

DOCUMENT RESUME

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[Review of Storage Charges and Customer Assistance Teams for Military Sales]. ICD-77-238; B-165731. September 23, 1977. 3 pp.

Report to Sen. John L. McClellan, Chairman, Senate Committee on Appropriations; by Robert F. Keller, Deputy Comptroller General.

Issue Area: International Economic and Military Programs:
Foreign Military Sales (605); Facilities and Material
Management: Federal Transportation of Things (704).

Contact: Logistics and Communications Div.

Budget Function: National Defense: Department of Defense -
Military (except procurement & contracts) (051).

Organization Concerned: Department of Defense; Department of the
Army; Department of the Air Force.

Congressional Relevance: Senate Committee on Appropriations.

Authority: H. Rept. 95-451. S. Rept. 95-325.

A review of shipments from 19 depots under the Foreign Military Sales Program revealed no significant problems. Findings/Conclusions: Program storage costs of 12 depots were estimated at about \$11,600 for periods ranging from 3 to 15 months and no storage costs were found at the remaining 7 depots. A problem at the New Cumberland Army Depot relating to failure of German officials to receive notices was corrected by use of a courier service. The cost of customer assistance teams can be included in the price of the material, can be separately identified as a line item on the sales agreement, or can be included as an administrative surcharge. Total maintenance technical assistance for all depots for FY 1976 totaled \$343,414, of which \$147,176 was identified as program maintenance assistance. If teams are a specific line item on sales agreement, costs are properly payable by the foreign country and past undercharges can be billed if actual costs can be identified. (HTW)



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

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B-165731

SEP 23 1977

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

03512
Dear Mr. Chairman:

On April 27, 1977, you requested that we undertake a review of storage practices for shipments of material under the Foreign Military Sales Program and to review the practices of the Department of Defense with respect to "customer assistance" or other teams.

STORAGE PRACTICES

Normally, DOD notifies the foreign customer or its agent when material is ready for shipment. This is done by forwarding a notice of availability to the country representative or its freight forwarder.

The New Cumberland Army Depot did have a problem with Program shipments, particularly to Germany. The depot sent notices of availability to German representatives but the notices were not acknowledged and the material was stored. Evidently, the notices were not received by the proper German officials. We discussed this with Army officials and suggested that the depot arrange to have the notices hand delivered to German officials in Washington by a scheduled courier service already in operation. They began using the service in mid-July 1977 and, according to a depot official, storage of Program material is no longer a problem. As of August 26, 1977, only three notices are older than 30 days and considered delinquent.

We reviewed Program shipments from 19 depots including New Cumberland and found no significant problems. We estimate that Program storage costs at 12 of these depots to total about \$11,600 for periods ranging from 3 to 15 months between February 1976 and May 1977, and found no storage costs at the remaining 7. We have no basis for assuming any significant change for fiscal year 1978.

It is doubtful if storage charges for shipments under existing sales agreements should be charged to the Program countries since the sales agreements did not consider storage charges at the time the agreements were signed.

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Concerning future sales agreements, we believe Defense should consider increasing the surcharge rate for packing, crating, and handling of Program shipments as proposed by the House Appropriations Committee in their report 95-451, page 132. This report reduced the Defense budget request by \$63 million. Senate Report 95-325 agreed with the House Action.

CUSTOMER ASSISTANCE TEAMS

The current practice of Defense is to charge Program customers for customer assistance teams. The cost can be included in the price of the material, be separately identified as a line item on the sales agreement, or be included as part of an administrative surcharge.

Costs for customer assistance teams identified as line items are normally furnished to the Defense Security Agency Accounting Center, Denver, Colorado, by the Defense activity providing the service. The Center is responsible for billing and collecting all Program transactions. Most of the costs incurred by the Army and Air Force as line items appear to be charged to the foreign country involved. Those costs include personnel, travel, and per diem; however, some costs have been absorbed by Defense.

In addition, the Air Force provides contractor furnished assistance and bills the foreign customer those charges paid to the contractor by the Air Force.

Records of the Army Depot System Command show that total maintenance technical assistance of all types (Program and non-Program) for all depots for fiscal year 1976 totaled \$343,414. Of this amount, \$147,176 was identified as Program maintenance assistance.

During fiscal year 1976, Anniston Army Depot was authorized to bill \$13,257 on two customer assistance teams sent overseas. Because the amount authorized to be billed was less than the labor expenses incurred, \$1,462 was charged to the depot's overhead account.

Due to an apparent administrative oversight the countries involved were not billed the \$13,257; however, we were advised that corrective action would be taken to process these bills against the countries concerned.

We also reviewed overseas travel costs on 11 overseas trips totaling \$19,776 on two Air Force Program cases. On eight of these trips \$15,822 was billed to the foreign customer. Costs on three trips were not billed due to clerical error; however, an additional \$3,954 was billed during our review.

We also examined 11 contractors' invoices totaling \$159,349 which were paid by the Air Force. This amount was billed to the country involved.

The Air Force has 51 open Program cases for travel, transportation, and technical assistance valued in excess of \$43 million. In addition, the Air Force has 48 open Program contractor engineering and technical service cases valued in excess of \$14 million.

The Army has funded \$425,568 for about 66 quality assurance teams for fiscal year 1978.

In our opinion, if teams are a specific line item on a sales agreement, the full costs are properly payable by the foreign country receiving the services of Defense personnel. However, because of billing problems previously identified in our other reviews of the Program it appears the countries may not always be billed for services provided.

Past undercharges can be billed, provided that the actual costs can be identified, the costs were clearly contemplated by both parties, and the costs are billed within a reasonable time.

Additional information on personal property shipments under the Program will be the subject of a report we expect to issue in the near future.

This letter confirms our discussion with your staff on August 9, 1977. We trust this information will be sufficient for your needs. We will be glad to discuss this matter in greater detail with you or members of your staff.

Sincerely yours,



DEPUTY Comptroller General
of the United States