

GAO

July 1987

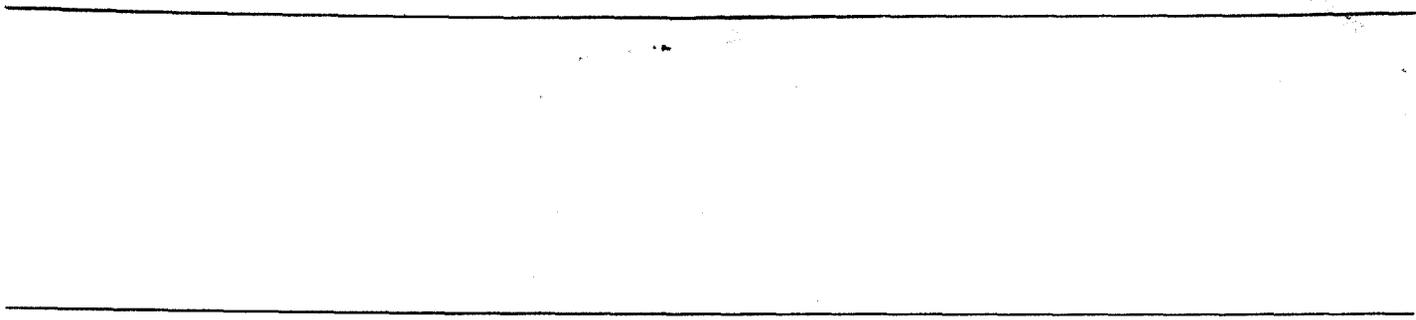
FAMILY HOUSING

DOD Procedures to Identify Housing Needs Can Be Improved



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**National Security and
International Affairs Division**

B-217908

July 22, 1987

The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

The cost of the Department of Defense's (DOD's) family housing program increased by about \$460 million from fiscal year 1984 to fiscal year 1986 with the majority of the increase, about \$230 million, going for construction of new housing. Because DOD's family housing survey is a key factor in justifying the need for new housing construction, we reviewed the survey process to determine whether the survey produced accurate and reliable information. The results of our review are summarized below and discussed in more detail in appendix I.

At the eight U.S. and five overseas locations visited, we identified several survey procedures and practices which limited the accuracy and reliability of the estimates of housing available in the community. Because of these limitations, the survey results at the installations we visited did not accurately reflect the need for additional military-controlled housing.

We also found that, by not following DOD survey instructions, one installation we visited in Europe had inflated its need for new housing by about 200 percent.

Also, at the installations we visited in the Pacific, we found that an annual housing survey may be unnecessary because all off-base housing has been declared unsuitable.

The Defense Housing Office is formulating new survey methodology to replace the current housing survey process for determining housing needs. The new methodology is being tested at some installations to see if it will provide a more accurate determination of housing needs. We did not review this new methodology in detail. Even if adopted, the new survey procedures will not be implemented for several years, and we therefore are recommending actions to improve the current survey process.

Specifically, we recommend that you direct the Defense Housing Office to

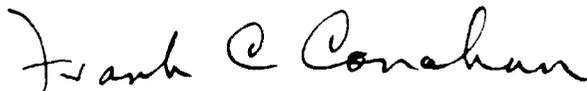
- redefine the military fair-share ratio as the number of military renters divided by the total number of renters in the community,
- redefine available housing to include a percentage of for-sale housing based on the ratio of military homeowners to total homeowners in the community,
- assess the percentages used to calculate programming limits in Europe and make sure they are consistent with the Housing Office instructions, and
- eliminate the use of the housing survey where housing office records can be used instead or where the survey is not needed to identify the suitability of housing.

DOD agreed or partially agreed with most of our findings and recommendations (see appendix II). It disagreed, however, that for-sale housing should be counted as assets to meet identified housing needs because of the limited duration and mandatory nature of military assignments which require frequent moves. While we agree that military assignments are of limited duration and require mandatory moves, our findings show that a significant portion of military people living off-base do buy homes. Therefore, we believe these assets should be considered in meeting housing needs.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen of the above Committees and of the House and Senate Committees on Armed Services; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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Abbreviations

AFB	Air Force Base
DOD	Department of Defense
GAO	General Accounting Office
MFS	military fair share
RAF	Royal Air Force
USAFE	U.S. Air Force, Europe
USAREUR	U.S. Army, Europe

Department of Defense Procedures to Determine Housing Needs Can Be Improved

A key element in ensuring sufficient and suitable family housing for military personnel is the Department of Defense's (DOD's) family housing survey. The survey is designed to identify both current and projected family housing requirements. Conducted at individual installations, the survey assesses the local community's ability to provide family housing for the military population. It is the first step in the process of determining whether and how much additional military housing is needed.

Background

DOD operates a family housing program to ensure that married members of the armed forces and their families are adequately housed. Although the program includes approximately 406,000 government-owned or government-leased housing units worldwide, DOD's longstanding policy is to rely on local private housing markets in communities near military installations as primary sources of family housing. To the extent that the private market cannot support military family housing, the services request funding to either lease or build housing on or near installations.

Overall responsibility for the program rests with the Defense Housing Office under the Deputy Assistant Secretary of Defense (Installations). Each of the military services manages its own family housing program: the Naval Facilities Engineering Command for the Navy, the Corps of Engineers for the Army, and the Directorate of Housing for the Air Force.

Funding of the military family housing program increased from almost \$2.8 billion in fiscal year 1984 to over \$3.2 billion in fiscal year 1986. Almost half of the increase, about \$230 million, was for new construction, as shown in table I.1.

Table I.1: Appropriations for the Military Family Housing Program

	Dollars in millions		
	Fiscal year		
	1984	1985	1986
New construction	\$352.0	\$441.4	\$584.1
Operation and maintenance ^a	2,409.1	2,500.2	2,637.0
Total	\$2,761.1	\$2,941.6	\$3,221.1

^aIncludes lease and debt service costs.

To promote the use of community housing, the Congress has instituted programs, such as rent plus and variable housing allowances. These programs supplement the housing allowances of service members stationed

in high-cost or overseas areas so that the service members can afford off-base housing.

In fiscal year 1984, the Congress authorized build-to-lease and rental guarantee programs at 12 locations to determine whether those are viable alternatives to constructing additional military housing. Both test programs are intended to increase community support of military family housing needs through private housing construction.

Under the build-to-lease program a service enters into a contract to lease a specified amount of housing for a 20-year period, with an option to purchase the units at the end of the lease. The units are classified as military controlled, and military families are assigned to them.

The rental guarantee program differs from the build-to-lease program in that the contracts cover a 15-year period and military personnel are not required to live in the units. The contract guarantees that if overall occupancy falls below 97 percent, the services will reimburse the owner for the rent on the unoccupied units. Both military and civilian personnel can rent these units with priority given to military service members. The 15-year contract cannot be renewed, and there is no purchase option at the end of the contract.

The family housing survey, which helps determine military family housing needs, relies on three major sources:

- information from higher commands on personnel strengths and changes expected in future years at the installation;
- responses to housing survey questionnaires regarding military family housing requirements, current housing conditions, and housing preferences of individual service members (this survey involves a statistical sample of individuals eligible to live off-base); and
- data on community rental assets—either vacant, under construction, or firmly planned—that are available for military family use (community rental housing is identified by installation housing officials using various community sources, including newspapers, multiple-listing services, building permit offices, local builders' associations, and major realtors; and the supporting community is defined as housing within a one-way, 60-minute commute of the installation).

The above information for all services is forwarded to the Naval Facilities Systems Office at Port Hueneme, California. Information for each installation is processed and summarized in two reports that (1) present

current housing conditions as revealed by survey results and (2) establish 5-year projected family housing requirements. These reports are returned to the individual installations for review and validation. Once the reports have been validated, any identified shortfall in housing needs serves as the justification to request additional military family housing.

On December 29, 1977, we issued a report to the Congress entitled The Military Services Are Constructing Unneeded Family Housing (CED-78-8). This report identified specific problems in the family housing survey process and recommended that the Secretary of Defense require the services to

- use proper statistical sampling techniques in their surveys,
- apply the 60-minute commuting criterion,
- include vacant housing for sale in the community as a source of housing for military families,
- consider the future housing growth of a community, and
- calculate a military fair share of community housing based on a ratio of military renters to total renters in the community.

The Department of Defense agreed, in principle, with the recommendations but identified few actions to resolve the problems. Many of the problems raised at that time continue.

Objective, Scope, and Methodology

We reviewed DOD's family housing process to determine (1) the reliability and statistical validity of the housing survey process used to identify housing needs and (2) if changes to the survey process are needed to more accurately determine housing needs.

Because of a variety of problems noted with the U.S. Army, Europe's (USAREUR's) housing survey process, we programmed a separate review of this area and plan to report on this at a later date.

We reviewed the housing survey process at eight military installations in the United States, two in Europe, and three in the Pacific.

Army:

- Fort Polk, Louisiana
- Fort Hood, Texas
- Fort Bragg, North Carolina

- Yongsan Garrison, Seoul, Korea

Navy:

- Norfolk Naval Complex, Norfolk, Virginia
- San Diego Naval Complex, San Diego, California
- Naval Air Station, Sigonella, Sicily
- Naval Complex, Subic Bay, Republic of the Philippines

Air Force:

- Bergstrom Air Force Base (AFB), Austin, Texas
- Seymour-Johnson AFB, North Carolina
- Goodfellow AFB, San Angelo, Texas
- Royal Air Force, Bentwaters, United Kingdom
- Osan Air Base, Osan, Korea

The installations selected had all performed housing surveys in fiscal year 1984, and five were targeted for either a build-to-lease or rental guarantee test project. To determine the accuracy of the survey process in identifying housing needs, we compared DOD and service instructions for performing the survey process at the installation level. We evaluated whether the survey data was current and had been used properly. We obtained installation and headquarters housing officials' assessments of the problems associated with conducting the housing survey. Finally, we reviewed survey methodology to determine whether sampling procedures and subsequent projections were statistically valid.

To determine whether changes are needed to more accurately determine housing needs, we analyzed documentation supporting a need for housing to see if pertinent data had been considered. Further, we obtained the views of local community officials on their need for more military housing and information on the availability of community housing.

We obtained and developed data on the inventory and prices of housing for sale, obtained the views of local realty agencies on the percentage of resales that are purchased by military personnel, developed statistics on the percentage of military personnel living off-base who purchase homes, and identified and obtained Bureau of Census reports on housing occupancy to establish military fair-share (MFS) ratios of community housing. Our work was performed from April 1984 to June 1986 in accordance with generally accepted government auditing standards.

Current Military Fair-Share Ratio Calculation Understates Available Housing for Rent in Community

DOD recognizes that military families must compete with civilian families for rental housing in any community. Therefore, in determining rental property available in the community, DOD's policy is to apportion available rental housing between military and civilian families using the ratio of military households to total households in the area. This ratio is referred to as the military fair-share ratio. For example, if military households constitute 25 percent of the total households in a community, 25 percent of identified vacant rental housing is counted as assets available to meet military housing needs. This practice understates the percentage of rental housing available to meet the military demand because military personnel who either own their homes or reside in military-controlled housing and civilians who own their homes are included even though they do not compete for rental housing. A ratio of military renters to total renters would provide a more accurate assessment of the community's ability to satisfy military housing needs. However, DOD's survey instructions prescribe using the total household ratio, and seven of the eight installations we reviewed in the United States used this ratio.

The other installation, Fort Hood, used a ratio of military renters to total renters. Fort Hood's housing officials consider only rental housing when identifying available housing assets because they believe that homeowners rarely compete for rental housing.

Fort Hood's housing officials explained that the formula specified in DOD's instructions produces an extremely low percentage that does not represent the true MFS of rental housing available in the community.

A comparison of Fort Hood's calculation to DOD's prescribed calculation illustrates how DOD's survey procedures understate the supply of housing available to the military. During the fiscal year 1984 housing survey, a total of 3,301 units were identified as either vacant, under construction, or firmly planned in the Fort Hood area. After determining that 48.7 percent of total renters were military, Fort Hood counted 1,608 of these units as available to meet housing needs. Application of the DOD criteria would have resulted in an MFS of only 23 percent, or 759 units. If the DOD policy had been applied in the survey, Fort Hood would have calculated a housing deficit of 86 houses rather than a surplus of 763 houses, as shown in table I.2.

**Appendix I
Department of Defense Procedures to
Determine Housing Needs Can Be Improved**

**Table I.2: Fort Hood's MFS Based on
Military Households to Total Households
Ratio and on Military Renters to Total
Renters Ratio**

	As calculated by DOD	As calculated by Fort Hood
Available housing assets		
Military housing and suitable occupied community housing	14,495	14,495
Military share of available rental housing	759	1,608
Total	15,254	16,103
Less housing needs	15,340	15,340
Housing Deficit-Surplus	- 86	763

We were able to identify the effect of using a military renters to total renters ratio only for Fort Hood because information identifying renters in the community was not available at other locations. However, we discussed the applicability of this ratio with installation housing officials at Fort Polk. They also told us that the total household ratio prescribed by DOD understates the housing available to military families and that a more realistic determination would be based on a ratio of military renters to total renters in the community. This is because homeowners rarely compete for rental housing and the ratio of civilian homeowners to military homeowners and those living in military construction is, in most cases, greater than the ratio of civilian households to military households.

We believe that DOD's procedures should require installations to include in the housing survey the number of rental units available to military families based on the percentage of military renters to total renters. Furthermore, we believe data is available to implement this recommendation. The Bureau of Census publishes a report entitled General Housing Characteristics for each of the 50 states which provides a breakdown by specified areas of owner-occupants and renters. This data covers the housing areas of most major defense installations.

The number of military renters residing in the community can be determined by using the prior year's survey results. The total military population living off-base is identified as either renters or homeowners. Calculating the percentage of renters and applying it to the current population living off-base would identify the number of military renters competing for rental units in the community. Application of the ratio of military renters to total renters to identified rental housing will provide a more realistic determination of the availability of community rental housing to help meet the military's housing needs.

Exclusion of For-Sale Houses Understates Communities' Ability to Meet Housing Needs

DOD's survey procedures do not require that a share of houses for sale in the community be identified as available to satisfy housing needs, although houses owned by military personnel are counted as satisfying needs. We found that a significant number of the military families residing off-base at the eight locations we visited in the United States are homeowners, as shown in table I.3.

Table I.3: Off-Base Military Families Owning Homes in the Community (as of September 30, 1983)

	Officers			Enlisted			Total		
	Living off-base	Home-owners	Percent home-owners	Living off-base	Home-owners	Percent home-owners	Living off-base	Home-owners	Percent home-owners
San Diego Naval Complex	5,122	3,730	73	22,160	10,079	45	27,282	13,809	51
Fort Polk	630	378	60	1,216	385	32	1,846	763	41
Fort Hood	2,124	1,579	74	8,682	2,626	30	10,806	4,205	39
Goodfellow AFB	65	49	75	649	350	54	714	399	56
Bergstrom AFB	493	423	86	1,191	749	63	1,684	1,172	70
Seymour Johnson AFB	272	225	83	532	392	74	804	617	77
Fort Bragg	2,608	2,150	82	11,643	5,521	47	14,251	7,671	54
Norfolk Naval Complex	6,617	5,841	88	23,087	12,950	56	29,704	18,791	63
Total	17,931	14,375	80	69,160	33,052	48	87,091	47,427	54

At five of the eight installations, we were able to obtain information on the average number and price of houses sold per month during 1984 from the local board of realtors, as shown in table I.4.

Table I.4: Average Number and Sales Price of Houses Sold Per Month in 1984 Within a 60-Minute Commute at Five Installations

Installation	Number of houses	Average sales price
Fort Hood	1,636	\$52,943
Bergstrom AFB	3,874	101,360
San Diego Naval Complex	10,714	108,343
Goodfellow AFB	813	50,429
Norfolk Naval Complex	4,703	76,172

To identify the effect of including for-sale housing, we calculated the MFS of houses sold at Fort Hood. Using the September 30, 1984, family housing survey results, we found that 32 percent, or 5,208, of the military personnel living off-base were homeowners. Information provided by the Fort Hood housing office identified a total of 40,219 homeowners living within a 60-minute commute of the installation. Information on the total number of houses for sale on September 30, 1984, at Fort Hood

was not available. Therefore, we assumed that the average number of houses sold each month during 1984 approximated the average number of houses for sale monthly. By applying a ratio of military homeowners to total homeowners, we found that 13 percent, or 213, of the estimated 1,636 houses for sale could have been counted toward Fort Hood's housing needs.

We believe a more accurate assessment of the community's ability to meet an installation's housing requirements in the United States can be achieved by including an MFS of homes for sale.

This calculation, however, is not appropriate in Europe. We found a very limited number of service members purchasing houses or trailers in Europe.

Improper Application of Survey Procedures Has Resulted in Incorrect Determinations of Community Housing

DOD and service instructions specify the procedures to be used in conducting a housing survey. During our review, we found that some housing survey procedures were not followed by all installations we visited. This prevented consistent and accurate assessments of communities' abilities to meet military family housing needs. Some installations, for example,

- reduced the 60-minute commute distance,
- inaccurately identified community housing, and/or
- improperly validated survey results.

Reduction of the 60-Minute Commute Distance

DOD and service instructions state that the housing surveys must consider all community rental houses—either vacant, under construction, or firmly planned—within a one-way, 60-minute commute of the installation as available to meet housing needs. Lesser distances may be used where warranted by military necessity with approval of the cognizant military department.

At Seymour Johnson Air Force Base and Norfolk Naval Complex, housing officials used less than the prescribed 60-minute commute distance to identify community houses available to meet its family housing needs. The determination of available community assets at Seymour Johnson AFB was limited to Wayne County, North Carolina. This reduced the area of consideration by at least 50 percent. At the Norfolk Naval Complex, the area of consideration was limited to communities south of

Hampton Roads. This meant that only two-thirds of the prescribed commute area was included. Neither installation had requested approval to waive the 60-minute commute area criterion.

Housing officials at Seymour Johnson AFB believed its housing requirements could be satisfied within Wayne County and that it was unrealistic to expend time identifying community housing in the much larger 60-minute commute area. At the Norfolk Naval Complex, housing officials said they had interpreted an instruction from a Commander of the Fifth Naval District as restricting the survey area to less than the full 60-minute commute distance.

In both cases, the result was an under-identification of community housing available to meet military family housing needs. There was no immediate effect at Seymour Johnson AFB because there was no need for additional housing. However, if this practice continues, future housing may be requested when not all community assets have been counted. The Norfolk Naval Complex survey produced an overstatement of unsatisfied housing needs.

Improper Determination of Community Housing Available to Meet Housing Needs

Housing survey procedures for determining the number of community rental units were improperly applied at two installations. Bergstrom AFB housing officials incorrectly included occupied units in the total number of available community rental units. As a result, when the MFS ratio was applied, 883 units were counted as available to meet housing needs. When we eliminated the occupied units from the total and applied the MFS ratio, we found that 185 units were available.

At Seymour Johnson AFB, housing officials followed procedures and identified all rental units available to meet housing needs. They did not, however, apply an MFS ratio to determine the military's share of those units. As a result, they counted 220 rental units as available, when only 21 should have been identified as available.

Survey Results Improperly Validated

At Fort Hood, Texas, we found that 1,026 community rental units identified as the military's share of new units under construction or firmly planned had been omitted from housing survey reports. Fort Hood housing officials reported the error to Headquarters, Corps of Engineers, which is responsible for sending housing survey data, other than questionnaires, to the Navy Processing Center at Port Hueneme, California. The reports returned to Fort Hood's officials for validation, however,

did not include the corrections and erroneously reported a need for 487 units instead of a surplus of 539 units. The validation of survey results conducted by Fort Hood's housing officials and Headquarters, Corps of Engineers, failed to identify the error.

Housing officials could not explain why the 1,026 units had been omitted or why the error had remained undetected during validation of both the preliminary and final reports generated by the Navy.

DOD's Instructions Not Followed in Calculation of Programming Limits in Europe

According to DOD's survey instructions, the military services should limit the percentage of their housing requirement that can be met with planned new housing units. This limitation is provided to allow for uncertainty in long-range planning, which could result in excess military construction. The percentage to be used, 90 percent in the United States and 80 percent overseas, is applied to the gross housing requirement. The number of housing units available to installations both on- and off-base is then subtracted to determine whether there is a housing surplus or deficit.

The services use different percentages to calculate the portion of their family housing requirement they are allowed for programming. U.S. Air Forces, Europe (USAFE), uses a 90-percent factor to calculate its programmable military construction housing deficit as well as build-to-lease housing units. USAREUR uses a 90-percent factor to calculate its programmable build-to-lease housing units and an 80-percent factor to calculate its programmable military construction housing units. According to an Atlantic Division housing official, the Navy does use DOD's 80-percent factor to calculate its programmable military construction housing units and build-to-lease housing units. The other services, however, could not provide documentation to support the use of other than an 80-percent programming limit.

The factor used can have a large impact on the family housing programming level. USAFE housing officials explained that the Air Staff and survey instructions require the use of the 90-percent programming factor, which they believe to be acceptable. Royal Air Force (RAF) Bentwaters' use of a 90-percent factor to calculate its programmable family housing requirement as of September 30, 1983, resulted in a net housing deficit of 681 and a programming deficit of 412, or about 200 percent more housing than if an 80-percent factor had been used. If Bentwaters had used the 80-percent factor, the net housing deficit would have remained at 681 while the programming deficit would have dropped to 141. The

200 military-constructed units planned for RAF Bentwaters as well as 300 build-to-lease units could, therefore, not be supported. While USAFE housing officials are concerned about over-building in the RAF Bentwaters military community, they believe that there is a critical need for housing. USAFE officials also stated that if a surplus housing situation were to develop, Bentwaters could return United Kingdom Ministry of Defense housing, which it currently occupies. This action is not consistent with DOD policy or regulations, which require the use of community housing before constructing new units to meet the housing requirements.

New DOD System to Determine Housing Requirements

The Defense Housing Office is considering adoption of a simplified housing survey methodology that would discontinue the questionnaire process and rely instead on housing office records to determine family housing needs. The suitability of community housing occupied by military personnel will be determined from information supplied by those persons who have been assisted by the housing referral office during the past year. To determine the percentage of suitable housing, the number of families who stated that their housing was unsuitable will be divided by the total number of families that were assisted by the referral office. Suitability of all community housing occupied by the military would be determined by applying this percentage to the total number of families living in the community.

The Defense Housing Office also plans to use a professional market analysis in areas that have shortfalls of housing. The market analysis would be used to validate the shortfall and support decisions for new construction.

We did not review the Defense Housing Office's new survey method in detail but did note some possible problems. We learned that the Housing Office's information will be incomplete because not all newly assigned personnel use the housing referral office. Also, the group of newly assigned personnel is a nonstatistical sample that can not be used to draw inferences about all military families living in the community.

The Defense Housing Office's alternative approach is being tested by the Army, which is following these procedures on its housing office management system. We believe that this testing should be monitored closely by the Defense Housing Office because of the potential shortfalls in this approach.

Housing Survey Not Applicable at Pacific Locations

U.S. military housing officials in foreign countries are required to follow DOD's survey procedures to assess the community's ability to satisfy housing needs. Surveys are required even though housing situations at Pacific locations are decidedly different from those at U.S. locations. Conducting these surveys, which do not accurately identify housing needs, results in unnecessary expenditures of time and resources.

At the Pacific locations, we found that regulations require (1) personnel to process through the housing referral office if they are planning to live off-base and (2) installation housing offices to inspect all private-sector assets to be rented by military personnel.

At the three Pacific locations we visited, all off-base housing failed to meet DOD's suitability criteria because potable water was unavailable. Available community housing was limited to small towns adjacent to the installations. Since there are service members who are eligible to draw basic allowance for quarters at the with-dependent rate and who wish to reside off base, installation officials identify community assets that meet the installation's standards. Competition for these rental units is almost nonexistent because the rental fees are beyond the means of local nationals. Since the available community assets are identified by the inspection of units, there is no need for the survey to do this.

At the Subic Bay Naval Complex, Republic of the Philippines, a full accompanied tour location,¹ we found that these requirements are enforced. Unless personnel comply with the processing requirement, entitlements such as ration cards for post exchange and commissary privileges and station allowances associated with living on the economy are withheld.

Because Subic Bay Naval Complex enforces both requirements, the information generated by the questionnaire survey is already available from the Housing Referral Office records.

In Korea, a limited accompanied tour location,² we found that, by regulation, military families must live in military-controlled housing. Therefore, the housing requirement is based on the number of accompanied tours. Under such circumstances, there is no need to perform the family housing survey.

¹A location where all eligible married service members may have their families accompany them to the location.

²A location where only essential personnel may take their families with them to the location.

Agency Comments and Our Evaluation

DOD agreed that survey instructions should be changed to require calculation of the MFS ratio based on the number of military renters to total renters. It also agreed that housing office records can be used instead of the survey. DOD stated that a new DOD Manual 4165.63-M, which has been drafted to reflect these changes, is with the services for comment.

DOD also agreed that the current programming limits in Europe were exceeded. It stated that the reasonableness and use of these limitations are under review.

DOD partially concurred with our position that in the Pacific area the use of the survey at locations we visited should be eliminated. DOD stated that it agreed that in the circumstances described in this report, a survey is unnecessary and that the draft DOD Manual 4165.63-M provides for the survey method as an option to be applied when it can be useful.

DOD did not agree that for-sale housing should be included in the survey process as assets to meet housing needs based on a ratio of military owners to total homeowners in the community. DOD stated that it recognizes that a portion of the for-sale housing will be purchased by military personnel and that the housing survey only accounts for those houses currently owned by military personnel. However, DOD does not believe that for-sale housing should be included in the projection of housing requirements because of the limited duration and mandatory nature of military assignments which require frequent moves. Also, DOD stated that the majority of military homeowners are officers and senior enlisted personnel, while the majority of the continental U.S. housing deficit is attributed to the lower enlisted grades where ownership is unlikely.

While we agree that military assignments are of limited duration and require mandatory moves, the data gathered at the locations we visited demonstrate that for-sale housing should be considered as assets to meet housing needs. At the locations we visited, 30 to 74 percent of the enlisted personnel living off-base and 60 to 88 percent of the officers living off-base surveyed were homeowners. Overall, 29 to 77 percent of the off-base personnel surveyed at the locations we visited were homeowners. In addition, we found that areas that have above-average housing costs still contain a high percentage of homeowners among military personnel living off-base. We believe that these statistics support the proposition that for-sale housing is a viable asset for meeting military family housing needs and should be considered as such during the family housing survey process.

Comments From the Assistant Secretary of Defense (Acquisition and Logistics)

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



ACQUISITION AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-8000

FEB 2 1987

Mr. Henry W. Connor
Senior Associate Director
National Security and International Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Connor:

This is the Department of Defense (DoD) response to the General Accounting (GAO) draft report, "FAMILY HOUSING: Survey Procedures To Determine Community's Ability To Support Military Family Housing Needs Can Be Improved," dated November 1986 (OSD Case #6773-B / GAO Code No. 393013).

The Department agrees that the survey of community housing support has limitations. It is essential to recognize, however, that the survey is one part of the housing acquisition process. It provides a macro view and does not automatically result in a proposed housing project. On December 10, 1986, the DoD issued for coordination a draft manual, DOD 4165.63-M, that incorporates several of the GAO recommendations. Included are determination of the military fair share of rental vacancies, resolving use of arbitrary programming limits, using housing office records instead of a survey, and surveying only at locations where it is necessary.

The Department's specific comments are reflected in the Enclosure. Additional details concerning the report were provided to your representatives during their meeting with representatives of the Office of the Secretary of Defense and the military services on December 12, 1986.

The opportunity to comment on the draft report is appreciated.

Sincerely,

Thomas P Christie
for the
Assistant Secretary of Defense
(Acquisition & Logistics)

Enclosure

Appendix II
Comments From the Assistant Secretary of
Defense (Acquisition and Logistics)

GAO DRAFT REPORT - DATED NOVEMBER 17, 1986
(GAO CODE 393013) OSD CASE 6773-B

"FAMILY HOUSING: SURVEY PROCEDURES TO DETERMINE COMMUNITY'S ABILITY
TO SUPPORT MILITARY FAMILY HOUSING NEEDS CAN BE IMPROVED"

DOD RESPONSE TO THE GAO DRAFT REPORT

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FINDINGS

- o FINDING A: Problems in the Family Housing Survey Process Continue. The GAO observed that the total cost of the Family Housing Program has increased from \$2.8 billion in FY 1984 to \$3.3 billion in FY 1986--with new construction, alone, increasing from \$352 million to \$682 million during the same period. The GAO reported that the family housing survey is the key basis for determining military family housing needs and relies on three major elements to calculate and project military housing needs or surpluses at individual installations, as follows:
- information from higher commands on personnel strengths and changes expected in future years at the installations;
 - response to a housing questionnaire regarding military family housing requirements, current housing conditions, and housing preferences of the individual service member; and
 - Data on community-rental assets--either vacant, under construction or firmly planned, that are available for military family use.

The GAO explained any shortfall in identified housing needs that cannot be met by the private market, becomes the justification to request additional military family housing. The GAO noted that on December 29, 1977, it issued a report to the Congress, which identified specific problems in the family housing survey process and contained several recommendations to the Secretary of Defense to improve the family housing survey process. The GAO observed that, while the DoD "agreed in principle" with the recommendations, little specific actions were identified to resolve the problems. The GAO concluded, therefore, that many of these problems remain and still require corrective action. (p. 8-9, p. 11-13, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. The survey is not the sole basis or only significant determinant for requesting family housing construction. Draft DoD 4165.63-M requires that market analyses be accomplished wherever new military housing is programmed, and the analyses include affordability and availability of projected housing in the community. In addition, there are continuing on-site reviews and command validations of projected personnel strengths. Concerns reidentified by the GAO are discussed in response to the specific findings.

Enclosure

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- o FINDING B: Current Military Fair-Share Ratio Calculation Understates Available Housing for Rent in the Community. The GAO found that based on DoD policy, current survey instructions still prescribe apportioning available rental housing between military and civilian families on the basis of the ratio of military households to total households in the area (referred to as the military fair share ratio--MFS). The GAO again observed (as it had in its prior report) that this practice understates the percentage of rental housing available to meet the military demand because military personnel, who either own their homes or reside in military controlled housing, and civilians, who own their homes, are included even though they do not compete for rental housing. The GAO reported the only U. S. installation it reviewed not using the total household ratio, was Fort Hood; instead, Fort Hood used a ratio of military renters to total renters. The GAO observed that this method resulted in a housing surplus of 763 houses versus a deficit of 86 houses had the current DoD policy been applied. As before, the GAO concluded that the DoD procedures should require all U.S. installations to include in the housing survey the number of rental units available to military families based on the percentage of renters-to-renters. Furthermore, the GAO concluded that there is a means to implement this recommendation (i.e., using a report published for each of the 50 states, entitled "General Housing Characteristics".) With respect to Europe, the GAO observed that local communities have limited rental units available for military personnel. The GAO was informed by Service and military community housing officials that the military fair share ratio may not be appropriate for the European military communities because the calculation is not realistic. The GAO concluded, therefore, that instead of using the military fair share ratio, the European housing offices could use actual experience in calculating available community housing assets. (pp. 16-21, Appendix I/GAO Draft Report)

DOD RESPONSE: Concur. The fair share formula, however, remains too rigid and simplistic for application as the sole criterion in all situations. The draft DoD 4165.63-M guidance on determination of rental vacancy assets will include the renter-to-renter ratio among other factors to be considered, and will allow the use of actual experience as the GAO recommends for Europe.

- o FINDING C: Exclusion of Vacant For Sale Houses Understates Community's Ability to Meet Housing Needs. The GAO reported that the DoD survey procedures do not allow for including a share of vacant houses for sale in the community as available to satisfy housing needs. The GAO found, however, that suitable houses owned by military personnel are counted as satisfying needs. The GAO explained the DoD rationale for not including housing for sale was that military life is transient in nature; therefore, military families should not be expected to purchase homes. The GAO nevertheless found that a significant number of families residing off base at the eight U. S. locations it visited were, in fact, homeowners. The GAO noted that applying a ratio of homeowners-to-homeowners at Fort Hood, resulted in 13 percent, or 214 of the 1,636 houses sold, being counted against Fort Hood's housing needs. The GAO concluded that a more accurate assessment of the community's ability to meet an installation's housing requirements (in the U.S.) can be achieved by including a military fair

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share of vacant units for sale. The GAO also concluded, however, that for-sale housing in Europe should not be included in the community assets available for military personnel because only a very limited number of Service members purchased houses or trailers and the demand for for-sale housing was extremely limited. (pp. 21-26, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. While the DoD concurs in principle that a portion of for-sale housing will be purchased by military families, the family housing survey only accounts for those who own their homes at the time of the survey. The DoD concerns include the limited duration and mandatory nature of military assignments and the feasibility of projecting ownership beyond current levels, which is complicated by factors such as:

the volatility of real property values and the lack of protection or compensation for losses not covered under the Home Owners Assistance Program; and

the impracticality of determining affordability by grade. Monthly costs for vacant for-sale units are affected by (1) differences in available mortgage rates, (2) various types of mortgages, (3) negotiability of sale prices, and (4) variances in down payments--minimums and payments exceeding minimums

Moreover, the majority of homeowners are officers and higher grade enlisted, while the majority of the DoD CONUS housing deficit is among the lower enlisted grades where ownership is unlikely. In fact, the Congress, recognizing the difficulties facing junior enlisted, has authorized a pilot indemnity program test to help military families qualify for rental units. A more detailed assessment of for-sale assets is considered by location using other methods such as market analysis.

See comment 1.

- o FINDING D: Occupants of Military Controlled Housing Should Not Participate in the Questionnaire Survey. The GAO reported that DoD instructions for the Family Housing Survey state that personnel in military controlled housing need not be sent questionnaires, provided accurate information on their rank/grade, family composition, and housing preference can be obtained from other sources. The GAO found, however, that Service implementing instructions do not state that occupants of military controlled housing can be excluded from the questionnaire process. The GAO observed that all the Services' survey instructions require sending survey questionnaires to a statistical sample of all personnel with dependents eligible for Basic Allowance for Quarters (BAQ). According to the GAO, personnel living in military controlled housing, who forfeit their BAQ, are not excused from the universe. The GAO further found that, as a result, from 7 to 40 percent of the questionnaire survey participants at the eight U.S. installations, and 39 to 62 percent at the European installations, lived in military controlled housing. The GAO concluded that no benefit is derived from including personnel living in military controlled housing in the universe of

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questionnaire survey participants because their responses (1) do not contribute to determining the suitability of available community property and (2) may give an unrealistic picture of the suitability of the rental housing in the community. The GAO further concluded that by redefining the universe of survey participants (to include only personnel with dependents who are drawing BAQ) would preclude participation by residents of military controlled housing. (pp. 26-29, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. The DoD agrees that redefining the universe of survey participants could preclude participation by residents of military controlled housing; however, it is statistically unnecessary because this factor was accounted for in the original survey design. The DoD disagrees, however, that no benefit is derived from including personnel living in military controlled housing. Occupants of military housing are a part of the total requirement and their opinions regarding choice of housing are useful. Additionally, their questionnaires provide demographics and information on the bedroom requirement ratios of the entire family population, which might otherwise be skewed at an installation where the family housing bedroom assets and requirements are mismatched.

- o FINDING E: Reduction of the 60-Minute Commute Distance. Although neither Seymour Johnson Air Force Base (AFB) nor Norfolk Naval Complex was given a waiver from DoD and Service criteria, the GAO found that housing officials at both installations used less than the prescribed 60-minute commute distance when identifying community houses available to meet military family housing needs. Specifically, the GAO found that at Seymour Johnson AFB the determination of available community assets was limited to Wayne County, North Carolina, which reduced the area of consideration by at least one-half. At Norfolk Naval Complex, only two-thirds of the prescribed commute area was used to identify available community houses. The GAO concluded that, in both cases, the reduced area of consideration resulted in under identification of community housing available to meet military family housing needs. In the case of the Norfolk Naval Complex, the GAO concluded that the unauthorized practice resulted in an overstatement of unsatisfied housing needs. (pp. 31-32, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. The reasonableness of the 60-minute criterion is under review. The DoD does not concur, however, with the statement that Seymour AFB used less than the prescribed 60-minute criterion to identify community housing. The misunderstanding may stem from DD Form 1379 of the 1984 survey which states, "An adequate number of apartments are within 15-20 minutes of the base..." The housing manager surveyed assets within a 60-minute commute distance. The 15-20 minute comment was used to emphasize that new construction was unnecessary.

- o FINDING F: Improper Determination of Community Housing Available to Meet Housing Needs. At two installations it visited, the GAO found that the prescribed housing survey procedures for determining community rental units vacant, under construction, or firmly planned, were improperly applied. The GAO cited, as an example, that the Bergstrom AFB housing officials incorrectly used the total number of community rental units, including occupied units, as the number of housing units under construction or firmly planned. As a result, when the MFS ratio was

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applied, 883 units were counted as available versus the 185 units that should have been identified. The GAO cited, as another example, that Seymour AFB housing officials included all identified rental units (vacant, under construction or firmly planned) as available to meet housing needs, and did not apply a MFS ratio to determine the military share of these units. The GAO observed that while the instruction specifically prohibits the inclusion of houses for sale to satisfy housing needs, Seymour Johnson AFB housing officials incorrectly included houses for sale in the number of rental units identified as firmly planned. The GAO concluded that, as a result of the identified errors, available rental housing was overstated by 698 units at Bergstrom AFB, and 199 units at Seymour Johnson AFB. (pp. 32-33, Appendix I/GAO Draft Report)

DOD RESPONSE: Concur. The identified errors, however, were individual, not flaws in the survey itself.

- o FINDING G: Survey Results Improperly Validated. The GAO found that at Fort Hood, Texas, 1,026 community rental units identified as the military's share of new units under construction or firmly planned, were omitted from housing survey reports. While Fort Hood housing officials reported these units to Headquarters, Corps of Engineers, the GAO observed that the reports returned to the Army for validation omitted the 1,026 units and incorrectly reported a need for 487 units. The GAO observed that the validation of survey results conducted by Fort Hood housing officials and Headquarters, Corps of Engineers, failed to identify this discrepancy and Army officials could offer no explanation as to why. The GAO concluded that, as a result of this omission, the housing survey results for Fort Hood, Texas, showed a need for 487 housing units instead of a surplus of 539 units. (pp. 34-35, Appendix I/GAO Draft Report)

Now on pp. 14-15.

DOD RESPONSE: Concur. The identified error, however, was individual, not a flaw of the survey itself.

See comment 1.

- o FINDING H: U.S. Forces Command (FORSCOM) Directed Installations Not To Perform A Housing Questionnaire Survey. The GAO reported that for the FY 1984 housing survey, the FORSCOM directed all but one of its installations to update summary documents only, and not to collect new questionnaire data. The GAO found, therefore, that questionnaire data from three Army installations provided only updated information of personnel strengths and available community rental housing. The GAO further found that the data from these three installations assessing suitability was at least 18 months old, yet the data was used to reflect the current, as well as the 5-year projected housing situation. The GAO concluded that using the old data to reflect the current situation (1) ignores changes in housing and population characteristics and (2) results in an unrealistic determination of suitable community housing available to meet military housing needs. (pp. 35-36, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. The DoD does not require annual surveys; it considers updated surveys to be appropriate in some circumstances, especially when they are being used for information and decisions short of proposal or justification of specific construction projects. The FORSCOM performed full questionnaire surveys in FY 1985.

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- o FINDING I: Percentage Used to Calculate the Programming Limit and Deficit in Europe. The GAO observed that, in accordance with DoD survey instructions, the Services should normally use a 90 percent factor for military communities in the U.S. and an 80 percent factor for overseas locations to calculate the percentage of their housing requirement that can be met with new programming, or planning to construct new housing units. The GAO found, however, that (1) U.S. Air Forces, Europe (USAFE) uses a 90 percent factor to calculate its programmable military construction housing deficit as well as build-to-lease housing units, (2) U.S. Army Europe (USAREUR) uses a 90 percent factor to calculate its programmable build-to-lease housing units and an 80 percent factor to calculate its programmable military construction housing units, and (3) the Navy uses an 80 percent factor to calculate its programmable military construction housing units as well as build-to-lease housing units. The GAO cited, as an example of the effect of the use of a higher percentage, that use of a 90 percent factor by RAF Bentwaters resulted in a net housing deficit of 681 and a programming deficit of 412 (as of September 30, 1983). On the other hand, if an 80 percent factor had been used, while the net housing deficit would remain at 681, the programming deficit would (1) drop to 141 and (2) not support the need for the 200 military constructed units planned for RAF Bentwaters, as well as 300 build-to-lease units. The GAO concluded that even a 10 percent change in the factor can have a tremendous impact on the family housing programming level. (pp. 36-37, Appendix I/GAO Draft Report)

Now on pp. 15-16.

DOD RESPONSE: Concur. The then current survey programming limits were exceeded. The reasonableness and use of these limitations are under review.

- o FINDING J: New DoD System to Determine Housing Requirements. The GAO reported that the Defense Housing Management Systems Office (DHMSO) is formulating a simplified methodology for the housing survey, which would discontinue the questionnaire process and rely primarily on housing office records to determine family housing needs. In addition, the GAO observed that DHMSO also plans to incorporate a professional market analysis in areas exhibiting a shortfall of housing in order to validate the shortfall and augment a decision on new construction. The GAO noted that the simplified approach will rely on persons who process through the housing referral office during the prior year. While it did not review the DHMSO alternative in detail, the GAO found possible problems in the new system including (1) not all newly assigned personnel process through the post housing office as required, (2) not all of those who do process through the housing office will report back on their housing condition, and (3) the group of newly assigned personnel is a nonstatistical sample, which can only be used to draw inferences about the sample population itself and not the universe of all military families living in the community. The GAO concluded that the Army testing of the DHMSO's alternative approach should be monitored closely, keeping in mind the potential problems noted above. (pp. 38-39, Appendix I/GAO Draft Report)

Now on p. 16.

DOD RESPONSE: Partially concur. The DoD concurs, except for such statements as would prejudice and negate the usefulness of proceeding with the test.

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See comment 1.

- o FINDING K: Use of Housing Office Records Instead of Survey in Europe. The GAO reported that a May 1980 Defense Audit Service report recommended that the Deputy Assistant Secretary of Defense (Installations and Housing) have commanders in Europe (1) develop requirements, using data maintained in housing office records rather than surveys, and (2) discontinue the surveys. By regulation all military personnel are required to process through the housing office and all community housing units must be inspected; therefore, the GAO found that the housing office records should be able to provide the data developed through the questionnaire survey (if this regulation is enforced.) The GAO reported, however, that housing officials at Mainz and RAF Bentwaters claimed the housing offices do not ensure that all military personnel process through the housing office nor do they inspect all community housing units occupied by military personnel. On the other hand, the Sigonella Naval Air Station housing officials advised the GAO that all military personnel process through the housing office and almost all community housing units occupied by military personnel are inspected. The GAO further reported that, according to USAREUR and USAFE housing officials, the use of housing records rather than the survey may result in a more accurate housing requirements project. The GAO was advised by Atlantic Division housing officials, however, that the use of local housing office records would place the responsibility for the expenditure of significant amounts of Government funds on the unilateral judgment of the housing authority without separate documentation obtained from the military members directly involved. The GAO further found that the Services and military community housing officials could not provide accurate cost data on conducting the survey, nor could they provide information on the savings that might result from using housing office records. The GAO concluded that, in spite of conflicting opinions, the time needed to put housing office records in shape so they could be used in lieu of the survey, would be worthwhile and would result in a more accurate determination of housing needs. (pp. 39-41, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. The DoD 4165.63-M, as drafted, provides for the survey method as an option and allows for use of housing office records.

- o FINDING L: Housing Survey Not Applicable At Pacific Locations. The GAO noted that overseas housing officials are required to apply survey procedures to assess the community's ability to satisfy housing needs. At the three Pacific locations it visited, the GAO found that all off-base housing failed to meet the DoD suitability criteria and, therefore, were not eligible to be counted as family housing assets. The GAO further found that (1) Subic Bay Naval Complex officials enforce the requirements to inprocess through the housing office and inspects all off base housing and (2) in Korea, all military personnel on accompanied tours must live in military controlled housing, which in turn determines the housing requirements. The GAO concluded, therefore, that the family housing survey process at these locations is unnecessary and produces survey results that do not accurately identify housing needs. (pp. 41-43, Appendix I/GAO Draft Report)

DOD RESPONSE: Partially concur. In the circumstances described in this finding, a survey is unnecessary. The DoD 4165.63-M, as drafted, provides for the survey method as an option to be applied when it can be useful.

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RECOMMENDATIONS

- Now on p. 2.
- o RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct Defense Housing (formerly Defense Housing Management Systems Office (DHMSO)) to modify DoD Instruction 4165.45 to require calculation of the military fair share ratio based on the percentage of military renters to total renters. (p. 5, Letter/GAO Draft Report)

DOD RESPONSE: Concur. The DoD Instruction 4165.45 will be cancelled by DoD 4165.63-M. The new manual will be changed to provide the renter-to-renter ratio as one of the considerations for estimating vacant rental assets.

- Now on p. 2.
- o RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct Defense Housing to modify DoD Instruction 4165.45 to require inclusion of houses for sale as housing available to meet identified needs based on a ratio of military homeowners to total homeowners in the prescribed commute area. (p. 5, Letter/GAO Draft Report)

DOD RESPONSE: Nonconcur. The survey's continued exclusion of houses for sale reflects unresolved concerns about the limited duration and mandatory nature of military assignments and the feasibility of projecting ownership beyond current levels, which is complicated by various factors (see response to Finding C). In addition, the majority of homeowners are officers and higher grade enlisted, while the majority of the DoD CONUS housing deficit is among the lower enlisted grades where ownership is unlikely.

- See comment 2.
- o RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct Defense Housing to modify DoD Instruction 4165.45 to require exclusion of occupants of military controlled housing as participants in the housing questionnaire survey. (p. 5, Letter/GAO Draft Report)

DOD RESPONSE: Nonconcur. While recognizing that redefining the universe of survey participants could preclude participation by residents of military controlled housing, the DoD contends that this is statistically unnecessary because this factor was accounted for in the original survey design. Also, because occupants of military housing are part of the total requirements, their opinions regarding choice of housing are useful (see response to Finding D).

- Now on p. 2.
- o RECOMMENDATION 4: The GAO recommended that the Secretary of Defense resolve the inconsistent use of the percentages used in Europe to calculate the programming limits and deficits. (p. 5, Letter/GAO Draft Report)

DOD RESPONSE: Concur. A proposed change regarding the use of arbitrary programming percentage limits is currently under review in the draft manual and is targeted for release in March 1987.

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See comment 2.

- o RECOMMENDATION 5: The GAO recommended that the Secretary of Defense evaluate the use of housing office records in lieu of the survey in Europe. (p. 6, Letter/GAO Draft Report)

DOD RESPONSE: Concur. The new draft DoD 4165.63-M allows the use of housing office records instead of the survey procedure when circumstances warrant.

Now on p. 2.

- o RECOMMENDATION 6: The GAO recommended that the Secretary of Defense eliminate the use of the housing survey in the countries it (GAO) visited in the Pacific. (p. 6, Letter/GAO Draft Report)

DOD RESPONSE: Partially concur. The new draft DoD 4165.63-M does not require the survey procedure, but does not preclude it's use when justified by the circumstances involved.

Now on p. 2.

- o RECOMMENDATION 7: The GAO recommended that the Secretary of Defense evaluate the need for the survey in other Pacific countries and, where warranted, eliminate its use. (p. 6, Letter/GAO Draft Report)

DOD RESPONSE: Partially concur. The new draft DoD 4165.63-M does not require the survey procedure; however, it does not preclude it's use when justified by the circumstances involved.

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The following are GAO's comments on the Department of Defense's letter dated February 2, 1987.

GAO Comments

1. This section was deleted from the final report.
2. This recommendation was deleted in the final report.



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