of Filipinos employed by the Air Force and Navy, respectively.

**Chapter 2
Separation Allowances and Contract
Termination Costs**

Table 2.1: Severance Pay Funding and Liabilities (as of March 31, 1991)

Dollars in thousands				
Activity	Funding	Liability	Difference	
			Underfunded	Overfunded
Appropriated fund				
Clark Air Base	\$9,398	\$6,610		\$2,788
Subic Navy Facility ^a	22,859 ^b	23,817	\$958	
Navy industrial fund	0	10,161	10,161	
Subtotal	\$32,257	\$40,588	\$11,119	\$2,788
Nonappropriated fund				
Clark, morale, welfare and recreation	\$2,096	\$3,783 ^c	\$1,687	
Clark exchange	0	2,105	2,105	
Subic, morale, welfare and recreation ^d	2,517	2,417		\$100
Subic exchange	2,904 ^e	3,807 ^c	903	
Subtotal	\$7,517	\$12,112	\$4,695	\$100
Total	\$39,774	\$52,700	\$15,814	\$2,888

^aIncludes seven appropriated fund activities.

^bNavy activities' obligation data for fiscal years 1988 and earlier were unavailable; therefore, the liability data provided by these activities for these years were used.

^cGAO projection of severance pay liability.

^dIncludes two morale, welfare, and recreation nonappropriated fund activities.

^eAs of January 27, 1991.

Source: The Air Force and the Navy, except where noted.

Concerning appropriated fund activities, funds currently obligated would not have been available in the future to cover these liabilities without the creation in 1991 of the foreign national employees separation account. Under 1990 legislation, obligation balances of appropriations are canceled 5 years after the appropriation's period of availability expires. This would have required DOD to obtain new obligational authority to meet future severance payments.

Approximately \$15.5 million in sick and annual leave liabilities were unfunded as of March 31, 1991, but DOD policy for both appropriated or nonappropriated fund activities is to not fund sick and annual leave liabilities until they are to be paid. Appropriated fund activities had funded

most of their year-end bonus liability, although nonappropriated fund activities had not set aside funds for their year-end bonus liability as of March 31, 1991.

Air Force and Navy contracting officers have minimized contract termination costs by limiting the use of multiyear contracts. They estimated that they had limited contract termination costs to approximately \$3.7 million for contracts active after September 30, 1991. They also stated that sufficient funds had been obligated under the contracts to cover termination costs.

Air Force Appropriated Activity Overobligated Funds

The Air Force appropriated fund activity obligates funds based on severance pay liability reports.² However, the activity overobligated funds for the liability by approximately \$2.8 million because it used an inflated currency exchange rate to record the obligation. The Air Force computes and pays severance pay in Philippine pesos but obligates funds in U.S. dollars, using a currency exchange rate of 20 Philippine pesos to 1 U.S. dollar. The currency exchange rate, however, has generally been lower. For example, as of March 31, 1991, it was approximately 28 pesos to 1 U.S. dollar. DOD accounting instructions provide that losses or gains caused by fluctuations of foreign currency exchange rates from those used in the budget are to be adjusted at the time of payment, at the end of the year, and any time a significant change occurs to avoid overobligation of funds. Air Force officials at Clark Air Base had not made such adjustments during the time of our review.

Navy Industrial Fund Does Not Fund Severance Liability

As a Navy industrial fund activity, the Public Works Center, Subic Bay, estimates its severance pay liability the same as other Navy appropriated fund activities. The Center records its severance pay liabilities as an accrued expense on its balance sheet, similar to nonappropriated fund activities. However, the Center has not set aside cash reserves for its severance pay liability, which was approximately \$10.1 million as of March 31, 1991. According to Navy officials, no requirement exists to set aside cash reserves for severance pay liability.

Until 1985, the Center retained funds in excess of its working level requirement that could have been used to liquidate severance pay liabilities, although Center officials were not aware of any requirement to

²Appropriated and nonappropriated activities have computer-generated reports that list each employee's severance pay liability and a summary of the total liability for each activity.

set aside funds for these liabilities. As part of its corporate management role, in 1985, the Navy Comptroller withdrew the Center's excess cash. To cover all leave and other liabilities, the Center can use cash, accounts receivable, and sales proceeds from the sale of removable property. Nonremovable buildings are not available to generate cash because, under the amended basing agreement, they are the property of the Philippines.

The Navy Public Works Subic Bay Financial Statement, as of June 30, 1991, reported assets other than nonremovable property valued at \$25.6 million, compared to current liabilities of \$25.4 million. Liabilities included \$5.9 million for the retirement of local nationals. The accrual of the severance pay liability was based on the assumption of normal business operations and historical attrition and did not reflect the total severance pay liability that would be incurred for all employees in the event of base closure. According to the Center, actual severance pay liability, based on these payroll records as of June 30, 1991, was \$10.4 million. Thus, the financial statement understated severance pay liabilities for a 100-percent payout as of June 30, 1991, by \$4.5 million. More importantly, the Center's capacity to cover its liability will depend on its ability to liquidate such items as \$10.4 million of materials and supplies. According to Navy officials, if the Center has time to plan an orderly withdrawal, it may be possible to build up its cash balance through liquidation of its inventory or by raising its sales prices, thus increasing its income.

Other Navy Appropriated Activities Are Fully Funded

With regard to \$958,000 also shown as underfunded in table 2.1, Navy officials stated that by the end of fiscal year 1991 they would make the necessary adjustments to ensure that liabilities were funded. To determine whether similar adjustments had been made in prior years, we reviewed the prior year-end account balances for five appropriated fund activities that were underfunded as of March 1991. On the basis of this review, we determined that the obligations either matched exactly or exceeded liabilities in prior years. Navy officials stated that as of September 30, 1991, it had fully funded severance pay liability for these appropriated fund activities.

Legislation Establishes New Account for Severance Payments

To obligate their severance pay liability each year, Air Force and Navy activities in the Philippines estimate increases in severance pay liability for each employee based on increases in wage rates and years of service as well as changes in hours worked. For example, if a pay raise occurs during

the year that affects the total liability associated with an employee, the incremental increase in liability is funded in the current year.

Air Force and Navy appropriated fund activities fund severance pay liabilities with operation and maintenance appropriations, which are available for obligation for 1 year. At the end of the year, the appropriations expire. Prior to enactment of Public Law 101-510 in 1990, the obligated balances of expired appropriations retained their fiscal year identity for 2 fiscal years. At the end of the 2 years, any remaining obligated balances were transferred into an M account, where they lost their fiscal year identity. The M account is maintained by DOD and accumulates unliquidated obligations from all prior appropriations made for the same general purpose, including liquidation of severance pay liabilities. The balance in this account constitutes spending authority that may legally be used only to pay valid preexisting obligations or valid adjustments to these obligations.³

When an employee is separated, the Air Force and Navy appropriated fund activities use their severance pay liability reports to determine which fiscal year funds will be used to pay the employee. For example, for an employee with 28 years of service, the liability report showed a total severance pay liability of \$13,630. The funds used to pay the employee will come from the current and prior two fiscal year accounts and the balance will come from the M account, as shown in table 2.2.

Table 2.2: Fiscal Year Allocation of Severance Pay Liability for an Employee With 28 Years of Service

Fund source	Amount
1991 Appropriation	\$ 2,344
1990 Appropriation	1,863
1989 Appropriation	1,342
M Account	8,081
Total	\$13,630

Creation of New Account Will Preserve Obligation Authority

Public Law 101-510, dated November 5, 1990, limits the period of time for making payments from, and adjustments to, obligations for agency appropriations to 5 years after expiration of an appropriation's period of availability. The legislation also provides for cancellation of all M account balances, including severance balances, on September 30, 1993. Thus,

³Public Law 101-510 changed the method for retaining an expired appropriation's fiscal year identity and the use of the M account.

under the new law, unless severance is payable during an appropriation's period of availability or within the 5-year period after the appropriation's expiration, monies obligated for severance will be canceled.

To protect the integrity of the severance pay account, DOD proposed legislation to create a foreign national employees separation account. This legislation was passed on November 25, 1991. Funds currently obligated for severance pay in the M account will be transferred to this account and will be available until expended. The military services will make payments from the account and make additional obligations to the account when their liabilities increase.

Services Do Not Reconcile Liability Reports With Obligations

Most activities will have set aside sufficient current-year funds for severance pay liabilities at the end of fiscal year 1991. However, Air Force and Navy appropriated fund activities in the Philippines do not reconcile severance pay liabilities with the funds held for these liabilities in the M account.

If a reconciliation is to be done, it must be at the local level, because neither Navy nor Air Force offices outside the Philippines retain country-specific information on severance pay liabilities. However, local activities could not reconcile liabilities because these activities did not know their remaining M account balances. These activities had not deobligated funds held in the M account for which liabilities no longer existed; for example, employees who resigned and did not receive severance pay previously set aside for them in the M account. Furthermore, the Navy activities in the Philippines did not retain documentation for funds obligated for their severance pay liability for fiscal year 1988 and prior years.

Most Nonappropriated Fund Activities Provide Some Funding

Air Force and Navy nonappropriated fund activities are required to record severance pay liability accounts on their balance sheets that reflect the liability report balance at the end of the year. Service accounting officers said that they make adjustments and record changes in the actual liability at least semiannually. The liability account is reduced when payments are made and increased to cover additional severance pay liabilities.

Service instructions require Air Force and Navy morale, welfare, and recreation nonappropriated fund activities to set aside cash reserves to fund 50 percent and 75 percent of their recorded severance pay liabilities,

respectively. As of March 31, 1991, these activities had set aside cash reserves in excess of this requirement.

The Navy and Air Force exchanges, in accordance with DOD guidance, follow the Financial Accounting Standards Board's statement 87, which requires activities to establish a long-range, actuarial-based pension/retirement plan. Under this plan, annual pay raises or other major benefit changes are not completely absorbed in the year they occur. Instead, they are systematically amortized over the estimated remaining work life of the employee. As shown in table 2.1, the \$2.105 million liability for the Clark exchange and the \$3.807 million in liability for the Subic exchange represent the severance pay payable to all exchange employees as of March 31, 1991. The Subic Navy exchange had a \$903,000 difference between the amount payable and the funds reserved. This difference results from use of an actuarial-based system.

Concerning the Air Force exchange, officials stated that its policy is to fund 50 percent of its liability in a sinking fund. However, as of January 28, 1991, the exchange had borrowed against all available sinking funds to meet other expenditures. In commenting on a draft of this report, Air Force exchange officials stated that they have immediate resources available to meet all known liabilities resulting from the withdrawal from Clark Air Base. In summary, the \$5.9 million liabilities for the two exchanges are underfunded by approximately \$3 million. This is because the exchanges have not specifically reserved funds to cover their full severance pay liability. DOD, however, indicated that the exchanges do have sufficient resources to cover this liability.

Sick and Annual Leave Not Funded

Another portion of the separation allowance liability is associated with the employees' accumulated sick and annual leave. DOD instructions do not require appropriated and nonappropriated fund activities to fund sick and annual leave liabilities until they become due. Therefore, as of March 31, 1991, approximately \$15.5 million in sick and annual leave liabilities remained unfunded—\$3.4 million for Clark Air Base and \$12.1 million for Subic Bay Navy Facility.

DOD policy is not to fund sick and annual leave because employees may use these accrued hours of leave during the current fiscal year. Thus, funding comes from current-year appropriations. If the Air Force leaves Clark Air Base, it will have to use \$3.4 million in current-year appropriations to cover employees' accrued sick and annual leave

benefits. Nonappropriated fund activities will have to pay sick and annual leave benefits to their employees from current assets.

Year-end Bonus Funded Annually

The remaining portion of the separation allowance liability is related to the year-end bonus, which we estimated to be approximately \$3.1 million. As of March 31, 1991, appropriated fund activities had set aside approximately \$1.7 million to cover their \$2.4 million liability. However, the Air Force had fully funded its \$409,000 year-end bonus liability, while the Navy activities had funded \$1.2 million of their \$1.9 million liability. In contrast, nonappropriated fund activities had not set aside funds to cover their liability of approximately \$763,000 (the Air Force liability was \$373,000; the Navy liability was \$390,000). Although funds had not been set aside as of March 31, 1991, Air Force nonappropriated activities and Navy appropriated and nonappropriated activities will pay year-end bonuses from current resources when they are due.

Contract Termination Costs Should Be Minimal

Contracting officers at Clark Air Base and the Subic Bay Navy Facility estimated that total contract termination costs would be approximately \$3.7 million if all active contracts were terminated as of September 30, 1991. A contracting officer at Clark Air Base estimated the liability to be approximately \$1.2 million, while the contracting officers at the Subic Bay Navy Facility estimated liabilities to be approximately \$2.5 million.

Air Force and Navy contracting officers reported they have tried to minimize contract termination costs by limiting the use of multiyear contracts. They use a variety of mechanisms to purchase goods and services. For example, the Air Force uses purchase orders and service contracts with options, while the Navy uses indefinite delivery and requirements-only contracts. Contracting officers stated that by using these contracting mechanisms, they have options other than terminating the contract. These include (1) placing no orders against the purchase order, (2) allowing the purchase order or service contract to lapse, or (3) deciding not to exercise the option year. By using any one of these options, no termination costs are incurred. For example, as of April 1991, the Clark Air Base contracting office had 45 active service contracts valued at \$67 million. However, only three of these contracts, valued at \$9.8 million, are multiyear service contracts and have a potential termination cost of approximately \$1.2 million. Contracting officers said that no new appropriations would be necessary to terminate these contracts because the full amount of the contracts has been obligated.

Contract-related Claims May Be Filed in Local Courts

Navy contracting officers and Department of Justice officials anticipate that contractors will make contract-related claims that have the potential for significant payments from the U.S. government. For example, contracting officers at the Subic Bay Naval Supply Depot are especially concerned, given that a recent foreign national contractor claim of approximately \$75,000 was filed in a Filipino regional trial court. According to the contracting officer, all contract-related claims are to be made in the United States, in accordance with U.S. contracting law. However, this contractor filed a claim in a local Philippine court. Subic Bay Naval Supply Depot contracting officers expect other contractors to file similar claims if the United States withdraws its forces from the Philippines. The contracting officers said that even those contractors who have indefinite-delivery or requirements-only contracts would be likely candidates for filing claims. One of the contracting officers stated that although these contractors would have no contractual basis for their claims in U.S. courts, it is unclear how these claims would be settled in the Philippines.

Conclusions

Air Force and Navy appropriated and nonappropriated fund activities in the Philippines owed about \$52.7 million for severance pay and related benefits for Filipino employees as of March 31, 1991. Most activities had either reserved adequate funds or claimed to have sufficient internal resources to cover severance pay liabilities. The Navy Industrial Fund's activity at Subic is one activity that has not reserved funds for any of its severance liability. At \$10.1 million, it is the largest single unfunded severance liability in the Philippines. Moreover, Air Force and Navy appropriated activities had not reconciled severance pay liabilities with funds held for these liabilities. Without performing a reconciliation, these activities are not in a position to ensure that funds obligated equal actual liabilities.

Recommendations

To ensure that the correct amount of funds needed to pay actual severance liabilities are maintained in the proposed new foreign national employees' separation account, we recommend that the Secretary of Defense direct the Navy and the Air Force to

- reconcile severance pay liabilities with the remaining obligations held in the M account so that only obligated funds for which current liabilities exist are transferred from the M account to the new foreign national employees' separation account and

- **annually reconcile actual severance pay liabilities with obligations recorded in the new foreign national employees' separation account and either deobligate or obligate funds, as necessary, to match current liabilities.**

We also recommend that the Secretary of the Navy direct the Navy Comptroller to ensure that funds will be available to cover severance pay liabilities related to the Navy industrial fund.

U.S. Investment in the Philippines

The United States has invested approximately \$2.199 billion in military facilities in the Philippines—\$1.436 billion in removable equipment and supplies such as dry docks, radar equipment, and spare parts and \$763 million in buildings and structures. Prior to the eruption of Mt. Pinatubo, the services had developed preliminary plans outlining the time frames and steps to be taken if withdrawal became necessary. Subsequently, the Air Force reported that it planned to recover approximately 75 percent of its removable property. As of October 1, 1991, the Navy had not assessed what removable property it might be able to use if it leaves the Subic Bay Navy Facility.

While the United States has invested approximately \$763 million in the construction of buildings and structures in the Philippines, the Air Force and the Navy estimated the current value of this nonremovable property to be approximately \$2.82 billion.¹ Over the past 3 years, the services continued to invest resources in buildings and structures, assuming that they would remain in the Philippines beyond 1991.

Preliminary Contingency Plans Did Not Detail the Removal of Property

Prior to the eruption of Mt. Pinatubo, neither service had determined what the condition of the removable property was or whether it could be used elsewhere. As of October 1, 1991, the Navy had not determined how much of the removable property included on its existing inventory records would be sent to other U.S. military facilities if the United States withdraws from the Subic Bay Naval Facility. Following the eruption of Mt. Pinatubo, a team consisting of personnel from the Defense Reutilization and Marketing Service and Clark Air Base inventoried the removable property at Clark Air Base and assessed its condition. As a result of this effort and other reviews of the property, the Air Force planned to recover, remove, or transfer to other services property valued at \$498.9 million. The Air Force declared property with an acquisition value of \$81.1 million as excess to DOD requirements and, in accordance with the terms of the 1947 Military Bases Agreement, as amended, will offer this equipment to the Republic of the Philippines.²

¹The estimate reflects the investment cost, adjusted for inflation and depreciation, for the construction projects.

²At the time of our fieldwork, Clark Air Base records showed approximately \$500 million in removable property; however, supply account records updated just prior to the Mt. Pinatubo eruption showed approximately \$580 million in the account. We did not attempt to reconcile the differences between the earlier records and those used by the Air Force to perform its assessment.

Value of Removable Property

Air Force and Navy supply officials provided cost figures for the removable property based on existing inventory records and included only those items for which they are accountable. A complete physical inventory was not performed, and we did not independently verify the cost figures. Because the Air Force and the Navy record equipment and supply items at acquisition costs, some of the older equipment is recorded at values less than the replacement cost. For example, much of the Navy's aircraft repair activity's equipment is over 25 years old and while functional, is carried on the inventory records at acquisition cost. However, according to the Commander, the cost to replace this equipment would be significantly higher.

The Air Force accounted for approximately \$500 million of the \$1.436 billion in removable property—\$266 million in equipment, \$231 million in supplies, and \$3 million in computer systems. These figures include only accountable assets; therefore, all expendable supply in customers' possession is not included.

The Navy accounted for the remaining \$936 million. This includes approximately \$772 million in stock-funded property held at the Naval Supply Depot, which largely includes spare parts. The remaining \$164 million in removable property includes floating cranes and dry docks, portable generators, and acoustical deception equipment. It would cost the Navy considerably more to replace this equipment.

Plans to Withdraw From the Philippines

Prior to the eruption of Mt. Pinatubo, the Air Force and the Navy had developed contingency plans for the removal of personnel and property from the Philippines. These plans provided a time-phased list of tasks to be accomplished and decisions to be made for each activity at Clark Air Base and the Subic Bay Navy Facility. However, these plans were preliminary and were premised on a complete withdrawal by September 1992.

During the contingency planning process, neither Air Force nor Navy officials in the Philippines were tasked with preparing inventory lists of equipment and supplies that would be removed. According to Air Force and Navy officials, such tasking would not have been issued until the decision to leave the Philippines was made. To prepare such lists, commanders must know whether an activity will be relocated or deactivated and whether other activities have a need for the supplies and equipment.

Following the eruption of Mt. Pinatubo, the Air Force established a base closure committee to assess the feasibility of removing the items. The committee evaluated each item to determine if it was accountable, critical, serviceable, and economically feasible to move. In addition, the Pacific Command Air Force logistics team reviewed the decision process and made adjustments on specific items. The team submitted a list of items in excess of DOD requirements to the Air Force's Deputy Under Secretary for International Affairs. The list was further refined as other potential users were found within DOD. These efforts resulted in DOD's plan to recover and remove property worth approximately 75 percent of the total value. The remaining property, much of which was damaged from the volcano, would remain at Clark. Table 3.1 shows acquisition costs and the current value of equipment and supplies excess to DOD's needs as of September 25, 1991.

Table 3.1: Items in Excess of DOD's Needs at Clark Air Base

Description	Quantity	Original acquisition value	Current value ^a
Office and household furniture, appliances, and other work equipment	185,542	\$43,550,779	\$5,166,801
Jet fuel, gasoline, and other fuels ^b	4.2 million gallons	4,625,060	2,312,530
General and special purpose vehicles and trailers	1,360	25,598,463	2,559,845
Other equipment ^c	1,144	7,386,917	898,695
Total		\$81,161,219	\$10,937,871

^aCurrent value is based on fair value rates under the Federal Condition Code, which allows a maximum of 50-percent reimbursement of acquisition cost for items in the highest condition class and a minimum of 5 percent for items in the lowest condition class.

^bAir Force officials indicated that some fuel declared excess may in fact be transferred to the Subic Bay Navy Facility.

^cIncludes such items as test equipment, radio receivers/transmitters, antennas, maintenance jackets, and compressors.

New Investment Based on Ongoing Operational and Security Requirements

The United States would leave approximately \$2.82 billion in nonremovable property if it withdraws its forces from the Philippines. Although the current basing agreement, as amended, provided for potential U.S. withdrawal by September 1992, the services continued to invest significant resources in the facilities over the past 3 years, assuming they would stay in the Philippines.

Value of Buildings and Structures

In a 1988 amendment to the basing agreement, the United States transferred to the Philippine government the title for all nonremovable buildings and structures financed by the United States. However, it retained the right to use these facilities and the responsibility for maintaining them. Both the 1947 agreement and the 1988 amendment provide that the United States is not obligated to return relinquished facilities to their original condition or to repair or rebuild damaged or destroyed buildings or structures. The transfer was based on an inventory listing of all nonremovable buildings and structures. This inventory listing is updated annually to reflect the addition of new buildings or structures to the services' real estate records. Although the inventory listing did not contain property value figures, the Air Force and the Navy estimated the current value to be approximately \$2.82 billion. Table 3.1 shows the investment and current value of nonremovable property at the services' facilities.

Table 3.2: U.S. Nonremovable Property in the Philippines (as of March 31, 1991)

Dollars in thousands		
Service	Investment cost	Current value
Air Force	\$316,543	\$1,402,555
Navy	446,402	1,413,900
Total	\$762,945	\$2,816,455

Security and Operational Requirements Used to Justify Construction Projects

The House conference report accompanying the fiscal year 1989 military construction appropriation bill directed DOD to defer the obligation of funds for projects in the Philippines until the Secretary of Defense provided the Committee on Appropriations the status of base rights negotiations and a certification that, based on the negotiations' status, it was prudent to proceed with the projects.

In February 1989, the Deputy Secretary of Defense responded to the notification requirement. He noted that at that time, formal notification of the military basing agreement termination might be forthcoming and that unless renegotiation of the agreement was initiated, it would not be advisable to proceed with all of the \$70 million military construction projects approved by the Congress. The Deputy Secretary proposed using only \$28.32 million for projects related to the safety of U.S. personnel and their dependents on U.S. bases and \$20 million in long lead time, relocatable generators for a Subic Bay power plant project. Although not specifically referred to, other projects related to improved operations,

including an aircraft operational apron, an intelligence facility, a helicopter maintenance facility, and a hydrant fueling system, would not be started until it became more apparent that it was prudent to do so.

Air Force and Navy officials told us that when they submitted proposals for new construction projects, they justified the projects primarily on the basis of security and operational requirements. They did not consider any limitations on U.S. use of the facilities, since they assumed that the United States would remain at Clark Air Base and the Subic Bay Navy Facility indefinitely.

Since 1989, approximately \$182 million has been invested in the facilities, including 560 family housing units, a parallel runway, bachelor officers quarters, and an Air Force training facility. Moreover, our analyses of 1989 and 1990 contracts showed that most of these contracts did relate to safety requirements. A notable exception was the Air Force's 1989 \$25 million contract for a new runway on August 14, 1989.³ Some other minor contracts entered into by the Navy and the Air Force related to operational and recreational requirements. For example, the Navy entered into contracts using operation and maintenance funds (\$114,000) to build two tennis courts at Subic Bay on May 19, 1989, and military construction funds (\$171,184) to pave a parking apron at Subic Bay on January 25, 1989.

When the United States leaves the Philippines, many of these new facilities will have been used for a short time, yielding a limited return on its investment. Prior to the eruption of Mt. Pinatubo, both the Air Force and the Navy had additional projects planned and under construction, including renovation of family housing units, reconstruction of a wharf, and a variety of operations facilities.

According to Navy officials, as of July 1991, the Subic Bay Navy Facility, including the naval air station, remained fully capable of servicing the fleet. Navy officials have made preliminary estimates of the requirements necessary to rebuild the facilities, which they said can be done through a combination of self-help and military construction funding. With the rejection of the new basing agreement by the Philippine Senate and the likelihood that the United States may close the Subic Bay Navy Facility within 3 years, it appears that only essential projects required to achieve safety and minimum operational capability should be approved.

³The Air Force had initiated a contract for a parallel runway on September 22, 1987. However, the contractor subsequently defaulted.

Environmental Cleanup and Restoration

Although the Air Force and the Navy have identified significant environmental damage at both Clark Air Base and the Subic Bay Navy Facility, the current basing agreement does not impose any well-defined environmental responsibility on the United States for environmental cleanup and restoration. However, according to Air Force and Navy officials, if the United States unilaterally decided to clean up these bases in accordance with U.S. standards, the costs for environmental cleanup and restoration could approach Superfund proportions.¹

Contaminated Sites Have Been Identified at Both Bases

Although the services are not generally required to comply with U.S. standards at overseas locations, some service regulations indicate that they are intended to apply overseas. Environmental officers at both Clark Air Base and the Subic Bay Navy Facility have identified contaminated sites and facilities that would not be in compliance with U.S. environmental standards. Their identification of contamination is based on limited environmental surveys of Clark Air Base and the Subic Bay Navy Facility. No soil and water testing has been conducted in the contaminated areas; therefore, the extent of the damage is not known. According to one Air Force official, testing alone would be very costly, and the cost of cleanup and restoration would be significantly greater. According to base officials, both Clark Air Base and Subic Bay Navy Facility have common environmental problems with underground storage tanks and fire-fighting training facilities that do not comply with U.S. standards. For example, the underground storage tanks lack leak detection equipment, and fire-fighting facilities have no drainage systems. Instead, the fuel and chemicals used in fire-fighting exercises seep directly into the soil and water table, and at the Navy facility, the overflow goes directly into Subic Bay.

Navy environmental officials have identified the following sites at the Subic Bay Navy Facility that, in their opinion, represent significant environmental damage:

- The Subic Bay Navy Facility does not have a complete sanitary sewer system and treatment facility. Instead, sewage and process waste waters from the naval base and air station industrial complexes are discharged directly into Subic Bay. Only 25 percent of the 5 million gallons of sewage generated daily is treated.
- Lead and other heavy metals from the ship repair facility's sandblasting site drain directly into the bay or are buried in the landfill. Neither

¹The Superfund is administered by the Environmental Protection Agency to clean up the nation's worst hazardous waste sites. Currently, the average cost of construction per site is about \$25 million. GAO/T-RCED-92-15 provides further information on the Superfund.

procedure complies with U.S. standards, which require that lead and heavy metals be handled and disposed of as hazardous waste.

- The Subic Bay Navy Facility's power plant contains unknown amounts of polychlorinated biphenyl (PCB) and emits untreated pollutants directly into the air. No testing has been performed to analyze the content of emissions, but officials stated that air emissions would not meet U.S. clean air standards.

At the time of our review, the Air Force and the Navy had no plans to clean up these sites. However, the Navy had plans to build a sewage treatment plant.

Environmental Cleanup Projects Are Proposed but Often Unfunded

Environmental officers at both the Subic Bay Navy Facility and Clark Air Base have proposed a variety of projects to correct environmental hazards and remedy situations that pose serious health and safety threats.

Environmental officers at the Subic Bay Navy Facility have proposed projects estimated to cost approximately \$15 million. For example, they have identified the need for a new sanitary waste water system, estimated to cost \$12.7 million, because, according to these officials, the current system does not comply with U.S. standards. They have also proposed several oil/water separator projects, hazardous material storage structures, and improvements to fuel storage tanks. However, none of these projects had been funded as of May 1991.

Prior to the eruption of Mt. Pinatubo, environmental officers at Clark Air Base had proposed pollution abatement and environmental projects at an estimated cost of approximately \$8.4 million for the next 2 years, including PCB removal projects, asbestos abatement, and hazardous waste removal. Clark's Environmental Planning Branch had proposed several projects to remove all PCBs from Clark by the end of 1992 to comply with an Air Force-wide goal. These PCB removal projects, estimated to cost about \$3.8 million, remained unfunded due to funding constraints. Additional PCB projects had been programmed for fiscal years 1993 and 1994. At the time of our review, the Branch was also identifying buildings containing asbestos and planning projects for asbestos removal. However, the cost for removal had not been estimated, and because of the U.S. decision to leave Clark Air Base, these projects will not be undertaken.

The United States Is Not Liable Under the Current Basing Agreement

The current basing agreement does not impose any well-defined environmental responsibilities upon the United States, either while it operates the bases or for cleanup upon withdrawal. The agreement contains a provision that holds the United States "harmless" for damage to base buildings and structures from "any cause whatsoever." Moreover, it states that the United States is not required to return the bases to the Philippines in their original condition.²

The agreement does contain a claims provision, which would cover injuries to persons and property arising from environmental problems caused by U.S. forces. The provision, however, is limited in several key respects. To be considered, claims must be presented within a year of the occurrence of the accident or incident provoking them. Also, such claims are limited to private property damage, and they are adjudicated by U.S. military personnel, rather than by the Philippine or U.S. courts. Furthermore, the United States and the Philippines have concluded relinquishment agreements that include "hold-harmless" clauses. The clauses hold the United States harmless from any and all actions, claims, or expenses that could arise after relinquishment of a base. This type of provision appears to cover claims for environmental damage as well as other claims.³

Service regulations vary somewhat but generally require forces overseas to comply with "Environmental Pollution Control Standards of General Applicability in the Host Country."⁴ These regulations generally indicate that U.S. forces are required to comply with all host country standards, as those standards are generally enforced by the host country. For example, although the Philippine water and air quality standards generally mirror U.S. standards, U.S. service officials in the Philippines told us that it does not appear that the Philippine government enforces these laws, either on its own citizens or on military bases.

Some service regulations apply a more rigorous standard. For example, Navy regulations on "Hazardous Waste and PCB Management Ashore" and "Underground Storage Tanks" state that hazardous materials, hazardous wastes, PCBs, and underground tanks in foreign countries shall be managed

²The agreement does, however, contain several provisions imposing limited responsibilities upon the United States for protecting the Subic watershed and for ordnance disposal at the Crow Valley air gunnery range.

³A DOD official anticipates that this kind of agreement will be signed for Clark Air Base.

⁴These regulations appear to be derived from Executive Order 12088, which establishes the same general standard.

and controlled in substantially the same manner as in the United States to ensure protection of public health and the environment. Nevertheless, service regulations are internal requirements only, and the Philippine government or Philippine nationals cannot base environmental damage claims on these regulations.

In contrast to the current basing agreement, the proposed new agreement signed in August 1991 included a specific environmental protection provision for dealing with hazardous and toxic waste. It would have required that the commanders of U.S. and Philippine forces establish an environmental program and formulate substantive environmental protection standards governing the disposal of hazardous or toxic waste consistent with laws of general applicability in the Philippines. It would also have empowered the Philippine government to monitor and verify U.S. adherence to the substantive standards. However, with the rejection of the agreement by the Philippine Senate, the issue of potential liability under a new agreement became moot.

Objectives, Scope, and Methodology

The Chairman and the Ranking Minority Member of the Subcommittee on Defense, Senate Committee on Appropriations, asked that we determine the types of potential financial liabilities the United States must pay in the event U.S. forces are withdrawn from the Philippines. Our specific objectives were to determine

- the cost of separation allowances and contract termination and arrangements for covering these liabilities;
- the investment in U.S. facilities in the Philippines and the effect of the basing agreement on investment decisions; and
- the nature of any environmental damage and the U.S. obligation for any cleanup or restoration.

We performed audit work at Clark Air Base, the Subic Bay Navy Facility, the Air Force and Army exchanges, and the Navy Resale Activities in the Philippines and the Headquarters of the Pacific Air Force and Pacific Fleet in Hawaii. We performed our review between November 1990 and October 1991 in accordance with generally accepted government auditing standards.

Separation Allowance

At Clark Air Base and the Subic Bay Navy Facility, we interviewed officials from Air Force and Navy appropriated and nonappropriated fund activities, reviewed DOD and service instructions and policy manuals, and tested the systems used to calculate severance pay liabilities. For the activities we reviewed, Air Force and Navy appropriated and nonappropriated activities also provided documentation showing the amount of funds set aside to liquidate separation allowances.

To test the accuracy of the severance pay liability reports generated by Air Force and Navy appropriated and nonappropriated fund activities, we randomly selected six samples of Filipino civilian employee records from service severance pay liability reports. For each service, we selected three samples based on the funding source of activities—appropriated fund, exchange nonappropriated fund, and morale, welfare, and recreation nonappropriated fund—in order to provide a representative sampling of the activities that are liable for severance pay. (Because of the methods used by Navy activities to fund separation allowances, we included eight activities in the Navy appropriated fund activity sample, including one Navy industrial fund activity.) In total, we verified 700 employee records from 14 different Air Force and Navy activities.

For each employee record in the report, we obtained personnel data sheets, which document the key elements used to calculate severance pay and the year-end bonus—current wage rate, service computation date, and number of hours worked. We compared the personnel data to the data recorded in the service liability reports. As a result of this comparison, we found that for four of six samples, the services had used the correct personnel data and accurately computed the severance pay liability. In two cases, we were unable to verify the accuracy of severance pay liability reports. In one of these cases, the service was unable to provide the formula it used to calculate the severance pay figure in the report. In the other case, the service was unable to provide complete records for the number of hours each employee worked. In these two cases, we projected the severance pay liability figure, using our sample data for that activity.

Based on our testing, we verified the accuracy of the severance pay liability reports for

- 100 percent and 95 percent of employees working for Air Force and Navy appropriated fund activities, respectively;
- 100 percent of employees working for Air Force and Navy exchange nonappropriated fund activities; and
- 100 percent of employees working for Air Force and Navy morale, welfare, and recreation nonappropriated fund activities.

We did not include in our review the Military Banking Facility, the Air Force Military Airlift Command, and Filipino civilian employees working for DOD activities in Manila.

Air Force and Navy appropriated and nonappropriated activities in our sample also provided documentation showing the amount of appropriated or nonappropriated funds set aside to liquidate separation allowances as of March 31, 1991. For the military exchanges, we requested documentation from their U.S. headquarters showing that they had set aside funds for these liabilities. We provided funding information based only on evidence that an activity had set funds aside specifically for separation allowances. We did not verify the financial records to validate the accuracy of the figures provided.

We also obtained Air Force and Navy sick and annual leave and year-end bonus liability reports to provide an estimate of the liability for these portions of the separation allowance liability. However, we did not test the accuracy of these reports. In those cases where the services did not

provide a year-end bonus report or we could not verify the liability estimates, we projected the prorated portion of the year-end bonus based on our samples of Filipino civilian employees.

Investment in Property

Air Force and Navy officials provided the acquisition costs of removable equipment and supplies, based on existing inventory records for those items they are accountable for. They could not provide the replacement costs for this property, with the exception of Navy stock-funded removable property held at the Naval Supply Depot, Subic Bay. Our figures for Air Force removable supply and equipment include all activities located at Clark Air Base, Camp O'Donnell, and Wallace Air Station. For the Navy, we provided figures for the primary activities located at the Subic Bay Navy Facility, including the Naval Air Station, Cubi Point; Naval Supply Depot; Public Works Center; Ship Repair Facility; Naval Hospital; Navy Publishing and Printing Service Detachment Branch; Navy Calibration Laboratory; Mobile Mine Assembly Group; Naval Air Pacific Repair Activity Detachment, Cubi Point; Navy Electronics Engineering Activity; Naval Security Group Detachment; Fleet Tactical Deception Group Pacific, Detachment Subic Bay; Naval Special Warfare Unit One; Naval Airborne Maintenance Unit One; Naval Special Warfare Unit One; U.S. Facility Subic Bay; and Military Sealift Command, Southeast Asia. We did not independently verify the figures provided by the services.

We did not include figures for munitions or the removable property held by commissary and exchange activities.

The services also provided two sets of costs for the buildings and structures for military facilities in the Philippines. One set represents the cost to the government, or the original contract cost, unadjusted for depreciation and inflation. The other set represents the current value of property, which adjusts the original construction cost for depreciation and inflation. We did not adjust these figures. The Officer-In-Charge of Construction, Naval Facilities Engineering Command, Southwest Pacific, provided a report that summarized the total dollar outlays for construction projects for fiscal years 1989 to 1991, which we presented as the amount that services invested in the facilities during this period.

Environmental Liabilities

We interviewed Air Force and Navy legal and environmental officers to obtain their interpretation of the U.S. liability for environmental cleanup and restoration under the current basing agreement. We also obtained a

legal opinion from the Navy. We toured the Clark Air Base and the Subic Bay Navy Facility with Air Force and Navy environmental officers to identify those sites and facilities considered to have the most significant environmental damage. These officers also provided information on their plans for cleaning up these sites and facilities.

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