INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

October 31, 1989

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Final Report on the Review of the Disposal of Recyclable Materials (Report No. 90-008)

We are providing this final report on the Review of the Disposal of Recyclable Materials for your information and use. The review was requested by the Chairman, House Committee on Armed Services. We made this review from February through June 1989. The objectives were to evaluate the status of recycling programs, qualified under U.S.C., title 10, sec. 2577 (Public Law 97-214), and the implementation of programs for reporting status and sales proceeds to participating installations. This legislation was passed in 1982. It provides that proceeds from the sale of recyclable materials be made available for projects for pollution abatement, energy conservation and occupational safety and health activities, and for nonappropriated morale and welfare activities. For fiscal year 1988, proceeds from the sale of recyclable materials, returned to 347 installations, were reported as $21.6 million, an increase of $8.6 million over proceeds reported for fiscal year 1987.

There has been a substantial increase in recycling program proceeds in recent years, especially since fiscal year 1987, attributable to promotion of the program and increased program awareness at DoD installations. However, there is a need for more comprehensive DoD policy guidance. The computer application program of the Defense Reutilization and Marketing Service did not provide for timely and efficient reporting of sales proceeds and status reports. The results of the review are summarized in the following paragraphs, and the details and recommendations are in Part II of this report.

Program proceeds were being used for the purposes specified by the legislation at the activities visited during our review. However, 23 of the 31 installations reviewed had not performed feasibility studies for materials to be included in the program, and at some installations, policies and operating procedures had not been issued and program costs had not been identified. Also, policy guidance was being interpreted in different ways and inconsistently applied at some installations. We recommended that the Assistant Secretary of Defense (Production and Logistics) develop more comprehensive and formal policy guidance for the recycling program (page 5).

The computer application program (Automated Proceeds Tracking System) developed by the Defense Reutilization and Marketing Service did not provide for timely and efficient reporting of status on disposition of recyclable materials or the distribution of proceeds to installations with qualified recycling programs. Cross disbursement procedures used in the transfer of proceeds were time-consuming and inefficient. Installations did not receive timely information on disposition status of recyclable materials offered for sale or on the proceeds received and distributed. We recommended that the Defense Reutilization and Marketing Service discontinue use of the Automated Proceeds Tracking System. We also recommended that the Comptroller of the Department of Defense revise DoD Instruction (DoDI) 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Personal Property," to provide that checks be issued to generating installations for sales of recyclable materials, removing the requirement to use cross disbursement procedures (page 19).

On September 1, 1989, a draft of this report was provided to the Comptroller of the Department of Defense, the Assistant Secretary of Defense (Production and Logistics), the Assistant Secretaries of the Army and Navy (Financial Management), the Assistant Secretary of the Air Force (Financial Management and Comptroller), and the Director, Defense Logistics Agency. Comments on the draft report were received from the DoD Deputy Comptroller (Management Systems) on September 29, 1989; and from the Acting Deputy Comptroller, Defense Logistics Agency, on September 22, 1989. Management comments are summarized below, and the complete texts are provided in Appendixes G and H.

The DoD Deputy Comptroller (Management Systems) concurred with the intent of expediting the distribution of collections received from the sale of recyclable material, but nonconcurred with Recommendation B.2. The Deputy Comptroller stated that alternative corrective action for expediting the return of collections received from the sale of recyclable materials is contained in a July 10, 1989, reissuance of DoDI 7310.1. The new policy requires that the finance and accounting office that receives the sales proceeds mail an advance copy of the collection voucher to the installation's fiscal station for use by the station to follow up on timely distribution of the proceeds from F3875, "Budget Clearing Account (Suspense)." While the advance

copy of the collection voucher will permit followup for collections due, it will not expedite the transfer of sales proceeds through the time-consuming cross disbursement process. Additional comments are provided in Part II of the report. We request that the Deputy Comptroller reconsider the management position and provide additional comments on this recommendation.

The Acting Deputy Comptroller, Defense Logistics Agency, concurred with Recommendation B.1. and anticipates discontinuance of the Automated Proceeds Tracking System by February 1990.

As of October 13, 1989, the Assistant Secretary of Defense (Production and Logistics) had not responded to the draft report. We request that the Assistant Secretary respond to the final report, indicating concurrence or nonconcurrence with the finding and Recommendations A.1. and A.2. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated completion dates for planned actions. If you nonconcur, please state your specific reasons. If appropriate, you may propose alternative methods for accomplishing desired improvements.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Accordingly, we request that the additional comments requested from the DoD Deputy Comptroller (Management Systems) and the comments from the Assistant Secretary of Defense (Production and Logistics) be provided within 60 days of the date of this memorandum. Monetary benefits are not claimed in this report.

The courtesies extended to the staff are appreciated. If you have any questions on this review, please contact Mr. Charles Hoeger or Mr. William King at our Philadelphia Field Office on (215) 952-3881 (AUTOVON 444-3881). A list of the Review Team Members is in Appendix J. Copies of the final report are being provided to the activities listed in Appendix K.

Stephen A. Trodden
Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

FINAL REPORT ON THE REVIEW OF THE DISPOSAL OF RECYCLABLE MATERIALS

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Prepared by:
Logistics Support
Directorate
Project No. 9SL-5013

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FINAL REPORT ON THE REVIEW OF THE DISPOSAL OF RECYCLABLE MATERIALS

PART I - INTRODUCTION

Background

Recyclable materials are scrap and waste that would normally be discarded, but that may be reused after undergoing some type of physical or chemical processing. Since 1975, a portion of the proceeds from the sale of certain recyclable materials was permitted to be returned to military installations to recover the cost of collecting and processing the material and then to fund the cost of projects for environmental improvement and energy conservation. Public Law 97-214, "Military Construction Codification Act," effective October 1, 1982, added section 2577, "Disposal of Recyclable Materials," to U.S.C., title 10. Section 2577 authorized the use of proceeds from qualified recycling programs for nonappropriated morale and welfare activities as an incentive for installation commanders to have aggressive recycling programs.

The legislation provided that:

- DoD shall prescribe regulations for the sale of recyclable materials and for the designation of installations that have qualified recycling programs.

- Sales of recyclable materials shall be in accordance with procedures in the Federal Property and Administrative Services Act for the sale of surplus property.

- Proceeds shall be used first to recover the cost of operating installation recycling programs.

- Not more than 50 percent of the balance of the proceeds may be used for installation projects for pollution abatement, energy conservation, and occupational safety and health activities.

- The remaining balance may be used for installation nonappropriated morale and welfare activities.

The law also provided that if the available installation balance at the end of a fiscal year exceeds $2 million, the excess shall be deposited into the Treasury as miscellaneous receipts.

The Defense Reutilization and Marketing Service (DRMS) of the Defense Logistics Agency is the DoD central organization responsible for marketing and sales of recyclable materials. For fiscal year 1988, the DRMS reported total proceeds of $21.6 million, involving 347 installations (see Appendix A). Activities collect and report recyclable materials to Defense

Reutilization and Marketing Offices (DRMO's) located at each major military installation. Marketing and sales of most recyclable materials are done by the Defense Reutilization and Marketing Regions (DRMR's).

Objectives and Scope

This review was requested by the Chairman, House Armed Services Committee. The objectives were to evaluate the status of recycling programs, qualified under U.S.C., title 10, sec. 2577, and the implementation of programs for reporting status and sales proceeds to participating installations. We reviewed DoD policies and Service regulations for the recycling program and evaluated policies and procedures at selected installations to determine compliance with DoD policies and Service regulations. Our review included a followup of planned corrective action concerning status and proceeds reporting, in response to the May 1988 DoD Inspector General Report of Investigation, discussed below in Prior Coverage. We made this review from February through June 1989.

We used the DRMS collected data on the return of proceeds for fiscal year 1988 as the basis for selecting installations to be visited during our review. Although a formal reporting system had not been established, the DRMS data was the only centralized record of program proceeds. CONUS installations accounted for 86 percent of the proceeds, and we did not visit overseas activities. A stratified, cluster random selection process was used to select the 31 installations visited. In fiscal year 1988, 12 of the 31 installations had reported proceeds over $100,000; 11 installations had reported proceeds between $10,000 and $100,000; and 8 installations had reported proceeds under $10,000. The 31 installations (10 Army, 9 Navy, 8 Air Force, and 4 Marine Corps) had reported proceeds totaling $5.9 million in fiscal year 1988 (see Appendix B). At the installations visited, we reconciled proceeds reported by the DRMR's to local records maintained by the installations for fiscal year 1988 and for the period of fiscal year 1989, to the time of our visits.

This review was made in accordance with standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. No monetary benefits are claimed in this report. Activities visited or contacted are listed in Appendix I.

Prior Coverage

On May 11, 1988, the DoD Office of the Inspector General (Special Inquiries), issued a Report of Investigation, Case No. S88C00000029, "Implementation of 10 U.S.C. 2577, Disposal of Recyclable Materials." The Chairman, House Armed Services Committee, requested the investigation based on allegations that DoD was not complying with the legislation. The investigation

concluded that the DoD installations reviewed were complying with the legislation, but it identified a need for improvement on the reporting of status on recyclable materials and proceeds, as well as more timely transmission of proceeds from sale of recyclable materials to installations. The Defense Logistics Agency agreed and responded that action to correct the status reporting of recyclable materials and proceeds would be accomplished by September 1, 1988, and that procedures to reduce the lead time in returning sales proceeds to installations would be in place by October 1, 1988. Our review disclosed that the conditions previously reported continue to be a problem (see Finding B).

On May 2, 1989, the Air Force Audit Agency (AFAA) issued a report, Project No. 8285211, "Morale, Welfare, and Recreation Participation in the Resource Recovery and Recycling Program." This report summarized the results of audits at 12 Air Force installations. Issues discussed in the report were the lack of comprehensive program guidance, inadequate procedures to account for and monitor revenue from sale to receipt of proceeds, and untimely receipt of sales proceeds. The Air Force Military Personnel Center agreed with the audit recommendations and estimated that corrective actions for the recommendations would be accomplished by February 1990. Our review at Air Force installations, not included in the AFAA audit, disclosed similar conditions (see Finding A).

PART II - FINDINGS AND RECOMMENDATIONS

A. Status of Recycling Programs

FINDING

There has been a substantial increase in reported recycling program proceeds in recent years, especially since fiscal year 1987, attributable to promotion of the program and increased awareness of recycling programs at DoD installations. At the DoD installations visited, program proceeds were being used for purposes specified in Public Law 97-214. However, at 23 of the 31 installations reviewed, feasibility studies or economic analyses had not been performed. In addition, not all installations had issued policies and operating procedures, and program costs had not been identified. DoD program policy guidance, which has not been codified in regulation or updated since 1983, was being interpreted in different ways and inconsistently applied at some installations. More comprehensive and formal DoD policy and procedural guidance would increase the efficiency and effectiveness of recycling programs.

DISCUSSION OF DETAILS

Background. In an effort to reduce waste, conserve natural resources, and prevent further pollution of the environment, Congress enacted significant changes to the regulations governing the use of the proceeds from the sale of recyclable materials. Public Law 97-214, "Military Construction Codification Act," effective October 1, 1982, amended U.S.C., title 10, chapter 153, "Exchange of Material and Disposal of Obsolete, Surplus or Unclaimed Property," by adding section 2577, "Disposal of Recyclable Materials." Appendix C contains the complete text of section 2577. This provision provides an additional incentive to installation commanders to have an aggressive recycling program. The key incentive is the ability to transfer net proceeds to nonappropriated morale, welfare, and recreation activities. Public Law 97-214 requires that the Secretary of Defense prescribe regulations for the sale of recyclable materials and for the operation of recycling programs at military installations. These regulations would require the Secretaries of the Military Departments, or the Secretary of Defense with respect to Defense Agencies, to designate installations that have established a qualified recycling program.

Installations that established qualified recycling programs are entitled, in accordance with the provisions of Public Law 97-214, to receive proceeds from the sale of recyclable materials. Proceeds should be used, initially, to recover costs of processing recyclable materials. After costs are recovered, up to 50 percent of the net proceeds are available for funding pollution abatement, energy conservation, and occupational safety and health projects, with the balance available for transfer to

nonappropriated morale, welfare, and recreation projects. Proceeds from the sale of recyclable materials can be used in any fiscal year regardless of when the material is sold or when the proceeds are received. In addition, an installation can accrue proceeds up to a total of $2 million; however, any excess above that amount, at the end of a fiscal year, must be transferred to the Treasury.

The legislative history of Public Law 97-214 (Appendix D) indicates that net proceeds are to be equally distributed between environmental projects and nonappropriated projects, while the language of Public Law 97-214 permits a transfer of up to 50 percent of the net proceeds to environmental projects, and of up to 100 percent of the net proceeds to nonappropriated projects. This difference was also noted in the May 1988 DoD Inspector General (Special Inquiries) Report of Investigation, Case No. S88C00000029, which concluded that the transfer of up to 100 percent of the net proceeds to nonappropriated projects, while possibly not the intent of Congress, was permissible by the statute.

Regulatory Guidance. The Deputy Secretary of Defense issued a memorandum, "Sales of Recyclable Materials (10 U.S.C. 2577)," on January 28, 1983, (Appendix E) which provided interim guidance to the Services and Defense Agencies for establishing and operating qualified recycling programs. The memorandum stated that DoD Directive 4165.60, "Solid Waste Management - Collection, Disposal, Resource Recovery and Recycling Program," October 4, 1976, would be revised to incorporate the guidance, but this had not been done at the time of our review. The memorandum requested the Services to issue supplementary instructions for the establishment and operation of qualified recycling programs. Qualified recycling programs were defined as:

> Organized operations that require concerted efforts to recover scrap or waste from waste streams, as well as efforts to identify, segregate, and maintain the integrity of recyclable materiels in order to maintain or enhance the marketability of the materials.

The memorandum did not identify materials to be included in the program but did identify certain exclusions: precious metal-bearing scrap; those items that may be used again for their original purpose or function without any special processing; and ships, airplanes, weapons, or any discarded material that must undergo demilitarization or mutilation prior to sale.

The Deputy Secretary of Defense memorandum stated that the accumulation of proceeds from the sale of recyclable materials is authorized only for installations with qualified recycling programs and that the cost of operating the programs must be reimbursed from proceeds prior to distributing the proceeds to authorized projects. It also provided that projects for

pollution abatement, energy conservation, and occupational safety and health activities are not to be included in the normal military construction program if sufficient recycling proceeds are available at the installations needing the projects. The Defense Logistics Agency was directed to return 100 percent of recyclable material proceeds to the installations that had qualified recycling programs. The memorandum stated that the policies and instructions applied to all installations, including those that operate under the industrial fund.

This last provision was modified by an April 4, 1983, memorandum from the Deputy Assistant Secretary of Defense (Management Systems), "Disposition of Proceeds from Sales of Industrial Fund Scrap and Usable Property" (Appendix F). This memorandum provided that an industrial fund activity is entitled to 100 percent of the proceeds from the sale of scrap it turns in, provided the scrap was generated, collected, or otherwise obtained as part of an industrial fund activity's normal operations. Proceeds from scrap donated or contributed to an industrial fund activity will be deposited into the Treasury. Concerning sale of excess personal property, after screening, an industrial fund activity is entitled to 100 percent of the proceeds, provided the property was recorded as a capital asset of the activity and its acquisition cost has been recouped through a depreciation charge to the cost of operations. Proceeds from the sale of personal property donated or contributed to an industrial fund activity will be deposited into the Treasury.

During our review, the Deputy Comptroller (Management Systems) was revising DoD Directive 7310.1, November 15, 1984, "Disposition of Proceeds from DoD Sales of Surplus Personal Property." The changes provide only limited program guidance for qualified recycling programs, but do include procedures for accounting for recyclable material proceeds and a description of the costs associated with recycling programs.

Program Accomplishments. There has been a substantial increase in recycling program proceeds over the early years after the legislation, especially since fiscal year 1987. We attribute much of this recent growth to promotion of the program by the Services and the Defense Reutilization and Marketing Service (DRMS), an increased awareness of recycling programs at the installation level, and efforts by installations to improve their participation in the program. A significant motivation is the use of proceeds for nonappropriated fund activities. According to DRMS records, program proceeds in fiscal year 1988 totaled $21.6 million, a 66-percent increase since fiscal year 1987. Based on the first 9 months of fiscal year 1989, projected proceeds for fiscal year 1989 should be approximately $31.4 million, a 45-percent increase over the previous fiscal year.

There was limited participation in the program until 1985. Of the 31 activities visited during our review, only 13 had established the recycling efforts and accounting procedures to participate in the program by 1985, and 11 activities first established the program in 1987. The DRMS accumulates total scrap sales by the DoD disposal system for all programs served including the industrial funds, commissaries, and other programs, as well as the recycling program. Figures 1 and 2 show total scrap sales and recycling program proceeds since 1983. During the 3-year period ended fiscal year 1987, recycling programs accounted for about 26 percent of total scrap sales. In the last 2 years, recycling program proceeds accounted for about 40 percent of total scrap sales.

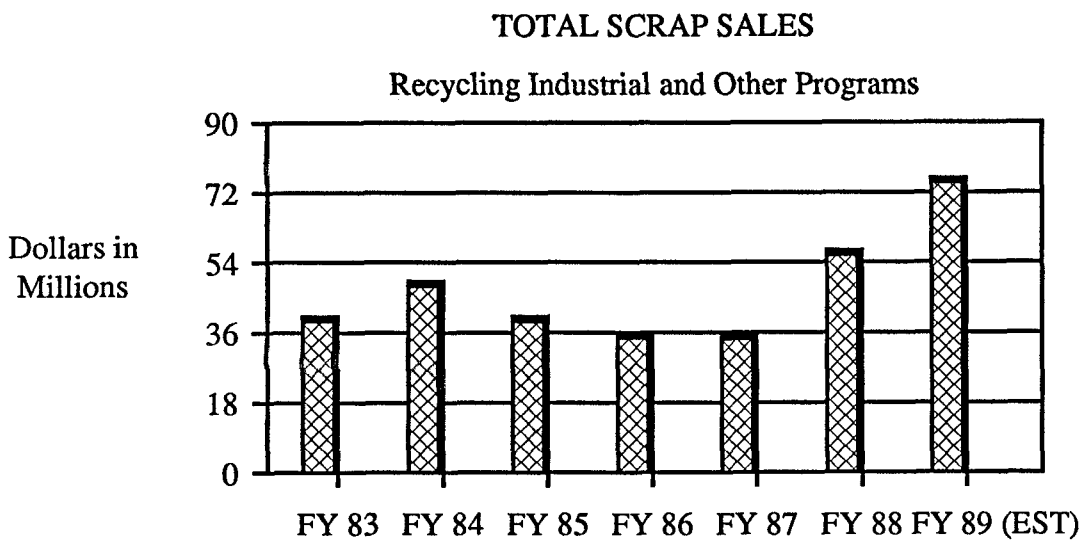

Figure 1

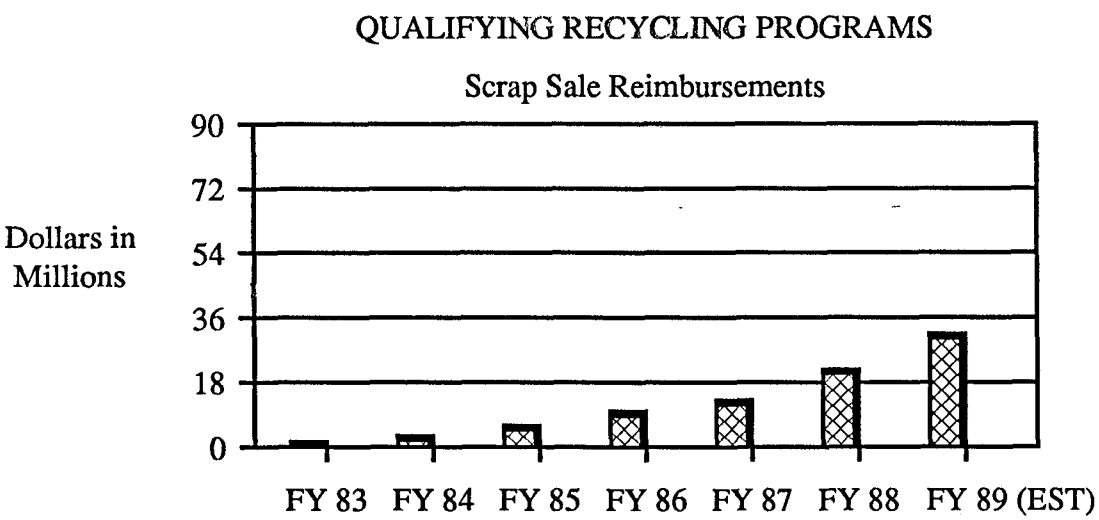

Figure 2

Increases in total scrap sales are at least partly attributable to increases in the total quantity of scrap material disposed of. The quantity of scrap material received monthly fluctuates depending on seasonal processing and the accumulation and turn-in of scrap materials by installations. We calculated a 12-month moving average of scrap material receipts for the period October 1985 through June 1989, and plotted these data for the 12-month periods ending September 1986 through June 1989. Figures 3, 4, and 5 illustrate the results for ferrous metals, nonferrous metals, and the nonmetallic scrap categories, respectively. All three commodity groups experienced growth during this period. Proceeds from the sale of nonferrous metal, for example, aluminum and brass shell casings, that were previously deposited as miscellaneous receipts to the Treasury, are a significant source of revenue for the recycling program.

FERROUS SCRAP RECEIPTS

12 Months Average

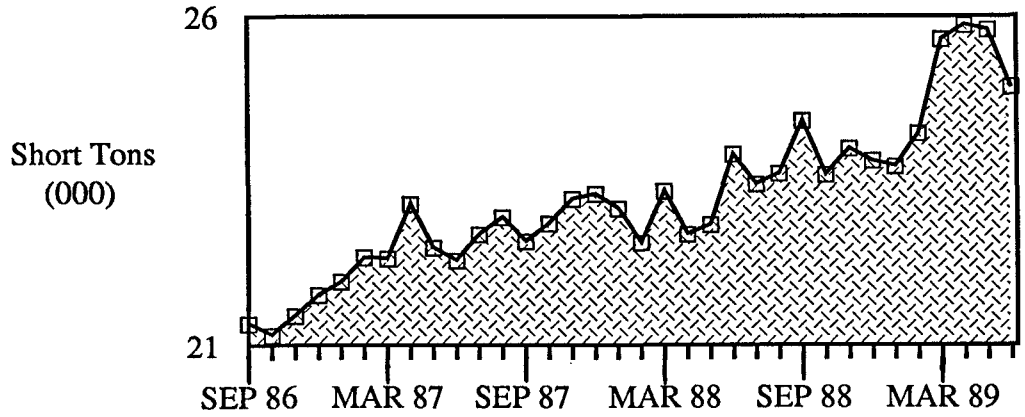

Figure 3

NONFERROUS SCRAP RECEIPTS

12 Months Average

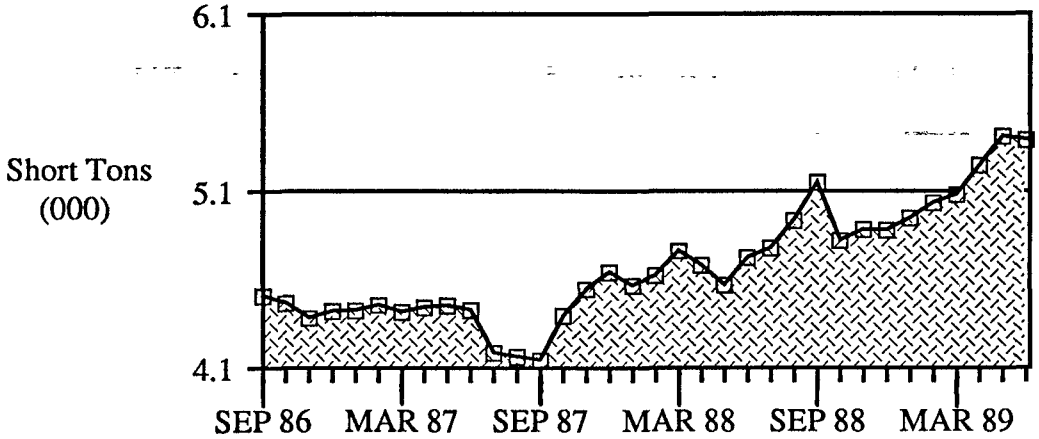

Figure 4

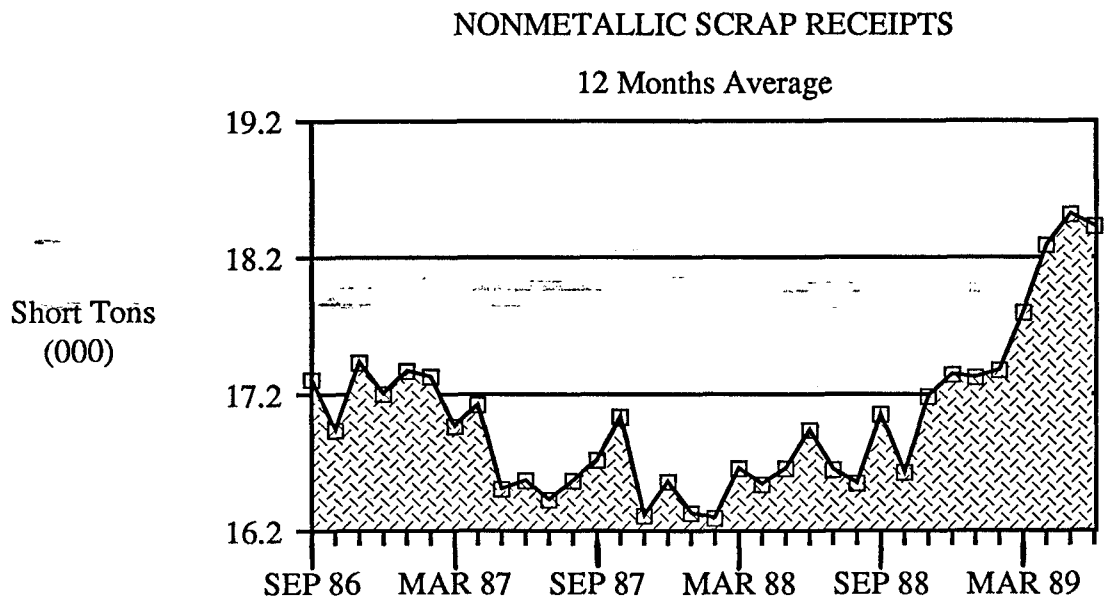

Figure 5

Services' and Installations' Implementing Regulations. Each of the Services has issued implementing regulations for the recycling program. Service regulations governing recycling programs are contained in Army Regulation 420-47, "Solid and Hazardous Waste Management"; Chief of Naval Operations Instruction (OPNAVINST) 5090.1, "Environmental and Natural Resources Protection Manual"; and Marine Corps Order P11000.8, "Real Property Facilities Manual, Volume V." Air Force regulations are contained in various directives including Air Force Regulation 215-8, "Morale, Welfare, and Recreation (MWR) Activities - MWR Logistics Support," Air Force Regulation 176-10, "Financial Operations and Accounting Procedures," and Air Force Regulation 177-102, "Commercial Transactions at Base Level." The Navy and Marine Corps regulations are the most comprehensive. None of the Service regulations establish a formal process to qualify an installation's recycling program.

Except for the Air Force, the Services' regulations require that installations, in coordination with the local Defense Reutilization and Marketing Office, conduct an economic analysis to determine the feasibility and cost-effectiveness of establishing qualified recycling programs. The analysis should include a review of the potential market for recyclable commodities, the anticipated revenue from the sale of recyclable materials, and the additional and avoided costs of operation. The recent Air Force Audit Agency report (Project No. 8285211, "Morale, Welfare, and Recreation Participation in the Resource Recovery and Recycling Program," May 2, 1989) commented on the lack of Air Force procedures in this area, and corrective action was promised.

Feasibility studies and economic analyses had been conducted at only 8 of the 31 activities visited during our review. At 6 of the 31 activities, local regulations or written operating procedures had not been published and at another 12 installations, written policies and operating procedures were in draft form. Formal installation regulations varied from a basic restatement of the provisions of Public Law 97-214 to detailed procedures assigning specific responsibilities. Examples are listed below.

- At Fort Benning, Georgia, the installation regulation provides for the designation of a program manager, describes operating procedures and record keeping requirements for the quantity and types of material included in the program and for the accountability of the proceeds received and distributed. It also provides for the identification and recoupment of program costs, and includes procedures for the review and approval of projects to be funded from program proceeds.

- At Fort Gordon, Georgia, the installation commander assigned responsibility for the recycling program to the Directorate of Installation Support. While the program has been in existence since fiscal year 1983, an economic analysis or a feasibility study has not been performed and there is no local regulatory guidance to support the establishment, operation, and management of the recycling program.

- At Scott Air Force Base, Illinois, the installation commander assigned the recycling program to the Chief, Morale, Welfare and Recreation activity. The program was established in 1987 without the benefit of an economic analysis or local regulatory guidance. The program consists primarily of scrap metal materials. According to disposal office personnel, there is a potential market for paper and cardboard scrap, but these items are currently included in the base trash and removed by a commercial contractor. The installation has not determined the feasibility of selling these commodities under the recycling program.

- Installation personnel at the Naval Air Station, Jacksonville, indicated that a regulation for the establishment and operation of a recycling program was in draft stage for several years and they did not know when the regulation would be finalized. Waste oil was recycled since 1985 and a cost analysis, performed in 1987, indicated that waste oil and scrap metals were the only cost-effective recyclable materials. Glass, aluminum cans, and paper, individually, were not considered cost-effective for recycling by the installation although the local disposal office indicated that there was a potential for marketing these items in a cost-effective manner.

In December 1988, the Services published a draft revision to a 1978 Solid Waste Management planning guide. This revision added a section detailing program and procedural guidance for the

recycling program, that was originally based on the Navy regulation, OPNAVINST 5090.1. The document provides comprehensive discussions on the legal requirements, criteria, and procedures for program development; feasibility and economic evaluations; types of commodities to be considered for inclusion; and suggested policy and operating procedures. The revision had not been issued at the time of our review. However, the Services indicated that when published, the provisions of this document would be the primary guidance relating to solid waste management, including the recycling program.

Segregation of Recyclable Materials. The DoD guidance, Service regulations, and publicity literature on the recycling program promote the segregation (primarily source separation) of scrap materials to reduce costs and to enhance the marketability of the materials. Even when the program was not formally structured, installation personnel at most of the activities visited segregated material before turn in to the disposal office. Proper segregation and turn-in procedures were not followed at 6 of the 31 installations. For example, during our review at Fort Irwin, California, we observed large quantities of recyclable metal, including aluminum, steel, wire, and expended shell casings, at the installation's sanitary landfill. Installation personnel estimated that this scrap material weighed 120 tons. In 1988, the Army Environmental Hygiene Agency recommended that the sanitary landfill be excavated and that all hazardous waste be removed. In addition to removing all hazardous materials from the landfill, installation personnel uncovered, sorted, and reburied tons of recyclable scrap material--primarily scrap metals. Installation personnel could not explain why the materials were reburied instead of disposed of under the recycling program. In contrast, although formal regulatory guidance had not been established at the Army Yuma Proving Grounds, Arizona, an aggressive program for the identification, collection, and segregation of scrap material has been established under centralized direction. Significant quantities of scrap steel shell casings have been recovered, certified inert, and promptly processed through the local disposal office. Areas had been designated as scrap collection points for other metal products and waste oil. The distance from the installation to recycling markets has limited the program proceeds at this installation.

Program Costs. Public Law 97-214 and the January 1983 DoD guidance require that the expense of operating the recycling program be accumulated and reimbursed from the proceeds of the sale of recyclable materials, prior to any other disposition of the proceeds. The Services' regulations include this requirement and describe the necessary financial transactions for accumulating and reimbursing the costs of operation and program improvements, including equipment purchases, to enhance the program.

At 16 of the 31 installations visited, costs of operating the program were accumulated and properly charged to the recycling program before distribution of the proceeds to environmental and morale, welfare, and recreation projects. Most of the costs that were incurred in operating the programs were personnel costs for employees specifically hired to collect, segregate, and process materials to the local disposal offices in order to enhance the marketability of the recyclable material and to increase the proceeds received. Personnel costs were initially funded from either appropriated or nonappropriated sources and reimbursement was made from the program proceeds when the funds were available for distribution. The balance of the costs were for equipment, physical improvements to the storage and segregation work areas, related contracts, and other operating costs (telephone, utilities, supplies). These costs were also reimbursed from the program proceeds.

Of the 16 activities where program expenses were accumulated, costs exceeded proceeds at only 1 installation visited during our review. At the Navy Ships Parts Control Center, Pennsylvania, proceeds from the sale of recyclable materials exceeded the costs to operate the program during fiscal year 1985, the first year of operation. Subsequently, the costs (personnel costs) have exceeded the proceeds. There is a limited range of recyclable commodities at this installation; however, economic analyses were not done to determine the reasonableness of the costs and the overall benefits achieved from the program, including avoided costs and environmental improvements.

Program costs at installations varied depending on the type and amount of potential recyclable commodities, the emphasis given to the program, and the organizational structure of the installation program. Of the 16 installations where cost data were accumulated, the largest average annual costs were at Kelly Air Force Base, Texas ($231,000); Fort Benning, Georgia ($147,000); and the Norfolk Naval Base, Virginia ($392,000). Since the program's inception, the Norfolk Naval Base has acted as the single installation for managing the recycling program for 16 individual Naval activities in the Norfolk, Virginia, area. The largest cost category is for contract services to collect, segregate and process material throughout the activities. Excluding the costs at the Norfolk complex, the average cost for the remaining 15 installations was about $55,000 annually.

At 15 of the 31 installations reviewed, including 8 that started the program in 1987 or 1988, program costs were not identified and accumulated. Costs were not identified and accumulated because accounting procedures had not been established, and because installation management considered that processing recyclable materials was a continuation of their normal operations of disposing of excess material and waste, additional personnel (appropriated or nonappropriated) had not been allocated to the function, and any marginal cost increases could not be easily or economically identified. For example, the

responsibility of managing the recycling program at Davis-Monthan Air Force Base, Arizona, was assigned to the Chief of the Morale, Welfare and Recreation activity, who was primarily involved in the receipt and disposition of sales proceeds. There was no central management of the identification, collection, and segregation of scrap material that was turned in by the various units on base, and there was no method of determining whether all scrap material was included in the recycling program. A large portion of the proceeds resulted from the sale of expended 30 millimeter aluminum shell casings. Installation personnel indicated that only minor additional costs were incurred because scrap metal material was always sent to the local disposal office for sale and no significant additional efforts to operate the program were made. The only difference under the recycling program was that the proceeds were returned to the installation instead of deposited into the Treasury as miscellaneous receipts.

Program Proceeds. Proceeds from the sale of recyclable materials are deposited into the recyclable materials F3875 Budget Clearing Account (Suspense), are subsequently returned to the generating installations (see Finding B), and are used to pay operating costs and fund authorized projects. At the 31 installations visited, we tested procedures for the receipt and disbursement of proceeds and found them adequate. We were able to account for the proceeds deposited to the suspense account and for the transfer of funds from the suspense account to finance installation projects.

The Services' regulations require that installations establish procedures requiring review and approval of all projects funded with sales proceeds from recyclable materials, and that the review consider all projects as if they were funded from normal appropriations. At 18 of the 31 installations, procedures for the review and approval process were informal or did not exist, and, at some locations, required only the local program manager's approval. In our review of project expenditures, however, we found that all projects funded were within the general purposes described in Public Law 97-214.

From the beginning of fiscal year 1986 through the first 6 months of fiscal year 1989, 14 of the installations had funded authorized projects from net proceeds totaling $4.85 million. At the other 17 installations, the recycling program had recently started, net proceeds were not significant, or funds were being accumulated and held for program enhancements. Of the $4.85 million, morale, welfare and recreation projects accounted for $3.79 million (78 percent). The remainder financed projects for pollution abatement, energy conservation, and occupational safety and health activities.

Although not required by the language in Public Law 97-214, the January 1983 Deputy Secretary of Defense guidance memorandum provided that projects for pollution abatement, energy conservation, and occupational safety and health activities are

not to be included in the normal military construction program if sufficient recycling proceeds are available at the installation needing the projects. None of the Service regulations on the recycling program include this provision; however, the Navy budget regulation (Navy Comptroller Manual, Volume 7) provides that, to the extent these funds are available, appropriated funds may not be budgeted for such expenses. None of the installations included in this review observed these stipulations. In May 1988, the Commander, Air Force Logistics Command, urged the Air Logistics Centers to use appropriated funds for these purposes and to use all net proceeds of the recycling program for morale, welfare and recreation activities.

Industrial Funds. Industrial funds are revolving, capital funds established to initially finance certain types of work or services funded by other appropriations. Industrial fund activities provide maintenance, overhaul, and modernization of ships, airplanes, weapons, equipment and components; and they provide other services, including transportation of personnel and materials in accordance with applicable DoD and Service regulations. Industrial fund activities were located at 14 of the installations visited during this review. Industrial fund activities involved in maintenance, overhaul, and modernization of weapon systems, equipment and components generate significant amounts of recyclable materials.

Public Law 97-214 and the legislative history make no mention of recyclable materials generated through industrial fund operations. The January 1983 Deputy Secretary of Defense memorandum stated that the policies and instructions applied to all installations, including those that operate under industrial funds. The policy concerning the disposition of proceeds from the sale of scrap material turned in by industrial fund activities was clarified in April 1983 by the Deputy Assistant Secretary of Defense (Management Systems), in coordination with the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics). This clarification provided, in part, that an industrial fund activity is entitled to 100 percent of the proceeds from the sale of scrap it turns in to disposal offices, provided scrap was generated, collected, or otherwise obtained as part of an industrial fund activity's normal operations. DoD 7410.4-R, "Industrial Fund Operations," provides that net proceeds from the sale of scrap (for example, short ends, machinings, spoiled materials) generated from industrial fund operations shall be credited to the industrial fund. The value of "rip-out" scrap should be applied as a cost reduction to the specific customer order generating the scrap.

The crediting of proceeds for recyclable materials generated through industrial fund operations has been interpreted in different ways by the Services and inconsistently applied at the installations. Except for the Navy, none of the Service regulations on the recycling program address industrial fund operations. OPNAVINST 5090.1 contains the January 1983 Deputy

Secretary of Defense memorandum provision that all installations, including those that operate under industrial funds, may participate in the program. However, the Navy industrial fund activities that we visited no longer transfer proceeds from the sale of recyclable scrap materials to nonappropriated fund activities as they had in the past. For example, the Naval Aviation Depot North Island (NADEP), California, a Navy industrial fund activity, generates large quantities of recyclable materials from the maintenance and overhaul of weapon systems and equipment. As provided in the January 1983 Deputy Secretary of Defense memorandum, NADEP accumulated proceeds from the sale of this material under the recycling program and made distributions totaling $65,000 during 1983 and 1984 to the Welfare and Recreation Fund at the Naval Air Station, North Island. In 1984, the Navy Accounting and Finance Center issued a memorandum concerning the proper use of proceeds from the sale of scrap generated from industrial fund activities. This guidance reiterated the policy provided by the Deputy Assistant Secretary in April 1983 and stated that proceeds from the sale of recyclable materials made from industrial fund generated scrap cannot be used for morale, welfare and recreation purposes. These proceeds must go back to the industrial fund to offset the cost of operations. At the time of our visit, proceeds from scrap and items financed through the industrial fund were being credited to the industrial fund. Proceeds from the disposal of other recyclable materials not financed through the industrial fund (for example, obsolete and nonrepairable components) were credited to the Treasury.

The Tooele Army Depot, Utah, an industrial fund activity, generates recyclable material consisting of unusable parts, machining scrap, and material from components that are uneconomical to repair. This material is turned in to the local disposal office for sale under the recycling program, and net proceeds are distributed by the installation to morale, welfare and recreation projects. Much of the material is identified as Army Industrial Fund scrap on the turn-in documents, but the turn-in documents are annotated by installation personnel with the recycling program reimbursement fund citation, instead of the industrial fund citation. According to installation personnel, these procedures were established in April 1988 in part, to offset the costs of the recycling program, which is not operated by industrial fund personnel. Prior to that time, proceeds were credited to the industrial fund.

Tooele Army Depot also demilitarizes ammunition and other items with funds provided by the Army Armament, Munitions and Chemical Command (AMCCOM). The demilitarized material is sold using the recycling program funding citation for reimbursement, with a distinctive suffix, F3875(A). Proceeds subsequently received are transferred to AMCCOM to offset the cost of the demilitarization process. Although the proceeds are used to offset demilitarization costs, DRMS includes them as recycling program proceeds, overstating the results of the program. This situation

also applies to the Letterkenny Army Depot, Pennsylvania, and the Pine Bluff Arsenal, Arkansas. At the Pine Bluff Arsenal, most of the proceeds are part of the ammunition demilitarization program and are ultimately recovered by AMCCOM.

At Davis-Monthan Air Force Base, Arizona, an industrial funded facility is operated for the reclamation of aircraft systems and parts. The proceeds for recyclable materials from this operation are credited to the industrial fund. At Kelly Air Force Base, Texas, the Directorate of Maintenance, San Antonio Air Logistics Center, operates a large, industrial funded maintenance and overhaul activity, which generates a significant volume of recyclable material. The material consists of scrap and nonserviceable consumable items in addition to uneconomically repairable or obsolete investment items. Except for investment items, the material is turned in by the Directorate of Maintenance to the local disposal office for sale and reimbursement to the industrial fund. Recyclable type investment items, for example, equipment and components not funded through the industrial fund, are transferred to the Directorate of Distribution for removal from the accountable records of the Air Logistics Center. This condemned material is sold by the local disposal office with reimbursement to the recycling program fund citation. Proceeds are available for distribution to the morale, welfare and recreation projects. According to DRMS records, the installations for the five Air Logistics Centers, under the Air Force Logistics Command, accounted for $2.8 million of $8 million total Air Force proceeds in fiscal year 1988.

Conclusion. There has been an increased participation by DoD installations in the recycling program in recent years and program proceeds have substantially increased. DoD program policy guidance, which has not been included in regulations or updated since the program's inception in 1983, was being inconsistently applied at certain installations that generate significant quantities of recyclable materials. Also, most installations had not performed feasibility studies or economic analyses to determine the cost-effectiveness of establishing recycling programs for specific commodities, and at some installations, program costs were not identified. In our opinion, more comprehensive and formal DoD policy and procedural guidance would increase the efficiency and effectiveness of recycling programs.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Assistant Secretary of Defense (Production and Logistics) develop formal policy guidance for the recyclable materials program, to include:

1. A requirement that installations issue formal regulations and conduct feasibility studies before qualifying for use of program proceeds, and

2. Consistent treatment of recyclable material proceeds at DoD industrial fund organizations.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

The Assistant Secretary of Defense (Production and Logistics) did not provide comments to the draft report. We request that the Assistant Secretary provide comments in response to the final report.

B. Proceeds and Status Reporting for the Recycling Program

FINDING

The personal computer application program (Automated Proceeds Tracking System) developed by the Defense Reutilization and Marketing Service (DRMS) did not provide for timely and efficient reporting of the status of recyclable materials or for the distribution of proceeds to installations. Cross disbursement procedures used to transfer proceeds to installations were time-consuming and inefficient. These conditions existed because the application program had no procedures to provide for the automated reporting of the status of recyclable materials or the receipt and distribution of proceeds to installations; and because cross disbursement procedures required manual review, validation, and input of hard-copy documentation at multiple accounting and finance offices prior to transferring the proceeds to installations. The lack of timely and efficient reporting is a deterrent to the efficient operation and enhancement of installation recycling programs.

DISCUSSION OF DETAILS

Background. Installations identify, segregate, and turn in recyclable materials to local Defense Reutilization and Marketing Offices (DRMO's) where they are accumulated until economic quantities are available for sale. DRMS has developed several sales methods, depending primarily on the types and accumulation rates of the materials. Installations that generate small quantities of recyclable material can use local sales by the DRMO or be included in nationally advertised sealed bid sales through the Defense Reutilization and Marketing Regions (DRMR's). Generally, for installations with large quantities of scrap material, nationally advertised sealed bids and term sale contracts are issued. Term sale contracts provide for monthly, or more frequent, removal of the materials. Term sale contracts are awarded annually with proceeds based on a proportion of the regional or metropolitan area advertised price for awarded commodities. Typically, 5 to 7 months are needed to accumulate, advertise, award, receive payment, and remove the material before the proceeds are distributed to the installations that generated the materials.

Proceeds from local sales are received in full at the time of the sale and forwarded to the local accounting and finance office. Proceeds from term sales and national sales are received in several installments. Payments for national sales are made in three installments. A 20-percent deposit included with the bid is deposited into the X6875 Deposit Fund Account (Suspense) at the accounting and finance office servicing the DRMR and held pending final reconciliation of the contract line item. The balance of the line item sales price is paid before the material is removed. These proceeds are direct deposited into the

F3875 Budget Clearing Account (Suspense), which is cited on the installations' turn-in documents, using established cross disbursement procedures. A reconciliation payment for the difference between the actual and advertised sales quantity is also deposited into the X6875 account. The local accounting and finance office then issues a check for the bid deposit and reconciliation payment directly to the installations that turned in the material. Payments for term sales are made after the material is picked up and the actual quantity has been determined. These proceeds are direct deposited to the F3875 account and paid to the installation under the cross disbursement procedures.

The May 1988 DoD Inspector General Report of Investigation stated that there was a lag of 6 to 18 months between the time recyclable materials were turned in and the time the proceeds were received at the installations. The report recommended the more timely return of proceeds and implementation of the DRMS personal computer application program to report sales proceeds and provide status reports to installations. The Defense Logistics Agency agreed and stated that corrective action would be taken. The May 1989 Air Force Audit Agency report stated that it took an average of 7 months (range 4 to 17 months) from the time payment was received until installations generating the recyclable material received the funds.

Automated Proceeds Tracking System. DRMS developed the Automated Proceeds Tracking System in March 1988 as an interim method of tracking the sale of materials from the issuance of the Invitation for Bid through the collection and distribution of the proceeds. The proceeds tracking system will be replaced by the Defense Reutilization and Marketing Automated Information System (DAISY) which, when fully implemented in fiscal year 1991, should provide the capability to track material from the time the material is turned in to the disposal offices until the proceeds are collected and distributed.

The proceeds tracking system was a short-term solution for providing greater visibility of the recyclable materials offered for sale, and the ultimate receipt and distribution of the sales proceeds. Information cataloged in the proceeds tracking system is manually input from several source documents, and the system offers little flexibility or ease of use for the limited number of trained personnel. The proceeds tracking system has received limited use by the DRMR's and has not generated reports providing status on the sale of recyclable materials or the distribution of sale proceeds to installations.

At the time of our review, the DRMR's had posted pre-award contract data to the data base for limited periods of time: fiscal year 1988 data at the Columbus region; fiscal year 1989 data at the Ogden region; and fiscal year 1988 and 1989 data at the Memphis region. None of the regions had posted collection or distribution data. According to DRMR personnel, use of the

system had been given a low priority because of its limited contribution to the mission and because of personnel and time constraints.

The Automated Proceeds Tracking System was also intended to allow the DRMR's to mechanically generate internal monthly statistical reports showing the volume of proceeds collected and distributed to installations. Since payment data were not entered into the system, this information could not be mechanically summarized. At the time of our review, the system had no provisions to generate these reports, and consequently, these reports had to be manually compiled from copies of cash collection vouchers.

Cross Disbursement Procedures. Since the beginning of the recycling program in fiscal year 1983, DRMR's have distributed proceeds from the sale of recyclable materials by issuing checks from the local accounting and finance office servicing the DRMR's directly to the generating installations. The three CONUS disposal regions began crediting recycling program proceeds under cross disbursement procedures between March 1987 and March 1989. Cross disbursements (Transactions For and By Others) transfer cash collections between the Services by using a paper transaction process, eliminating the need to issue and reconcile check disbursements.

Checks, when used as a method of transferring cash collections, require less than 2 weeks to process. Cross disbursement procedures require a minimum of 2 months and can take 6 months or more to process. When considering the time required for accumulation and sale, the total time between turn in of the materials and the receipt of proceeds is significant. Numerous complaints were made by installations that have not received the proceeds that they had anticipated receiving. Installations are provided no information regarding the status of the sale of their recyclable material or the amount of proceeds actually received from the sales, thereby hampering their ability to operate and enhance successful recycling programs. Some installations rely on these proceeds to reimburse daily operating expenses of their programs, particularly personnel costs.

The inter-Service cross disbursement process is largely a manual system by which cash collection vouchers are reviewed for accuracy, and appropriate accounting data are manually entered into the accounting system for consolidation with other cross disbursement transactions. Collection vouchers and a consolidated summary report are mailed to the appropriate Service accounting and finance center. Because DRMS disposal sales are accounted for through the Army, cross disbursements for Army installations with recycling programs are processed differently than cross disbursements for other Services. Cross disbursement transactions relating to the recycling program represent about 1 percent of the total cross disbursement transactions processed by the Services.

Army. The accounting and finance offices supporting the DRMR's provide financial summary reports to the Army Finance and Accounting Center (USAFAC) in Indianapolis, Indiana, in order to record the transfer of funds to the Treasury. Accounting and finance offices also mail cash collection vouchers and a financial summary report directly to Army installations. Installations report the receipt of these cash collection vouchers to USAFAC where they are mechanically matched with the financial data provided by the accounting and finance offices. Rejected transactions are reported to the appropriate accounting and finance office for research and correction.

Navy, Air Force, and Marine Corps. Cash collection vouchers for the Navy, Air Force, and Marine Corps are processed under cross disbursement procedures that require the accounting and finance offices to provide copies of cash collection vouchers and a financial summary report to USAFAC. After validation and manual entry into the USAFAC accounting system, the information is resummarized, sorted, and mailed with the cash collection vouchers to the Air Force Accounting and Finance Center (AFAFC), Denver, Colorado, and the Navy Regional Finance Center (NRFC), Great Lakes, Illinois. These accounting and finance centers review, validate, and manually input appropriate accounting data into their accounting systems. Financial summary reports and the cash collection vouchers are sent by AFAFC directly to Air Force generating installations. Navy procedures require additional processing by the authorization accounting activities that maintain the official accounting records before sending the financial summary reports and cash collection vouchers to Navy generating installations. Marine Corps cash collection vouchers are also processed through the Navy Regional Finance Center, Great Lakes, and sent to Marine Corps Headquarters, Washington, D.C. Proceeds from the sale of material are distributed by Marine Corps Headquarters when installations request either reimbursement for the cost of their recycling programs or funds for authorized projects.

Revised Cross Disbursement Procedures. DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Personal Property," November 15, 1984, requires that the proceeds from the sale of recyclable materials be deposited to the F3875 Budget Clearing Account (Suspense) and processed under the established cross disbursement procedures. A revision to this Instruction, not yet issued at the time of our review, adds a provision that installations will receive an advance copy of the cash collection voucher from the finance and accounting office receiving the sales proceeds. This copy is to be used to establish an undistributed collection account, and to follow up as necessary, until receipt of the voucher copy through the cross disbursement procedures. However, the proceeds are not available to fund the costs of the program or to fund authorized programs until the cross disbursement process is completed.

Conclusion. Proceeds from the sale of recyclable materials are returned to generating activities as an incentive to establish recycling programs that would further reduce the waste stream, prevent pollution, and conserve natural resources. The sales process requires from 140 to 200 days to accumulate and sell scrap material that is turned in to the local disposal office. The Automated Proceeds Tracking System, developed by the DRMS, is not used to provide timely and efficient reports of the status of the disposition of recyclable materials or the distribution of proceeds from the sale of these recyclable materials to installations participating in the recycling program. Necessary changes to the existing system would be time-consuming and counterproductive in view of the implementation of the DAISY during fiscal years 1990 through 1991. This system is anticipated to provide the ability to track materials through the disposal process and improve the efficiency of the sale process. However, these improvements cannot increase the timeliness or efficiency of the cross disbursement processes that are controlled by the Service accounting and finance centers. Near-term improvements to fully automate the cross disbursement process are neither anticipated nor currently planned, and long processing delays are expected to continue.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Defense Reutilization and Marketing Service, discontinue use of the Automated Proceeds Tracking System.

2. We recommend that the Comptroller of the Department of Defense revise DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Personal Property," to provide that proceeds from the sale of recyclable material be distributed by checks to scrap-generating installations, removing the requirement to use cross disbursement procedures.

MANAGEMENT COMMENTS

The Acting Deputy Comptroller, Defense Logistics Agency, concurred with the finding and Recommendation B.1. The Automated Proceeds Tracking System is anticipated to be discontinued by February 1990. Appendix H contains the full text of the Defense Logistics Agency comments.

The DoD Deputy Comptroller (Management Systems) concurred with the intent of expediting the distribution of collections from the sale of recyclable materials, but nonconcurred with Recommendation B.2. The Deputy Comptroller indicated that an alternate method of expediting the return of the sales proceeds had been adopted with the reissuance of DoD Instruction 7310.1, dated July 10, 1989. This alternative corrective action requires that the finance and accounting office receiving the sales proceeds provide a copy of the cash collection voucher to the installation that turned in the property. The advance copy of the collection voucher can then be used by the fiscal station

supporting the installation generating the scrap to follow up on timely distribution of the proceeds through the cross disbursement process. The Comptroller also noted that the X6875 Deposit Fund Account (Suspense) is inappropriate because the account is to hold undistributed collections held for payment to the public, and the Treasury considers this account a liability when calculating cash requirements. Appendix G contains the full text of the Deputy Comptroller's comments.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Acting Deputy Comptroller, Defense Logistics Agency, concurred with Recommendation B.1. and will discontinue the use of the Automated Proceeds Tracking System by February 1990. We consider this action responsive.

We do not consider the DoD Deputy Comptroller's proposed action on Recommendation B.2. to be responsive. Although the Deputy Comptroller concurred with the intent of the finding to expedite the distribution of proceeds from the sale of recyclable materials, the alternate method cited will not accelerate fund availability to the generating installations.

The alternate method of expediting the return of sale proceeds adopted with the reissuance of DoD Instruction 7310.1 requires that an advance copy of the cash collection voucher be sent to the installation generating the scrap material. While this advance copy of the cash collection voucher provides installations with appropriate documentation to follow up until distributions are received, this advance copy of the cash collection voucher will not expedite the transfer of sale proceeds through the time-consuming cross disbursement process. An installation cannot distribute these proceeds upon receipt of the advance copy of the cash collection voucher, but must wait until the cash collection voucher is processed through existing cross disbursing procedures. The cross disbursing processing time will continue to be 6 or more months for other than Army installations, and with the additional research required to respond to installation requests, processing time may actually increase. Based on the Deputy Comptroller's comments on the use of the X6875 account, we have deleted this reference from the recommendation.

We are requesting that the Deputy Comptroller provide comments on this final report defining a specific alternative that would expedite the return of sales proceeds to installations generating the scrap materials or reconsider the use of checks to distribute the proceeds to installations that generate the recyclable materials.

RECYCLING PROGRAM STATISTICAL DATA

Proceeds From Sale of Recyclable Materials ($000)

	Army	Navy	Air Force	Marines	Other	Total
FY 1987	$5,169	$2,114	$5,179	$549	$0	$13,011
FY 1988	$8,735	$3,397	$7,961	$1,485	$59	$21,637
FY 1989 1/	$12,898	$5,564	$9,923	$2,565	$419	$31,369

Activities Receiving Proceeds During FY 1988

Stratum	Army	Navy	Air Force	Marines	Other	Total
Over $100,000	26	5	20	5	0	56
$10,000-$100,000	29	23	47	8	1	108
Under $10,000	67	45	61	2	8	183
Total	122	73	128	15	9	347

Activities Visited Receiving Proceeds During FY 1988

Stratum	Army	Navy	Air Force	Marines	Other	Total
Over $100,000	4	3	3	2	0	12
$10,000-$100,000	3	3	4	1	0	11
Under $10,000	3	3	1	1	0	8
Total	10	9	8	4	0	31

1/ Nine months of sales annualized for comparative purposes.

RECYCLING PROGRAM PROCEEDS PER DRMS RECORDS FOR INSTALLATIONS VISITED

Army	FY 1987	FY 1988	FY 1989 (8 MONTHS)
Fort Lee	$18,269	$1,309	$6,472
Fort Benning	359,373	1,051,148	488,104
Fort Gordon	32,345	95,978	53,457
Fort Irwin	23,342	30,579	138,792
Fort Leonard Wood	160,413	128,773	46,922
Fort Rucker	4,149	2,218	20,341
Letterkenny Army Depot 1/	46,508	75,471	569,474
Pine Bluff Arsenal 1/	516,942	560,928	64,853
Tooele Army Depot 1/	219,364	210,672	620,252
Yuma Proving Grounds	5,249	523	18,633
Total Army Sites	$1,385,954	$2,157,599	$2,027,300
Navy			
Naval Air Station, Jacksonville	$122,577	$4,964	$369
Naval Aviation Depot, North Island 2/	0	40,033	0
Naval Base, Norfolk 3/	647,333	998,141	1,329,958
Naval Station, Charleston	0	30,718	59,786
Naval Station, Long Beach 4/	323,212	100,513	0
Naval Submarine Base, Bangor 5/	15,464	249,251	22,615
Naval Supply Center, San Diego	0	2,647	694
Naval Weapons Support Center, Crane	0	8,581	26,830
Ships Parts Control Center	29,638	39,749	78,871
Total Navy Sites	$1,138,224	$1,474,597	$1,519,123

1/ Reported proceeds are significantly overstated; includes proceeds subsequently reclaimed by Army Armament, Munitions and Chemical Command to fund the demilitarization program.
2/ Proceeds credited to the industrial fund, but reported in error as recyclable program proceeds.
3/ Represents consolidated proceeds for 16 activities in the Norfolk, VA area, including 2 major industrial activities.
4/ Actually represents proceeds for the Naval Shipyard, Long Beach.
5/ FY 1988 reported proceeds are substantially overstated. According to installation records, proceeds earned in FY 1988 were about $24,000.

RECYCLING PROGRAM PROCEEDS PER DRMS RECORDS FOR INSTALLATIONS VISITED (continued)

Air Force	FY 1987	FY 1988	FY 1989 (8 MONTHS)
Davis-Monthan Air Force Base	$96,597	$584,349	$113,498
Dover Air Force Base	0	5,543	10,230
Kelly Air Force Base	650,681	775,173	415,275
Kirtland Air Force Base	66,733	179,602	41,912
Little Rock Air Force Base	65,456	43,862	45,273
Loring Air Force Base	3,884	10,371	33,319
Richards-Gebaur Air Force Base	0	31,917	1,055
Scott Air Force Base	0	31,676	22,124
Total Air Force Sites	$883,351	$1,662,493	$682,686
Marine Corps			
Camp Lejeune	$0	$346,226	$299,784
Camp Pendleton	104,939	250,700	617,978
Marine Corps Air Station, Cherry Point	5,086	31,373	66,854
Marine Corps Logistics Base, Albany	28,102	8,120	41,208
Total Marine Corps Sites	$138,127	$636,419	$1,025,824
Total Sample Sites	$3,545,656	$5,931,108	$5,254,933

MILITARY CONSTRUCTION CODIFICATION ACT
PUBLIC LAW 97-214 - JULY 12, 1982
EFFECTIVE OCTOBER 1, 1982

Section 2577. Disposal of Recyclable Materials

(a)(1) The Secretary of Defense shall prescribe regulations to provide for the sale of recyclable materials held by a military department or defense agency and for the operation of recycling programs at military installations. Such regulations shall include procedures for the designation by the Secretary of a military department (or by the Secretary of Defense with respect to facilities of a defense agency) of military installations that have established a qualifying recycling program for the purposes of subsection (b)(2).

(2) Any sale of recyclable materials by the Secretary of Defense or Secretary of a military department shall be in accordance with the procedures in section 203 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 484) for the sale of surplus property.

(b)(1) Proceeds from the sale of recyclable materials at an installation shall be credited to funds available for operations and maintenance at that installation in amounts sufficient to cover the costs of operations, maintenance, and overhead for processing recyclable materials at the installation (including the cost of any equipment purchased for recycling purposes).

(2) If after such funds are credited a balance remains available to a military installation and such installation has a qualifying recycling program (as determined by the Secretary of the military department concerned or the Secretary of Defense), not more than 50 percent of that balance may be used at the installation for projects for pollution abatement, energy conservation, and occupational safety and health activities. A project may not be carried out under the preceding sentence for an amount greater than 50 percent of the amount established by law as the maximum amount for a minor construction project.

(3) The remaining balance available to a military installation may be transferred to the nonappropriated morale and welfare account of the installation to be used for any morale or welfare activity.

(c) If the balance available to a military installation under this section at the end of any fiscal year is in excess of $2,000,000, the amount of that excess shall be covered into the Treasury as miscellaneous receipts.

LEGISLATIVE HISTORY
PUBLIC LAW 97-214

Subsection (b) amends Chapter 153 of title 10 - Exchange of Material and Disposal of Obsolete, Surplus or Unclaimed Property. Chapter 153 is amended by adding a new section 2577 titled "Disposal of recyclable materials." The source of the new section is section 612 of the Fiscal Year 1975 Military Construction Authorization Act, Public Law 93-552. This provision permitted the proceeds from the sale of recyclable material to be credited first to the cost of collecting and processing the materials and second to projects for environmental improvement and energy conservation. The new section retains these principles and expands them to provide incentive for installation commanders to have an aggressive material recycling program. The key incentive is the ability to transfer 50 percent of net proceeds to the nonappropriated morale and welfare account of the installation to be used for any morale or welfare activity. The provisions of section 2577 are reviewed by subsection as follows:

Subsection (a) of section 2577 permits the sale of recyclable materials. It requires the designation of military installations that have established a qualifying recycling program and it requires crediting proceeds from the sale of recyclable materials first to the costs for processing recyclable materials. It permits the use of 50 percent of the balance for projects for pollution abatement, energy conservation and occupational safety and health activities and the transfer of the other 50 percent to the nonappropriated morale and welfare account.

Subsection (b) limits the accumulation of excessive balances in the recyclable materials account and requires the transfer of excesses to the Treasury as miscellaneous receipts.

THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

28 JAN 1983

MEMORANDUM FOR SECRETARIES OF MILITARY DEPARTMENTS
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Sales of Recyclable Materials (10 U.S.C. 2577)

This is to provide guidance pertaining to DoD recycling programs pursuant to Section 2577 of Title 10, United States Code (as added by Section 6 of the Military Construction Codification Act, Public Law 97-214), enclosed. This new legislation, which became effective October 1, 1982, requires significant changes in DoD policies on the distribution of proceeds from sales of recyclable materials. DoD Directive 4165.60, Solid Waste Management, October 4, 1976, is being revised and will incorporate the policies contained in this memorandum. In the interim, if there is any conflict between DoDD 4165.60 and either Section 2577 of Title 10 or this memorandum, the provisions of the law and this memorandum shall govern.

Section 2577 provides increased incentive for military installations to establish and operate efficiently recycling programs that would further reduce our waste stream, prevent pollution, and conserve natural resources. With those goals in mind, we request that you issue supplemental instructions concerning the operation and establishment of qualifying recycling programs. The instructions must include procedures for designati installations that have established qualifying recycling programs for the purpose of using sales proceeds to finance pollution abatement, energy conservation, and occupational safety and health projects. The policies and instructions herein apply to all DoD installations, including those which operate under the industrial fund.

The Defense Logistics Agency (DLA) remains responsible for market research and sales for the military departments. DLA will return 100 percent of "recyclable materials" sales proceeds to the "installations" with "qualifying recycling programs" (see enclosure for definitions). Procedures governing sales of recyclable materials must be consistent with Section 203 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 484). Although the screening for utilization, transfer, and donation as described in DoD 4160.21-M is not required prior to offering recyclable materials for sale, such screening may occur at the discretion of the Director, DLA.

27680

Expenses of operating and improving recycling programs must be accumulated and reimbursed from proceeds of sales of recyclables prior to any other disposition of the proceeds. Projects such as those described in Section 2577 (b)(2) are not to be included in the normal military construction program if sufficient recycling program proceeds are available at the installations needing the projects.

Accumulation of proceeds from sales of recyclable materials is authorized only for installations with qualifying recycling programs. Funds collected from sales of recyclable materials shall be deposited to **F3875 "Budget clearing account (suspense)." These funds must be segregated within that account to ensure proper accounting as to the amounts collected and their disposition. The accumulation of funds in **F3875 is not affected by fiscal year end, so proceeds acquired during one fiscal year may be carried forward and merged with proceeds of subsequent fiscal years. Reimbursements to operation and maintenance accounts to cover the expenses of recycling programs shall be made from **F3875 as needed within a fiscal year. Funds remaining in **F3875 after reimbursement of expenses may be used only for projects and activities as described in Section 2577(b)(2) or may be disbursed to the morale and welfare account of the installation pursuant to Section 2577(b)(3) or both. If the balance of an installation proceeds remaining in **F3875 exceeds $2,000,000 at the end of a fiscal year, the amount in excess of $2,000,000 must be deposited into the U.S. Treasury as miscellaneous receipts.

Section 7 of the Military Construction Codification Act repealed Section 612 of the 1975 Military Construction Authorization Act and, thus, ended the requirement for the military departments to report annually to the Congress on the operation of recycling programs (Report Control Symbol DD-M(A) 1436, submitted annually in April). RCS DD-M(A) 1436 is canceled and should not be submitted for the Fiscal Year 1982 period.

Even though Section 2577 addresses only sales of recyclable materials, the military departments should consider closed loop recycling approaches (installation or intra- or interservice reuse) prior to offering materials for sale. Closed loop recycling will frequently offer the greatest economic and environmental benefits.

Paul Thayer

Paul Thayer

Enclosures

DEFINITIONS OF TERMS USED IN 10 U.S.C. 2577

- o Recyclable materials - Materials that normally have been or would be discarded (i.e., scrap and waste) and that may be reused after undergoing some type of physical or chemical processing. Recyclable materials do not include precious metal-bearing scrap and those items which may be used again for their original purposes or functions without any special processing; e.g., used vehicles, vehicle or machine parts, bottles (not scrap glass), electrical components, unopened containers of unused oil/solvent. Recyclable materials also do not include ships, planes, weapons, or any discarded material which must undergo demilitarization or mutilation prior to sale.

- o Qualifying recycling programs - Organized operations that require concerted efforts to divert or recover scrap or waste from waste streams, as well as efforts to identify, segregate, and maintain the integrity of the recyclable materials in order to maintain or enhance the marketability of the materials.

- o (Military) installation - A group of facilities, located in the same vicinity, which supports particular functions (e.g., trash collection and provision of utilities).

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D.C. 20301

COMPTROLLER
(Management Systems)

4 APR 1983

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY(IL&FM)
ASSISTANT SECRETARY OF THE AIR FORCE (FM)
COMPTROLLER OF THE NAVY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Disposition of Proceeds from Sales of Industrial Fund Scrap and Usable Property

We have been asked to clarify the DoD policy concerning the disposition of the proceeds from the sale of scrap and usable property turned in by industrial fund activities. We have developed the following in coordination with OASD(MRA&L):

- An industrial fund activity is entitled to 100 percent of the proceeds from the sale of scrap it turns in to Defense Property Disposal Offices, provided such scrap was generated, collected, or otherwise obtained as part of an industrial fund activity's normal operations. The proceeds from scrap which is donated or contributed to an industrial fund activity, however, will be turned in to the Treasury.

- An industrial fund activity is entitled to 100 percent of the proceeds from the sale of excess personal property which clears the Defense Property Disposal Service screening, provided such property was recorded as a capital asset of the activity and its acquisition cost has been recouped from customers (in whole or in part) through a depreciation charge to the cost of operations. Proceeds from the sale of personal property donated or contributed to an industrial fund activity will be turned in to the Treasury when the acquisition cost has not been recouped from customers (in whole or in part) through a depreciation charge to the cost of operations.

- An industrial fund activity may trade-in any eligible nonexcess personal property and apply 100 percent of any trade-in allowance toward the

purchase of a similar new item, provided the item traded-in was recorded as a capital asset of an industrial fund activity and its acquisition cost has been recouped from customers (in whole or in part) through a depreciation charge to the cost of operations.

All pertinent issuances must be revised to be consistent with these policy clarifications.

for, E. Rosen
Deputy Assistant Secretary of Defense

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

(Management Systems)

SEP 20 1989

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, INSPECTOR GENERAL, DOD

SUBJECT: Draft Report on the Review of the Disposal of Recyclable Materials (Project No. 9SL-5013)

By a DODIG memorandum, dated September 1, 1989, you requested the DoD Comptroller's comments and/or concurrence on the draft report on the subject audit. The report contained only one recommendation for the DoD Comptroller. The recommendation was to revise DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Personal Property," to provide that proceeds from the sale of recyclable material be deposited in the X6875 Deposit Fund Account (Suspense) and that a check be issued directly to scrap generating installations, removing the requirement to use cross disbursing procedures.

We concur in the intent of expediting the distribution of collections received from the sale of recyclable material. However, an alternate method of expediting the return has been adopted. The alternative corrective action is contained in a July 10, 1989, reissuance of DoDI 7310.1. The new policy requires that the finance and accounting office receiving the sales proceeds mail a copy of the cash collection voucher to the installation which turned in the property. The advance copy of the collection voucher can then be used by the fiscal station supporting the activity generating the scrap to follow up on timely distribution of the proceeds from F3875, "Budget Clearing Account (Suspense)." This action will accomplish the desired goal through cross disbursing procedures without the administrative effort required to issue Treasury checks to multiple installations and related check reconciliation efforts.

It is also noted that the use of X6875 "Deposit Fund Suspense" discussed in the report is inappropriate because the account is to hold undistributed collections held for payment to the public. The Department of the Treasury considers this account a liability in calculating cash requirements. In the case of recyclable material, significant portions of applicable collections may be returned to DoD appropriation accounts. Thus, it would be inappropriate to place collections in X6875 and issue checks.

Alvin Tucker
Deputy Comptroller
(Management Systems)

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA VIRGINIA 22304-6100

REPLY REFER TO DLA-CI

22 Sep 89

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Review of the Disposal of Recyclable Materials (Project No. 9SL-5013)

This is in response to your 1 Sep 89 memorandum requesting our comments pertaining to the audit on the Review of the Disposal of Recyclable Materials (Project No. 9SL-5013). The attached positions have been approved by Richard J. Connelly, Acting Deputy Comptroller, Defense Logistics Agency

FOR THE DIRECTOR:

Stephen J. Zavada, Jr.
STEPHEN J. ZAVADA, JR.
Acting Chief
Internal Review Division
Office of Comptroller

2 Encl

cc:
OASD(P&L)

TYPE OF REPORT: AUDIT DATE OF POSITION: 22 Sep 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Review of the Disposal of Recyclable Materials (Project No. 9SL-5013)

FINDING B: The personal computer application program (Automated Proceeds Tracking System) developed by the Defense Reutilization and Marketing Service (DRMS) did not provide for timely and efficient reporting of the status of recyclable materials or for the distribution of proceeds to installations. Cross disbursement procedures used to transfer proceeds to installations were time-consuming and inefficient. These conditions existed because the application program had no procedures to provide for the automated reporting of the status of recyclable materials or the receipt and distribution of proceeds to installations; and because cross disbursement procedures required manual review, validation, and input of hard-copy documentation at multiple accounting and finance offices prior to transfer to installations. The lack of timely and efficient reporting is a deterrent to the efficient operation and enhancement of installation recycling programs.

DLA COMMENTS: Concur with finding.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Mr. K. DeVito, DLA-SMP, x46764, 18 Sep 89

DLA APPROVAL: Richard J. Connelly

TYPE OF REPORT: AUDIT DATE OF POSITION: 22 Sep 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Review of the Disposal of Recyclable Materials (Project No. 9SL-5013)

RECOMMENDATION B.1.: We recommend that the Commander, Defense Reutilization and Marketing Service discontinue use of the Automated Proceeds Tracking System.

DLA COMMENTS: Concur with recommendation. We anticipate discontinuance of the Automated Proceeds Tracking System by 15 February 1990.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 15 Feb 90
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE.
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Mr. K. DeVito, DLA-SMF, x46764, 18 Sep 89

DLA APPROVAL: Richard J. Connelly

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Deputy Assistant Secretary of Defense (Logistics), Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Office of the Deputy Chief of Staff for Logistics, Washington, DC
Army Training and Doctrine Command, Fort Monroe, VA
Army Finance and Accounting Center, Indianapolis, IN
Army Engineering Center and Fort Leonard Wood, MO
Army Aviation Center and Fort Rucker, AL
Army Infantry Center and Fort Benning, GA
Army Logistics Center and Fort Lee, VA
Army Signal Center and Fort Gordon, GA
National Training Center, Fort Irwin, CA
Letterkenny Army Depot, Chambersburg, PA
Tooele Army Depot, Tooele, UT
Pine Bluff Arsenal, Pine Bluff, AR
Yuma Proving Ground, Yuma, AZ
Crane Army Ammunition Activity, Crane, IN

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Navy Supply Systems Command, Washington, DC
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Naval Supply Center, San Diego, CA
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314th Tactical Airlift Wing, Little Rock Air Force Base, AR
1606th Air Base Wing, Kirtland Air Force Base, NM
375th Air Base Group, Scott Air Force Base, IL
442nd Combat Support Group, Richards-Gebaur Air Force Base, MO
836th Combat Support Group, Davis-Monthan Air Force Base, AZ
436th Squadron, Dover Air Force Base, DE

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Marine Corps Base, Camp Lejeune, NC
Marine Corps Base, Camp Pendleton, CA
Marine Corps Air Station, Cherry Point, NC

Defense Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Reutilization and Marketing Regions:
- Columbus, OH
- Memphis, TN
- Ogden, UT

Defense Reutilization and Marketing Offices:
- Albany, GA
- Barstow, CA
- Camp Lejeune, NC
- Camp Pendleton, CA
- Chambersburg, PA
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REVIEW TEAM MEMBERS

Donald E. Reed, Director, Logistics Support Directorate
Charles F. Hoeger, Program Director
William A. King, Project Manager
Harold W. Lester, Team Leader
John J. McCue, Team Leader
Bernard J. Siegel, Team Leader
Wayne E. Brownewell, Auditor
John P. Ferrero, Auditor
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