

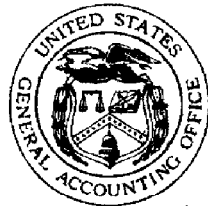
GAO

Report to the Chairman, Subcommittee
on Oversight of Government
Management, Committee on
Governmental Affairs, U.S. Senate

December 1993

DEPARTMENT OF
DEFENSE

Widespread Abuse in
Recycling Program
Increases Funds for
Recreation Activities





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

National Security and
International Affairs Division

B-254802

December 10, 1993

The Honorable Carl Levin
Chairman, Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

As requested, we reviewed the Department of Defense's (DOD) Resource Recovery and Recycling Program (hereafter referred to as the recycling program). Legislation passed in 1982 allowed DOD to use proceeds from this program to pay the costs to carry out the program; environmental and safety projects; and morale, welfare, and recreation (MWR) activities such as golf courses and recreational vehicles.

You asked us to determine the validity of allegations of possible misuse and unaccountability of funds in DOD's recycling program. In our review of allegations of abuse, we looked at (1) the types of materials the installations were including in the program, (2) cases where installations were bypassing the established disposal process and selling materials on their own, and (3) the accounting for and use of program proceeds. We did not do an overall evaluation of the effectiveness of the recycling program.

Results in Brief

We found widespread abuse in DOD's recycling program. Millions of dollars are being used annually for MWR activities that should be used instead to offset the need for appropriated funds or be returned to the U.S. Treasury. This is occurring because military bases are routinely receiving money from the sale of aircraft, vehicles, and other materials that DOD policy specifically excludes from the recycling program and then are using the proceeds to fund MWR activities. Although the purpose of the program is to reduce the volume of items going to the waste stream, about 90 percent of the program's proceeds appear to represent excluded items and items that would not go into the waste stream.

In addition, some installations, without proper authorization, are holding their own sales rather than selling materials through disposal offices. Therefore, the total amount installations are receiving from the recycling program and spending on MWR activities is unknown.

In addition, DOD regulations have not been revised to reflect the latest legislative changes, and internal controls are not being adequately complied with for the recycling program. In some cases, program proceeds are not being properly handled. Several Inspector General and military service reviews of the recycling program over the past few years failed to report the abuses we found.

On September 28, 1993, DOD revised its recycling program guidance to specifically include ferrous and nonferrous scrap and certain firing range brass. This change appears to conflict with the purpose of the recycling program in that these materials are not part of the waste stream.

Background

Congress passed Public Law 97-214 (10 U.S.C. 2577) in 1982 to provide greater incentives for installation commanders to have an aggressive recycling program to reduce the volume of items going into the waste stream. Primary responsibility for sales under the Resource Recovery and Recycling Program has been assigned to the Defense Logistics Agency. Sales are conducted by the Agency's Defense Reutilization and Marketing Offices (DRMO) located throughout the United States and overseas and often collocated with major military installations. Many military installations have assigned their MWR organizations responsibility for operating the recycling program. Installations are to turn in their recyclable materials to DRMOs. DRMOs are responsible for selling the materials purchased with appropriated funds and returning the proceeds to the installations. Recycling proceeds returned to the installations increased from \$1.5 million in fiscal year 1983 to about \$37 million in fiscal year 1992.

By law, military installations are to use recycling program proceeds first to offset the costs to carry out the program; they may use the remaining funds for environmental and safety projects and for MWR activities.

Installations Receive Millions of Dollars in Proceeds for Excluded Materials

The 1982 legislation did not define the term "recyclable materials" or specify the materials that could be recycled. However, a Deputy Secretary of Defense memorandum dated January 28, 1983, defines recyclable materials as those materials that normally have been or would be discarded (i.e., scrap and waste) and that may be reused after undergoing physical or chemical processing. It specifically excluded precious metal scrap and items that may be used again for their original purposes or functions without any special processing. These items include vehicles,

vehicle or machine parts, electrical components, and unopened containers of unused oil or solvent. The memorandum also excluded ships, planes, weapons, and any material that requires demilitarization¹ or mutilation prior to sale. DOD officials told us that recyclable materials that should be included in the program are those items diverted from the waste stream to minimize the amount of materials going to landfills.

DOD installations are receiving millions of dollars annually for materials that are supposed to be excluded from the program and that do not reduce the waste stream. For example:

- The Norfolk Naval Base, Virginia, sent F-14 aircraft brake parts containing beryllium and requiring demilitarization to a DRMO for sale. The installation received about \$769,000 for this 1990 sale, although certain Defense Logistics Agency personnel protested that the money should go to the U.S. Treasury.
- Tooele Army Depot, Utah, received almost \$2 million during fiscal years 1991 and 1992, much from the sale of Army all-terrain vehicles that require mutilation prior to sale.
- Kelly Air Force Base, Texas, received an estimated \$1 million annually in proceeds that should have gone to fund repair work at the air logistics center, the Defense Business Operating Fund, or the U.S. Treasury, as appropriate. Certain documents clearly indicated that the proceeds should go to the industrial fund,² but they were over stamped with a recycling program marking. On October 1, 1992, Kelly officials took action to return these proceeds to the industrial fund. An ongoing audit by the Air Force Audit Agency is expected to ask that \$1.5 million be returned from the MWR fund to the industrial fund for the 18-month period ending March 31, 1993.
- At DRMOs we visited, items such as crashed aircraft, jet engines, aircraft and ship parts, or bridges and causeways were turned in for sale under the recycling program. (See fig. 1.)
- The Tooele DRMO was selling brass from demilitarized ammunition and returning the proceeds to the Tooele Army Depot. At the time of our visit, the depot was holding \$775,000 it claimed as recycling program revenue from the sale of demilitarized ammunition, although the Army Materiel Command had already ruled and sent word to Tooele that the money

¹Demilitarization is the act of destroying the military offensive and defensive advantages inherent in certain types of equipment or material. This is done by mutilation, dumping at sea, cutting, crushing, scrapping, melting, burning, or alteration designed to prevent the further use of serviceable or unserviceable equipment or material for its originally intended military purpose.

²DOD Instruction 7310.1, dated July 10, 1989, on the disposition of proceeds requires that proceeds from the sale of industrial scrap from DOD industrial operations be returned to the industrial fund to offset customer costs.

should be returned to the Army Armament, Munitions, and Chemical Command's industrial fund. Defense managers told us that they had allowed proceeds from brass to be returned to installations as an incentive for base recycling, even though proceeds normally went to the U.S. Treasury, Defense Business Operating Fund, or an appropriate industrial fund.

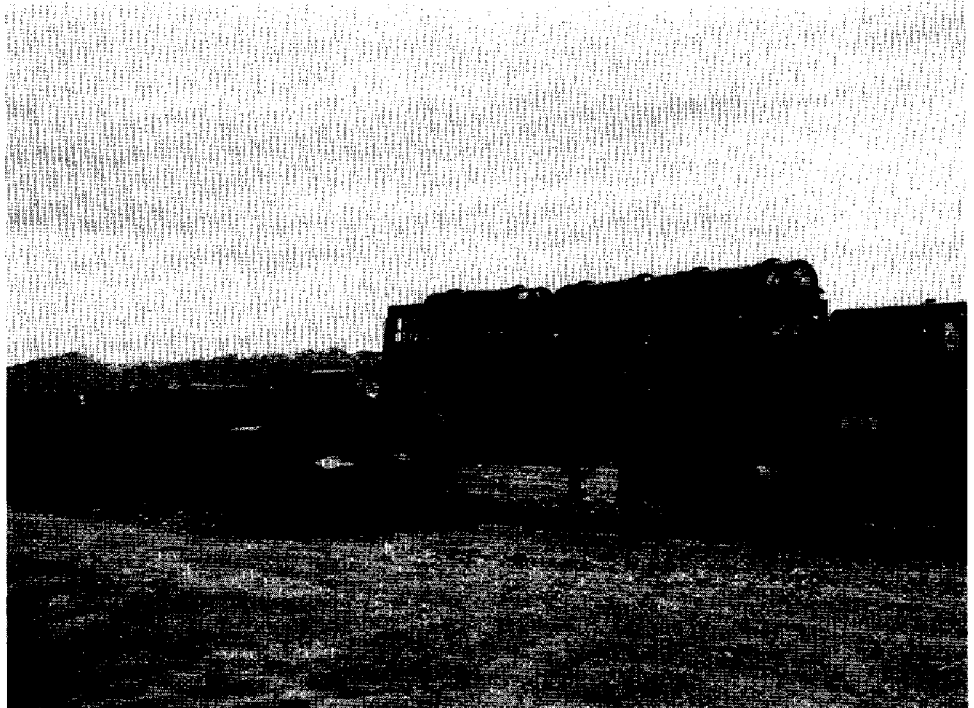
Figure 1: Crashed Air Force Jet and Other Aircraft Residue Turned in for Recycling at the Tooele DRMO



We found instances where installations received sales proceeds that should have gone to the U.S. Treasury, Defense Business Operating Fund, or an industrial fund in exchange for supplying labor to perform DRMO functions that were unrelated to the recycling program. For example, during our visit to the Tooele Army Depot, recycling program personnel were loading bomb containers onto a buyer's trucks for DRMO. (See fig. 2.) In return, the depot was to receive the sales proceeds of \$48,300 for the containers. Normally, these funds would have gone to the Defense Business Operating Fund or the U.S. Treasury, but instead they went to the recycling program. The Tooele DRMO chief and depot recycling program manager told us it was routine practice for the installation to exchange

labor for the sales proceeds of materials DRMO sold. At Kelly Air Force Base, we questioned a memorandum of agreement that would have allowed the industrial fund to reimburse the installation's MWR activity an estimated \$80,000 to \$100,000 per year for labor the recycling program staff was performing for the San Antonio DRMO. Information we obtained at other locations indicated this practice of exchanging recycling program labor for material sales proceeds is widespread.

Figure 2: Tooele Army Depot Recycling Program Personnel Loading Empty Bomb Containers Onto Buyer's Truck for the Tooele DRMO



Each installation we visited was recycling items from the waste stream, including cardboard and paper. Some installations were recycling additional items such as aluminum cans, plastic, and newspaper. However, where we were provided data or estimates, the installations' receipts of recycling program proceeds for these types of materials were only about 10 percent of the total proceeds. For example, about 90 percent of the Norfolk Naval Base's recycling proceeds in fiscal years 1991 and 1992, which were \$1.3 million and \$776,500, respectively, came from scrap metal and other materials that did not reduce the waste stream. In a December 1991 memorandum, the Defense Reutilization and Marketing

Service estimated that the services would lose about \$28 million if installations did not receive sales proceeds for scrap metals that had been purchased with appropriated funds. This represents about 90 percent of the total proceeds sent to installations in fiscal year 1991. Some of the program abuses have been prompted by managers' desires to obtain additional revenue for their installations' MWR activities and to improve the relations between the installations and DRMOS collocated there.

A program official at the Tooele Army Depot, which recycled cardboard, paper, and wood, said the recycling program did not recycle items such as aluminum cans and plastic because the program could make more money concentrating on other items such as scrap metal. In commenting on a draft of this report, DOD officials said items such as paper, plastic, and cardboard are often sold at a loss and could not be sold in a self-supporting program without the sales proceeds from scrap metal. At two of the bases we visited, certain recyclables, such as cardboard, were collected and processed by the private contractors for solid waste removal.

Some Installations Are Holding Their Own Sales of Recyclable Materials

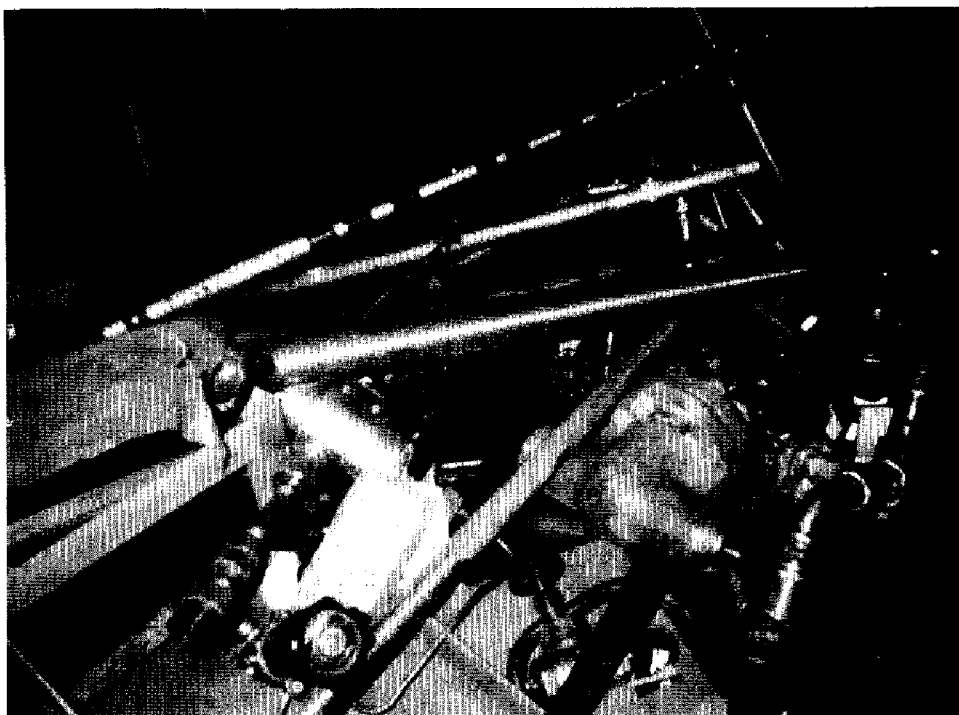
Resource Recovery and Recycling Program legislation specifies that procedures governing the sale of recyclable materials must be consistent with section 203 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 484), as amended. The act contains requirements for contracting for the sale of excess materials, including recyclable materials. The General Services Administration, which has general authority to sell excess materials, delegated the authority to sell excess materials to DOD. DOD assigned this responsibility for sales of excess materials to the Defense Logistics Agency, which administers the sales at DRMOS. However, without any further delegation of this responsibility, some installations are bypassing DRMOS and selling recyclable and other materials directly to private buyers and retaining the proceeds. While DOD does not know how much installations are receiving from such sales, it appears that the practice is widespread, especially by Navy installations. This practice has resulted in millions of dollars being diverted from industrial funds, the U.S. Treasury, and the Defense Business Operating Fund to MWR activities. For example:

- The Jacksonville, Florida, Naval Air Station has been selling its own recyclable materials since 1989. Naval Air Station recycling program managers could not provide information on the total amount of proceeds

received from the sale of these materials, but the information provided indicates the amount is at least several hundred thousand dollars annually.

- The Pearl Harbor, Hawaii, Naval Base set up its recycling center in September 1991 and had received over \$500,000 from direct sales as of March 31, 1993. In addition to recyclable materials such as paper, cardboard, and glass, Pearl Harbor officials routinely sold items such as ship parts and scrap metal. (See fig. 3.)

Figure 3: Valves and Other Ship Parts Sold by the Pearl Harbor Naval Base Recycling Program



- The Little Creek Naval Amphibious Base in Norfolk, Virginia, sold materials, including scrap metal, directly to private contractors until the Naval Investigative Service started asking about this practice in August 1992. Little Creek officials stopped selling scrap metal and other items, but as of November 1992, they were still improperly selling pallets, plastic, paper, and used batteries directly to private contractors.

It appears that these direct sales of materials are occurring most frequently at Navy bases. The Assistant Secretary of the Navy for Installations and Environment wrote in a July 16, 1992, memorandum to

the Assistant Secretary of Defense for Production and Logistics that she was advising all Navy installations that they could contract directly for the sale of scrap recyclable material until the 1976 DOD program directive was updated. This memorandum was widely circulated within the Navy, even though Navy regulations state that DRMOs shall sell recyclable materials. The Assistant Secretary of Defense for Production and Logistics responded on September 16, 1992, that he did not support bypassing the Defense Reutilization and Marketing Service. In commenting on a draft of this report, Navy officials stated that the Department of the Navy never issued guidance authorizing Navy installations to directly sell scrap recyclable material.

DOD comptroller personnel and Defense Logistics Agency investigators expressed concerns to us about military installations selling materials directly to buyers. They feared that bypassing DRMOs could allow the installations to avoid the internal controls designed to account for and safeguard the proceeds as well as the type of material sold. For example, we found numerous internal control weaknesses in the Pearl Harbor recycling program. The Pearl Harbor Naval Base sold strategic list items³ without the necessary trade security controls such as obtaining completed end use certificates from the buyers for certain materials (e.g., such as monel and titanium) and ensuring that the buyers are cleared for buying such materials.

An August 18, 1993, DOD program policy update allows installations to request approval from the Defense Logistics Agency for direct sales of recyclable materials. Such approval is to comply with the Federal Property and Administrative Services Act of 1949 and meet certain other specified conditions.

Inadequate Accounting for Recycling Program Proceeds

The 1982 legislation specifies that proceeds from recyclable materials shall first be used to pay the installation's costs for processing such materials, including the cost to buy recycling equipment. It further provides that not more than 50 percent of the remaining funds may be used at the installation for projects for pollution abatement, energy conservation, and occupational safety and health activities. The remaining funds may be transferred to the nonappropriated MWR account.

³Strategic list items are items designated by DOD for export control under the U.S. Export Administration Regulations and the DOD Trade Security Control Program.

However, we found that installations are not properly accounting for recycling program proceeds and not reimbursing all recycling program costs in accordance with legislative requirements. For example, Kelly Air Force Base and Tooele Army Depot deposited recycling proceeds into the correct suspense account at the installation, but the funds were immediately (Kelly) or monthly (Tooele) transferred to the MWR account from which most recycling program expenses were paid. The Jacksonville Naval Air Station recycling program deposited the funds it received from its sales of materials directly in the MWR account. However, according to the 1982 legislation, program expenses are to be paid before funds are distributed from the suspense account to the MWR account. The Norfolk Naval Base also deposited the proceeds to the correct suspense account. As of April 1993, it had not reimbursed program expenses, which had been paid for with MWR funds, for almost 1 year, although DOD policy states that program costs are to be reimbursed in the fiscal year incurred. In addition, we found cases where appropriated funds paid recycling program costs without proper reimbursement. For example, at Norfolk Naval Base, the comptroller's office had supplied computers to the recycling program without being reimbursed. In commenting on a draft of this report, DOD officials said the computers, valued at \$8,000, had been returned by the recycling program office, and it had purchased other computers. At Pearl Harbor Naval Base, as of April 1993, appropriated funds had been used to pay recycling program costs of \$50,939, which had not been reimbursed by the recycling program office. This figure included \$44,430 for start-up materials and equipment costs paid for by the Public Works Center with appropriated funds.

In commenting on a draft of this report, DOD noted that at many bases the MWR fund pays all costs of running the recycling program, including salaries, transportation, and publicity. DOD officials said in other instances where the operation and maintenance account pays the expense, it is DOD policy that these costs be fully reimbursed. However, as noted above, this was not always occurring.

Use of Recycling Program Proceeds

There are no legislative restrictions or limitations on how installations can spend the recycling program proceeds once they are transferred to the MWR account. The law simply provides that the transferred money may be used for any morale and welfare activity. Recycling program funds were used primarily for MWR activities, including golf course construction projects or renovations, recreational facilities, child care centers, jogging and running trails, and fitness centers. Funds were also used to purchase

4-wheel drive trucks; vans; golf carts; and recreational camping, boating, and skiing equipment. Tooele Army Depot used recycling program proceeds to build a fishing pond and fund a \$250,000 pistol and rifle range. Tooele also purchased expensive recreational vehicles and other equipment during fiscal years 1992 and 1993 for its MWR program. These expenses were to support civilian employees (2,491 at the time of our visit) as well as military personnel (13 assigned at the time of our visit). (See figs. 4 and 5.)

Figure 4: Facility Renovated to Be Fitness Center at Jacksonville Naval Air Station, Florida

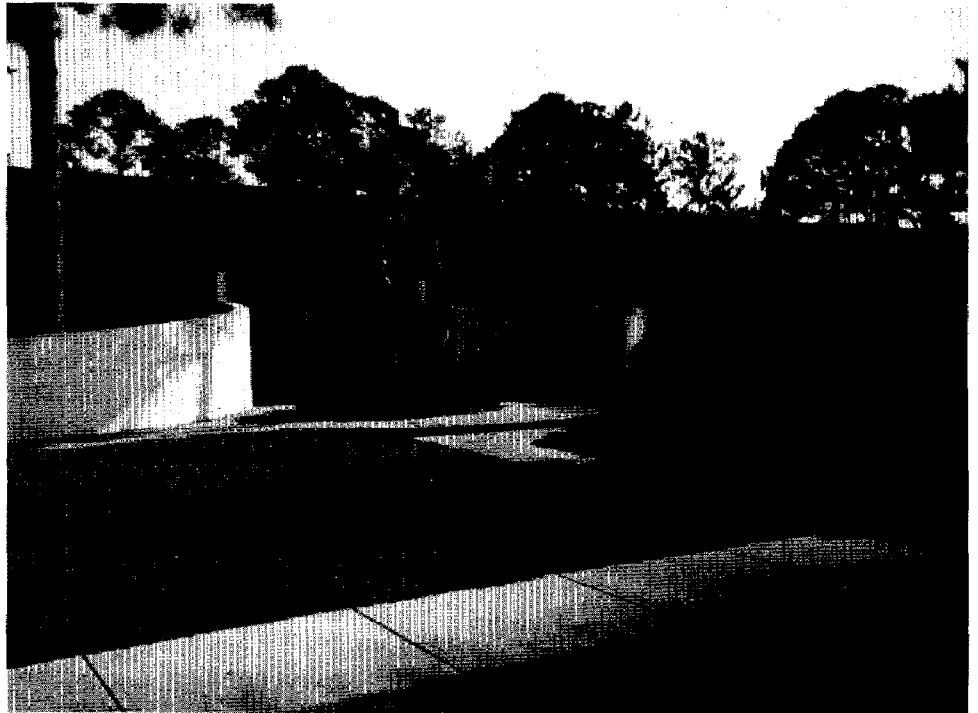
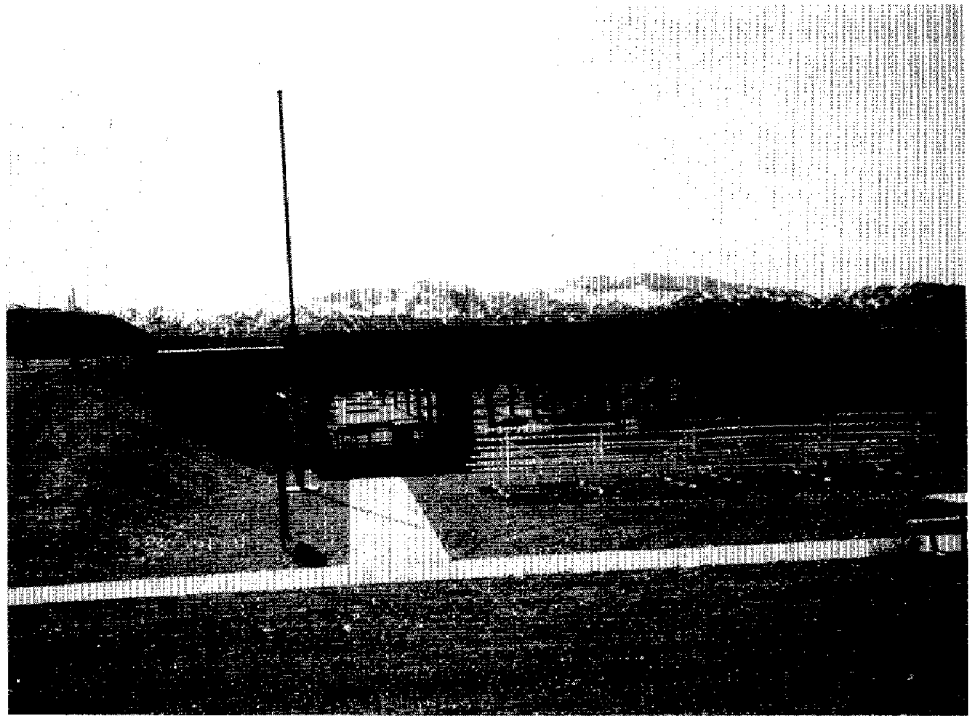


Figure 5: Rifle and Pistol Range Built at the Tooele Army Depot



Because most of the installations we visited commingled their recycling program proceeds with other MWR funds, it was impossible to identify what recycling program funds were used for. Even though there is legislative authority for such use, apparently little of the money was spent on pollution abatement and safety and environmental projects. For example, personnel at the Norfolk Naval Base, Tooele Army Depot, and Jacksonville Naval Air Station said that they had used some of the funds for one or two projects each that cost from \$50,000 to \$60,000 apiece. The projects included landscaping, purchasing a hazardous material response trailer for safety, and developing an oil solvent recycling process. The Air Force Logistics Command notified its installations in a May 1988 memorandum that they were not expected to accomplish any safety or environmental projects with recycling program funds. As a result, Kelly Air Force Base officials said they had not funded any such projects. The Pearl Harbor Naval Base also had not funded any such projects and distributed all recycling program proceeds to MWR activities quarterly.

Program Guidance Outdated

Detailed DOD guidance for the recycling program has not been updated. The Deputy Secretary of Defense stated in the January 1983 policy guidance that the recycling program directive was being revised, but over 10 years later revised guidance has not been issued. We found inconsistencies between guidance issued by DOD, and by the Defense Logistics Agency and the military services. For example, the Defense Logistics Agency has issued various memorandums and correspondence over the years allowing and then disallowing brass and items requiring demilitarization to be included as part of the recycling program. Also, the Navy's program instruction stated that scrap metal could be processed under the program, even though DOD guidance states that only those materials that normally have been or would be discarded into the waste stream should be included.

There have been several attempts to revise recycling program guidance. For example, the Deputy Assistant Secretary of Defense for Environment established a task force on May 6, 1991, to, among other things, draft guidance for the program. However, even though draft guidance was completed by late 1991, it still has not been issued. Defense managers were uncertain why new guidance was not issued but believed it resulted from resistance from the various defense groups. Certain Defense Logistics Agency managers believed the proposed guidance would hurt the relationship built between the installations and DRMOs and would preclude installations from receiving millions of dollars for the MWR activities to which they had become accustomed.

Defense Logistics Agency personnel, using our audit as a basis, drafted an updated program policy during July 1993 that basically followed the 1983 DOD program policy and specifically excluded scrap metal other than outright "trash." The Deputy Under Secretary of Defense for Environmental Security issued an updated program policy on August 18, 1993. This policy reiterates and expands on the 1983 policy memorandum but does not include guidance on how to ensure that the program is properly implemented.

On September 28, 1993, DOD issued a memorandum on DOD recycling policy that, for the first time, specifically authorized ferrous and nonferrous scrap and firing range expended brass to be included as recyclable materials under the recycling program. Other aspects of the recycling policy were unchanged, such as defining recyclable material as materials diverted from the solid waste stream and excluding other items such as precious metals and items requiring demilitarization or mutilation.

Generally, proceeds from the sale of appropriated fund materials are required to be returned to the U.S. Treasury.⁴ The recycling legislation provides an exception to this for recyclable materials that allows the proceeds to be returned to installations. We question whether items that have not normally been part of the waste stream, such as ferrous and nonferrous metals and fired brass that has not been demilitarized, should be included in the recycling program. Such items do not seem to fit the definition of recyclable material cited elsewhere in the policy as materials diverted from the solid waste stream.

DOD Audit Efforts Did Not Report on the Problems We Identified

Several internal DOD and military service audits and inspections have been conducted on the program—including a DOD Inspector General review of the same allegations that were brought to us. However, these internal audit and inspection efforts were not always completed and did not report the program abuses we identified. For example, on October 18, 1991, Senator Levin asked DOD to look into allegations of misappropriation of assets for MWR activities. The Deputy Inspector General responded in a February 1992 letter that the Inspector General staff did not have sufficient examples or information to fully evaluate the matter. The letter said the staff would review transactions related to MWR activities as part of its audit of the fiscal year 1993 financial statements of the Defense Reutilization and Marketing Service. It further stated that “while there may be isolated instances, we have not established that there has been any substantial misappropriation of funds realized from the sale of scrap material for MWR activities.” These allegations were subsequently referred to us and were the basis for this audit, and we did find widespread abuse of the recycling program. The Office of the DOD Inspector General, as part of its fiscal year 1993 financial audit, found inappropriate reimbursements and inadequate internal controls for the program and briefed the Defense Reutilization and Marketing Service on its findings in August 1993.

There have been a number of DOD Inspector General audit and inspection reports and service audit agency reports on the recycling program. The objectives of these audits varied, and in some cases, the audits concentrated on accountability of funds. Some of these audits and their reports are described below.

- In May 1988, the Office of the DOD Inspector General reviewed the program based on allegations that DOD was not complying with the recycling

⁴Beginning in October 1992, DOD began depositing receipts from disposal sales into the Defense Business Operating Fund.

program legislation. The Inspector General concluded that the DOD installations reviewed were complying and that better reporting and more timely transmission of the proceeds from DRMOs to the installations were needed.

- A congressionally requested October 31, 1989, Inspector General audit report focused on the status of the program based on a review of 31 installations, including 3 we reviewed. This audit concluded that more comprehensive program guidance was needed. Although it stated that sales proceeds from aluminum and brass shell casings that were previously deposited in the U.S. Treasury were a significant source of revenue for the recycling program, it did not address this as an issue needing action. As part of this audit, the Inspector General's review at the Norfolk Naval Base found that all its recycling program proceeds were coming from scrap metal and the base had done nothing to reduce the waste stream.
- Another Inspector General report, dated October 4, 1991, on the overall disposal process for excess DOD personal property recommended that DOD publish a policy for the recycling program to clarify eligible materials and improve tracking and return of funds to the installation.
- The Naval Audit Service began an audit of the recycling program in October 1991 but issued a letter, dated September 25, 1992, stating that the recycling program was working effectively and that it was unnecessary to continue the audit. That audit, which included visits to some of the same locations we visited, resulted in recommendations that policy be revised to allow Navy installations to sell their own materials because the installations could get better prices and receive the funds more quickly.
- The Norfolk Naval Base's internal audit and evaluation group audited its recycling program in 1991 and found several problems but did not prepare a report on the audit. Instead, it sent a brief memorandum to the commander advising him that certain actions needed to be taken—primarily related to reimbursement of program expenses and approval and funding of MWR projects.
- The Pearl Harbor Naval Base Command Evaluation staff reported in August 1992 that the internal controls for the recycling program were adequate. However, our review found deficiencies in internal controls related to virtually all aspects of the program.
- An Army-wide audit report issued by the Army Audit Agency in February 1993 focused on the need for better program guidance and the accounting for proceeds and expenses related to the program. The Tooele Army Depot internal evaluation group reviewed its recycling program and recommended procedures to ensure that Tooele's recycling program received even more proceeds from materials turned in to DRMO.

In commenting on our draft report, DOD stressed that the audit reports cited above did not identify problems we identified because the audits and inspections had different scopes and objectives. We recognize that some of the audits were narrow in scope and would not necessarily lead to the same findings we had. However, we would have expected that the lack of compliance with the law and regulations would have been identified by some of this audit work.

Internal Control Deficiencies Exist and Are Not Reported by DOD

Military bases are not complying with the necessary internal controls to ensure that only appropriate recyclable materials are sold and that proceeds are used properly. We found that certain basic internal controls over key program functions were not being applied. For example, personnel at each installation we visited told us they expected DRMOs to control the types of material sold under the recycling program. At the same time, DRMO personnel told us they expected the installations to perform this control function. We found the policy concerning what materials should be included in the program was not being followed. At Pearl Harbor, lack of adequate oversight enabled the recycling manager to rent space in a government building to a private corporation and deposit the rent into the recycling program account. In addition, at Pearl Harbor, items were turned into the center without the center always providing receipts, which is a basic control over how much the center received.

DOD, the Defense Logistics Agency, and the military services have not reported any deficiencies in the recycling program's internal controls. The Federal Managers' Financial Integrity Act of 1982 requires that executive agencies establish and maintain systems of internal controls that conform to standards established by the Comptroller General of the United States. The act also requires agencies to evaluate these controls periodically and report to the President and the Congress annually on their status. These controls are to provide reasonable assurance that resource use is consistent with applicable laws, regulations, and policies; resources are safeguarded to prevent waste, loss, and misuse; transactions and other events are adequately documented and fairly disclosed; and resources are accounted for. When internal controls do not comply with the established standards, the agency's annual report must identify the weaknesses and describe how they will be corrected.

Recommendations

To ensure that DOD and its bases meet the intent of the 1982 legislation and comply with the implementing guidance, we recommend that the Secretary of Defense

- require that internal controls be complied with to ensure that installations and DRMOS meet the letter and intent of the 1982 legislation and follow existing DOD policy,
- identify and report the recycling program issues as material weaknesses under the annual Financial Integrity Act assessments,
- require the DOD Office of Inspector General or the military services' audit agencies to periodically audit DOD's recycling program to assess compliance with the 1982 legislation and DOD policy, and
- require MWR activities at affected installations to reimburse the appropriate fund for the amount of recycling program proceeds received improperly to the extent reasonable and practical.

Matter for Congressional Consideration

The Congress may wish to consider defining recyclable material for the purposes of the Resource Recovery and Recycling Program. For example, the Congress may wish to consider if the recent revisions to DOD policy allowing installations to receive proceeds from the sale of ferrous and nonferrous metals and fired brass are consistent with the intent of Public Law 97-214 (10 U.S.C. 2577).

Agency Comments

DOD generally concurred with the recommendations in this report. DOD commented that it believes its recycling programs are a solid success. DOD commented that the report focuses too narrowly on the identified problems and paints the program with an unjustified broad brush of abuse. Our review was done in response to specific allegations of program abuse. Thus, our report focuses on these allegations.

DOD also questioned the report's extrapolation of negative findings at a very small and unrepresentative sample of installations. DOD further stated that the large industrial-type activities we visited are not typical of DOD's recycling program. To ensure coverage of each service, we visited an Army, an Air Force, and three Navy locations. Two of these—the Army and the Air Force locations—were industrial activities. Also, we visited DRMOS collocated at four of these installations and reviewed the types of material turned in by various non-industrial installations serviced by these DRMOS. At all locations, we found abuses. In addition, we had numerous meetings with Defense Logistics Agency personnel who confirmed that the

abuses in this report were widespread. DOD's comments appear in appendix I.

In coordination with our Office of Special Investigations, information obtained during this review related to program improprieties and violations of legislation has been turned over to executive branch investigative agencies such as the Defense Criminal Investigative Service and the Naval Investigative Service. We are sending copies of this report to the Chairmen and Ranking Minority Members of the House and Senate Committees on Armed Services and the Subcommittees on Defense, House and Senate Committees on Appropriations; the Secretary of Defense; and the Director, Office of Management and Budget. We will also make copies available to other parties upon request.

Appendix II explains the scope of our work and our methodology. Appendix III lists the major contributors to this report. Please contact me on (202) 512-5140 if you or your staff have any questions concerning this report.

Sincerely yours,



Mark E. Gebicke
Director, Military Operations and
Capabilities Issues

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



ACQUISITION

THE DEPUTY UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

8 NOV 1993

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEPARTMENT OF DEFENSE: Recycling Program is Being Widely Abused to Fund Base Recreation Activities," dated September 22, 1993 (GAO Code 398126), OSD Case 9522. The DoD partially concurs with the report.

The DoD installation recycling programs are an important part of the DoD total solid waste management effort and are based on public law, Executive Order, and Departmental and State guidance. Significant reductions in municipal solid waste and hazardous material waste streams have been achieved, material cost benefits realized and regulatory mandates satisfied through the operation of the recycling programs.

The programs are a solid success that have benefited the Department and the civilian communities in which DoD installations are located. For example, the programs reduce the solid waste stream, provide substantial solid waste disposal cost avoidances, and benefit all military personnel and civilian employees. The DoD agrees with some of the information reported by the GAO. Unfortunately, the draft fails to recognize the many program accomplishments, and the remarkable work people all across the country have done in making recycling a success. The DoD recognizes that the GAO was looking into allegations of problems in the program. The report, however, focuses too narrowly on the several problems identified, and paints the program with an unjustified broad brush of abuse.

In general, the draft is helpful in highlighting areas that require management attention. The DoD questions, however, the extrapolation of negative findings at a very small and unrepresentative sample of installations to the entire program. The locations visited by GAO were large, industrial-type

Environmental Security--Defending Our Future

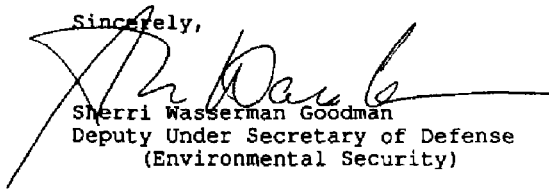
See pp. 16-17.

Appendix I
Comments From the Department of Defense

activities that are not typical of the Department's recycling program.

The detailed DoD comments on the draft report findings and recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,



Sherri Wasserman Goodman
Deputy Under Secretary of Defense
(Environmental Security)

Enclosure

GAO DRAFT REPORT--DATED SEPTEMBER 22, 1992
(GAO CASE 398126) OSD CASE 9522

"DEPARTMENT OF DEFENSE: RECYCLING PROGRAM IS BEING
WIDELY ABUSED TO FUND BASE RECREATION ACTIVITIES"

DEPARTMENT OF DEFENSE COMMENTS

FINDINGS

- o **FINDING A: The Resource Recovery and Recycling Program.**
The GAO reported that the Congress passed Public Law 97-214 in 1982 to provide greater incentives for installation commanders to have an aggressive recycling program to reduce the volume of items going into the waste stream. The GAO pointed out that the DoD assigned primary responsibility for sales under the Resource Recovery and Recycling Program to the Defense Logistics Agency with sales being conducted by the Defense Reutilization and Marketing Offices. The GAO noted that many military installations have assigned morale, welfare, and recreation organizations the responsibility for operating the recycling program. The GAO explained that installations turn in their recyclable materials to the Defense Reutilization Marketing Offices which are responsible for sales of materials purchased with appropriated funds; proceeds are then returned to the installations. The GAO noted that recycling proceeds increased from \$1.5 million in FY 1983 to about \$37 million in FY 1992. The GAO reported that by law, military installations are to use recycling program proceeds first to offset program expenses and the remaining funds may be used for environmental and safety projects and for morale, welfare, and recreation activities. (p. 3-4/GAO Draft Report)

DOD RESPONSE: Concur. The Department of Defense provides policy and the individual recycling programs are administered by the cognizant Military Service.

- o **FINDING B: Installations Receive Millions of Dollars in Proceeds for Excluded Materials.** The GAO observed that the 1982 legislation did not define the term "recyclable materials" or specify the materials that could be recycled. The GAO reported, however, that a Deputy Secretary of Defense memorandum dated January 28, 1983, defines recyclable materials as those that normally have been or would be discarded (i.e., scrap and waste) and that may be reused after undergoing physical or chemical processing. The GAO noted that precious metal scrap and items that may be used again for their original purposes or functions without any special processing were specifically excluded. The GAO

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stated that the items include vehicles, vehicle or machine parts, electrical components, and unopened containers of unused oil or solvent, and ships, planes, weapons, and any material that requires demilitarization or mutilation prior to sale.

The GAO found that DoD installations are receiving millions of dollars annually for materials that are excluded from the program and that do not reduce the waste stream. For example, the GAO reported Kelly Air Force Base, Texas, received an estimated \$1 million annually in proceeds that should have gone to fund repair work at the Air Logistics Center, the Defense Business Operating Fund, or the U.S. Treasury. The GAO reported certain documents were clearly marked so that the proceeds should go to the industrial fund, but they were over stamped with a recycling program marking. The GAO noted that Kelly officials took action, beginning October 1, 1992, to return the funds to the industrial fund.

The GAO found numerous instances where installations received sales proceeds that should have gone to the Defense Business Operating Fund, the U.S. Treasury, or an industrial fund in exchange for supplying labor to perform Defense Reutilization and Marketing Office functions that were unrelated to the recycling program. For example, during the GAO visit to the Tooele Army Depot, the GAO observed recycling program personnel loading bomb containers onto a buyer's trucks for the Defense Reutilization and Marketing Office. The GAO noted that in return, the depot was to receive the sales proceeds of \$48,300 for the containers. The GAO explained that normally the funds would have gone to the Defense Business Operating Fund, but instead went to the recycling program. The GAO reported that based on information obtained at other locations, the practice of exchanging recycling program labor for material sales proceeds is widespread.

The GAO reported items from the waste stream, including cardboard and paper, were being recycled at each installation it visited. The GAO noted that some installations were recycling additional items such as aluminum cans, plastic, and newspaper. The GAO also noted, however, where data or estimates were provided, the receipts of recycling program proceeds for those types of materials were only about 10 percent of the total proceeds. (pp. 4-11/GAO Draft Report)

DOD RESPONSE: Partially concur. The situation at Kelly Air Force Base is overstated. Sales conducted prior to October 1, 1992, were stock fund-purchased items not paid for with industrial funds. Proceeds from those sales were properly credited to the recycling program. Although there were some inadvertent errors in the marking process, that has no bearing on the reimbursement issue. Kelly Air Force Base is now channeling funds to the industrial fund based on a change brought about by Defense Management Report Decision Number

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See comment 1.

904. Proceeds from scrap metal items purchased with industrial funds are now being returned to the industrial fund.

The GAO also stated that 90 percent of the Norfolk Naval Base recycling proceeds come from sale of scrap metal and other materials "...that did not reduce the waste stream." Although the percentage is correct, the waste stream statement is not. Prior to the recycling program, scrap metal was removed by contractors paid with appropriated funds. The contractors recovered and sold high value metals, kept the proceeds, and placed the remainder in landfills. The scrap metal is now recycled, with an obvious reduction in material going to landfill.

The DoD agrees that the majority of the proceeds in the recycling program are generated from the sale of scrap metal. Other waste items, however, such as paper, plastic and cardboard are often sold at a loss and could not be sold in a self-supporting program without the proceeds from sales of scrap metal. The GAO report also does not consider the cost avoidance savings associated with recycling. Every ton of material that is recycled is a ton that does not have to be collected and disposed of at the expense of the operation and maintenance account.

- o **FINDING C: Some Installations Are Holding Their Own Sales of Recyclable Materials.** The GAO stated that the Resource Recovery and Recycling Program legislation specifies that procedures governing the sale of recyclable materials must be consistent with section 203 of the Federal Property and Administrative Services Act of 1949 (40 U.S. Code 484), as amended. The GAO pointed out that the DoD assigned that responsibility to the Defense Logistics Agency, which administers the sales at the Defense Reutilization and Marketing Offices. The GAO found, however, without any further delegation of the responsibility, some installations were bypassing the Defense Reutilization and Marketing Offices and selling recyclable and other materials directly to private buyers and retaining the proceeds. The GAO indicated that the DoD does not know how much installations are receiving from such sales and that the practice appears widespread, especially by Navy installations, and is resulting in millions of dollars being diverted from industrial funds, the U.S. Treasury or the Defense Business Operating Fund to morale, welfare, and recreation activities.

The GAO reported that the Assistant Secretary of the Navy for Installations and Environment wrote in a July 16, 1992, memorandum to the Assistant Secretary of Defense for Production and Logistics that she was advising all Navy installations that they could contract directly for the sale of scrap recyclable material until the 1976 DoD program

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directive was updated. The GAO noted the memorandum was widely circulated within the Navy, even though Navy regulations state that Defense Reutilization and Marketing Offices shall sell recyclable materials. The GAO pointed out that the Assistant Secretary of Defense for Production and Logistics responded on September 16, 1992, that he did not support bypassing the Defense Reutilization and Marketing Service. In addition, the GAO noted that DoD Comptroller personnel and Defense Logistics Agency investigators expressed concerns about military installations selling materials directly to buyers. (pp. 11-15/GAO Draft Report)

DOD RESPONSE: Partially concur. As stated in the DoD September 28, 1993, memorandum on DoD recycling policy, the Defense Logistics Agency has primary responsibility for the sale of recyclable material generated from an appropriated fund source. Under certain conditions, and with prior Defense Logistics Agency approval, an installation may directly sell recyclable materials acquired with appropriated funds. Sales being conducted without such prior approval were in violation of policy guidelines and will be discontinued pending local installation negotiations with the Defense Logistics Agency.

- o **FINDING D: Inadequate Accounting for and Use of Recycling Proceeds.** The GAO reported that the 1982 legislation specifies that proceeds from recyclable materials shall first be used to pay the costs for processing such materials, including any cost of recycling equipment. The GAO stated that the legislation further provides that not more than 50 percent of the remaining funds may be used at the installation for projects for pollution abatement, energy conservation, and occupational safety and health activities. The GAO acknowledged that the remaining funds may be transferred to the nonappropriated morale, welfare, and recreation account. The GAO found that installations are not accounting for recycling program proceeds and reimbursing all recycling program costs in accordance with legislative requirements.

The GAO reported that because most of the installations it visited commingled recycling program proceeds with other morale, welfare, and recreation funds, it was impossible to identify what recycling program funds were used for. The GAO stated that even though there is legislative authority for such use, apparently little of the money went for pollution abatement and safety and environmental projects.

The GAO stated that there are no legislative or DoD restrictions or limitations on how installations can spend the recycling program proceeds once transferred to the morale, welfare, and recreation account. The GAO observed that recycling program funds were used primarily for morale,

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welfare, and recreation activities, including construction and renovation of golf courses, recreational facilities, child care centers, jogging and running trails, fitness centers, and the purchases of 4-wheel drive trucks, vans, station wagons, golf carts, and recreational camping, boating, and skiing equipment. The GAO reported that even though DoD officials noted that the recycling program proceeds have helped cover the cost of installation morale, welfare, and recreation activities during times of limited funding, the Air Force Morale, Welfare and Recreation Headquarters took \$2.2 million in cash from Kelly Air Force Base to fund capital projects Air Force-wide. (pp. 16-20/GAO Draft Report)

DOD RESPONSE: Partially concur. At many bases, the morale, welfare and recreation activities nonappropriated funding incurs all costs of running the recycling program, including salaries, transportation, and publicity. Clearly, in such cases, funds were being used to defray expenses. In other instances, where the operation and maintenance account first bears the expense, it is DoD policy that those costs be fully recovered.

See comment 2.

The GAO cited the transfer of \$2.2 million from Kelly Air Force Base, to fund morale, welfare and recreation projects Air Force-wide as an example of use of morale, welfare and recreation monies. It should be understood, however, that the \$2.2 million was the total reallocated from the morale, welfare and recreation account and at Kelly Air Force Base was not primarily funds from recycling. The funds were used as part of a central funding source for quality-of-life projects and had nothing to do with the recycling program. In the reallocation of money from the central fund thus created, Kelly Air Force Base coincidentally received approximately \$2.1 million for previously approved projects.

The DoD agrees that recycling proceeds transferred to the morale, welfare and recreation account were spent on a wide variety of quality-of-life items, ranging from real property improvements to Government-owned land such as parks and trails to recreational equipment. All such uses are authorized and constitute clear benefit for military and civilian employees. The recycling program's contribution to installation life creates a powerful incentive for recycling program vitality and success and is one of the reasons the Department is a leader in recycling.

- o **FINDING E: Program Guidance Outdated.** The GAO found that detailed DoD guidance for the recycling program has not been updated. The GAO explained that some of the program abuses have been prompted by the desires of managers to obtain additional revenue for installation morale, welfare, and recreation activities and to improve the relations between

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the installations and Defense Reutilization and Marketing Offices collocated there.

The GAO observed that the Deputy Secretary of Defense stated in the January 1983 policy guidance that the recycling program directive was being revised, but over 10 years later revised guidance has not been issued. The GAO found inconsistencies between guidance issued by the DoD, the Defense Logistics Agency, and the Military Services. The GAO reported that there have been several attempts to revise the recycling program guidance. The GAO stated, however, even though draft guidance was completed by late 1991, it still has not been issued.

The GAO noted that Defense Logistics Agency personnel, using the GAO audit as a basis, drafted an updated program policy during July 1993 that basically followed the 1983 DoD program policy and specifically excluded scrap metal other than outright "trash." The GAO reported that the Deputy Under Secretary of Defense for Environmental Security issued an updated program policy on August 18, 1993. The GAO pointed out the policy reiterates and expands on the 1983 policy memorandum, but does not include guidance on how to ensure that the program is properly implemented. (pp. 20-23/GAO Draft Report)

DOD RESPONSE: Concur. Guidance has not been kept as up-to-date as might be desirable. However, DoD policy guidance was issued August 18, 1993, with additional clarification issued on September 28, 1993. The guidance formalized the practice of including ferrous and nonferrous scrap (including expended brass) in the recycling program.

- o **FINDING F: The DoD Audit Efforts Did Not Highlight Problems the GAO Identified.** The GAO stated that the internal audit and inspection efforts were not always completed and did not report on the program abuses identified in the draft report. For example, the GAO reported that on October 18, 1991, Senator Levin asked the DoD to look into allegations of misappropriation of assets for morale, welfare, recreation activities. The GAO reported that the DoD Deputy Inspector General responded in a February 1992 letter that there were not sufficient examples or information to fully evaluate the matter, but that they would review transactions related to morale, welfare, and recreation activities as part of the audit of the FY 1993 financial statements of the Defense Reutilization and Marketing Service. The GAO further reported that the letter stated, "While there may be isolated instances, we have not established that there has been any substantial misappropriation of funds realized from the sale of scrap materiel for morale, welfare, recreation activities." The GAO noted that the allegations were subsequently referred to the GAO and were the basis for this

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report. The GAO acknowledged the Office of the DoD Inspector General, as part of the FY 1993 financial audit, found inappropriate reimbursements and inadequate internal controls for the program. The GAO indicated that there have been a number of DoD Inspector General audit and inspection reports and Service audit agency reports on the recycling program. The GAO explained that the objectives of the audits varied and in some cases the audits concentrated on accountability of funds. (pp. 23-27/GAO Draft Report)

DOD RESPONSE: Partially concur. While some of the information reported by the GAO is accurate, the DoD strongly disagrees with the implied conclusion that the internal DoD audit and inspection reports were deficient. All audits and inspections have a specific objective and scope to provide meaningful coverage. The Services had audits in progress before the GAO review; deficiencies found have and are being addressed. Oversight will continue on a periodic basis.

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The specific audit reports cited as examples by the GAO did not identify the problems cited in the GAO draft report because of differences in the scope and objectives of the audits and inspections. For example, some of the reports were purposely very narrowly focused to respond effectively to specific Congressional requests. When the GAO stated that an Inspector General report concluded that the DoD installations it reviewed were complying with the recycling program legislation, the GAO did not state that the cited conclusion was in reference to a specific objective of the recycling program--not the entire program.

- o **FINDING G: Internal Control Deficiencies Exist and Are Not Reported by the DoD.** The GAO found that military bases lack the necessary internal controls to ensure that only appropriate recyclable materials are sold and that proceeds are used properly. The GAO stated certain basic internal controls over key program functions did not exist. For example, the GAO found personnel at each installation visited that indicated they expected Defense Reutilization and Marketing Offices to control the types of material sold under the recycling program. At the same time, the GAO reported that the Defense Reutilization and Marketing Office personnel expected the installations to perform that control function. The GAO concluded that based on the review, policy concerning the types of materials to be included in the program were not being followed. The GAO reported that the DoD, the Defense Logistics Agency, and the Military Services have not reported any deficiencies in the system of controls over the recycling program as required by the Federal Managers' Financial Integrity Act of 1982, nor have the controls been periodically evaluated and their status reported to the President and the Congress. The GAO stated that when internal controls do not comply with the established

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standards, the agency annual report must identify the weaknesses and describe how they will be corrected. (pp. 27-28/GAO Draft Report)

DOD RESPONSE: Concur. The DoD agrees that internal controls need to be emphasized, the internal review process strengthened and that deficiencies found must be reported to top management. Material deficiencies identified to the Secretary of Defense will be considered for reporting as required by the Federal Managers' Financial Integrity Act of 1982.

RECOMMENDATIONS

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- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense require that internal controls be complied with to ensure that installations and the Defense Reutilization and Marketing offices meet the letter and intent of the 1982 legislation and follow existing DoD policy. (p. 29/GAO Draft Report)

DOD RESPONSE: Concur. By April 30, 1994, the Services and the Defense Logistics Agency will emphasize to field offices compliance with their existing internal control systems and to include the Resource Recovery and Recycling Program in that process. The need for full compliance with legislation and policy as the norm for program operation will also be stressed.

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- o **RECOMMENDATION 2:** The GAO recommended the Secretary of Defense identify and report the recycling program issues as material weaknesses under the annual Financial Integrity Act assessments. (p. 29/GAO Draft Report)

DOD RESPONSE: Partially concur. Reports of deficiency identified to the Secretary of Defense will be considered for inclusion under the annual Financial Integrity Act assessments.

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- o **RECOMMENDATION 3:** The GAO recommended the Secretary of Defense require the DoD Office of Inspector General or the audit agencies for the Military Services to periodically audit the DoD recycling program in light of the spirit and intent of the 1982 legislation and DoD policy. (p. 29/GAO Draft Report)

DOD RESPONSE: Concur. By April 30, 1994, the DoD Office of Inspector General and the audit agencies of the Military Services will be requested to conduct periodic audits of the

Resource Recovery and Recycling Program in the light of existing legislation and DoD policy.

- o **RECOMMENDATION 4:** The GAO recommended the Secretary of Defense require the morale, welfare, and recreation activities at affected installations to reimburse the appropriate fund for the amount of recycling program proceeds received improperly to the extent reasonable and practical. (p. 29/GAO Draft Report)

Now on p. 16.

DOD RESPONSE: Partially concur. The DoD agrees that if any funds are identified that were improperly transferred, appropriate reimbursement should be made. However, the overwhelming evidence shows that funds were spent to improve Government-owned real property or to purchase authorized equipment for the benefit of military and civilian personnel. The DoD agrees, therefore, that any actions in this area must be both reasonable and practical, since to act otherwise could serve as a powerful disincentive to future success and operation of the recycling program.

MATTER FOR CONGRESSIONAL CONSIDERATION

GAO SUGGESTION: The GAO suggested that Congress may wish to consider defining recyclable materials for the purposes of the Resource Recovery and Recycling Program. The GAO further suggested as an example that the Congress consider if the recent revisions in DoD policy allowing installations to receive proceeds from the sale of ferrous and nonferrous metals and fired brass are consistent with the intent of Public Law 97-214 (10 U.S. Code Section 2577.) (p. 30/GAO Draft Report)

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DOD RESPONSE: Partially concur. The GAO characterized the recent policy guidance as "revisions." Actually, that guidance formalized in writing the practice of including ferrous and nonferrous scrap (including expended brass) in the recycling program. That has been Department practice for a number of years and is consistent with the definitions of recyclable materials espoused by the Environmental Protection Agency and industry groups. More importantly, perhaps, the proceeds from such sales make it possible for the DoD to recycle other materials which sometimes cost more to collect and process than their sales generate. Both ferrous and nonferrous scrap and expended brass should continue as part of the DoD recycling program and the DoD urges congressional support.

The following are our comments on the Department of Defense's (DOD) letter dated November 8, 1993.

GAO's Comments

1. The Norfolk Defense Reutilization and Marketing Office (DRMO) has been selling scrap metals for many years, even before the recycling program.
2. The paragraph of the report related to this comment has been deleted.

Scope and Methodology

We reviewed the 1982 legislation and DOD's policies and procedures for the recycling program and compared recycling program guidance issued by the Defense Logistics Agency and the military services with the law and DOD's policies. We discussed program operations, guidance, and oversight with officials at the Offices of Deputy Under Secretaries of Defense for Logistics and Environmental Security and the headquarters of the Defense Logistics Agency and each of the military services. We also obtained overall program data available from DOD and each of those component organizations. Our work also included visits to the Defense Reutilization and Marketing Service headquarters in Battle Creek, Michigan, and both of its operations centers located in Ogden, Utah, and Columbus, Ohio.

We visited one defense installation in each of the military services—Kelly Air Force Base, San Antonio, Texas; Norfolk Naval Base, Norfolk, Virginia; and Tooele Army Depot, Tooele, Utah, to review recycling program operations. We selected these bases because they received a significant amount of recycling program proceeds, amounting to as much as \$1.6 million in a year. At each installation, we obtained overall information on recycling program operations and internal controls and identified (1) the types of material turned in under the program and (2) the accountability and use of the recycling proceeds returned to the installation.

We visited each DRMO responsible for marketing and sales of the recyclable materials turned in by the installations reviewed—San Antonio DRMO, Texas; Norfolk DRMO, Virginia; and Tooele DRMO, Utah (Tooele DRMO reports to Hill DRMO, Ogden, Utah, which we also visited). At each DRMO, we discussed with DRMO personnel how they operated the recycling program, obtained overall data on their operations, and reviewed the types of material turned in by the three military installations we visited as well as other installations served by the disposal office.

We visited the Pearl Harbor Naval Base, Hawaii, and the Jacksonville Naval Air Station, Florida, to determine if the installations were directly selling recyclable materials. We also visited the Jacksonville DRMO.

In addition, we followed up on various allegations made about the program with individuals within and outside DOD. As part of this work and our review of management oversight of the program, we contacted various Inspector General offices, military audit services, and investigative organizations where we reviewed audit, inspection, and investigative reports.

Appendix II
Scope and Methodology

Our review generally covered recycling program operations from fiscal years 1991 through 1993, except where we were inquiring about specific allegations that may have covered earlier time frames. We conducted our work between January and September 1993 in accordance with generally accepted government auditing standards.

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