



096408
3.14.80
72-0245
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-174901

APR 9 1973

6
7

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

In our report to you on actions needed to recover the full costs to the Government of producing weapons for sale to foreign governments (B-174901, Sept. 7, 1972), we noted that:

- Department of Defense (DOD) regulations required industrial fund activities to charge foreign governments and other non-Federal Government customers for both funded and unfunded costs.
- Unfunded costs include the cost of depreciation of plant and equipment, pay and allowances of military personnel, and certain other costs.
- Army Materiel Command instructions did not require its industrial fund activities to include unfunded costs in their prices for work done for foreign governments; the activity we visited did not charge unfunded costs, resulting in a loss to the Government of about \$336,000 during fiscal years 1969 and 1970.
- The Assistant Secretary of Defense (Comptroller) on June 30, 1970, directed the Army to comply with DOD regulations.
- The Army Materiel Command, on December 18, 1970, instructed its industrial fund activities to add unfunded costs to the prices for orders received after December 1970, for work done for foreign governments.
- The industrial fund activity we visited complied with the Army Materiel Command's instructions and added \$326,000 in unfunded costs to their prices to foreign governments from January 1971 through June 1972.

701487

096408

Because of the significant amount of money involved and noncompliance with DOD regulations, we recommended that DOD internal review organizations should periodically examine prices charged by industrial fund activities to foreign governments and other non-Federal Government customers to insure proper implementation of DOD regulations.

In December 1972 we learned that the Army Materiel Command's Pueblo Army Depot still was not including the cost of depreciation of plant and equipment--the major element of unfunded costs--in the prices charged for work done for non-Federal Government customers. We did not estimate the amount of unfunded costs that Pueblo should have charged since January 1, 1971, when the Army Materiel Command's instructions became effective, but we did note that such costs amounted to about \$400,000 from July 1, 1970, to June 30, 1971.

Pueblo officials informed us that they would not include the cost of depreciation of plant and equipment in prices charged for work done for non-Federal Government customers until they received guidance from the Army Materiel Command on how to compute it and that they had requested guidance on November 24, 1971.

In January 1973, Army Materiel Command officials informed us that guidance was being developed but no target date for issuance had been set.

In February 1973 we asked the Army Materiel Command to determine the extent to which its subordinate commands were complying with its December 18, 1970, instructions. We were advised that only the Weapons Command was charging unfunded costs to foreign governments.

We are bringing this matter to your attention because the actions taken by the Assistant Secretary of Defense (Comptroller) and the Army have not motivated the Army Materiel Command to comply with DOD regulations. As a result, it appears that substantial costs applicable to foreign military sales are not being recovered.

Accordingly, we recommend that you take necessary action to obtain the Army Materiel Command's compliance with DOD regulations that require industrial funds to charge unfunded costs for work performed for non-Federal Government customers.

B-174901

To complete our file on this case, we would like to be informed of the following, if possible:

- The date on which all Army Materiel Command industrial fund activities comply with DOD regulations.
- The amount of unfunded costs not recovered by the Government from January 1, 1971, to December 31, 1972, because of the Army Materiel Command's failure to comply with DOD regulations.
- The actions being taken throughout DOD to obtain continued compliance with DOD regulations on recovering unfunded costs from non-Federal Government customers.

We noted in your letters to the House and Senate Committees on Government Operations and Appropriations that DOD regulations requiring the recovery of nonrecurring costs on work performed in Government-owned, contractor-operated plants is in the final stage of coordination within DOD. We would like to know when you expect to issue and implement these regulations.

Copies of this report are being sent to the House and Senate Committees on Government Operations, Appropriations, and Armed Services; the Director, Office of Management and Budget; and the Secretary of the Army.

Sincerely yours,

DL Scantlebury

D. L. Scantlebury
Director