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The Government spends over \$600 million each year to subsidize Department of Defense (DOD) activities such as exchanges, clubs, recreation facilities, and gas stations. Findings/Conclusions: Morale, welfare, and recreation programs (excluding commissaries) do over \$5 billion in business each year and receive over \$600 million in appropriated fund support. Commissaries, considered as appropriated fund activities by the military, do an additional \$3 billion in business and receive about \$300 million in appropriated fund support. All programs receive appropriated fund support in the form of personnel, supplies, utilities, and/or transportation. In addition to direct appropriations, there are other large subsidies, such as exemption from taxes and free use of real estate. One of the most costly forms of appropriated fund support is the large number of military personnel assigned to or used in morale, welfare, and recreation activities. Recommendations: Appropriated funds for the extensive support facilities for military personnel should be used in one of two ways: (1) for public activities in nonurban areas and in urban areas where available community facilities are inadequate; or (2) for community activities at all installations. Under either alternative, the Congress should continue appropriated fund support for common base services and prohibit the use of funds for military staffing unless civilian employees are not available. (Author/SC)

03527



REPORT TO THE SENATE COMMITTEE ON APPROPRIATIONS

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Appropriated Fund Support For Nonappropriated Fund And Related Activities In The Department Of Defense

The Government spends over \$600 million each year to subsidize Department of Defense activities such as exchanges, clubs, recreation facilities, etc. This report examines the history of these activities, the justification for using appropriated funds, and the reporting systems used to determine the amount of appropriated fund support. The funding changes recommended in the report would shift more costs from the public to the users of the activities.



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

B-160813

The Honorable John L. McClellan
Chairman, Committee on Appropriations
United States Senate

Dear Mr. Chairman:

Pursuant to your request of June 5, 1976, we have examined the history and funding of military nonappropriated fund and related activities, evaluated proposed departmental guidelines for providing their support, and proposed alternative funding guidelines. Nonappropriated fund activities came into existence not through specific statutory authority but rather through evolution and a gradual recognition in the funding process. This pattern of development created the problem of limited congressional awareness of lost tax revenues and the use of billions of dollars in military appropriations and nonappropriated funds.

Recently the Office of Management and Budget and the Department of Defense formed a study group to review the need for appropriated fund support to these activities and to propose new funding guidelines. We evaluated the proposed guidelines and concluded the rationale and approach adopted by the study group was reasonable, but other factors should also be used to determine the allocation of resources. The study group based its proposals on the proximity of installations to urban areas but did not offer guidelines for determining the proximity. Also, the study group was too liberal in judging the essentiality of activities.

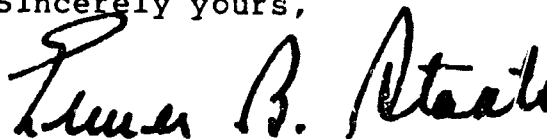
We are offering two alternatives to the Department of Defense proposals. Appropriated funds should be used (1) only for public activities in nonurban areas and in urban areas where available community facilities are inadequate or (2) for community activities at all installations. Under either alternative the Congress should (1) continue appropriated fund support for common base services, when their costs cannot feasibly be identified, and (2) prohibit the use of funds for military staffing unless civilian employees are not available.

With respect to the latter suggestion, we noted that your Committee recommended restricting the number of military personnel that may be assigned to these activities and the Senate Defense appropriation bill contained that restriction. Although the conference committee did not accept this restriction but rather reduced the number of military personnel that can be used and permitted their replacement with nonappropriated fund employees, it was a good step toward making the activities self-sustaining and using military personnel for military purposes.

We consider that the ratio of military to civilian personnel employed by the Army and Air Force Exchange Service is a worthwhile goal for the Defense Department. If the proper restrictions on the use of military personnel are promulgated in Department of Defense Directive 1315.10 and the services abide by those restrictions, the number assigned should be further reduced. If this action is not forthcoming, future Defense appropriation bills should further restrict such assignments.

As requested by your office, we did not obtain formal comments from Department of Defense officials. However, we discussed the results of our work with them and considered their comments. As agreed we are sending copies of the report to the Department of Defense and other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Luther B. Stants". The signature is written in a cursive, flowing style.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE SENATE
COMMITTEE ON APPROPRIATIONS

APPROPRIATED FUND SUPPORT
FOR NONAPPROPRIATED FUND
AND RELATED ACTIVITIES IN
THE DEPARTMENT OF DEFENSE

D I G E S T

In the military service, in contrast to other types of employment, extensive support facilities have been established to sell personal goods and services and offer recreation and entertainment to employees. Originally intended as a source of personal necessities not issued by the military or reasonably available from commercial sources, these activities today are varied, widespread, and big business. They include exchanges, movie theaters, gas stations, clubs, golf courses, and other recreation facilities and programs.

In our view, appropriated funds for these activities should be used in one of two ways, either (1) for public activities in nonurban areas and in urban areas where available community facilities are inadequate or (2) for community activities at all installations. Under either alternative, the Congress should (1) continue appropriated fund support for common base services when their costs cannot feasibly be identified and (2) prohibit the use of funds for military staffing unless civilian employees are not available.

Morale, welfare, and recreation programs (excluding commissaries) do over \$5 billion in business each year and receive over \$600 million in appropriated fund support. Commissaries, considered as appropriated fund activities by the military, do an additional \$3 billion in business and receive about \$300 million in appropriated fund support. All programs receive appropriated fund support--in the form of personnel, supplies, utilities, or transportation, for example.

In addition to direct appropriations, there are other large subsidies, such as exemption from taxes and free use of real estate. These have permitted military resale activities to grow into large economic entities, rivaling major private retailers in terms of sales. The resale activities, principally exchanges, make profits which are used to defray the costs of recreation programs.

The Congress should set a more specific policy on how much appropriated fund support these activities should get. The wording in legislation and Department of Defense instructions authorizing expenditures for these programs is very broad. As a result decisions on whether or not to use appropriated funds to defray costs are usually made at the local level according to the judgment of field commanders.

Congressional subcommittees have suggested that military resale activities should not make profits because recreation expenses should be paid from appropriated funds. However, appropriations specifically for this purpose were not sought, because it was unlikely that the full Congress would approve them.

Government subsidies allow activities to sell at lower prices than are available commercially. This economic benefit is highly regarded within the military community and for years was felt necessary to supplement low military pay.

Given (1) the improvements in military pay in recent years, which have made it generally competitive with civilian pay, and (2) the availability of the same kinds of activities in the private sector, military morale, welfare, and recreation activities should depend less on appropriated funds. These programs are now well established, and appropriated funds are relatively small compared to nonappropriated revenues. Most appropriated fund support could be discontinued and the income made up by increasing nonappropriated revenues about

13 percent, still keeping prices below those in the private sector. (See p. 42.)

GAO therefore recommends to the Congress two alternatives to current funding that would restrict appropriated fund support to those kinds of activities that are available to the public in the nearest urban areas. (See p. 43.)

In 1976 the Department of Defense identified, for the first time, the total amount of appropriated funds used by morale, welfare, and recreation activities. This was done through both a one-time survey and a recently developed annual reporting system. These were sizable undertakings and, because several errors were made, GAO estimates that reported costs under both methods were substantially underestimated. Therefore, the Department of Defense should make several changes to improve future reports under the annual reporting system. (See p. 30.) This should provide accurate data which the Congress and managers can use to assess the programs.

One of the most costly forms of appropriated fund support is the large number of military personnel assigned to or used in morale, welfare, and recreation activities. For several years GAO has reported that thousands of military personnel were used despite regulations requiring civilian staffing to the maximum extent possible. Because this practice persists, the Congress should restrict the use of funds for military staffing of these activities. (See pp. 41 and 44.)

As requested by the Appropriations Committee's office, written comments on this report were not obtained from the Department of Defense. However, GAO discussed the report with Department officials and considered their views. Also, as agreed GAO is sending copies of this report to the Department and other interested parties.

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DIGEST

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ABBREVIATIONS

DOD	Department of Defense
MWR	morale, welfare, and recreation
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

U.S. military morale, welfare, and recreation (MWR) activities, better known for many years as nonappropriated fund activities, today are varied, widespread, and big business. Those eligible may buy most things they need in Government retail outlets, dine and drink in Government clubs, go skiing in the Alps, go salmon fishing in Alaska, or stay on the beach in Hawaii, all at Federal facilities operated specifically for those purposes.

Nonappropriated moneys for the operation of MWR activities come from the sale of goods and services to military customers. The activities also receive appropriated fund support in the form of Government personnel, real estate, transportation, utilities, and various other contributions. This has been justified under the provisions of title 10, United States Code, which directs the military department Secretaries (sections 3012, 5031, and 8012) to use the resources of their departments to provide for the welfare of personnel. Funds are appropriated annually in the Department of Defense (DOD) Appropriation Acts which contain general provisions for "welfare and recreation." However, there is no requirement to isolate support for this major program from other personnel, operating, and maintenance costs, and thus there has been no DOD budget or appropriation specifically for MWR. Because of this appropriated fund subsidy and exemption from most taxes, the prices charged by MWR activities are usually lower than can be found in the private economy.

According to DOD there are 12,677 MWR activities other than commissaries employing 206,000 people and generating \$5 billion annually in nonappropriated funds. The largest are military exchanges whose ancestry can be traced back to America's War of Independence. These sales outlets were useful because they sold items that were needed by the troops but were not issued by the Government or otherwise readily available. Sales generated extra cash which was used to help pay for various other troop benefits.

The fact that MWR activities also consume appropriated fund resources wasn't formally recognized until much later, and even today it is often assumed that these activities operate only with their own profits and must cost the Government very little. During fiscal year 1976 we estimate that appropriated fund support for MWR was more than

\$600 million, excluding commissary support of another \$292 million. These are the direct expenses and do not include many millions more in tax exemptions and for free use of land and space. DOD, according to one data system discussed in chapter 3, estimated appropriated support at \$527 million. See appendix II for a breakdown of this amount by military service and type of cost.

Since 1949 we have issued many reports on these activities, repeatedly indicating that there was no clear policy for providing appropriated fund support and no adequate justification or accounting for its use. In separate reports issued in April 1976, we suggested to the Congress

- that the Secretary of Defense be required to annually justify the amount of funds being requested to support MWR and
- that it may wish to impose, in view of the delay by DOD in establishing a clear policy, specific guidelines on the use of appropriated funds to support military morale and recreation programs.

As a result, the Senate Appropriations Committee asked us to

- review the history of and justification for nonappropriated fund activities, and for providing manpower and other appropriated fund support to them;
- determine the accuracy of data showing the cost of the activities which DOD recently compiled for the first time;
- determine whether appropriated fund costs of the activities can be identified and reimbursed by the activities;
- determine what guidelines have been proposed within DOD on providing appropriated fund support to these activities; and
- provide alternate guidelines on providing support from appropriated funds that would be consistent with the intent of the Congress and that our Office would deem feasible, consistent with its findings.

SCOPE OF REVIEW

Our review was done in 1976 and 1977 at 15 military installations and the higher commands and offices listed in appendix I. We reviewed instructions, directives, and documents, verified and analyzed cost reports, and held discussions with officials from the military services, the Office of the Secretary of Defense, and the Office of Management and Budget (OMB). We also examined the evolutionary and legislative history of nonappropriated fund activities. Much of the legislative history was provided in a recent report by the Library of Congress' Congressional Research Service, "One Aspect of Military Manpower Costs: Congressional Oversight of Nonappropriated Fund Activities."

Military commissaries (grocery stores) are mentioned several times in this report to note their relationship and similarity to other MWR activities. Although there are many similarities, commissaries are treated as appropriated fund activities and operate under separate regulations. Appropriations to support commissaries received much congressional attention in the past 2 years. Our recent reports about the military commissaries are "Information on Commissary Store Operations" (FPCD-75-132, Mar. 19, 1975) and "The Military Commissary Store: Its Justification and Role in Today's Military Environment" (FPCD-75-88, May 21, 1975).

CHAPTER 2

HISTORY OF AND JUSTIFICATION FOR MWR

ACTIVITIES AND APPROPRIATED FUND SUPPORT

The issue of how MWR programs should be funded has been a fundamental contradiction that the Congress should clear up. On one hand, congressional oversight committees have criticized DOD for allowing its resale activities to make profits which are then used to pay for other MWR programs. They have argued that the programs should be entirely funded through appropriations; however, they have also believed it was unlikely that funds would be appropriated explicitly for such purposes. DOD has therefore been permitted to continue using nonappropriated funds, plus steadily increasing appropriated fund support.

ORIGIN AND EARLY DEVELOPMENT OF MWR ACTIVITIES

The American Articles of War of 1776 authorized camp-following merchants, called sutlers, to sell to the troops items of necessity and convenience not issued by the Government. For the privilege of trading in military jurisdictions the sutlers were assessed fees by the Army, and this money was used for emergency relief for soldiers and their families and for such other things as post schools and bands.

This basic arrangement lasted for more than 100 years, during which time the sutler system evolved into more permanent trading posts. This system was noted for its abuses. Soldiers were cheated, charged usurious interest, and got into debt, while at the same time there were numerous cases of fraud and corruption involving military officials and these merchants and their lucrative monopolies. These problems were especially bad during the Civil War, so in 1866 the Congress authorized the Army to sell Government commodities to the troops at cost. This was the basis for today's commissaries. Nevertheless, trading posts, usually a saloon and general store, maintained their footholds on military installations well into the late 1800s. Their decline and disappearance was due to the evolution of the enlisted post canteen.

Enlisted post canteens

In 1840 an Army commander set aside a room at his post where reading and writing material, games, light food, and

beverages were available to the soliders. His objective was to encourage his troops to spend their off-duty time in a wholesome environment rather than carouse in the nearby town and all too frequently end up in the guardhouse as disciplinary cases.

The canteen was a success and was copied throughout the country. Post canteens resembled a combination general store and social club with moderate prices. Any profits were used to improve canteens and could also be distributed to detachments whose men patronized them. One of the earliest canteens was challenged by local businesses. But the local commander permitted it to continue, based on the justification that guardhouse confinements decreased by 62 percent after the canteen opened. Such appeals to temperance and moderation became a strong argument for having canteens.

First appropriations

By the early 1890s post canteens were widespread, and there were only a few post traders left. In 1891 the Congress appropriated money to buy buildings vacated by traders with the understanding that they would be used as canteens and barracks. In 1892 post canteens were renamed post exchanges, and the Army Appropriation Act of 1893 authorized the exchanges to use public buildings and transportation not needed for other purposes. Any other appropriated fund support was prohibited. This act is now codified in 10 U.S.C. 4779 for the Army. See also 10 U.S.C. 9779 for the Air Force.

Because of the usefulness of the exchanges, the Army advocated that the Government provide the buildings, and in 1902 the Congress agreed--the Army Appropriation Act of 1903 and subsequent acts until World War I provided funds

"for the construction, equipment, and maintenance of suitable buildings at military posts and stations for the conduct of the post exchange, school, library, reading, lunch, amusement rooms, and gymnasium."

Military MWR activities continued for the next 29 years with no indication in the public record of significant congressional oversight or concern. Meanwhile, exchanges developed along Army divisional lines. At large posts each division could establish a separate post exchange, and frequently there were several completely unrelated operations at the same installation, with no uniformity in merchandising, pricing, accounting, or assortment of goods.

Direction from higher command levels was almost nonexistent, and there were few controls over activities.

Similar activities in the Navy lagged well behind the Army, because the Navy was very small and early sailors had little time to call their own. In 1802 ship's pursers were authorized to sell clothing and provisions to ships' crews at a personal profit. What couldn't be obtained from the Navy purser was available from "bumboaters," private merchants operating in port and close to shore.

In the late 1800s informal canteens were formed aboard ships as an alternative to the bumboaters' high prices and shoddy merchandise. They were funded initially by voluntary contributions which were repaid from profits on sales. Because of the informal nature and loose management of the canteens, the Congress in 1909 passed the "Ship's Stores" Act, which recognized the stores as a means of obtaining items of necessity and convenience, set a uniform profit margin, and required profits to be spent for the welfare and recreation of enlisted men. Movies became one popular amusement that was funded from ship's store profits.

Development of Marine Corps exchanges paralleled the Army experience but happened much later. The first Marine Corps exchange was established in 1900, and by 1912 all post traderships were terminated, with exchanges in their place.

World War I

With the sudden creation of a large citizen's Army in World War I, civilian leagues and agencies took responsibilities for troop morale and entertainment. Charitable agencies formed the United War Work Campaign in the Army and the Commission on Training Camp Activities in the Navy to dispense public funds for clubs, hostesses, libraries, movies, music, and athletics at home and abroad. Though there was tremendous public support for these efforts, the agencies were not well coordinated, and some troops were not served at all while at other places there was duplication and competition between organizations.

After the war and a study of morale conditions of the American Expeditionary Forces, the Army concluded that in the future it should carry out leisure-time programs. Similarly, the Navy militarized the functions of the Training Camp Commission by replacing it with a Morale Division in the Bureau of Navigation.

In the 1920s movie distribution was centralized in the U.S. Army Motion Picture Service and the Navy Motion Picture Exchange. In 1923 the Congress appropriated funds for Army libraries and hostess (later service club) personnel, and thereby reaffirmed the Army's intent to assume recreation functions previously left to private agencies.

Another resale activity came into being and was sanctioned by Navy regulations in 1923. The ship's stores authorized by the Congress in 1909 were not adequate during World War I in convenience, commodities carried, and ability to finance other welfare and recreation. As a result, another canteen-type operation sprang up, known as a ship's service store. Like the exchanges and ship's stores before, the ship's service stores were cooperative in nature and free from restrictions. They could carry virtually any merchandise and make whatever profits were needed by the individual ship. Ship's service stores also were started ashore. This duplication both afloat and ashore existed for many years until the competing stores afloat were merged, ship's stores ashore were designated commissaries, and the service stores became Navy exchanges.

1932--FIRST INDEPTH CONGRESSIONAL INQUIRY

In 1932, responding to complaints from local businessmen about the extent of post exchange retailing operations, and with a suspicion that the major benefit was likely to accrue to officers rather than to the troops, the Congress wrote the following restrictive language into the fiscal year 1933 War Department Appropriations Act:

"Sec. 4. No part of any appropriation made by this Act shall be used in any way to pay any expense in connection with the conduct, operation, or management of any post exchange, branch exchange, or subexchange within any State, save and except for real assistance and convenience to enlisted men and their families and troops in supplying them with articles of ordinary use, wear, and consumption not furnished by the Government."

The Department was also directed to submit a report to the Congress on the extent of its exchange operations. The report, submitted in 1932, was the first official account of post exchange operations and the first presentation of the military justification for their existence. At that time Army regulations authorized the exchanges to be complete community centers performing services now provided by

exchanges, commissaries, motion picture services, and special services. The justifications for exchanges were these:

1. Exchanges were the only means for providing troops with recreational funds since there were no appropriations for this purpose.
2. Appropriated fund support was limited to a few military personnel who managed the stores and the cost of upkeep, heat, and light for the buildings.
3. Exchange profits were small, and all the profits were applied to welfare and recreational programs for enlisted men. Officers' benefits were limited to the price and convenience advantage of purchasing at the exchanges.
4. Military "cooperative buying" was a necessary defense against the high prices of local merchants, who would have a Government-created captive market without these exchanges.
5. The post exchange, while costing the Government very little, was an important factor in enabling the Government to procure its military personnel at low wages, thus saving the taxpayer's money.
6. The welfare funds derived (averaging \$1 million a year from the end of World War I to 1932) were another direct saving to the taxpayer.

The Department reported that the restrictions in the 1933 act would be hard on military personnel and their families, but to comply the Department restricted exchange patronage by officers' dependents and reduced the number of items for sale.

At about the same time, a Special Committee of the House of Representatives conducted an investigation into all types of Government competition with private business. Its February 1933 report contained two recommendations which had a direct bearing on military MWR.

First, the Committee took issue with the justification that Government-operated industrial or commercial activities "saved the taxpayers' money" because these enterprises did not have to account for the cost of operations in the same manner as did businesses operated for a profit. The Committee

recommended that the Congress enact a law requiring that appropriations for such activities be justified using accounting methods that would make it possible to compare their costs with those of similar private businesses.

Second, the Committee recommended that post exchanges of all services be abolished, with the exception of clear cases of isolation from a civilian community. This was based upon the assumption that physical isolation and remoteness were the sole justifications for the existence of Government-operated retail stores.

In partial justification of its recommendation that military exchanges be abolished, the Committee presented a written statement of the National Association of Manufacturers. This statement strongly disagreed with the War Department's contention that military exchanges were necessary in order to promote enlistments at low wages and the least expensive way to provide funds for recreational purposes. The association estimated that tax revenues lost to the Federal Government due to business sales losses from exchange operations would amount to \$40 million, 40 times the MWR profits of the exchanges, implying this was an expensive way to fund MWR activities. The association proposed that necessary MWR funds could be obtained by charging a concession fee for the private operation of necessary sales activities on military installations. This argument, along with the recommendation to abolish military exchanges, did not result in further congressional action.

Military resale activities and related MWR programs did not again receive congressional attention until after World War II. The permissive wartime environment contributed to the expansion of these activities, a condition which led to the first comprehensive review of military resale and related activities by the House Armed Services Committee in the spring of 1949. The context of these hearings was the creation of the first substantial peacetime military establishment in American history. By this time most MWR activities were well established, and each of the military services had permanent offices to promulgate policies for the programs.

DEVELOPMENTS SINCE WORLD WAR II

Since World War II there have been several formal congressional inquiries into military MWR programs, with particular emphasis on resale activities. At first the major issue was the same as in 1932-33--restraint of the

military's natural inclination to expand retail operations which compete with private enterprise. When scandals in military club operations were disclosed in 1968, emphasis focused on management reform. More recently attention has focused on assessing the costs of these manpower-related functions.

Throughout this period, during hearings and in committee reports DOD was admonished for using exchange profits to fund other MWR programs on the theory that these programs should be paid for by the Government. Yet DOD was allowed to continue the practice, because as a practical matter it was doubted that the full Congress would appropriate money for what would be perceived--as it was put by the Chairman of the House Armed Services Committee in 1949--as "golf course[s] for the admirals and generals to play on." This possibility, we believe, is also why there has been no attempt until very recently to disclose the appropriated fund cost of nonappropriated fund activities.

1949 hearings

As a result of a large number of complaints from private business about the extent of military retail competition, a Special Subcommittee of the House Armed Services Committee was established in 1949 to investigate all the domestic resale activities of the armed services. The Subcommittee heard grievances from business and retail trade associations, and DOD provided its justification for having exchanges. The Subcommittee summarized DOD's justification as follows:

1. To generate profits for recreation and welfare funds.
2. To provide a convenient and attractive source of items of convenience and comfort in order to maintain a spirit of community life and high morale.
3. To provide merchandise at cheaper than ordinary prices in order to supplement the pay of under-paid military personnel.

The Subcommittee took direct exception to this justification, finding the second provision the "sole justification" for the maintenance of exchanges. The Subcommittee believed congressional appropriations, not exchange profits, ought to be the principal source of recreation and welfare funds, and likewise, low military pay was a matter that the Congress should treat through direct legislative action.

While low military pay was corrected in later years, there have not been explicit appropriations for MWR operations. A reason was provided by Mr. Carl Vinson, Chairman of the House Armed Services Committee during the 1949 Subcommittee hearings. He gave the following explanation of DOD's profit motive:

"MR. VINSON. In that connection, Mr. Chairman, may I call attention to the fact that recently on a base in Florida, the PX's [post exchanges] obtained enough money to buy a golf course and in accepting it, the Appropriations Committee wrote in the bill that the maintenance of it must not come from Government funds.

"MR. SULLIVAN. 1/ Yes, sir.

"MR. KILDAY. 2/ Again I am emphasizing the profit motive.

"MR. VINSON. No. It emphasizes the fact that the Government will not support a recreation program. The only way you can get a recreation program is through some money from some profit made from these stores. And we passed the bill out of the committee this week--it comes up next week--to correct that and to put the obligation on the Government. But it was specifically written in this bill----

"MR. SULLIVAN. That is the sentiment of the merchants of America. They believe that recreation facilities should be provided for by the Government and not by putting the exchanges in direct competition with the retail stores and forcing them to expand their operations for profit purposes, to make money.

"MR. VINSON. May I say this, Mr. Chairman: I doubt very seriously if this committee would be able to convince the Congress that we should buy golf courses and tennis courts and maintain them, because from what they think about the brass now, there is no

1/Edward C. Sullivan, President, National Retail Dry Goods Association.

2/Paul J. Kilday, Representative from Texas, escorting Mr. Sullivan before the Subcommittee.

telling what they will do when we present a bill to buy a golf course. You may be sound and may be correct about it and that may be the proper thing to do, but there are 435 Members of Congress over there and I doubt very seriously if you will find many of them that will agree to taking \$100,000 to buy a golf course for the admirals and generals to play on.

"The only way they can swing them is to get some money from some other source, because I know, and my colleagues here know, and you gentlemen know, there will be a howl all over the country that we are spending Government money to buy golf courses, tennis courts, and bowling alleys for the service. I agree with you. You are probably absolutely correct, but we have to be realistic about this."

As to the retailers' complaints of competition, the Subcommittee agreed that the exchanges had overstepped reasonable bounds. To correct this the Subcommittee approved a set of regulations for all exchanges which restricted the types and cost of authorized articles, and set forth specific limitations on the categories of personnel who could use the stores. The services also agreed to collect Federal excise taxes in the exchanges, which was not previously done.

In 1949 we issued a comprehensive report on nonappropriated fund activities throughout the Government. We stated that the activities, which owed their existence to the expenditure of appropriated funds, were withholding from the Treasury moneys collected and in turn making expenditures without express legal authorization and without reimbursement for the appropriated funds used. We recommended that legislation be enacted which would outline the activities which could be conducted, their financing and accounting, and the disposition of both appropriated and nonappropriated funds.

No such legislation was enacted, but in 1953 DOD issued Directive 1330.2, which stated that MWR programs would be provided basically with appropriated funds and supplemented by nonappropriated funds. Despite the directive, Army and Air Force exchanges were still precluded by law from receiving appropriated support except buildings and transportation not needed for other purposes. (See p. 5. In any event, DOD's policy statement agreed with the expressions of the 1949 House Subcommittee, but because the Congress as a whole did not adopt it, MWR programs continued to rely primarily on nonappropriated funds.

1950-1964 hearings and reviews

In 1953 complaints from private business again caused House Armed Services Subcommittee investigation, this time about charges that post exchanges were flagrantly violating the 1949 guidelines as to items authorized for sale and personnel permitted to make purchases. The Subcommittee report stated that the charges were unsubstantiated and the armed services were abiding by the 1949 restrictions. The report also presented both sides of the MWR funding issue without noting any apparent contradiction. The Subcommittee expressed its view that the functions of military exchanges were to save the taxpayer's money by providing MWR benefits for enlisted personnel and to free them from commercial exploitation. However, the report also reiterated the view of the 1949 Subcommittee that the exchanges were only secondarily designed to produce an "MWR profit," and that such facilities were properly to be provided by direct appropriations.

In 1957 a House Armed Services Special Subcommittee on Military Exchange Matters convened to consider a DOD request to add items to the authorized list of articles that can be sold by exchanges and to increase the cost limit on other items. The Subcommittee acted essentially as an arbitrator between DOD and the private interests, and some of the requested changes were approved. The Subcommittee was concerned about practices that resulted in complaints from private industry and reaffirmed the 1949 and 1953 conclusions that exchanges were not to be run primarily to generate "MWR profits."

In 1963 the Senate Subcommittee on Defense Procurement of the Joint Economic Committee raised the question of the real cost to the Government of operating a business. It noted that the military exchanges ranked seventh in sales, and the commissaries twelfth among America's retailing establishments. We reported ^{1/} and several Committee members expressed the opinion that the military was violating a 1949 agreement with the House Armed Services Committee and a provision of the Appropriation Act prohibiting commissaries where there were adequate commercial facilities.

^{1/}"Failure to Curtail Operation at Government Expense of Military Commissary Stores in Continental United States Where Adequate Commercial Facilities are Available," Apr. 16, 1964.

But no further congressional action in the MWR area took place until military club scandals broke in 1968.

1968 to present

Accusations of fraud and corruption in the management of the military clubs and exchanges in South Vietnam led to 2 years of investigation and hearings by the Senate Permanent Subcommittee on Investigations of the Government Operations Committee.

During the investigation, the House Armed Services Committee reconstituted its Special Subcommittee on Exchanges and Commissaries. The Senate investigation concentrated on the military MWR management practices which were possibly linked to the fraud and corruption, while the House inquiry focused on developments in exchange and commissary operations since the 1957 hearings. The House Subcommittee noted that in fiscal year 1970 the exchanges contributed \$131 million for other MWR programs and again criticized DOD for the practice, adding that these profits should be passed on to the customers in the form of lower prices. The Senate Subcommittee also recommended many management changes, plus legislation to establish a commission

"* * * to evaluate the relative financial benefits to active and retired servicemen and their families from nonappropriated fund activities, particularly exchanges and exchange concessions and commissaries. The commission would evaluate the efficiency of these activities and report its findings to the Congress with recommendations for reform where needed."

But the bill introduced to establish the commission was not reported out of the Committee.

In 1972 the House Armed Services Committee again established a Special Subcommittee to examine military non-appropriated fund activities. It was soon apparent that the scope of MWR programs was beyond easy comprehension: including commissaries, revenues exceeded \$6 billion annually and assets exceeded \$5 billion. Employment approximated 300,000, which nearly equalled the combined work force of the Departments of Labor, Interior, State, Justice, Transportation, Commerce, and Housing and Urban Development.

The Subcommittee believed that the military community needed both the resale activities and the other MWR programs. It also seemed more reconciled to the often-criticized practice of funding MWR with resale profits

by noting in its report, "it is highly unlikely an Appropriations subcommittee would approve funds to the extent expended here" (for MWR purposes). The report pointed out that in addition to direct operating support, appropriated funds were also used for a broad range of such services as management, inspecting, auditing, and engineering performed by the Government.

The Subcommittee, however, noted that it was difficult to make rational decisions about these activities because appropriated fund support was not disclosed, and therefore revenues were shown to be generated without reflecting all the resources that were used. As a result, this Subcommittee made the first direct recommendation that appropriated costs be identified:

"The subcommittee, therefore, recommends that military departments establish systems for identifying the cost of appropriated fund support provided to nonappropriated fund activities.

"Once such support has been identified, the military departments should evaluate management effectiveness, usage, benefits provided, and the necessity of providing many of the recreational and morale activities with substantial appropriated fund support."

The observation made by the Chairman of the House Armed Services Committee (see p. 11) in 1949--that the Congress would not approve money explicitly for MWR--was borne out in 1973 when the Army asked for \$3.1 million for fiscal year 1974 to fund a new agency to manage its worldwide club and mess system. The House Appropriations Committee reported as follows on this request:

"While recognizing the accomplishments achieved, the Committee believes that the cost of such nonappropriated activities should be borne within the profits realized from nonappropriated fund activities. The Committee does not see why the American taxpayer should be required to pay for the management of an operation which is strictly for the pleasure and benefit of military personnel and their dependents. The Committee acknowledges and believes in the benefits offered by nonappropriated fund activities to military personnel, but is of the opinion that they should be funded within the profits from such activities. Therefore, the Committee recommends denial of the \$3.1 million requested to manage the nonappropriated clubs and messes,

and suggests that such activities be supported with profits realized by these activities."

This action could discourage DOD from labeling future requests as being directly for MWR activities.

Resale activities were also faced with having to pay for construction with nonappropriated funds. Although the law prohibited the construction of exchanges with appropriated funds, the Congress from time to time, and as early as 1903, appropriated money expressly for this purpose. Commissaries also were regularly constructed with appropriated funds. But over the years it became evident that exchanges and commissaries could not compete in the budget with higher priority needs for construction dollars. Therefore, resale organizations used more and more of their own money to rehabilitate or replace their deteriorating facilities. This was done reluctantly and in small amounts at first, but in the 1970s the practice of using nonappropriated funds was well established. In the late 1960s the Army and Air Force Exchange and Motion Picture Services launched major long-term construction programs using nonappropriated funds, and the Congress in 1974 passed legislation authorizing all commissaries to levy a surcharge to be used for building new stores in the United States.

Commissary appropriations have received a great deal of attention in recent years. In 1975 and 1976 DOD proposed phasing out the commissary subsidy, which would have to be made up by raising prices in the stores. The proposals were strongly opposed by the stores' customers and suppliers, and the Congress therefore restored the funds.

Tax revenues were addressed in 1976 when the Advisory Commission on Intergovernmental Relations reported that State and local governments lose nearly \$400 million annually because of the exemption of military resale outlets from sales, tobacco, and alcohol taxes. The Commission questioned why this fringe benefit should be extended to one class of Federal employees and recommended that this exemption be removed.

CONCLUSIONS

MWR programs have an unusual history in the sense that they came into being in reverse order of the normal procedures for establishing Government programs. For example, post canteens first started as informal cooperative ventures, then regulations were drawn up to control them, and eventually they were acknowledged directly or indirectly in

legislation. Thus, nonappropriated fund activities became very large Government operations without specific statutory authority. This particular pattern of development also resulted in limited congressional awareness of billions of dollars in costs--in the form of military appropriations, nonappropriated funds, and loss of tax revenues--for enterprises not directly related to the national defense.

More than anything else the immense success of the programs seemed to attract critical attention. Had the resale activities remained a modest source for the necessities and conveniences of life not available elsewhere, Government subsidization of MWR and competition with private business probably would not have been seriously questioned. Now, however, these are enterprises of substantial economic consequence which offer a full range of goods and services regardless of availability in the private sector. Accordingly the major justification now for MWR activities is the monetary savings that they offer their patrons.

Apart from the pros and cons of Government subsidization of these organizations, we believe it is very appropriate that their true costs be identified and that thereby the Congress have the opportunity to decide how much money will be appropriated for this function. The next chapter discusses DOD's efforts to identify appropriated fund support, and contains recommendations which if implemented would make the Department's reporting system more accurate.

CHAPTER 3

VALIDITY OF DEMOGRAPHIC

SURVEY AND INSTRUCTION 7000.12 DATA

DOD has established a financial management reporting system under DOD Instruction 7000.12 and has conducted a one-time demographic survey to identify appropriated and nonappropriated fund support for MWR activities, except commissaries, and to develop other data. We tested the data developed by these two efforts and found that appropriated fund data was not reliable.

Appropriated fund support for MWR activities in fiscal year 1976 was \$527 million according to Instruction 7000.12 reports (see app. II for a breakdown of costs) and \$532 million according to the demographic survey. The amounts differ in part because separate guidelines and assumptions were used under each system, and the resulting data is not necessarily compatible. Also, our review disclosed discrepancies ranging from rounding errors and miscalculations to total omission of major costs and led us to conclude that the amounts of appropriated fund support contained in reports developed from the survey and the 7000.12 reporting system were understated by at least \$94 million and \$92 million, respectively. The primary reasons for errors were lack of guidance and inadequate accounting systems. These shortcomings require immediate attention to insure the validity of future data obtained through the ongoing Instruction 7000.12 reporting system.

DEVELOPMENT OF THE REPORTING SYSTEM AND DEMOGRAPHIC SURVEY

In response to a House Armed Services Subcommittee recommendation in 1972 that MWR appropriated funds be identified (see p. 15), DOD issued DOD Instruction 7000.12 in July 1974. The instruction spells out DOD's financial management policies for nonappropriated funds and related appropriated fund resources. In part it calls for annual reports to the Office of the Secretary of Defense on the amount of appropriated fund support rendered to military MWR activities. The first annual reports were due in October 1976.

In September 1975 the Assistant Secretary of Defense for Manpower and Reserve Affairs and the DOD Comptroller directed that a one-time worldwide survey be conducted to gather demographic data on MWR activities. The data was

to include among other things personnel statistics as well as appropriated and nonappropriated funding. The results would be used to

--update personnel and financial data;

--evaluate and revise DOD's MWR management policies which were prescribed in Directive 1330.2, last revised in 1956; and

--provide data for improved responsiveness to congressional inquiries.

Before the survey was begun, the President early in 1975 directed that a study be completed to (1) identify the amount of appropriated funds used to support nonappropriated fund activities, (2) evaluate the effectiveness and equity of policies governing that support, and (3) develop alternative plans to modify any deficiencies or inefficient policies. A joint DOD/OMB study group was formed and the basis for its analyses and conclusions was to be obtained through the demographic survey. As of July 1977, the study group had completed a draft report and distributed it to the DOD components for comments.

ERRORS NOTED ABOVE THE INSTALLATION LEVEL

Appropriated fund costs in both the demographic survey and Instruction 7000.12 are considerably understated because of failure to consider certain costs, particularly those associated with personnel.

Personnel costs

The largest error occurred because the cost of fringe benefits was understated. In the demographic survey, civilian costs were calculated using only base pay, with no recognition of fringe benefit costs, and in the 7000.12 reports base pay plus 8 percent to recognize fringe benefits was used.

Neither method recognized the true cost to the Government for fringe benefits, particularly retirement. In October 1976, OMB announced that, for preparing cost analyses for contracting out purposes, the retirement cost of Federal civil service employees was 24.7 percent of base pay because it recognized the fullest retirement, with which we generally concurred. An additional 4 percent was

to be added for health and life insurance benefits, for a total of 28.7 percent for direct fringe benefits. In June 1977 OMB reduced the 24.7 retirement factor to 14.1 percent pending review of its contracting out policies and their implementation. OMB officials stated, however, they have no reason to question the accuracy of the retirement cost factor.

Consequently we estimate that civilian personnel costs were understated by \$20 million in 7000.12 reports and \$29 million in the demographic survey.

Similarly the rates used to calculate military personnel costs did not include retirement, Government-furnished quarters, or medical or other fringe benefit costs. These benefits, according to DOD accounting guidelines, are 25 percent for officers and 40 percent for enlisted personnel. Had these rates been used, the military personnel costs would have been increased by \$50 million.

Under the demographic survey the Army understated military personnel costs by about \$4 million by using the 1975 instead of 1976 pay rates. Also, several installations underestimated personnel costs.

Headquarters costs

Within the Army's Adjutant General Center and the Air Force Military Personnel Center are sections devoted almost entirely to managing MWR activities. Their costs, which exceeded \$3 million and \$2 million respectively for fiscal year 1976, were not reported under Instruction 7000.12. In addition, the Air Force excluded \$6 million in major command, accounting and finance, procurement, and other types of support costs. The Air Force costs were readily available through its accounting system, and the Adjutant General Center had included its costs in the demographic survey.

The Navy and Marine Corps reported headquarters costs. The Army and Air Force, on the other hand, contend that the headquarters and major command staff do not actually conduct or operate an MWR activity, but rather they lend support and provide mandatory command supervision and control, thus fulfilling a service mission. The Air Force further believes that including activities outside the MWR areas such as procurement and inspector general support is misleading when considering additional costs to the Government, because these services are required for control and are often provided at no incremental costs.

All services excluded their internal audit agencies' costs totaling \$7.6 million. The Army and Air Force excluded in both the survey and Instruction 7000.12 costs of \$138,700 and \$246,600 to maintain MWR management schools.

While we agree that certain costs are incurred for control and supervision, and others may not be incremental to the Government, we believe the intent of Instruction 7000.12 is that all costs be reported, regardless of management level. The Subcommittee in its 1972 report (see p. 15) specifically pointed out that MWR costs should include such expenses as management planning, inspecting, auditing, and engineering. A cognizant Office of the Secretary of Defense official agreed that command support and indirect costs should be reported and stated that the proposed revision to Instruction 7000.12 should make this more explicit.

Resort areas

The Army and Air Force did not report indirect costs to support recreation areas. In April 1976, we reported on the cost to operate outdoor recreation centers in West Germany, Hawaii, and the Philippines (FPCD-76-20). For the Armed Forces Recreation Center, West Germany, and the Kilauea Military Camp, Hawaii, we computed appropriated fund support costs. The Air Force supplied us with these costs for the John Hay Air Base in the Philippines. The following chart shows the differences reported in our report and DOD's demographic survey.

	<u>GAO FY 1975</u>	<u>Survey FY 1976</u> <u>(note a)</u>	<u>Difference</u>
Kilauea Military Camp	\$ 846,000	\$ 224,000	\$ 622,000
Armed Forces Recreation Center	9,466,000	4,830,000	4,636,000
John Hay Air Base	1,114,000	261,000	853,000

a/9 months extrapolated to 1 year.

We asked the Army and Air Force for possible reasons for the difference in the two amounts at Kilauea. The Army responded that Kilauea is a joint service recreation center and the difference between our figures and those of the demographic survey was apparently due primarily to failure of the other services to report their costs.

As for the Armed Forces Recreation Center and the John Hay Air Base, The Army and Air Force responded that the major reason for the differences was that only those costs directly associated with the recreation areas were included in the survey. We included a portion of the indirect costs to operate the recreation area or air base where the activity was located because recreation is the primary mission or activity at each of these locations. In fact, the Air Force had included indirect costs when it reported John Hay's costs for inclusion in our resorts report. Because the Army and Air Force did not consider these major indirect costs for these areas, the demographic survey is understated by at least \$6.1 million. The same situation may have occurred at other locations devoted primarily to MWR.

Failure to report all costs may be due in part to concern that funds for MWR activities would be reduced if all costs were known. Both the DOD Comptroller and the study group draft report, in reference to appropriated fund reporting, stated that camouflaging these costs is due in part to "an implicit assumption that welfare and recreation programs in general would suffer rather than gain from increased visibility." The experience gained when funds requested by the Army for its club management agency were denied (see p. 15) may contribute to the services' hesitation to specifically identify appropriated fund support for MWR.

Billeting and chapel costs

Both the demographic survey and Instruction 7000.12 had intended that only the appropriated fund costs to support the nonappropriated funds generated by these activities be reported, since the primary services provided by these activities are viewed as troop support functions. For example, only expenses such as the fund custodians or staff rooms set aside for nonappropriated fund chambermaids were to be included. However, because of the vague wording of the instructions, many Army and Navy installations included the entire costs to support the chapel and billeting functions, thus considerably overstating appropriated fund support.

Other unrecognized costs

Appropriated fund support identified through the survey and Instruction 7000.12 does not include a value

placed on Government-owned real estate. Depreciation and use of the appropriated funded buildings could be considered additional costs to the Government.

Another unrecognized cost to Government of MWR activities is the loss of revenue through tax-exempt sales. The Advisory Commission on Intergovernmental relations estimated in 1976 that State and local governments lose nearly \$400 million annually in tax-exempt sales to military personnel. Since the Federal Government provides billions of dollars to State and local governments to help finance various programs, it can benefit indirectly from helping these jurisdictions increase their revenue. The Federal Government also loses indeterminate revenue from sales in Federal-income-tax-exempted activities. That is, had the \$8 billion in MWR gross revenues been spent in the private sector, the profit generally would have been subject to Federal income tax.

ERRORS NOTED AT THE INSTALLATIONS

Since we were unable to perform a statistical sample because of time and cost constraints, our review was restricted to determining to the extent possible that all costs were identified and reported at the installations visited. At some installations we were able to reconstruct costs completely, while at others, due to time constraints, inadequate supporting documents, complexity of accounting systems, and transfer of cognizant personnel, we could only identify some costs which were not reported. Our efforts reflect known inaccuracies and weaknesses in the two reports and therefore may not be all-inclusive.

The chart on the following page compares the costs reported by the installations with those we were able to identify.

**Comparison of Appropriated Fund Costs Reported
by Installations to Those Verified by GAO**

Installation	DOD Instruction 7000.12			Demographic survey		
	Reported	Verified by GAO (note a)	Percentage of Difference	Reported	Verified by GAO (note a)	Percentage of Difference
Army:						
Fort Hood	\$ 4,076,221	\$ 5,286,414	\$-1,210,193	(b)	(b)	(b)
Fort McPherson	943,907	1,028,577	-84,670	\$ 918,500	\$ 1,096,600	\$ -178,100
Fort Sam Houston	1,545,547	1,724,974	-179,427	(b)	(b)	(b)
Fort Shafter (U.S. Army Support Command, Hawaii)	3,509,153	4,338,883	-829,730	3,420,000	4,338,900	-918,900
Fulda Military Community	612,711	701,480	-88,769	542,100	687,900	-145,800
Forces Command	204,673	385,296	-180,623	279,100	356,800	-77,700
Net	-	-	-2,573,412	-	-	-1,320,500
Total	10,892,212	13,465,624	2,573,412	5,159,700	6,480,200	1,320,500
Air Force:						
Edwards Air Force Base (note c)	1,748,570	1,702,750	45,820	1,685,300	1,708,500	-23,200
Kadena Air Base (note c)	2,053,300	2,617,254	-563,954	1,863,000	2,608,900	-745,900
Torrejon Air Base	725,687	785,687	-60,000	197,200	785,700	-588,500
Pacific Air Forces Command	327,800	327,800	-	278,200	327,800	-49,600
Net	-	-	-578,134	-	-	-1,407,200
Total	4,855,357	5,433,491	669,774	4,023,700	5,430,900	1,407,200
Navy:						
Charleston Naval Station	c/64,286	c/1,071,391	c/-1,007,005	505,700	764,300	-258,600
Miramar Naval Air Station	c/962,892	c/540,313	c/422,579	333,200	393,900	-60,700
Orlando Naval Training Center	c/1,189,266	c/812,839	c/376,427	449,600	588,300	-138,700
Rota Naval Sta- tion	c/686,547	c/595,906	c/90,641	218,900	445,900	-227,000
Net	-	-	-117,358	-	-	-685,000
Total	2,903,091	3,020,449	1,896,652	1,507,400	2,192,400	685,000
Marine Corps:						
Beaufort Air Station	c/556,492	c/755,047	-198,555	544,600	620,800	-76,200
Yuma Air Station	c/270,373	c/d/553,134	-282,759	796,700	832,500	-33,200
Net	-	-	-481,314	-	-	-109,400
Total	826,867	1,308,181	-481,314	1,341,300	1,453,300	109,400
Net--all services	19,477,527	23,227,745	-3,750,218	12,032,100	15,556,800	-3,522,100
Total--all services	\$ -	\$ -	\$ 5,621,152	\$ -	\$ -	\$ 5,621,152

a/Our calculations represent only known costs and may not be 100-percent inclusive.

b/Lack of supporting documents precluded verification.

c/Represents FY 1976. All other data represents first three quarters of FY 1976.

d/Special services activities only.

The installation variances reflect only the net result of inaccuracies. They are magnified if the true picture of over- and understatements are shown. For example, the Fulda Military Community's 14-percent understatement under Instruction 7000.12 actually represents a 12-percent over-statement offset by a 26-percent understatement, for a total error rate of 38 percent. The same situation existed at several other sites included in our review.

The variances by element of expense at each location are presented in appendix III.

The degree of inaccuracy varied greatly from one installation to another and even between the two reports at the same installation. There were almost as many reasons for variances as there were variances. The survey and Instruction 7000.12 reports combined created an unfortunate example of the adage, "if anything can go wrong, it will."

Probably the single most frequent reason for inaccuracies and certainly the most serious weakness in the reporting systems was the lack of adequate guidance. Report preparers were not only confused as to what expenses to report, but also as to what constituted MWR activities. Once activities and expenses were identified, either correctly or incorrectly, preparers lacked adequate guidance to determine how costs were to be accumulated. There was little, if any, coordination between preparers of the two reports; and often the persons preparing the reports had no idea of their intended uses.

Most of the errors can be divided into the following eight broad categories. These situations did not occur at all locations, but they generally reflect the types of problems disclosed throughout our review. For the most part, they refer to both the survey and Instruction 7000.12 reporting.

1. Identifying MWR activities--because guidance did not specifically identify MWR activities to be reported, many activities were overlooked, while others were included when they should not have been.
2. Inadequate accounting systems--only the Air Force has a worldwide system which accumulates appropriated fund costs with reasonable accuracy. Accounting systems for the other services were not designed to provide information in the detail required. As a result, costs could not be directly linked to MWR activities. Also, errors in existing systems resulted in inaccurate accounting.

3. Failure to use existing data--rather than using existing data, report preparers relied on memory or estimates.
4. Inaccurate estimates and incomplete data--estimates used were often inaccurate and outdated. Square footage was erroneous and listings of MWR facilities were incomplete. These problems were particularly common to repair and maintenance and utilities.

(Reimbursement for utility charges has been a longstanding problem within DOD. In 1968 and again in 1975, we reported to the Congress that nonappropriated fund activities were being undercharged for utilities because of, among other things, inadequate estimates and use of meters, inaccurate or noncurrent rates, misclassification of users, and misinterpretation of directives. Our past findings relating to utility charges are included as app. IV.)

5. Simple oversight--many inaccuracies were attributed to oversight due to a misunderstanding of instructions, failure to consider an MWR activity, or failure to recognize an element of expense. Part of this can be attributed to lack of understanding of intended uses of the report.
6. Unexplained variances--frequently, reported amounts did not agree with available records, but variances could not be explained because of lack of supporting documents and transfer of personnel.
7. Failure to report supporting organizations--all MWR activities are supported by installation activities such as police and fire protection, pest control, health inspections, and data automation. For the most part, no attempt was made to identify and include these costs.
8. Clerical errors--as can be expected in projects of this magnitude, there were numerous inaccuracies in computations, keypunching, rounding, transpositions, and other such clerical errors.

Errors by element of expense and those unique to the demographic survey are discussed in appendix V.

PROBLEMS RECOGNIZED BY DOD

The services, in submitting their demographic survey data, cautioned the OMB/DOD study group about using the

data for policy formulation and management decisions because they considered the validity of the data to be highly suspect. During the various stages of data processing, the study group took numerous actions to correct the data as problems surfaced. It recognized that the corrected data base was "less than one hundred percent accurate," but felt that the data was the best available for reviewing and analyzing policies relating to MWR.

One test of the demographic survey data by the study group was to compare the results to the Instruction 7000.12 and other reports used as a control. As shown below there were considerable differences between the two reports in total, with even wider variances within categories.

	<u>Control</u>	<u>Survey</u>	<u>Difference</u> <u>(percent)</u>
	(000 omitted)		
Army	\$144,506	\$170,718	+18
Navv	107,800	91,549	-15
Air Force	143,816	141,946	-1.3
Marine Corps	17,965	32,092	+79

Many of the variances can be attributed to different assumptions and requirements for each system. Some activities were included in one and not the other, and certain expenses were not treated the same in both reports. For instance, transportation of things was included in Instruction 7000.12 at the installation, whereas a factor was applied centrally for the survey. In addition to the known incomparability of the survey and control data, the study group acknowledged that both the survey and Instruction 7000.12 data were inaccurate.

The study group's draft report addresses the need for better guidance in various aspects of MWR funding including reporting of costs. It states:

"As a result of insufficient OSD [Office of the Secretary of Defense] guidance prescribing standard elements of MWR financial and personnel data to be maintained and reported by the components, the collection, synthesis and dissemination of information by OSD has been awkward and in some cases nearly impossible."

The draft report concluded that Instruction 7000.12 "is deficient in providing adequate guidance to the services.

This instruction does not result in uniform reporting among the services nor is that level of detail prescribed adequate for management of certain MWR activities." The study group proposed a revised Instruction 7000.12 which prescribes "the minimum standard financial elements required by OSD to administer the financial programs for DOD MWR activities."

The study group also recognized the need for the Office of the Secretary of Defense to provide more definitive guidance regarding the maintenance and reporting of financial information. The draft report states this guidance should include redefinition of MWR categories for clarity and consistency among DOD components and more detailed instructions for reporting appropriated fund expenses for military and civilian personnel to insure full disclosure of appropriated support costs to MWR activities. The study group recommended that the Assistant Secretary of Defense (Comptroller) publish standard procedures for budgeting and accounting for appropriated fund support. Since many of the elements of expense must be estimates, the Comptroller should prescribe standard methods to be applied to all services in estimating these costs, including established "floors" below which costs would not be considered material for reporting purposes.

The services also recognize many of the shortcomings of the Instruction 7000.12 reporting system and plan to issue new guidance pending the outcome of the final study. The new guidance should be more explicit and should result in more responsive reports. The Air Force, however, does not foresee any major changes in its 7000.12 reporting because the data is drawn from a worldwide accounting system which already meets Air Force management requirements and provides a reasonable degree of accuracy. There may be some minor changes made to the accounting system to improve the accuracy of the data.

CONCLUSIONS AND RECOMMENDATIONS

Based on our review and the problems noted above, we conclude that the demographic survey and Instruction 7000.12 reports are understated by at least \$94 million and \$92 million, respectively.

	Demographic <u>survey (note a)</u>	Instruction <u>7000.12</u>
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(000 omitted)

Army Adjutant General Center (p. 20)	\$ 1,600	\$ 3,000
Air Force Military Personnel Center (p. 20)	-	2,000
Other Air Force support (p. 20)	-	6,000
Service audit agencies (p. 21)	(b)	7,600
Army military personnel costs (p. 20)	4,100	-
Kilauea, John Hay, and Garmisch Recreation Centers (p. 21)	6,100	(b)
Installations included in our review (p. 24)	<u>3,500</u>	<u>3,800</u>
	15,300	22,400
Additional retirement and benefits:		
Civilian personnel (p. 20)	29,000	20,000
Military personnel (p. 20)	<u>50,000</u>	<u>50,000</u>
	<u>\$94,300</u>	<u>\$92,400</u>

a/Three quarters of FY 1976 extrapolated to 1 year.

b/Not available.

Errors of this magnitude were inevitable since these were the first attempts to report costs which have long been taken for granted or ignored. Understandably there was some confusion as to what to report and how to accumulate the costs. It is encouraging that the services and DOD recognize many of the shortcomings and plan to correct them. Implementing the study group's proposed Instruction 7000.12 and its recommendation that standard methods to identify costs be established should alleviate the situation somewhat. However, instructions should be explicit enough to eliminate any confusion or misinterpretation as to what costs are to be included at the various levels of management.

However, even the most explicit instructions may not correct some of the underlying causes of errors--weaknesses in accounting systems, errors in available records, and lack of interest and/or understanding at the installation level. Problems we noted in 1968 in accumulating utilities

and repair and maintenance costs are still evident 9 years later. These problems are attributable primarily to inadequate or erroneous accounting.

Therefore, we recommend that the Secretary of Defense implement the DOD study group draft recommendations concerning accounting and budgeting for MWR appropriated fund support. More explicitly, he should:

- Require that Instruction 7000.12 prescribe the minimum standard financial elements required by the Office of the Secretary of Defense to administer the financial programs for MWR activities.
- Redefine MWR categories for clarity and consistency among DOD components.
- Require the Office of the Secretary of Defense Comptroller to publish standard procedures for budgeting and accounting for appropriated fund support.
- Require the Comptroller to prescribe standard methods to be applied to all services in estimating appropriated fund costs, including establishing "floors" below which costs would not be considered material for reporting purposes.
- Require that instructions be explicit enough to leave no room for confusion and misinterpretation so that all costs above the "floors" will be accumulated. This would include command supervision and indirect costs.

We also recommend that the Secretary of Defense direct the service Secretaries to take steps to improve the accuracy of reported data. This would include

- directing attention to problems in accounting systems whereby costs are not identified or are attributed to the wrong activity,
- updating facilities listings to insure that repair and maintenance and utilities costs are accumulated for all MWR facilities, and
- emphasizing the importance of these reports to encourage conscientious reporting and use at the installation level.

CHAPTER 4

DOD-PROPOSED GUIDELINES

ON PROVIDING APPROPRIATED SUPPORT

DOD's current guidelines for providing appropriated fund support, DOD Directive 1330.2 issued in 1953, states:

"Adequate free-time facilities should be provided, operated and maintained through financial support tendered by the Federal Government. Non-appropriated funds will be used to supplement the cost of programs using these facilities."

The directive goes on to cite several types of costs for which appropriated support is permitted and a few instances where it is prohibited.

The broad generality of the guidelines resulted in the military services interpreting and applying DOD's policy differently in their various regulations. As a general rule the services contended that local commanders could use almost any kind of appropriated support considered necessary. When required, charges for appropriated fund support have been understated or never made, and as we reported several times, the subject of appropriated support was pervaded by a lack of accountability.

LENGTHY EFFORTS TO ESTABLISH NEW FUNDING GUIDELINES

Attempts have been made within DOD to revise Directive 1330.2, but those efforts have been very time-consuming and as yet unsuccessful. In 1968, in response to our criticism of Directive 1330.2, the Deputy Assistant Secretary of Defense for Military Personnel Policy established an inter-service study group to reevaluate the directive. But the services were unable to agree upon changes and none were made.

In 1971, a nonappropriated fund management study group was set up by DOD, and one of its responsibilities was to develop criteria for using appropriated funds for MWR activities. The group proposed revisions to Directive 1330.2, but these were not approved because of a difference of opinion within DOD. The DOD Comptroller believed that funding guidelines should not be approved until the existing level of appropriated fund support was identified and the effect of the

new directive could be measured. This development led to the demographic survey and the OMB/DOD study, as explained on page 18.

PROPOSED GUIDELINES

Before detailed funding guidelines could be prepared, the OMB/DOD study group recognized that some preliminary rules had to be established. Needed were (1) a uniform list of the kinds of MWR activities and (2) formal recognition that some MWR activities were more necessary than others. These matters are addressed in separate DOD directives proposed by the study group.

Standard classification of MWR activities

DOD Instruction 7000.12, issued in 1974, specified categories of MWR activities which the services were to use when reporting costs. However, different operating policies and terminology among the services caused the same or similar activities to be reported in different categories. For example, packaged liquor stores were sometimes reported along with open messes and sometimes as separate resale organizations. Some enlisted clubs were operated by and reported along with exchanges, while others were reported as part of the club systems. In addition it appeared that the services were labeling similar activities differently and putting different functions with otherwise similar activities, thereby continuing their own categorizations based on different interpretations. To remedy this the study group proposed eight categories of activities which the services are to use uniformly. (See app. VI.)

Priority for receiving support

The 1953 directive does not mention the relative need for providing various kinds of MWR activities. The OMB/DOD study group addressed this issue, using as a basis a 1951 Presidential committee report on free time in the Armed Forces. ^{1/} That report concluded that free time activities could be categorized as indispensable, essential, or desirable and that funds should first be spent on

^{1/}"Free Time in the Armed Forces," a study of the Armed Forces' special services and recreation programs by the President's Committee on Religion and Welfare in the Armed Forces, Feb. 28, 1951.

the indispensables, secondly on the essentials, and last, if funds are left, on desirable programs. The study group's proposed priority guidelines establish similar categories, plus a fourth for optional programs. They are as follows.

Indispensable activities--satisfy physiological and psychological needs and relate closely to the basic military mission; must be provided in all but the most extenuating combat circumstances.

Essential activities--satisfy personal needs (physical and social outlets, self-expression, and accomplishment and self-esteem) and organizational needs (esprit de corps, leadership, and personal development); have a broad-based appeal and should normally be provided at a military installation.

Desirable activities--have a less broad appeal, but together with indispensable and essential activities would constitute a well-rounded morale support program.

Optional activities--appeal to more limited groups but may be added at the option of the local commander.

Appendix VII lists specific MWR activities by priority.

The proposed guidelines also recognize that the need for the Government to offer these activities depends upon proximity to metropolitan areas where similar programs may be available in the private sector. Hence a particular activity may be indispensable in a remote area but less needed in a metropolitan area.

It should be noted that although the study group endorsed and used the terminology of the 1951 Presidential study in setting priorities for off-duty activities, the study group had in mind a less austere program than was contemplated in 1951. For instance the 1951 study concluded that barracks with showers were "indispensable" leisure time facilities. Today such facilities are not even considered as MWR activities. (See also p. 38.)

Specific guidelines--a matter of subjective judgment

Within the general framework of having uniformly classified MWR activities and set priorities, the OMB/DOD

study group prepared a revised Directive 1330.2. The proposed directive lists 39 kinds of costs apt to be incurred by MWR activities, and for each of the activities specifies whether the cost is authorized from appropriated or nonappropriated funds. The decision in each instance was reached by a consensus or vote of the study group with the advice of the military services.

Whether or not to pay a certain cost for a certain MWR activity from appropriated or nonappropriated funds is largely a subjective decision based on many factors. Arguments favoring appropriated fund support are:

- Some MWR activities are needed for basic life support such as food services in remote areas and overseas.
- Sports and outdoor recreation which promote physical fitness contribute to unit readiness and the military mission.
- Tax-supported community facilities such as libraries, parks, and playgrounds may not be accessible to personnel on base and therefore should be provided there by the Government. In foreign areas such facilities are often inadequate.
- Military commanders have a responsibility to provide off-duty facilities (1) because military life is not an 8 to 5 o'clock job and (2) to prevent alcohol and drug abuse and other behavior detrimental to good discipline, morale, and military readiness.
- Esprit de corps in the military community is fostered by gatherings such as unit parties, dances, competitive sports, music and drama presentations, and the like.
- Dependents are also deserving of these activities, particularly during periods of family separation due to shipboard duty, unaccompanied tours, maneuvers, and war.
- Vocational training and off-duty self-development education which contribute to military skills are made available through MWR activities such as libraries, auto crafts, metal working, and electronics.
- The activities serve as an inducement to join the military service and make it a career.

Opposing arguments center on the need for the activities and who should pay for them:

- Now that military pay is competitive with the private sector, members need no longer be provided many MWR activities that were traditionally supported with appropriated funds. They should instead be expected to pay a greater portion from their own salaries.
- There are commercial counterparts to most MWR activities, and greater reliance should be placed on them instead of having tax-supported facilities on military installations which discourage or affront private enterprise.
- In recent years the growth of suburban areas near military installations, the increased mobility of individuals, and changes in lifestyle and personal preference make some of the MWR activities less necessary.
- MWR activities provided to maintain a "way of life" tend to lose their value as career motivators because they come to be regarded as rights bestowed by "implied contracts." Instead of eliciting responses in terms of useful motivation, the activities create an appetite for more, and have to be offered to many people other than those on active duty.
- Community facilities (libraries, parks, playgrounds, etc.) in the civilian sector are largely paid for by local residents. Counterpart facilities on base should be paid for by the users instead of the Federal Government, particularly when the facilities are set aside for a select group of citizens.
- Providing a wide range of MWR activities may not be cost effective in terms of appropriated support. The value to the Government as a contribution to retention and recruitment, physical and mental health, morale, and esprit de corps is difficult to measure and may be less than other inducements.

Regarding the latter argument, a study done for the Navy in 1975 concluded that recreation programs were cost effective--that is, each dollar spent for recreation saved more than a dollar in recruiting and training costs or extra compensation that did not have to be paid to retain personnel. We evaluated that study, and we disagree with

its conclusions. Important assumptions used in the study were either not supported by empirical data or have been generally rejected by behavioral scientists for many years. Basically, a much more advanced technology than used in this study is required to make strong statements about causes of human behavior.

Study group position

In consideration of the above arguments the study group, in its draft report, took the position that "the U.S. Government should provide support only for indispensable or essential programs and--beyond these--only to the extent that service personnel cannot reasonably be expected to contribute."

Using the proposed Directive 1330.2 the study group went through the detailed costs accumulated by the demographic survey and determined what effect the proposed directive would have on present funding practices. The result was that of the \$532 million in reported appropriated fund support, \$27 million (5 percent) would no longer be authorized. This is a tentative figure depending on the accuracy of the data; however, it represents a general assessment of the impact on MWR programs. The largest proposed reductions were for personnel, followed by supplies, utilities, and equipment. Generally, reductions would fall mostly on resale aspects of MWR with some offsetting increases in the "essential" category such as libraries, intramural sports, arts and crafts, etc.

We believe the study group's approach and rationale are reasonable, and that there are further factors, mentioned by the study group and recognized by the 1951 Presidential study, that should be used to determine the allocation of resources. For example, as cited previously the proximity of military installations to urban areas is a factor that is to be considered when establishing an MWR activity. However, no guidelines were set forth as to how urban areas were to be considered, and once an activity is established the proximity of similar activities off base does not enter into the decision whether to use appropriated or nonappropriated funds to operate the activity. Thus a military MWR activity near a similar establishment in a city is entitled to as much appropriated support as the same MWR activity in a remote area. An exception is that utilities may not be furnished to "revenue-producing" recreation activities in metropolitan areas. If maximum benefit is to be gotten from available funds, they should not be used to

duplicate similar activities off the base. Funds saved, including nonappropriated fund subsidies, could be used for activities that are truly essential because of the scarcity of other leisure-time opportunities. Currently there is not enough detailed information to precisely estimate how much appropriated fund support is given to MWR programs for which there are alternatives off base. Indications are that it is a significant part of the \$532 million reported for fiscal year 1976. We estimate that nearly half of the military installations in the continental United States are in or adjacent to urban areas. 1/ These same installations had about 45 percent of the military population in the continental United States, thus indicating that a substantial number of military personnel have access to private sector facilities.

The study group also recognized an oversimplification in giving one priority ranking to an entire MWR activity. The sale of basic necessities by an exchange may be indispensable in some foreign countries or remote areas, but the sale of jewelry, furs, or stereo sets by the same exchange is not as important. Similarly, a reason for labeling open messes as essential and giving them appropriated support is that they may provide messing facilities not otherwise available. Nonetheless, an open mess may also include cocktail lounges, game rooms, banquet rooms, ballrooms, barber shops, and golf clubhouses, all of which under present guidelines can receive as much support for major expense items as the essential mess function. The proposed guidelines are somewhat improved because they would prohibit using appropriated funds for some expenses of the nonessential open mess functions. However, many costs, utilities for example, can still be funded with appropriations for entire open messes as long as they are judged to be essential feeding facilities.

In 1967, 1968, and 1975, we criticized the provision of free utilities under this policy especially when officers' open messes were designated as essential messing facilities without apparent justification. (See app. IV.)

1/Based on an analysis of installation demographic survey returns, installation population data published by DOD, and Bureau of the Census data on urbanized areas.

On these matters, the 1951 Presidential committee which strongly endorsed Government support of free-time activities made a clear distinction between the nature of things that are truly essential and should be funded, and things that are not. Exchanges were judged to be indispensable, but only to the extent that they provided a sales area and snack bar where troops could buy basic needs and socialize. This was distinguished from the "department store type" post exchange which caters mostly to families and according to the committee should be considered indispensable only where there are no commercial facilities nearby (remote U.S. areas and overseas).

The committee also recognized that officer and noncommissioned officer clubs were desirable and should possibly be constructed with appropriated funds at isolated bases. But it also noted aspects of these clubs that should not be charged to the public purse in stating, "However, we certainly do not believe the public should be asked to support, in any manner, such luxurious facilities of this type as may be found on many large installations in this country."

Use of military personnel

One of the largest MWR appropriated fund expense items is for military personnel. As with other elements of support, specific guidance on the use of military personnel is lacking, which has led to varying practices among the services. Longstanding DOD policy (Directive 1315.10) states that civilians shall be used to staff MWR activities to the maximum extent. But military personnel may be used (1) when civilians aren't available, (2) for executive control and essential command supervision, and (3) for purposes of military rotation, training, and career progression that can't be provided elsewhere.

Despite the restrictive tone of this guidance, we have reported several times over many years that widespread assignment of military personnel to nonmilitary activities is common practice. 1/ Despite general agreements by DOD that the services aren't always obeying the guidelines, the practice appears to be even more prevalent than in the past. In 1965, we estimated that over 5,000 enlisted personnel were assigned to most types of MWR activities. The demographic survey indicated that in 1976, when fewer military members were on active duty, over 12,100 enlisted personnel were

1/See app. IV for a summation of our past reports on military activities and DOD's responses.

assigned to MWR plus about 2,700 officers. The reported cost of military personnel was \$134 million, substantially more than for appropriated fund civilians. In numbers, military personnel are 70 percent of the appropriated fund work force.

We doubt that the OMB/DOD study group's proposed guidelines will curtail this practice because a proposed revision of Directive 1315.10 contains the same three exemptions allowing military personnel to be used--and in past reviews we've found these exemptions are not closely observed.

We also doubt the validity of those exemptions, particularly with regard to civilians not being available to run MWR programs or that large numbers of military personnel are needed for rotation, training, executive control, and command supervision. By way of illustration, the Army and Air Force Exchange Service is the largest and probably most widespread and sophisticated of all nonappropriated fund instrumentalities. DOD has also given exchanges the highest priority in terms of essentiality. Despite the complexity of the Exchange Service and the importance attached to it, it operates very successfully with far fewer military members than any other MWR program. According to the demographic survey of the Exchange Service's 61,000 employees, 133 are military members. That is a ratio of 1 military person out of every 460 employees. Other MWR programs compare as follows:

<u>Program</u>	<u>Number of military employees</u>	<u>Number of total employees</u>	<u>Ratio of military employees to total</u>
Navy exchanges	363	21,051	1:58
Marine Corps exchanges	317	5,365	1:17
Other resale and revenue-sharing activities	428	7,240	1:17
Open messes	2,792	52,455	1:19
Other membership activities	178	2,195	1:12
Military general recreation	9,068	43,182	1:5

Better use could be made of the military skills of these personnel if they were instead assigned to military activities. Based on our past several reviews we believe that many military personnel are assigned to MWR programs because they are a source of manpower that is free to the using

activity. The practice in some cases went to the extent of using enlisted personnel for MWR who had critical skill specialties--those that were in short supply in tactical units or in the respective military services.

CONCLUSIONS

We agree with the proposed recommendation of the OMB/DOD study group that the Government should support only the most necessary programs. At issue are the subjective judgments involved and the appropriateness of treating certain programs as always eligible for a set level of support no matter where they are located or no matter whether a substantial number of those programs have low priority.

The reasons for having MWR programs do not rule out the legitimate question of who should pay for them, the user or the Government--particularly since military pay is now competitive and MWR services provided on military installations are in almost all cases more than what is found in civilian communities or offered by private employers and other Government agencies.

According to the demographic survey the Government directly supports 25 percent of MWR cost, or \$532 million in fiscal year 1976. The study group proposed changes, both increases and decreases, that overall should reduce this to about 24 percent. A lesser level of support is justified if appropriated funds are to be used for only essential and indispensable activities.

We feel that a realistic appraisal of the use of nearly 15,000 military personnel in MWR programs would show that many if not most personnel are not needed for the three purposes set out in Directive 1315.10. DOD's longstanding policy that civilians should be used to the maximum extent has not been followed for several years, and we doubt that assignment practices will change if the proposed revisions to Directive 1315.10 are adopted. More specific guidance is needed from the Office of the Secretary of Defense, using as a basis the role of military personnel in the Army and Air Force Exchange Service. 1/

1/In July 1977, subsequent to the preparation of this report, the conference committee on the fiscal year 1978 Defense appropriation bill restricted the number of military personnel that can be used in nonappropriated fund activities to 10,201 full time and 2,603 part time, a reduction of 1,750 full time and 250 part time from the number assigned during fiscal year 1976. The committee directed that Department of Defense Directive 1315.10 be revised and that the directive emphasize the maximum use of nonappropriated fund civilians instead of military personnel.

RECOMMENDATIONS TO THE
SECRETARY OF DEFENSE

We recommend that the Secretary of Defense direct that:

- DOD Directive 1330.2 be revised to preclude support to (1) activities that are not indispensable or essential by virtue of their proximity to similar activities in the private sector and (2) nonessential aspects of MWR activities that do in part provide some essential service.
- DOD Directive 1315.10 be revised to authorize military staffing of MWR activities only where civilian employees are not available and in no case to authorize a greater proportion of military personnel working in the Army and Air Force Exchange Service. The nonavailability of civilian personnel should be thoroughly justified under tight guidelines.

CHAPTER 5

FEASIBILITY OF MAKING MWR ACTIVITIES

SELF-SUPPORTING AND FUNDING ALTERNATIVES

If the problems noted in chapter 3, particularly those relating to inadequate accounting, are corrected, we see no technical reason why appropriated fund costs of MWR activities cannot in large part be assumed by the activities. With adequate accounting systems, guidance, and standard methods of computing estimates, most direct costs can be identified. Problems arise, however, when trying to estimate the cost of common support such as security inspections, pest control, police and fire protection, and top command supervision. It may be counter-productive to identify and allocate such costs when their total value may be less than the time and energies expended to identify them.

If MWR activities were required to pay for measurable appropriated fund support they receive, nonappropriated fund revenues would have to be increased for activities to continue at present levels. The study group, based on the survey data, estimated the needed increase at about 11 percent (\$532 million in appropriated support compared with nonappropriated revenues of \$5 billion). Adding understatements of appropriated support that we identified (\$94 million, see p. 29) results in a needed increase of about 13 percent. Remaining undetected errors in the data would of course change this percentage (but it would take a \$50 million error to change it 1 percent).

Military resale outlets have substantial potential for generating additional nonappropriated funds. Direct sales by the exchanges were \$3.7 billion during their fiscal year ended in January 1976. Selling prices in the exchanges average 23.5 to 25.5 percent less than in commercial stores (20-22 percent less for the merchandise and 3.5 percent, on the average, for sales taxes not collected). This means that exchange customers saved from \$1.1 to \$1.3 billion by not using the private sector, or about twice the \$600 million plus in appropriated fund support given to all MWR activities.

Exchange prices could be increased to yield substantially more profits to MWR and at the same time remain below prices in commercial stores. For instance, the

study group noted that exchanges could fund the \$273 million appropriated fund cost of all military general recreation (MWR category III) by increasing exchange revenues (prices) by 7.8 percent, assuming no loss of revenue. This would still leave savings in the exchanges of 16-18 percent below commercial prices, again assuming constant sales volume. But exchanges should not necessarily have to shoulder the cost of all other MWR programs. Many activities charge fees and dues which could be brought more into line with operating costs. DOD officials believe that if exchanges are called upon to provide significantly more nonappropriated funds, congressional restrictions on the type and value of goods exchanges may sell in the United States would have to be removed.

DOD resale and related activities as a whole, including eight MWR categories and commissaries, receive well over \$1 billion annually in direct and indirect subsidies--\$900 million for operating support and \$400 million through exemption from State and local sales, tobacco, and beverage taxes; they receive undetermined amounts of additional indirect subsidies from local, State, and Federal income tax exemptions and from the free use of real estate. Subsidies of this magnitude have permitted these programs to become substantial economic entities capable of assuming more of their costs, with over \$8 billion of revenue generated annually.

FUNDING PROPOSALS

As discussed in chapter 2, congressional committees have since 1949 stated that MWR ought to be funded primarily with appropriated funds, but at the same time considered it impractical to do so; and in fact DOD never requested full funding support for the programs. As a result, resale activities generate revenue to support other MWR and have the capability to provide more support. At the same time, as discussed in chapter 4, the Government should support essential aspects of MWR.

RECOMMENDATIONS TO THE CONGRESS

As alternatives to the OMB/DOD study group proposals, we believe two separate funding guidelines are feasible, one of which should be legislated by the Congress:

1. Appropriated funds should be provided at all locations, but only for the operation of the kinds of public community activities such as libraries, athletic fields, tennis courts,

swimming pools, etc., on the same basis as they are provided in the nearest urbanized area as designated by the Bureau of the Census.

2. Appropriated fund support of MWR should be eliminated at installations in or adjacent to urban areas in the United States when adequate community facilities exist. Away from urban areas, funds should be appropriated for commonly provided community facilities mentioned in item 1 above in the nearest urban area. Such activities could also be supported at places in urban areas upon case-by-case certification by the Office of the Secretary of Defense that available community facilities are in fact inadequate for use by military personnel. Installations in foreign countries should receive a dollar level of support comparable to installations in remote areas of the United States.

Under either alternative the Congress should

- continue appropriated fund support for common base services whose MWR costs are not feasible to identify, and
- prohibit the use of funds for military staffing of MWR programs unless civilian employees are not available. The Army and Air Force Exchange Service has demonstrated that civilian staffing is possible throughout the world, and we believe the current ratio of its military personnel to total staffing should be a standard which it and other MWR activities should not be permitted to exceed.

LOCATIONS VISITED

Headquarters, DOD:

- Office of the Secretary of Defense
- Department of the Army
- Department of the Air Force
- Department of the Navy
- Commandant of the Marine Corps

Major commands:

- Headquarters, U.S. Army Forces Command, Fort McPherson, Georgia
- Headquarters, Pacific Air Forces Command, Hickman Air Force Base, Hawaii
- Headquarters, U.S. Atlantic Fleet, Norfolk, Virginia

Other:

- Joint OMB/DOD Study Group, Washington, D.C.

Installations:

Army:

- Fort Hood, Texas
- Fort McPherson, Atlanta, Georgia
- Fort Sam Houston, San Antonio, Texas
- Fort Shafter, Hawaii
- Fulda Military Community, West Germany

Air Force:

- Edwards Air Force Base, California
- Kadena Air Base, Okinawa, Japan
- Torrejon Air Base, Spain

Navy:

- U.S. Naval Base, Charleston, South Carolina
- U.S. Naval Station, Charleston, South Carolina
- U.S. Naval Air Station, Miramar, California
- U.S. Naval Training Center, Orlando, Florida
- U.S. Naval Station, Rota, Spain

Marine Corps:

- Marine Corps Air Station, Beaufort, South Carolina
- Marine Corps Air Station, Yuma, Arizona

SUMMARIES OF FISCAL YEAR 1976 APPROPRIATED FUND SUPPORT FOR MILITARY MWR
ACCORDING TO DOD INSTRUCTION 7000.12 SUBMISSIONS CATEGORIES (note a)

	All Services							Activity management	Total
	Exchanges	Other resale & revenue-producing activities	Military general welfare & recreation	Civil employee general welfare & recreation	Open messes	Other member associations	Common support		
Cost/expenses									
Military Personnel	\$ 5,284,000	\$ 762,000	\$ 63,037,000	\$ 12,000	\$ 39,810,000	\$ 956,000	\$10,329,000	\$14,062,000	\$134,252,000
Civilian personnel	68,000	474,000	71,658,000	140,000	10,915,000	567,000	10,837,000	5,898,000	100,557,000
Travel and transportation of people	85,000	-	-	-	-	-	-	-	-
Transportation of things	73,178,000	755,000	-	-	3,885,000	-	-	-	85,000
Rents and utilities	12,693,000	1,327,000	32,669,000	67,000	17,874,000	967,000	701,000	6,401,000	77,818,000
Communications	64,000	-	-	-	-	-	-	-	72,699,000
Supplies	132,000	99,000	17,798,000	8,000	1,768,000	46,000	3,446,000	-	64,000
Equipment	43,000	118,000	3,008,000	-	840,000	11,000	853,000	1,125,000	24,422,000
Services	6,002,000	491,000	25,368,000	17,000	7,399,000	679,000	4,295,000	144,000	5,017,000
Maintenance of real property	210,000	58,000	738,000	-	1,024,000	-	-	-	44,251,000
Other	1,304,000	210,000	8,760,000	78,000	4,054,000	44,000	992,000	123,000	2,153,000
Capital support	3,799,000	1,070,000	18,297,000	32,000	9,407,000	522,000	529,000	875,000	16,317,000
Total	102,862,000	5,364,000	241,333,000	354,000	96,976,000	3,792,000	35,715,000	27,985,000	514,381,000
Revised total (note b)	\$107,881,000	\$5,417,000	\$244,882,000	\$364,000	\$100,270,000	\$3,800,000	\$34,347,000	\$29,764,000	\$526,725,000

a/See app. VI for category definitions.

b/See Navy and Marine Corps footnotes on pp. 49 and 50.

APPENDIX II

APPENDIX II

	Army								
Cost/expenses	Exchanges	Other resale & revenue-producing activities	Military general welfare & recreation	Civil employee general welfare & recreation	Open messes	Other member associations	Common support	Activity management	Total
Military personnel	\$ 1,019,000	\$ 447,000	\$ 24,713,000	\$ -	\$ 11,253,000	\$ 953,000	\$ 611,000	\$ 5,234,000	\$ 44,230,000
Civilian personnel	-	290,000	42,218,000	65,000	1,970,000	502,000	864,000	4,666,000	50,575,000
Travel and transportation of people	85,000	-	-	-	-	-	-	-	85,000
Transportation of things	57,821,000	755,000	-	-	2,368,000	-	-	-	60,944,000
Rents and utilities	9,043,000	1,008,000	12,337,000	4,000	6,332,000	724,000	203,000	5,804,000	35,455,000
Communications	64,000	-	-	-	-	-	-	-	64,000
Supplies	94,000	55,000	10,163,000	3,000	331,000	41,000	30,000	723,000	11,440,000
Equipment	14,000	3,000	865,000	-	162,000	1,000	4,000	68,000	1,117,000
Services	6,002,000	334,000	-	17,000	-	-	-	-	6,353,000
Maintenance of real property	-	-	-	-	-	-	-	-	-
Other	348,000	28,000	3,398,000	-	43,000	24,000	20,000	407,000	4,268,000
Capital support	3,642,000	758,000	8,775,000	-	2,863,000	411,000	72,000	2,984,000	19,505,000
Total	\$78,132,000	\$3,678,000	\$102,469,000	\$89,000	\$25,322,000	\$2,656,000	\$1,904,000	\$19,886,000	\$234,036,000

APPENDIX II

APPENDIX II

Cost/expenses	Air Force						
	Exchanges	Other resale & revenue-producing activities	Military general welfare & recreation	Civil employee general welfare & recreation	Open messes	Other member associations	Common support
	(a)			(a)			
Military Personnel		\$ -	\$19,128,000		\$ 8,909,000	\$ -	\$12,277,000
Civilian personnel		-	21,792,000		2,150,000	-	9,616,000
Travel and transportation of people		-	-		-	-	-
Transportation of things		-	-		-	-	-
Rents and utilities	76,000		9,488,000		4,934,000	223,000	429,000
Communications	-		-		-	-	-
Supplies	-		5,108,000		391,000	4,000	3,354,000
Equipment	-		976,000		1,12,000	1,000	809,000
Services	157,000		25,368,000		7,399,000	679,000	4,295,000
Maintenance of real property	-		-		-	-	-
Other	-		1,595,000		540,000	13,000	788,000
Capital support	73,000		6,934,000		4,239,000	105,000	288,000
Total	\$306,000		\$90,389,000		\$28,714,000	\$1,025,000	\$31,856,000
a/See Army chart.							\$152,290,000

APPENDIX II

APPENDIX II

<u>Navy</u>									
	<u>Exchanges</u>	<u>Other resale & revenue-producing activities</u>	<u>Military general welfare & recreation</u>	<u>Civil employee general welfare & recreation</u>	<u>Open messes</u>	<u>Other member associations</u>	<u>Common support</u>	<u>Activity management</u>	<u>Total</u>
<u>Cost/expenses</u>									
Military personnel	\$ 4,265,000	\$ 126,000	\$12,841,000	\$ 12,000	\$15,576,000	\$ 2,000	\$141,000	\$5,095,000	\$ 38,058,000
Civilian personnel	68,000	184,000	5,959,000	75,000	6,116,000	35,000	205,000	1,232,000	13,874,000
Travel and transportation of people	-	-	-	-	-	-	-	-	-
Transportation of things	15,357,000	-	-	-	1,517,000	-	-	-	16,874,000
Rents and utilities	3,650,000	234,000	9,563,000	63,000	6,156,000	8,000	13,000	597,000	20,284,000
Communications	-	-	-	-	-	-	-	-	-
Supplies	38,000	39,000	1,524,000	5,000	904,000	1,000	7,000	402,000	2,920,000
Equipment	29,000	114,000	554,000	-	440,000	1,000	5,000	76,000	1,219,000
Services	-	-	-	-	-	-	-	-	-
Maintenance of real property	210,000	58,000	738,000	-	1,024,000	-	-	123,000	2,153,000
Other	956,000	175,000	2,816,000	78,000	3,022,000	6,000	97,000	469,000	7,618,000
Capital support	157,000	206,000	2,399,000	32,000	1,899,000	-	-	106,000	4,799,000
Total	24,730,000	1,136,000	36,394,000	265,000	36,654,000	53,000	468,000	8,099,000	107,799,000
Revised total (note a)	\$25,828,000	\$1,189,000	\$39,820,000	\$275,000	\$38,792,000	\$60,000	\$400,000	\$9,641,000	\$116,005,000

a/Due to significant variances between 1976 budgeted data and 7000.12 data, the Navy conducted a review to reconcile the data variances. The results of their review did not break down the amounts by cost captions; therefore we were unable to distribute the revised amounts by costs.

APPENDIX II

APPENDIX II

Marine Corps

<u>Cost/expenses</u>	<u>Exchanges</u>	<u>Other resale & revenue-producing activities</u>	<u>Military general welfare & recreation</u>	<u>Civil employee general welfare & recreation</u>	<u>Open messes</u>	<u>Other member associations</u>	<u>Common support</u>	<u>Activity management (note a)</u>	<u>Total</u>
<u>Military personnel</u>	\$ -	\$189,000	\$ 6,355,000	\$ -	\$ 4,072,000	\$ 1,000	\$1,033,000	\$ -	\$11,650,000
<u>Civilian personnel</u>	-	-	1,689,000	-	679,000	30,000	152,000	-	2,550,000
<u>Travel and transportation of people</u>	-	-	-	-	-	-	-	-	-
<u>Transportation of things</u>	-	-	-	-	-	-	-	-	-
<u>Rents and utilities</u>	-	9,000	1,281,000	-	452,000	12,000	56,000	-	1,810,000
<u>Communications</u>	-	-	-	-	-	-	-	-	-
<u>Supplies</u>	-	5,000	1,003,000	-	142,000	-	55,000	-	1,205,000
<u>Equipment</u>	-	1,000	613,000	-	86,000	8,000	35,000	-	743,000
<u>Services</u>	-	-	-	-	-	-	-	-	-
<u>Maintenance of real property</u>	-	-	-	-	-	-	-	-	-
<u>Other</u>	-	7,000	951,000	-	449,000	1,000	87,000	-	1,495,000
<u>Capital support</u>	-	33,000	189,000	-	406,000	6,000	169,000	-	803,000
<u>Total</u>	-	244,000	2,081,000	-	6,286,000	58,000	1,587,000	-	20,256,000
<u>Revised total (note b)</u>	\$3,921,000	\$244,000	\$12,204,000	\$ -	\$7,442,000	\$59,000	\$ 287,000	\$ 237,000	\$24,394,000

a/Not reported.

b/ Due to significant variances between 1976 budgeted data and 7000.12 data, the Marine Corps conducted a review to reconcile the data variances. The results of their review did not break down the amounts by cost captions; therefore we were unable to distribute the revised amounts by costs.

COMPARISON OF APPROPRIATED FUND COSTS REPORTEDBY INSTALLATIONS TO THOSE VERIFIED BY GAOU.S. Army Forces Command, Atlanta, Georgia7-1-75 to 7-31-76

<u>Element of expense</u>	<u>DOD Instruction 7000.12</u>		<u>Demographic survey</u>	
	<u>Reported</u>	<u>Verified by GAO (note a)</u>	<u>Reported</u>	<u>Verified by GAO (note a)</u>
Military personnel	\$ 19,500	\$ 32,900	\$ 18,900	\$ 32,900
Civilian personnel	160,335	312,950	239,800	284,500
Supplies and equip- ment	7,312	6,291	3,800	6,300
Utilities and rents	-	2,890	-	2,900
Communications	-	2,657	1,400	2,700
Real property repair and maintenance	-	3,900	-	3,900
Transportation of persons, travel, and training	-	-	15,200	16,500
Transportation of things	17,526	16,352	-	-
Investment equip- ment	-	-	-	-
Other	-	7,356	-	7,400
Total	\$204,673	\$385,296	\$279,100	\$357,100
		\$-180,623		\$-78,000

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Fort Hood, Texas

<u>Element of expense</u>	<u>DOD Instruction 7000.12</u>		<u>Demographic survey</u>		<u>Difference</u> (b)
	<u>Reported</u>	<u>Verified by GAO (note a)</u>	<u>Difference</u>	<u>Reported</u>	
Military personnel	\$2,222,396	\$2,948,849	\$ -726,453	\$2,419,400	(b)
Civilian personnel	1,019,449	1,126,989	-107,540	999,400	
Supplies and equipment	294,186	411,006	-116,820	281,600	
Utilities and rents	314,703	314,703	-	259,800	
Communications	3,560	77,208	-73,648	19,200	
Real property repair and maintenance	191,998	198,522	-6,524	188,000	
Transportation of persons, travel, and training	3,060	3,060	-	2,900	
Transportation of things	1,587	1,587	-	1,600	
Investment equipment	18,889	18,889	-	5,500	
Other	6,393	185,601	-179,208	14,100	
Total	\$4,076,221	\$5,286,414	\$-1,210,193	\$4,191,500	

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

b/Lack of supporting documents precluded verification.

Fort McPherson, Atlanta, Georgia7-1-75 to 3-31-76

<u>Element of expense</u>	<u>DOD Instruction 7000.12</u>			<u>Demographic survey</u>		
	<u>Reported</u>	<u>GAO</u> <u>(note a)</u>	<u>Differ-</u> <u>ence</u>	<u>Reported</u>	<u>GAO</u> <u>(note a)</u>	<u>Differ-</u> <u>ence</u>
Military personnel	\$234,689	\$ 236,557	\$-1,868	\$254,300	\$ 299,975	\$ -45,675
Civilian personnel	358,400	365,217	-6,817	337,000	424,387	-87,387
Supplies and equip-						
ment	8,784	6,881	1,903	4,400	10,840	-6,440
Utilities and rents	116,488	b/116,488	-	119,600	b/119,600	-
Communications	16,692	9,261	7,431	14,700	9,621	5,079
Real property re-						
pair and mainte-						
nance	206,654	b/231,318	-24,664	187,200	217,371	-30,171
Transportation of						
persons, travel,						
and training	200	200	-	200	200	-
Transportation of						
things	-	-	-	-	-	-
Investment equip-						
ment	-	-	-	-	-	-
Other	2,000	62,655	-60,655	1,100	14,562	-13,462
Total	\$943,907	\$1,028,577	\$-84,670	\$918,500	\$1,096,556	\$-178,056

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

b/Reported amount was known to be inaccurate, but exact amount could not be identified.

Fort Sam Houston, San Antonio, Texas

<u>Element of expense</u>	<u>DOD Instruction 7000.12</u>		<u>Demographic survey</u>	
	<u>Reported</u>	<u>Verified by GAO (note a)</u>	<u>Reported</u>	<u>Verified by GAO (note a)</u>
Military personnel	\$ 581,601	\$ 591,078	\$ 536,000	(b)
Civilian personnel	520,203	533,514	483,300	(b)
Supplies and equipment	113,687	179,876	110,500	
Utilities and rents	243,397	243,397	249,200	
Communications	15,301	15,301	16,200	
Real property repair and maintenance	-	23,885	40,000	
Transportation of persons, travel, and training	18,535	18,535	18,700	
Transportation of things	1,200	1,200	-	
Investment equipment	-	-	-	
Other	51,623	118,188	22,000	
Total	\$1,545,547	\$1,724,974	\$1,475,900	

a/Our calculations represent only known costs and may not be 100-percent inclusive.
 Absence of data means that costs were not reported or were not verified by us.

b/Lack of supporting documents precluded verification.

U.S. Army Support Command, Fort Shafter, Hawaii7-1-75 to 3-31-76

<u>Element of expense</u>	<u>DOD Instruction 7000.12</u>		<u>Demographic survey</u>			
	<u>Reported</u>	<u>Verified by GAO (note a)</u>	<u>Differ- ence</u>	<u>Reported</u>	<u>Verified by GAO (note a)</u>	<u>Differ- ence</u>
Military personnel	\$1,126,273	\$1,397,107	\$-270,834	\$ 591,500	\$1,397,107	\$-805,607
Civilian personnel	919,124	1,199,434	-280,310	864,700	1,199,434	-334,734
Supplies and equip- ment	409,055	443,724	-34,669	1,122,200	443,724	678,476
Utilities and rents	324,017	548,759	-224,742	343,100	548,759	-205,659
Communications	17,804	17,804	-	25,700	17,804	7,896
Real property re- pair and mainte- nance	366,381	395,323	-28,942	321,500	395,323	-73,823
Transportation of persons, travel, and training	-	-	-	-	-	-
Transportation of things	2,640	2,640	-	-	2,640	-2,640
Investment equip- ment	20,284	20,284	-	15,600	20,284	-4,684
Other	323,575	313,808	9,767	135,700	313,808	-178,108
Total	<u>\$3,509,153</u>	<u>\$4,338,883</u>	<u>\$-829,730</u>	<u>\$3,420,000</u>	<u>\$4,338,883</u>	<u>\$-918,883</u>

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Fulda Military Community, West Germany7-1-75 to 3-31-76

Element of expense	DOD Instruction 7000.12			Demographic survey		
	Reported	GAO (note a)	Differ- ence	Reported	GAO (note a)	Differ- ence
Militar. personnel	\$110,010	\$169,250	\$-59,240	\$179,700	\$169,250	\$ 10,450
Civilian personnel	126,630	78,872	47,758	76,500	78,872	-2,372
Supplies and equip- ment	65,735	52,367	13,368	29,700	52,367	-22,667
Utilities and rents	204,597	194,215	10,382	169,200	194,215	-25,015
Communications	-	91	-91	3,400	91	3,309
Real property re- pair and mainte- nance	100,064	109,105	-9,041	80,500	109,105	-28,605
Transportation of persons, travel, and training	5,675	21,307	-15,632	3,100	7,759	-4,659
Transportation of things	-	-	-	-	-	-
Investment equip- ment	-	-	-	-	-	-
Other	-	76,273	-76,273	-	76,273	-76,273
Total	<u>\$612,711</u>	<u>\$701,480</u>	<u>\$-88,769</u>	<u>\$542,100</u>	<u>\$687,932</u>	<u>\$-145,832</u>

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Torrejon Air Base, Spain7-1-75 to 3-31-76

Element of expense	DOD Instruction 7000.12		Demographic survey			
	Reported	Verified by GAO (note a)	Differ- ence	Reported	Verified by GAO (note a)	Differ- ence
Military personnel	\$200,009	\$200,009	\$ -	\$124,500	\$200,009	\$ -75,509
Civilian personnel	163,312	223,312	-60,000	24,800	223,312	-198,512
Supplies and equip- ment	111,106	111,106	-	16,500	111,106	-94,606
Utilities and rents	118,431	118,431	-	15,000	118,431	-103,431
Real property re- pair and mainte- nance	131,044	131,044	-	9,700	131,044	-121,344
Transportation of persons, travel, and training	1,785	1,785	-	6,700	1,785	4,915
Transportation of things	-	-	-	-	-	-
Total	<u>\$725,687</u>	<u>\$785,687</u>	<u>\$-60,000</u>	<u>\$197,200</u>	<u>\$785,687</u>	<u>\$-588,487</u>

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Pacific Air Forces, Hawaii7-1-75 to 3-31-76

<u>Element of expense</u>	<u>DOD Instruction 7000.12</u>		<u>Demographic survey</u>	
	<u>Reported</u>	<u>Verified by GAO (note a)</u>	<u>Reported</u>	<u>Verified by GAO (note a)</u>
Military personnel	\$188,800	\$188,800	\$188,000	\$188,800
Civilian personnel	92,300	92,300	65,300	92,300
Supplies and equipment	1,400	1,400	1,400	1,400
Utilities and rents	2,600	2,600	2,600	2,600
Communications	4,500	4,500	4,500	4,500
Real property repair and maintenance	-	-	-	-
Transportation of persons, travel, and training	36,700	36,700	14,400	36,700
Transportation of things	-	-	-	-
Investment equipment	-	-	-	-
Other	1,500	1,500	2,000	1,500
Total	<u>\$327,800</u>	<u>\$327,800</u>	<u>\$278,200</u>	<u>\$327,800</u>
		\$ -		\$ -49,600

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Edwards Air Force Base, California

7-1-75 to 6-30-76

APPENDIX III

Element of expense	DOD Instruction 7000.12		Demographic survey	
	Reported	Verified by GAO (note a)	Reported	Verified by GAO (note a)
Military personnel	\$ 248,848	\$ 248,848	\$ 276,100	\$ 298,400
Civilian personnel	289,253	259,362	256,700	257,200
Supplies and equipment	121,486	107,346	112,500	127,700
Utilities and rents	669,599	669,203	625,700	620,600
Communications	2,910	2,363	2,700	3,200
Real property repair and maintenance	360,048	370,889	391,200	384,000
Transportation of persons, travel, and training	14,656	3,053	3,100	8,900
Transportation of things	-	-	-	-
Investment equipment	-	-	3,300	3,300
Other	5,846	19,160	14,000	5,200
Total	1,712,651	1,680,224	\$1,685,300	\$1,708,500
Capital investment (facilities)	35,919	22,526	-	-
Total	\$1,748,570	\$1,702,750	\$1,685,300	\$1,708,500

APPENDIX III

Element of expense	DOD Instruction 7000.12		Demographic survey	
	Reported	Verified by GAO (note a)	Reported	Verified by GAO (note a)
Military personnel	\$ 248,848	\$ 248,848	\$ 276,100	\$ 298,400
Civilian personnel	289,253	259,362	256,700	257,200
Supplies and equipment	121,486	107,346	112,500	127,700
Utilities and rents	669,599	669,203	625,700	620,600
Communications	2,910	2,363	2,700	3,200
Real property repair and maintenance	360,048	370,889	391,200	384,000
Transportation of persons, travel, and training	14,656	3,053	3,100	8,900
Transportation of things	-	-	-	-
Investment equipment	-	-	3,300	3,300
Other	5,846	19,160	14,000	5,200
Total	1,712,651	1,680,224	\$1,685,300	\$1,708,500
Capital investment (facilities)	35,919	22,526	-	-
Total	\$1,748,570	\$1,702,750	\$1,685,300	\$1,708,500

a/Our calculations represent only known costs and may not be 100-percent inclusive. Absence of data means that costs were not reported or were not verified by us.

Kadena Air Base, Japan7-1-75 to 6-30-76

Element of expense	DOD Instruction 7000.12		Demographic survey		Difference
	Reported	Verified by GAO (note a)	Reported	Verified by GAO (note a)	
Military personnel	\$ 372,700	\$ 372,700	\$ 473,700	\$ 372,700	\$ 101,000
Civilian personnel	319,800	319,800	402,600	319,800	82,800
Supplies and equipment	141,700	141,700	140,100	141,700	-1,600
Utilities and rents	433,600	701,471	366,300	701,471	-335,171
Communications	4,100	4,100	3,700	4,100	-400
Real property repair and maintenance	765,400	966,941	456,000	966,941	-510,941
Transportation of persons, travel, and training	4,900	4,900	3,600	4,900	-1,300
Transportation of things	-	8,327	-	-	-
Investment equipment	6,300	6,300	10,700	6,300	4,400
Other	4,800	91,015	6,300	91,015	-84,715
Total	\$2,053,300	\$2,617,254	\$1,863,000	\$2,608,927	\$-745,927

a/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Naval Station, Charleston, South Carolina

Element of expense	DOD Instruction 7000.12 (note a)			Demographic survey		
	Reported	Verified by GAO (note b)	Differ- ence	Reported	Verified by GAO (note b)	Differ- ence
Military personnel	\$39,335	\$ 288,268	\$ -248,933	\$ 44,100	\$209,600	\$-165,500
Civilian personnel	11,283	261,270	-249,987	184,200	192,900	-8,700
Supplies and equip- ment	3,273	46,716	-43,443	38,100	55,700	-17,600
Utilities and rents	-	21,702	-21,702	56,100	19,700	36,400
Communications	-	18,996	-18,996	9,900	15,000	-5,100
Real property re- pair and mainte- nance	-	236,042	-236,042	132,600	156,100	-23,500
Transportation of persons, travel, and training	-	901	-901	900	900	-
Transportation of things	-	-	-	-	-	-
Investment equip- ment	-	-	-	-	-	-
Construction	-	130,800	-130,800	-	98,100	-98,100
Other	10,495	66,696	-56,201	39,800	16,300	23,500
Total	\$64,386	\$1,071,391	\$-1,007,005	\$505,700	\$764,300	\$-258,600

a/Represents FY 1976. All other data represents first three quarters of FY 1976.

b/Our calculations represent only known costs and may not be 100-percent inclusive.

Absence of data means that costs were not reported or were not verified by us.

APPENDIX III

Naval Air Station, Miramar, California

Element of expense	DOD Instruction 7000.12 (note a)		Demographic survey		Difference	
	Reported	Verified by GAO (note b)	Difference	Reported		Verified by GAO (note b)
Military personnel	\$569,111	\$179,756	\$389,355	\$112,000	\$141,800	\$-29,800
Civilian personnel	32,827	19,671	13,156	15,800	17,100	-1,300
Supplies and equipment	35,136	10,914	24,222	7,600	7,500	100
Utilities and rents	218,418	200,618	17,800	115,600	138,200	-22,600
Communications	-	-	-	8,100	6,600	1,500
Real property repair and maintenance	70,161	88,717	-18,556	35,000	70,200	-35,200
Transportation of persons, travel, and training	-	-	-	-	-	-
Transportation of things	-	-	-	-	-	-
Investment equipment	-	-	-	-	-	-
Other	37,239	16,925	20,314	39,100	12,500	26,600
Total	962,892	516,601	446,291	333,200	393,900	-60,700

Capital investment (facilities)

Total

-	23,712	-23,712	-	-	-
\$962,892	\$540,313	\$422,579	\$333,200	\$393,900	\$-60,700

a/Represents FY 1976. All other data represents first three quarters of FY 1976.

b/Our calculations represent only known costs and may not be 100-percent inclusive. Absence of data means that costs were not reported or were not verified by us.

APPENDIX III

APPENDIX III

Naval Training Center, Orlando, Florida

Element of expense	DOD Instruction 7000.12 (note a)		Demographic survey		Difference	
	Reported	Verified by GAO (note b)	Difference	Reported		Verified by GAO (note b)
Military personnel	\$ 493,046	\$ 98,573	\$394,473	\$ 36,000	\$ 68,800	\$ -32,800
Civilian personnel	260,783	319,964	-59,181	83,900	238,400	-154,500
Supplies and equipment	97,756	29,768	67,988	23,800	7,600	16,200
Utilities and rents	179,344	191,670	-12,326	105,300	142,800	-37,500
Communications	-	10,042	-10,042	6,600	6,800	-200
Real property repair and maintenance	-	90,173	-90,173	90,800	66,200	24,600
Transportation of persons, travel, and training	-	221	-221	200	200	-
Transportation of things	-	-	-	-	-	-
Investment equipment	2,400	1,441	959	2,400	2,800	-400
Other	50,107	57,993	-7,886	100,600	43,000	57,600
Total	1,083,436	799,845	283,591	449,600	576,600	-127,000

Capital investment (facilities)

105,830	12,994	92,836	-	11,700	-11,700
\$1,189,266	\$812,839	\$376,427	\$449,600	\$588,300	\$-138,700

Total

a/Represents FY 1976. All other data represents first three quarters of FY 1976.

b/Our calculations represent only known costs and may not be 100-percent inclusive. Absence of data means that costs were not reported or were not verified by us.

APPENDIX III

Naval Station, Rota, Spain

<u>Element of expense</u>	<u>DOD Instruction 7000.12 (note a)</u>				<u>Demographic survey</u>	
	<u>Reported</u>	<u>Verified by GAO (note b)</u>	<u>Differ- ence</u>	<u>Reported</u>	<u>Verified by GAO (note b)</u>	<u>Differ- ence</u>
Military personnel	\$190,976	\$102,232	\$ 88,744	\$ 40,200	\$ 60,700	\$ -20,500
Civilian personnel	248,294	115,141	133,153	75,100	87,000	-11,900
Supplies and equip- ment	25,246	10,883	14,363	7,900	8,200	-300
Utilities and rents	132,991	189,567	-56,576	58,000	152,200	-94,200
Communications	-	1,524	-1,524	1,100	1,200	-100
Real property re- pair and mainte- nance	-	22,345	-22,345	30,700	16,800	13,900
Transportation of persons, travel, and training	-	-	-	-	-	-
Transportation of things	-	-	-	-	-	-
Investment equip- ment	11,372	16,896	-5,524	-	16,900	-16,900
Other	77,668	137,318	-59,650	5,900	102,900	-97,000
Total	<u>\$686,547</u>	<u>\$595,906</u>	<u>\$ 90,641</u>	<u>\$218,900</u>	<u>\$445,900</u>	<u>\$-227,000</u>

a/Represents FY 1976. All other data represents first three quarters of FY 1976.

b/Our calculations represent only known costs and may not be 100-percent inclusive.
Absence of data means that costs were not reported or were not verified by us.

Marine Corps Air Station, Beaufort, South Carolina

Element of expense	DOD Instruction 7000.12 (note a)		Demographic survey			
	Reported	Verified by GAO (note b)	Differ- ence	Reported	Verified by GAO (note b)	Differ- ence
Military personnel	\$327,090	\$454,389	\$-127,299	\$362,700	\$416,500	\$-53,800
Civilian personnel	53,555	59,471	-5,916	42,100	42,400	-300
Supplies and equip- ment	9,375	50,460	-41,085	29,100	28,000	1,100
Utilities and rents	61,882	89,454	-27,572	55,700	64,200	-8,500
Communications	-	2,600	-2,600	2,400	2,000	400
Real property re- pair and mainte- nance	12,086	30,587	-18,501	22,300	37,800	-15,500
Transportation of persons, travel, and training	-	-	-	-	-	-
Transportation of things	-	-	-	-	-	-
Investment equip- ment	6,616	5,160	1,456	5,300	5,200	100
Other	45,410	62,926	-17,516	25,000	24,700	300
Total	516,014	755,047	-239,033	544,600	620,800	-76,200
Capital invest- ment	40,478	-	40,478	-	-	-
Total	\$556,492	\$755,047	\$-198,555	\$544,600	\$620,800	\$-76,200

a/Represents FY 1976. All other data represents first three quarters of FY 1976.

b/Our calculations represent only known costs and may not be 100-percent inclusive.

Absence of data means that costs were not reported or were not verified by us.

Marine Corps Air Station, Yuma, Arizona (note a)

<u>Element of expense</u>	<u>DOD Instruction 7000.12 (note b)</u>		<u>Demographic survey</u>	
	<u>Reported</u>	<u>GAO (note c)</u>	<u>Verified by GAO (note c)</u>	<u>Differ- ence</u>
Military personnel	\$105,510	\$303,450	\$-197,940	\$ 10,100
Civilian personnel	44,975	50,218	-5,243	14,200
Supplies and equipment	40,474	54,089	-13,615	-35,600
Utilities and rents	48,121	52,168	-4,047	5,100
Communications	(d)	(d)	(d)	800
Real property repair and maintenance	(d)	(d)	(d)	-7,400
Transportation of persons, travel, and training of	-	-	1,500	-
Transportation of things	-	-	-	-
Investment equipment	(d)	(d)	(d)	8,500
Other	<u>20,344</u>	<u>82,258</u>	<u>-61,914</u>	<u>6,700</u>
Total	259,424	542,183	-282,759	-26,000
Capital invest- ment (facilities)	<u>10,951</u>	<u>10,951</u>	-	-
Total	<u>\$270,375</u>	<u>\$553,134</u>	<u>\$-282,759</u>	<u>\$-26,000</u>

a/Club systems not included because irregular fiscal year. Exchange not required to report.

b/Represents FY 1976. All other data represents first three quarters of FY 1976.

c/Our calculations represent only known costs and may not be 100-percent inclusive. Absence of data means that costs were not reported or were not verified by us.

d/Figures included in "other" category.

OUR PAST FINDINGS ON UTILITIESAND MILITARY PERSONNEL PROVIDED TO MWR ACTIVITIES"Review of the Assignment of Enlisted Personnel
to Nonmilitary Activities," B-146890, December 27, 1965

Department of Defense policy stresses using civilians to the maximum extent possible in positions which do not require military personnel. We found, however, that the military services are allowed to use enlisted personnel in duties which are nonmilitary.

* * * * *

We estimate that the Army, Navy, and Air Force are using the services of about 5,000 enlisted personnel, receiving about \$23.3 million annually in pay and allowances, in nonmilitary activities such as officers' and noncommissioned officers' clubs, hobby shops, bowling alleys, and golf courses. While these personnel are used in such nonmilitary activities, the military services are not deriving the benefit of the members' military training and the members may not be maintaining or acquiring proficiency in skills needed in military functions.

* * * * *

Department of Defense policies provide that civilians be used in such activities that do not require military personnel and that they be paid out of the revenue from the activities. However, responsible officials in the services allow the use of military personnel, who are paid from appropriated funds, at many locations.

* * * * *

On November 30, 1964, we advised the Secretary of Defense of our finding and proposed that he direct the Secretaries of the Army, Navy, and Air Force to issue instructions restricting the use of enlisted personnel assigned to nonmilitary duties in activities such as those discussed in this section of the report, unless these assignments are supported by adequate justification on the basis of non-availability of civilians.

The Assistant Secretary of Defense (Manpower), in a letter dated February 16, 1965 * * * stated that Department of Defense policy promotes maximum use of civilians so as to release military personnel for duty with the operating forces.

He advised us that the military staffing in the types of activities discussed in our report had been examined into and that such staffing was continually under surveillance. The Assistant Secretary advised us further that studies had been and were still being made regarding military-civilian staffing and that these studies continued to explore the possibility of expanding the use of civilians in lieu of military personnel.

* * * * *

The Assistant Secretary did not make any specific comment on our proposal.

"Need for Improved Controls in Military Departments to Ensure Reimbursement for Services Provided to Nonmilitary and Quasi-Military Activities," B-163136, February 26, 1968

The military departments have not uniformly or consistently implemented Department of Defense policy with respect to charges for services provided to nonappropriated fund activities and private interests. As a result, practices vary among military installations, the military installations have not recovered fully the costs of services provided, and they have used military personnel in lieu of civilian employees for nonmilitary activities without first attempting to employ civilians. The costs of military personnel are borne by the military, whereas, civilian employees are paid by nonmilitary activities.

* * * * *

These practices result not only in increased costs to appropriated funds but also in unequal support from appropriated funds to similar activities of the various departments. They also appear to have a broader implication when viewed on a national scale involving about 500 major military installations, and their correction could result in substantial cost reductions and increased reimbursements to the Government.

* * * * *

We brought our findings to the attention of the Secretary of Defense in a report dated September 26, 1967. We recommended that, to ensure that DOD policy is uniformly implemented by the military departments, the Secretary of Defense direct that appropriate action be taken to correct the inconsistencies existing in the regulations of the military departments on the subject of appropriated fund support

of morale, welfare, and recreation activities engaged in selling goods or services.

We recommended also that the military departments strengthen at the installation level administrative procedures for (1) establishing and collecting charges for utility and maintenance services provided to nonappropriated fund activities and private interests to ensure that applicable costs are fully and uniformly recovered and (2) minimizing the use of military personnel, in lieu of civilians, in the operations of nonappropriated fund activities * * *.

In a letter dated November 30, 1967 * * * the Deputy Assistant Secretary of Defense (Military Personnel Policy) commented on our findings, stating that the military departments had determined that the findings of fact in our report were generally accurate.

The Deputy Assistant Secretary stated that the absence of uniformity among the military departments in their implementing regulations and in their practices may be attributable, in part, to the broad language of DOD Directive 1330.2. He stated that the DOD directive would be reevaluated with the objective of providing more definitive direction to the military departments. He also stated that we would be advised of the results and that, pending completion of the reevaluation, the military departments would take appropriate action to ensure full compliance with the present directives and policies.

The Deputy Assistant Secretary stated that each military department had directed a review of authorized military positions in nonappropriated fund activities to ensure that they are in conformance with the policy of DOD relating to the maximum use of civilians in nonmilitary duties.

"Support of Hunting and Fishing at Matagorda Island, Texas," FPCD-74-109, January 6, 1975

Six Matagorda Island Recreation Services personnel devote time to hunting and fishing activities--four work full time and two have other duties.

This force is significantly increased during hunting seasons by temporary duty personnel from other island units and other Air Force installations around the country. During the 1972 season, 27 personnel from other bases and 2 from the island were used. In 1973, 15 from other bases and 10 from the island were added. They served in the following capacities.

	<u>1972</u>	<u>1973</u>
Activity supervisors	2	1
Jeep mechanics	2	2
Game cleaners	2	4
Cooks	8	5
Aircraft maintenance		
(note a)	3	-
Billeting specialists	2	2
Hunting guides	10	10
Returned to duty station as unsatisfactory	-	<u>1</u>
Total	29	25

a/Occasionally, higher ranking personnel flew private jets to the island. The number was unknown for 1972 and none were reported for 1973.

* * * * *

Some of the personnel arrived at the island several weeks before the hunting season for orientation, instruction in hunting laws and cleaning game, and preparation of duck blinds, quail shelters, and turkey roosts.

"Unrecovered Costs for Utility Services Furnished to Non-Appropriated Fund and Non-Government Activities, "LCD-74-338," February 7, 1975

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

* * * * *

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

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

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

* * * * *

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

"Cost of Operating Military Recreation Camps
in Alaska," FPCD-75-138, May 22, 1975

Ten military personnel assigned to the King Salmon camps held imbalance Air Force specialty codes which means that their specialties were in short supply. Air Force regulations specify that overseas commanders are to insure that all airmen assigned overseas (as Alaska is classified) who have imbalance specialty codes perform in that specialty. These 10 men were electrical power production technicians and specialists, but only 2 were assigned to power production positions. The others were assigned as boat dock assistants, camp supervisors, and cleaning and maintenance crew members.

Most temporary personnel assigned to the camps worked as food service personnel, maintenance personnel, custodians, mechanics, and boat drivers.

* * * * *

The camp at Seward is operated primarily by temporary duty military personnel assisted by temporarily employed civilians.

In 1974 this work force consisted of 62 military personnel and 14 civilians. In 1973 the Army Audit Agency reported that staffing the camps with military personnel who were relieved of their normal duties hindered training and prevented personnel from using their specialties. The agency recommended that civilians be used instead, to be paid with appropriated funds, command welfare funds, and increased fees. But the cost and shortage of qualified civilians required renewed use of military personnel in 1974, most of whom worked as boat operators, food service workers, and mechanics.

Army Regulation 56-9 specifies that appropriated funds are not to be used to support any direct operating costs, including personnel, fuel, and supplies incidental to the use of watercraft for morale purposes. Nevertheless, during the 1974 season 22 Army personnel were boat operators.

"Changes Are Needed in Operating
Military Resorts," FPCD-76-20, April 6, 1976

[At the Armed Forces Recreation Center, Garmisch, Germany] 118 military personnel were enlistees on temporary duty from other units in Europe and were usually assigned to run the recreation programs. They were used as ski lift operators, tour guides, retail store clerks, hotel couriers, golf course grounds crewmen, mail clerks, bowling alley pin-setters, ski patrolmen, public information assistants, conference coordinators, and sports instructors. They were used year round, but most extensively during the skiing season. The average number of temporary personnel was down 10 percent from fiscal year 1974, but still exceeded a local management ceiling of 91 by nearly 30 percent.

Not only were these personnel assigned to civilian-type duties, but military regulations were violated regarding the length of the temporary tours and job specialties of the persons assigned.

* * * * *

John Hay [Air Base] had 19 permanently assigned military personnel, mostly supervisors in support roles oriented to recreation. The Kilauea Camp relied predominately on assigned military personnel. Under a joint service agreement the Air Force provided 11 enlisted tour-bus drivers and recreation lodge attendants; the Navy provided 22 cooks, messcooks (kitchen police), and storekeepers to operate a cafeteria;

the Marine Corps supplied 7 personnel to man a fire station; and the Army supplied 14 people for supervision, administration, first aid, and recreation lodge attendants. Most of the above tasks are assigned to nonappropriated fund employees at Garmisch and John Hay. The 54 military personnel at Kilauea, plus an Army commanding officer and an Air Force executive officer, cost about \$521,000 a year in appropriated funds. Ten assigned military personnel were planned for the Hale Koa Hotel, mostly as recreation supervisors and room, food, and bar managers.

There are other smaller military beach facilities in Hawaii, some with low-cost ocean front cottages, many of which are set aside for officers and high-ranking VIPs. One infrequently used Army beach, next to a county beach park, has five soldiers assigned as full-time lifeguards. At another Army beach activity, several soldiers are used as lifeguards and crew members on a fishing boat.

"Maintaining a Military Presence in an Industrial Environment--Issues and Costs (Naval Weapons Support Center, Crane, Indiana)," FPCD-76-7, April 12, 1976

At the time of our review, several of the excess personnel held ratings in short supply in the Navy. Further, personnel were assigned to duties unrelated to their skills. For example:

--A first class machinist's mate in a movie projectionist billet was operating a ceramic shop.

--A first class gunner's mate in a property clerk billet was helping maintain fishing boats, motors, and pleasure craft.

--A third class gunner's mate was doing clerical work.

--A chief boatswain's mate in a small craft maintenance billet was supervising the athletic and recreation program.

* * * * *

Appropriated funds were used to pay officer and enlisted club managers.

* * * * *

In essence, the Department of Defense appropriation acts for fiscal years 1974 and 1975 make funds available for recreational activities, facilities, and projects falling under the general heading, "welfare and recreation." Although DOD and the Navy Department have issued directives which attempt to regulate the use of generally appropriated funds for welfare and recreation, the broad wording of the appropriation acts, coupled with the language of DOD and Navy Department directives, gives base commanding officers great latitude in determining the nature and extent of permissible recreational facility funding.

ERRORS DISCUSSED BY ELEMENT OF EXPENSE AND
PROBLEMS UNIQUE TO THE DEMOGRAPHIC SURVEY

MILITARY AND CIVILIAN PERSONNEL

By direction in some cases and through interpretation of instructions or oversight in others, personnel not directly assigned to MWR facilities were not included in either the DOD Instruction 7000.12 report or the demographic survey. For example, costs of \$147,000 in pay for military police assigned to recreational areas in Hawaii were not included in either report. Similarly, personnel temporarily assigned as lifeguards or detailed from tactical units were not included. At Fort Hood costs of \$692,000 for persons assigned to the sports program were not reported.

The problem in not knowing exactly what constituted MWR activities caused personnel costs to be understated because persons assigned to activities such as recreation services divisions, morale support funds, or central accounting offices were sometimes overlooked. Also, persons devoting less than full time to MWR activities were not included.

For the demographic survey, reporting personnel data as of March 31 caused understatements. The "as of" data did not reflect summer staff augmentation or rotations.

Inaccuracies also resulted from estimating assigned personnel through phone calls and memory rather than using actual data. Conversely, in at least one instance actual data was used when it was known to be inaccurate. In some cases we were unable to determine reasons for variances.

TRAVEL, TRAINING, AND TRANSPORTATION

Explainable variances were due to not including permanent change of station costs, vehicle support costs, and port handling costs. Some of these exclusions relate to inadequate accounting, others to oversight. At one installation, costs were overstated when the base shuttle bus service was included--another example of not knowing what was MWR.

SUPPLIES AND EQUIPMENT

Most of the variances in this element of expense were unexplainable. The amounts reported did not agree with amounts recorded in the accounting system, and no

explanation was given. In other instances costs were not picked up because the accounting system did not identify them with an MWR facility, or they were simply overlooked when not specifically mentioned in instructions. At the Army Adjutant General Center, supplies purchased for installation MWR programs were understated by \$1.27 million because expenses for only one quarter instead of three were reported in the survey.

UTILITIES

This was a particularly troublesome category of expense representing a significant portion of appropriated fund support costs. Since most facilities are not metered, estimates and factoring methods had to be used. We found that understatements of expenses were caused by (1) inaccurate and outdated cost factors, (2) inaccurate square footage data, and (3) incomplete listing of MWR facilities. At some installations, certain utilities such as gas or sewage were overlooked completely.

REPAIR AND MAINTENANCE

Like utilities, this category caused an array of reporting problems. The most recurring problem was installation accounting systems which did not accumulate these costs by activity. Estimates were used rather than actual work order records. The estimates were often wrong because not all MWR facilities were identified, square footage was inaccurate, and overhead and similar indirect costs were ignored. Where accounting systems did attempt to distribute costs to MWR facilities, miscoding often caused the costs to be excluded or charged to the wrong activity.

At one installation capital improvements were reported as repair and maintenance, while at another installation repair and maintenance was reported as capital improvements. Numerous clerical and simple oversight errors compounded the above-mentioned errors.

COMMUNICATIONS

The primary expense under this category is telephone service. Frequently charges for telephone lines, installation, or basic monthly services were overlooked. There were some problems in identifying MWR activities or entering data into the accounting systems.

CAPITAL SUPPORT

As stated earlier, there was some confusion between capital support and repair and maintenance. At Charleston Naval Station \$100,000 in support provided by the Construction Battalion (Seabees) was not reported.

SUPPORT COSTS

Few, if any, installations attempted to report costs of activities which support MWR activities. Such costs would include health inspections and physical examinations which are performed or administered by veterinarian or environmental service organizations. Legal services are provided through the staff judge advocate's office, and activities receive data automation, comptroller, and command management support. Security, fire protection, and pest control services are rendered by local organizations. Civilian personnel offices and procurement offices were sometimes overlooked when reporting.

At Fort Hood, unreported expenses of \$52,000 in aircraft support had been provided to the sports parachute club.

PROBLEMS UNIQUE TO THE DEMOGRAPHIC SURVEY

Even though we concentrated our efforts on appropriated fund support, we did compare nonappropriated fund financial statements to data submitted under the survey. For the most part, we did not go beyond the financial statements or determine the reasons for most errors. Our limited review disclosed significant and numerous errors in the reported data.

For instance, the Charleston Naval Station reported exchange costs of \$3.3 million, which are understated by \$381,000. A revision in the format of Navy financial statements after the survey instructions were issued caused only a portion of exchange costs to be picked up. We believe this situation could have occurred at other Navy installations.

At Fort Hood, internal auditors found a 24-percent error rate in the financial statements submissions, and at Fort Sam Houston we found 54 minor errors totaling \$44,500. At Rota one activity reported a \$154,000 profit when it had actually lost \$361,000.

The survey asked that installations report the number of persons using an activity during a 1-month period. Instead of reporting patronage for 1 month, installations used a variety of means to estimate patronage. Using membership

figures tended to understate actual patronage, while some installations' using total eligibility or base population overstated patronage. Headcounts, cash register receipts, and unsupported estimates were used. Fort McPherson reported recreation services participation as 12,259 for 1 month, when available records indicated over 53,000 persons used the facilities per month.

The accuracy of the demographic survey was also affected by problems created by time constraints at the installation level, the detail required, the mechanics of reporting, and computer programing.

As a result of delays in getting the survey underway, some of the installations, particularly those overseas, had little time to complete the survey. Because accounting systems did not provide the data in the detail required and manual compilations were required, the time constraints adversely affected the survey's accuracy.

Because data was required in more detail than accounting systems provided, costs had to be prorated between activities. Again, these prorations were based on estimates, and costs were sometimes attributed to the wrong activity.

Activities were assigned codes, and installations having two or more of the same activity (i.e., libraries, bowling alleys) were to add a prefix to the code. Miscoding could cause the computer to drop activities altogether or to assign the cost to the wrong activity.

Data was supposed to be reported in hundreds. However, installations reported (1) in units causing the final figure to be 100 times what it should have been, (2) in tens creating a tenfold overstatement, or (3) in thousands creating a tenfold understatement.

The DOD/CMB study group recognized the problems created by rounding and miscoding and attempted to correct the situation through visual inspection of the thousands of submissions. This no doubt improved the accuracy of the data, but we doubt that all errors were detected.

Trying to adjust for possible computational errors made in the field, totals were changed automatically if entries did not equal totals indicated. However, the computer program did not consider the possibility of keypunch error, and totals were sometimes erroneously changed. For example, an activity at a location in Europe reported a profit of \$12,000. A keypunch error caused the activity to show a \$140,000 loss.

PROPOSED CATEGORIES OF MWR ACTIVITIES

<u>Category</u>	<u>MWR activity</u>
I	Exchanges.
II	Other resale and revenue-sharing activities--civilian employee restaurants and cafeterias, alcoholic packaged beverage stores, Stars and Stripes newspapers, and resale audio clubs.
.II	Military general welfare and recreation, divided into the following subgroups.
	IIIA--fund custodians at headquarters, major commands, and installation and unit levels providing support to other MWR activities.
	IIIB--operating activities subdivided into three groups according to their revenue-generating potential. Following are examples.
	IIIB-1--Libraries, intramural sports, recreation centers/rooms, and free admission movies at isolated posts and aboard ship. These have little potential for generating revenue and are expected to be primarily appropriated-funded.
	IIIB-2--Arts and crafts, entertainment, outdoor recreation, swimming pools, youth activities, sports above intramural level, child care centers, stables, marinas, and boating. These are considered to have some potential to earn nonappropriated fund revenues.
	IIIB-3--Bowling, golf, movies (paid admission), tour, travel information, and ticket service, skating rinks, pro shops, amusement machines, snack bars, skeet and trap ranges, Armed Forces

CategoryMWR activity (cont.)

recreation centers, cabins, and cottages. Operation of these activities is expected to be primarily nonappropriated-funded.

- IV Civilian employee general welfare and recreation funds.
- V Open messes.
- VI Membership associations other than open messes such as flying clubs, yachting clubs, motorcycle clubs, etc.
- VII Common support services rendered to nonappropriated fund instrumentalities. Pertains to consolidated offices which give support such as accounting, procurement, and personnel to several MWR activities. Does not include normal staff management functions whose costs are chargeable to the benefiting category.
- VIII Supplemental mission services. These are funds that are adjuncts to mission-oriented services, such as billeting, museums, and chaplains. Only the costs of collecting, accounting for, and disbursing nonappropriated funds are to be reported, not the cost of the entire function.

PRIORITY ASSIGNED TO MWR ACTIVITIES BY DOD

MWR activity	Priority			
	Indispensable	Essential	Desirable	Optional
Intramural athletics and sports	X	-	-	-
Free movies and entertainment at isolated stations and aboard ship	X	-	-	-
Exchanges	a/X	b/X	-	-
Libraries	a/X	b/X	-	-
Movies (paid admission)	-	X	-	-
Swimming	-	X	-	-
Stars and Stripes newspaper (overseas only)	-	X	-	-
Automotive crafts	-	X	-	-
Recreation center	-	X	-	-
Unit/barrack/recreation day rooms	-	X	-	-
Parks and playgrounds	-	X	-	-
Open messes	-	X	-	-
Youth activities	-	a/X	-	-
Rest and recreation areas with overnight accommodations	-	c/X	-	X
Bowling	-	a/X	b/X	-
Arts and crafts	-	-	X	-
Tours, travel information, and commercial ticketing service	-	-	X	-
Outdoor recreation areas (camping, hunting, fishing, hiking, etc.)	-	-	X	-
Child care centers	-	-	X	-
Athletics and sports above intramural level	-	-	X	-
Professional entertainment	-	-	a/X	-
Alcoholic beverage stores	-	-	a/X	b/X
Music and theater	-	-	a/X	b/X
Golf	-	-	a/X	b/X
Skeet, trap, and archery	-	-	-	X
Horseback riding	-	-	-	X
Boating	-	-	-	X
Membership associations other than open messes	-	-	-	X
Civilian welfare programs	-	-	-	X
Civilian employee restaurants and cafeterias at bases where no other food facilities are available	-	-	-	X

a/Overseas or not in or near a U.S. metropolitan area.

b/In or near a U.S. metropolitan area.

c/Only in specific designated overseas areas--all others are optional.

JOHN L. MCCLELLAN, ARK., CHAIR.

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United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

JAMES R. CALLOWAY
CHIEF COUNSEL AND STAFF DIRECTOR

June 5, 1976

The Honorable Elmer Staats
Comptroller General of the United States
Washington, D. C.

Dear Mr. Staats:

Two recent reports by the General Accounting Office ("Changes Are Needed in Operating Military Resorts," FPCD-76-20, April 6, 1976, and "Maintaining a Military Presence in an Industrial Environment -- Issues and Costs," FPCD-76-7, April 12, 1976) have brought to the Committee's attention the question of the management of the non-appropriated fund activities of the Defense Department. The Committee is particularly interested in policies pertaining to the use of appropriated funds in support of these activities, through direct subsidy, assignment and/or utilization (full or part time) of DoD civilian or military personnel, provision of support services, and use of facilities paid for and supported by appropriated funds.

The GAO, in a series of reports, has repeatedly recommended that the Congress establish guidelines for providing appropriated funds in support of nonappropriated fund activities. In this connection, the Committee would like GAO to:

- A. Determine and review the history and justification for the nonappropriated fund activities and for providing manpower and other appropriated fund support to these activities.
- B. Determine the technical feasibility of making nonappropriated fund morale, welfare, recreation, and other activities self-supporting to the maximum extent.
- C. Determine what guidelines have been proposed within DoD on providing appropriated fund support to these activities.
- D. Provide this Committee with alternate guidelines on providing support from appropriated funds that would be consistent with the intent of Congress as determined in (A) above and that GAO would deem feasible consistent with its findings in (B) above.

The Committee also wants to insure that the Department of Defense accurately identifies the current cost of these activities and has been advised that the Department expects to determine this through:

- A. Information furnished annually in response to DoD Instruction 7000.12. The first annual reports are scheduled for the end of October 1976.
- B. A one-time demographic survey of morale, welfare, and recreation activities which was originally scheduled to be completed in February 1976 but has now slipped to June 1976.

The Committee is concerned that there may be serious shortcomings in the survey and the reporting system. GAO pointed out that certain individuals contributing major portions of time in support of recreation facilities in Germany will be excluded under the Army's 7000.2 criteria because they are officially assigned elsewhere, even though they are in fact supporting these recreational facilities.

The Committee, therefore, requests the GAO to evaluate the information developed through the demographic survey and Instruction 7000.12 to determine if it is accurate, complete and usable for its intended purpose. The Committee is concerned that responses may be inconsistent throughout DoD because of varying definitions and interpretations placed on them.

The Committee staff has discussed this request with representatives from the Federal Personnel and Compensation Division.

The Committee would like to obtain the results of the review by June 1977; however, GAO should provide the Committee staff with progress reports in September 1976 and February 1977.

With kind regards, I am

Sincerely,


John L. McClellan
Chairman

JLM:ljm