



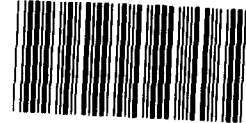
United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-251538

January 6, 1993

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives



148236

Dear Mr. Chairman:

In response to your request, we reviewed the grant of U.S. excess defense articles from Subic Bay Naval Base to the armed forces of the Philippines under section 519 of the Foreign Assistance Act of 1961. Specifically, you asked us to determine the Navy's procedures for identifying excess items, the rationale for granting excess items under section 519, procedures to prevent theft and looting, condition of the equipment granted, and the feasibility of returning any of the articles to the United States for donation to other federal and/or state agencies. You also asked us to determine why the acquisition value of vehicles granted and sold was misstated in the Defense Security Assistance Agency's (DSAA) notification to Congress.

In a later discussion, we agreed that because of the short time remaining before the United States vacated Subic and because of your special interest, our work would focus on the excess vehicles granted. We briefed your staff on November 10, 1992, on the results of our work.

The Navy initially planned to sell as many excess items, including vehicles, as possible through the Defense Reutilization and Marketing Office (DRMO).¹ However, according to the Departments of Defense and State, the 1988 Review of the Military Bases Agreement requires the United States to give the Philippines the first opportunity to acquire any excess, removable defense items, at mutually agreed terms, when the United States vacates a base in the

¹The DRMO is an element of the Defense Reutilization and Marketing System at which excess property is normally located for disposal without giving priority to any specific client.

Philippines. Thus, the United States offered to sell all unclaimed excess items from Subic to the government of the Philippines for \$4.1 million, or about 18 percent of the items' acquisition cost. As of May 1992, the government of the Philippines planned to buy some but not all of the items. Meanwhile, the Department of State decided that some of the nonlethal excess items could be granted rather than sold to the armed forces of the Philippines under section 519 of the Foreign Assistance Act of 1961, 22 U.S.C. 2321m, as amended. That section authorizes the transfer of nonlethal excess defense articles to help modernize the defense capabilities of certain foreign countries. The decision to grant excess items was based on the Philippines' need to modernize their armed forces as well as the U.S. desire to maintain a positive relationship with the Philippines. In the end, about \$3.5 million worth of excess defense articles suitable for transfer under section 519 were offered as grants to the Philippine armed forces, and the government of the Philippines purchased the remaining excess equipment for about \$600,000.

The Navy identified lightweight vehicles as excess based on their condition, the need for them by other Navy activities, and their relative value compared to shipping costs. If not needed by other Navy facilities, the vehicles were declared excess to Navy needs and were offered for transfer to the Department of Defense or to other federal agencies. If not claimed, the vehicles were declared excess to U.S. government needs. Defense retained about 60 percent of the vehicles (1,589 of a total of 2,637), granted or sold 29 percent of the vehicles (about 770) to the armed forces and the government of the Philippines, and disposed of nearly 10 percent through the DRMO. The vehicles granted to the armed forces of the Philippines under section 519 were generally older and had reached or were past their normal replacement period. In addition, according to Navy officials, many did not meet U.S. emissions or crash standards, and shipping them to the United States would have cost between \$1,900 and \$3,100 each. Furthermore, there is no requirement that excess defense articles transferred under the Foreign Assistance Act be offered first to state and local governments.

The Navy, the Joint Military Assistance Group (JUSMAG), and the DRMO at Subic Bay developed procedures to ensure that excess items were not stolen during the grant process. For example, JUSMAG officials observed the excess items transfer and traveled to the designated storage

installation to verify that no section 519 items were stolen during transportation. JUSMAG also planned to monitor the end use of high-value section 519 items, including all vehicles. To facilitate the tracking of granted items, the Philippine armed forces were to provide JUSMAG with a fielding plan showing the designated areas of usage. However, this became complicated when, in July 1992, the government of the Philippines decided to deemphasize its military role at Subic. Consequently, the armed forces could not use all the section 519 items set aside for it and was unable to provide the JUSMAG with a complete fielding plan for all the items.

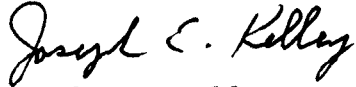
In the section 519 congressional notification, DSAA correctly reported the acquisition cost of excess items other than vehicles but significantly undervalued the acquisition cost of the excess vehicles based on Navy-supplied information. The notification indicated that the vehicle acquisition cost was about \$2.8 million and the current value was about \$420,000, or 15 percent of the acquisition cost. Navy officials told us that they inadvertently reported to DSAA the estimated current value of the vehicles as the acquisition cost and then calculated the current value at 15 percent of the amount since DRMO had received about 15 percent of the acquisition cost from the sale of similar excess items. After you raised questions about the condition and value of the items, DSAA revised the vehicle acquisition cost to about \$14.4 million and the current value to about \$2.2 million. We have been told by DSAA officials that your Committee will receive a certification of the actual items transferred to the Philippine armed forces under section 519.

Your staff informed us that our briefing satisfied the Subcommittee's requirement and that a formal report would not be required. Accordingly, we do not plan any further work on this assignment.

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If you have any questions regarding this letter, please call me on (202) 275-4128. Copies of this letter are being sent to Departments of Defense and State.

Sincerely yours,



Joseph E. Kelley
Director, Security and International
Relations Issues

(Code 463832)