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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Military Commissaries:

- Justification As Fringe Benefit Needed;
- Consolidation Can Reduce Dependence On Appropriations

*per  
DLG*

The Congress originally intended that commissaries be operated only where food is not conveniently available at reasonable prices. The Defense Department defends the large number of commissaries in metropolitan areas today as an economic fringe benefit and a needed recruitment and retention tool. However, Defense has not developed data showing the need for its extensive commissary system or the value of the commissary benefit in relation to its cost. GAO recommends that Defense determine whether the benefit provided by commissaries is needed and whether commissaries or other programs are the most cost-effective means to meet any demonstrated need.

The Congress has repeatedly requested improvements in commissary operations to reduce the need for appropriated fund support. Although Defense has made improvements, appropriated support has not been reduced below the level when many improvements were begun. Defense should consolidate its commissary management and rely less on taxpayer support. GAO recommends that the Congress take a number of actions.



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To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses the need for the Congress to reduce appropriations for military commissaries and to enact legislation to provide a clear, legal basis for any future commissary operations. It also discusses how the Department of Defense (DOD) should justify the commissary benefit to the Congress and how DOD can further reduce the appropriation subsidy.

Commissaries, particularly the appropriated fund support for their operations, have been the subject of controversy for many years. Questions have been raised about:

Commissary justification. The Congress originally intended that commissaries be operated only where food is not conveniently available at reasonable prices. Yet, in 1977 at least 109 of the 265 U.S. commissaries were in metropolitan areas.

Commissary appropriated fund support. The amount of support is large and has been growing. For fiscal year 1979, commissaries received an estimated \$348.3 million for direct operating support. This is an increase of 28.7 percent since 1975, which is due primarily to inflation. An additional \$63.3 million was expected to be spent on transportation of commissary goods.

Commissary management. The Congress has repeatedly requested improvements in commissary management and operations. Office of Management and Budget and DOD studies have concluded that costs can be reduced and still result in improved service to commissary patrons.

We explored these questions and found that (1) many commissaries were not adequately justified, (2) the commissaries could assume more of the cost of their operations and reduce the need for appropriations, and (3) management could be improved which would reduce costs and improve service to patrons.

*Military benefits  
facility management  
Post exchanges  
Appropriated funds  
Cost control*

and from State and local sales taxes. On the basis of DOD price surveys, commissaries save their customers over \$840 million a year. It is apparent that commissaries are capable of assuming more of their costs, which would reduce the taxpayers' burden. DOD recognized this and had proposed to reduce the appropriated fund subsidies in its 1976 and 1977 annual budget submissions.

During congressional hearings commissary patrons and suppliers strongly opposed DOD's proposal. Opposition centered on such things as a potential adverse effect on morale and recruitment and possible price increases that could result in commissary closures.

The Congress has not eliminated the subsidy, although several committees and members have urged that it be reduced through more efficient management.

#### MANAGEMENT CAN BE IMPROVED

In response to congressional, Office of Management and Budget, and Office of the Secretary of Defense concerns over the efficiency of commissary management and the use of appropriated funds, the services have taken actions to improve management and to reduce operating costs by reducing the number of full-time employees. Despite these actions, the subsidy continues to increase--up 28.7 percent from 1975 to 1979, which is due primarily to inflation.

The services are not taking advantage of opportunities to achieve further economies and management improvements, mostly related to interservice cooperation and action. One of the major stumbling blocks to a more efficient and economical commissary operation is the services' retention of four distinct and fragmented management structures and operating systems. Motivated by their desire to preserve visibility as separate services, the services are reluctant to consolidate despite the commonality of their systems and the multimillion-dollar annual cost reduction, estimated at \$21 million 1/, that could ensue from such an action.

Although there may be a need for separate military departments to meet basic military missions, there is little

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1/The \$21 million savings were estimated by a 1975 DOD study group. Since then numerous changes have been made to commissary operations. DOD is now studying commissary consolidation and has prepared a new estimate of savings which we have learned is of lesser magnitude. (See app. IV.)

- perform a cost-benefit analysis to determine which alternative would best meet the need;
- develop realistic criteria to justify stores consistent with the demonstrated need, if a need is identified and commissaries are determined to be the most cost-effective means for meeting it;
- develop and report to the Congress the justification for continuing commissary operations in consonance with revised criteria based on the demonstrated need and include the impact of requiring commissaries not meeting the revised criteria to be self-sustaining;
- direct the timely consolidation of the four separate commissary systems into one single agency; and
- direct the Air Force Commissary Service to deposit income from redemption of cents-off coupons in the Treasury as miscellaneous receipts as required by law.

We recommend that the Congress

- redefine the conditions under which commissaries may be operated, recognizing, if appropriate, any needs demonstrated by DOD;
- enact specific legislation expressing those conditions; and
- require conversion to a self-sustaining operation of all stores not meeting the new criteria.

Because some of the recommended actions could take some time and because the commissaries can assume more of their costs, we recommend that the Congress, as an interim measure, reduce the direct appropriated fund subsidy of commissary operations by prohibiting the use of appropriated funds to support commissaries in metropolitan areas and/or reducing the subsidy by the amount of savings attributed to management improvements.

#### AGENCY COMMENTS

In commenting on our draft report, DOD did not state it would take action on any of our suggestions. However, DOD said our report did not recognize evolutionary changes in the commissary concept and did not consider the continuing

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ABBREVIATIONS

DOD	Department of Defense
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense

BACKGROUND

In 1825 the Congress authorized the Army to sell food and other items at cost to officers at isolated frontier posts. In 1866 this authority was expanded to include enlisted personnel. The Air Force, the Navy, and the Marine Corps were later authorized to sell subsistence items. The Department of Defense (DOD) commissary system is a wide-spread big business with vast operations in metropolitan areas of the United States where we have previously reported 1/ commissary items are reasonably available from commercial stores.

The commissary system operates supermarket-type grocery stores primarily for families of both active and retired military personnel and for certain civilian personnel. Since operating costs of commissaries are subsidized by appropriated funds and they are exempt from most taxes, commissaries can sell groceries, meats, and produce at prices averaging about 25 percent less than commercial supermarket prices.

The Office of the Secretary of Defense (OSD) establishes commissary operation policies and coordinates them within DOD and among other interested Government agencies. OSD also certifies the need for continued operation of individual commissaries based on the military services' recommendations. Each service has a separate system for managing and operating its commissaries.

The services operate almost 400 commissaries worldwide with annual sales of over \$3 billion as shown in the table on the following page.

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1/"The Military Commissary Store: Its Justification and Role in Today's Military Environment" (FPCD-75-88, May 21, 1975).

SCOPE OF REVIEW

Our study focused on the justification for commissaries and their appropriated fund support and on the need for the four separate military services to operate their own systems. We did not conduct an indepth cost-benefit analysis of a consolidated commissary system because DOD had done one in 1975 and, subsequent to the start of our current review, began another consolidation study.

We examined legislation, records, and reports relating to justifications for commissaries and their appropriated fund support and efforts to improve management and operation of commissaries.

Our study was made at the offices responsible for commissary operations within each service:

- The Navy Resale System Office, Brooklyn, New York.  
(Now the Navy Resale and Services Support Office.)
- The Air Force Commissary Service, Kelly Air Force Base, San Antonio, Texas.
- Headquarters, U.S. Army Troop Support Agency, Fort Lee, Petersburg, Virginia.
- The Marine Corps Headquarters, Facilities and Services Division, Rosslyn, Virginia.

At the Pentagon, Arlington, Virginia, we held discussions with officials of:

- The Office of the Secretary of Defense.
- The Department of the Army, Office of Deputy Chief of Staff for Logistics, Troop Support Division.
- The Department of the Air Force, Office of Deputy Chief of Staff for Logistics and Engineering.

repeatedly reinforced its original intent that items be sold only where they are not reasonably available from commercial sources.

During 1949 hearings held by a Subcommittee of the House Committee on Armed Services, on the extent to which commissaries were necessary, an Assistant Secretary of the Navy acting for the military departments stated:

"Our concern is that at an isolated station where we do not have civilian stores whose prices are kept in line by adequate competition, we must protect our people. Clearly, in Washington, New York, Philadelphia, Baltimore, or any city where you have commercial facilities which sell commodities at reasonable prices the need for the military to run its own shop (commissary stores) disappears."

At the close of the hearings, the Chairman, House Committee on Armed Services, stated:

"The whole theory of the commissary privilege \* \* \* was originally to give it to the people who were at isolated stations who did not have the benefit of metropolitan sales. That is the whole theory and the only justification for it. It was never intended that the Government should go in the business of providing for its personnel where they have the privilege and the opportunity to go to a private place to buy."

An Armed Services commissary store regulation submitted to the Subcommittee during the 1949 hearings stated that

"\* \* \* commissary stores shall not be authorized in areas where adequate commercial facilities are conveniently available and sell commissary merchandise at reasonable prices."

DOD then issued criteria for implementing the regulation. These criteria--commercial store prices are unreasonable, the stores are an unreasonable distance from the base, or they are inadequate--were used to justify existing commissaries and to establish new ones, rather than to eliminate questionable ones in metropolitan areas.

In 1953 the Congress reemphasized its intent that commissaries are justified only at remote stations and required



other than those used to authorize them. They contend that the commissary has become a routine fringe benefit and, as such, plays an important role in personnel retention, which is even more critical since the advent of the All-Volunteer Force. They believe also that they are morally committed to providing commissary benefits to retirees.

These arguments may have some validity and were considered in recent studies of manpower requirements and military compensation. However, the military services have not adequately developed or presented data showing the need for such an extensive commissary program nor the value of the benefits derived by DOD in relation to the cost of its provisions.

#### Fringe benefit for active duty personnel

The argument that the commissary has become an ingrained fringe benefit is not as important as it once was. Before 1967 the services treated the commissary fringe benefit as a factor in determining the need for and amount of pay raises. Since 1967 the military pay structure has provided pay increases comparable to those offered to Federal civilians. Periodic upward adjustments to military pay are made as general wage levels increase. The First Quadrennial Review of Military Compensation Panel, which was responsible for recommending military pay reforms, recognized in its 1967 report that the commissary benefit was no longer an appropriate element of compensation because it provided unequal benefits to military personnel and it would be an impractical obligation on the part of the Government.

The panel argued that the value of commissaries to military personnel varied considerably depending on family size, income levels, availability of and access to commissaries, and individual family consumption preferences. The panel believed that, if the commissary benefit were considered an element of compensation, a burden would be placed on DOD to pay cash, in lieu of benefits, to military personnel that did not have access to a commissary.

As reported by the Senate Appropriations Committee in its report on the fiscal year 1978 DOD appropriation bill, military pay has been increased specifically to make it competitive with pay levels in the civilian sector so personnel can be recruited and retained in the All-Volunteer Force.

The Defense Manpower Commission in an April 1976 report on its one-time study of defense manpower requirements, expressed the opinion that certain institutional benefits (medical, commissary, post exchange) should be maintained

Moral commitment to retirees

Service officials believe they have a moral commitment to provide commissary privileges to retirees because retirees' decisions to follow a military career may have been influenced by the anticipated use of commissaries during retirement. This assumed moral commitment cannot be considered an obligation to maintain a commissary program of unchanging scope without regard to its cost or its need by the Active Forces. Rather, granting retirees the privilege to shop in commissaries should be continued only as long as the commissaries meet a demonstrated need of the Active Forces.

The services further contend that, since retiree income is so low, the special economic benefit provided by commissaries is justified. As mentioned previously, the commissary benefit is very unequal, providing benefits only to those retirees living within reasonable distances of them. Also, because this issue basically involves a question of adequacy of pay, it should be addressed through pay adjustments rather than through unequal commissary benefits.

Furthermore, the services have not provided any evidence that retirees need such assistance. To the contrary, studies indicate that the average retirement income of military retirees exceeds that of their civilian counterparts.

The Senate Committee on Appropriations report on the fiscal year 1978 DOD appropriation bill pointed out that few military retirees were living on extremely low incomes; their military pensions were supplemented by tax-free social security benefits and in many cases by income accruing from "second career" jobs.

A March 1978 report, prepared by the Institute for Defense Analysis for the President's Commission on Military Compensation, on postretirement income and earnings of military people who retired during 1970-74 stated that earnings plus military pensions of officers and enlisted men exceeded incomes of their civilian counterparts by 44 percent and 16 percent, respectively. The President's Commission, as mentioned earlier, proposed that, as part of an "old-age retirement annuity" retirees be provided--on the basis of the number of years they had served--medical, exchange, and commissary benefits "\* \* \* in the same manner as, and at levels comparable to, those currently given to retirees."

unreasonable and believe them to be so structured as to perpetuate the commissary systems. (See app. V for an explanation of the criteria and our evaluation of them.) Also, the criteria do not reflect DOD's claimed need for commissaries (recruiting, retention, etc.) discussed earlier.

The services continue to waste resources gathering data to be used as a basis for authorizing the stores and annually certifying their need. They made a survey in the winter of 1976 at an estimated cost of \$118,000 and another in the spring of 1979.

The 1979 survey was used to certify the need for 258 U.S. commissaries. (See app. VI.) None of the commissaries were justified solely on the basis of adequacy, and only one was justified on the basis of convenience. Of the remaining 257 commissaries, 108 were justified on the basis of price and 149 on a combination of price and other criteria.

Since 1953 no commissary has been closed because it did not meet the criteria. On the contrary, the number of U.S. commissaries has increased from about 210 in 1953 to 265 in 1977; at least 109 of these are operated in areas classified by the Census Bureau, Department of Commerce, as urban areas. In 1976 1/ we determined that about 92 percent of all U.S. commissaries were within 10 miles of at least two commercial supermarkets.

#### AGENCY COMMENTS

DOD interpreted our draft report to suggest returning to the original intent of the Congress with respect to the purpose of commissaries and said the report did not recognize that the evolutionary changes since the turn of the century that have affected every aspect of U.S. life have been reflected in military life as well. DOD's comments were not specific as to what changes should be recognized.

The first six recommendations of this report (see pp. 4 and 5 of joint letter) are directed at the need for DOD to demonstrate with adequate data that commissaries are needed and are cost effective and to develop realistic criteria to justify the stores. DOD did not state it would take action on any of our suggestions. This report also calls for the Congress to recognize in legislation, if appropriate, DOD's demonstrated needs.

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1/Letter report to Senator Charles H. Percy (FPCD-76-44, Mar. 8, 1976).

COMMISSARIES CAN ASSUME MORE OF THEIR COSTS,  
BUT EFFORTS TO REDUCE APPROPRIATIONS HAVE  
NOT BEEN SUCCESSFUL

As 1 of the 10 largest retail food sales organizations in the country, with annual sales of over \$3 billion, the commissary system is a substantial economic entity. Commissaries annually receive direct and indirect subsidies estimated for the most recent fiscal year at over \$544 million--about \$394 million for operating support and more than \$150 million through exemptions from Federal and State income taxes and State and local sales taxes. They also receive undetermined amounts of indirect subsidies from the free use of real property and attendant services.

Because of their large sales volume, the large subsidies, and savings to customers of over \$840 million a year, 1/ commissaries are capable of assuming more of their costs, which would reduce the taxpayers' burden.

In recent years congressional committees and members have been concerned with the increasing DOD budget, including rising commissary costs. The Congress has not yet reduced the appropriated fund subsidy, but on many occasions committees and members have either directed or strongly stated that the subsidy must be reduced through more efficient management. (DOD's actions for improving commissary management are discussed in app. IV.)

COMMISSARIES ARE CAPABLE OF  
ASSUMING MORE OF THEIR COSTS

Commissary operating costs are paid from sales revenues and appropriated funds. Sales revenues are used to pay for resale merchandise; purchase and maintenance of equipment; supplies and services; inventory losses due to shrinkage, spoilage, and pilferage; and transportation, utility, and construction costs in the United States.

Direct appropriations are used to pay for the salaries and wages of civilian and military personnel operating the commissaries, for constructing some overseas facilities, for overseas utilities and transportation, and for operating and maintaining various DOD organizations which support commissary operations. For example, the military installations

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1/Based on differences between commissary and commercial store prices as determined during military department surveys.

reduced 50 percent for the first year of operation beginning October 1975 and 100 percent thereafter. The group reported that reimbursing appropriated funds for these costs could reduce savings to patrons from 22 percent to between 11.2 and 14.7 percent.

Significant savings would still accrue to customers because, although subsidies would be reduced:

- Transportation to overseas areas and indirect support costs, such as rent, building maintenance, and administrative support would continue to be paid from appropriated funds.
- Exemption from Federal, State, and local taxes would continue.

Also, commissaries offer lower prices than commercial grocery stores because costs for such items as advertising, sales promotion, and insurance, which are borne by commercial grocery stores, can be avoided by the commissaries.

#### EFFORTS TO REDUCE APPROPRIATED FUND SUPPORT NOT SUCCESSFUL

The Congress has urged and supported DOD's need to moderate its large annual budget increases by eliminating programs of marginal value in maintaining the combat capabilities of the Armed Forces. DOD, therefore, proposed in its fiscal year 1976 budget to (1) reduce the amounts appropriated for paying salaries and wages of commissary civilian employees and overseas utilities by about \$300 million over a 2-year period and (2) to add a surcharge to commissary patrons to finance such costs. Extensive congressional hearings were held on this issue.

During these hearings, commissary patrons and suppliers strongly opposed DOD's proposal because they perceived (1) potential adverse effects on military personnel morale and recruitment and (2) the possibility that appropriated

over the 3-year period proposed by DOD. The Senate version of the appropriation bill also called for a phaseout, but over a 6-year period, whereas the House in its appropriation bill again restored full funding.

The House again prevailed in its position during the conferences on the respective bills, and the final acts did not call for a phaseout. But this time conferees on both bills agreed that the appropriated commissary subsidy should be reduced by realizing economies through improved efficiency of commissary operations. The conference report on the fiscal year 1977 DOD authorization bill included the following statement:

"\* \* \* economies can be realized by improving the efficiency of commissary store operations. Such improvement would permit the commissary subsidy to be gradually reduced while retaining substantially the level of savings experienced by commissary patrons."

The conferees directed the Secretary of Defense to institute management improvements and operational efficiencies to reduce the subsidy. The conference report also stated:

"The conferees of both Houses wish to make clear that their actions were intended solely to reduce the amount of appropriated fund support required by the commissaries and were not intended to eliminate commissary stores as such."

The conferees on the appropriation bill came to a similar agreement and stated:

"\* \* \* to the extent that the Department is able to achieve management improvements and economies in commissary operations as directed in the Conference Report on Defense authorization \* \* \*, future commissary appropriated fund subsidies will be reduced accordingly."

DOD did not repeat its commissary funding reduction proposal in its fiscal year 1978 and 1979 budgets, but the Senate Appropriations Committee, again recognizing the need to transfer the burden of supporting the commissaries from taxpayers to program beneficiaries, recommended a 3-year phaseout in both fiscal year DOD appropriation bills.

With respect to the fiscal year 1978 bill, the committee pointed out that

Commissary patrons could save 17 percent if they were required to pay direct appropriated costs, excluding overseas transportation. If required to pay for overseas transportation as well, savings could still be as great as 15 percent. As discussed in appendix IV, operating costs now paid with appropriated funds can be reduced even further. This would ease the effect of transfer of the support burden from taxpayers to commissary beneficiaries.

In any case, the issue of insufficient pay should not be confused with the need for commissaries. Possible inadequacies of military pay should be addressed as such. In this regard we have reported 1/ that military pay principles are needed as a first step in military pay reform--to provide a better basis for evaluating changes to total military compensation.

DOD also stated that the adverse impact on recruitment and retention resulting from reduced appropriated subsidies is well documented. On numerous occasions during our review we requested the services and the Office of the Secretary of Defense to provide documentation of adverse impacts on recruiting and retention and we were told none were available. OSD officials told us the comment was based on their interpretation of the results of a questionnaire, a commercial study of the value of commissaries, and studies by the Third Quadrennial Review of Military Compensation, the Defense Manpower Commission, and the President's Commission on Military Compensation. However, the studies which are addressed in this appendix and appendix II did not include the data base or technical evaluation essential to document the impact on recruitment and retention.

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1/"The Congress Should Act to Establish Military Compensation Principles" (FPCD-79-11, May 9, 1979).

CONGRESSIONAL CONCERNS AND  
COST REDUCTION INITIATIVES

In May 1974 the House Committee on Appropriations, concerned with the substantial sums of appropriated funds consumed each year to operate commissaries, requested that we examine the management and effectiveness of commissary programs in such areas as extended operating hours, the need for commissaries in metropolitan areas, staffing patterns, the need for military personnel, pricing practices, the use of excess revenues, commissary stores subsidies, and the need for opening new stores.

We reported 1/ that

- each service was allowed to establish its own organization, and, consequently, management functions were duplicated;
- extending operating hours of commissaries with funds appropriated specifically for that purpose did not appreciably affect enlistment or reenlistment decisions;
- commissaries generally were staffed at levels lower than those authorized;
- military personnel were not necessary to manage and operate commissaries;
- pricing was proper; and
- some planned commissaries were not needed.

A 1975 OMB staff study, initiated in an effort to find ways to reduce appropriated fund spending, emphasized the necessity for improving commissary management. It recommended creating a single organization to operate all DOD commissaries. The staff concluded that

"A consolidated system, regardless of the form of consolidation, would reduce overhead above the base level, lower distribution costs, and afford greater opportunities for achieving economies by centralizing certain functions

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1/"Information on Commissary Store Operations" (FPCD-75-132, Mar. 19, 1975).



Also, on June 25, 1976, the House-Senate Conference Committee on the fiscal year 1977 DOD authorization bill requested the Secretary of Defense to institute management improvement and operational efficiencies and to inform the House and Senate Committees on Armed Services by February 1977 of any progress and the resultant savings. In January 1977 DOD responded that improvements made by the services would save about \$75.2 million during fiscal years 1977-79. Although we did not make a detailed audit, our examination of selected elements of the estimated savings showed that this amount was \$27.3 million (or 36 percent), greater than estimates reported by the military services to OSD as shown in the following table. OSD was unable to explain the basis or find supporting evidence for its higher estimates.

Management improvement	FY 1977		FY 1978		FY 1979	
	Savings reported by DOD	Over-statements estimated by GAO	Savings reported by DOD	Over-statements estimated by GAO	Savings reported by DOD	Over-statements estimated by GAO
------(000 omitted)-----						
Centralizing the Army and Air Force management systems	\$ 7,900	\$3,200	\$14,300	\$3,200	\$16,000	\$ 3,200
Increasing use by all services of part-time and intermittent employees	5,300	4,700	10,500	4,100	18,400	7,700
Using income from redemption of vendors' cents-off coupons as an offset to personnel costs	400	200	1,200	600	1,200	400
Total	<u>\$13,600</u>	<u>\$8,100</u>	<u>\$26,000</u>	<u>\$7,900</u>	<u>\$35,600</u>	<u>\$11,300</u>

<u>FY</u>	<u>Estimated by the services</u>	<u>Reported by DOD</u>	<u>Difference</u>
------(000 omitted)-----			
1977	\$ 590	\$ 5,300	\$4,700
1978	6,400	10,500	4,100
1979	10,700	18,400	7,700

OSD could offer no explanation or justification for increasing the services' estimates and could not locate supporting evidence.

Depositing income from redemption of  
cents-off coupons in the Treasury

Manufacturers pay a handling fee for cents-off coupons redeemed by customers. For many years, the commissaries turned these coupons over to military exchanges for processing and redemption and the exchanges kept the handling fees. In December 1976, OSD required the commissaries to directly redeem their coupons and to deposit the income in the Treasury to help offset the appropriated costs of civilian personnel.

The Army and the Navy started depositing handling fees with the Treasury as miscellaneous receipts in April 1977 and April 1978, respectively. OSD permitted Marine Corps exchanges to continue processing coupons and retaining the fees because commissary handling costs were expected to exceed income due to the smaller number of coupons redeemed.

Air Force commissaries started collecting coupon handling fees in October 1977 and, through August 1978, had collected \$708,000; however, these fees were not deposited in the miscellaneous receipts accounts of the Treasury to help offset personnel costs. Rather, Air Force fees were credited to a sales revenue stock fund account maintained by the Treasury and were available for procurement of commissary resale items.

The Air Force's crediting the stock fund with income from handling cents-off coupons is legally inappropriate. Commissary operations involve two distinct Treasury accounts--military services operations and maintenance accounts and stock funds (revolving, working capital funds). Commissary personnel costs are borne by the military services' operations and maintenance appropriations. Thus, the salaries of commissary personnel who provide the coupon handling service are paid from these appropriations. On the other hand, military stock funds are used in part to

<u>FY</u>	<u>Air Force</u>	<u>Marine Corps</u>	<u>Total</u>
------(000 omitted)-----			
1977	\$ 5,600	\$390	\$ 5,990
1978	10,000	410	10,410
1979	10,000	800	10,800

The personnel reductions were made possible through reduced store hours and other reductions in patron services. The Navy also reported that 300 of its mandated reduction of 437 personnel resulted from reduced services to commissary patrons. However, the Navy recognized that this portion of the mandated reduction did not result in management improvement savings and did not report them as such. The Army also was required to reduce the number of commissary personnel but reported that the reduction was accomplished through management improvements, savings from which were reported to the Congress.

COST REDUCTIONS POSSIBLE  
THROUGH CONSOLIDATION

A 1974 DOD program budget decision directed the Assistant Secretary of Defense (Manpower and Reserve Affairs) to study and to determine the most efficient method of operating commissaries. The decision was based, in part, on recognition of savings expected to be realized by the Navy through consolidation of some functions. The decision stated:

"This effort to centralize existing service commissary operations should also examine the natural extension of four centralized systems into a single Defense commissary system with operating responsibility for all DoD commissary stores. The values which accrue from more centralized systems at the Service level could be even more effectively marshalled under a single Defense manager. Large, nationwide grocery chains operate hundreds of individual stores, and the benefits from central management of the 426 existing stores could be impressive."

A DOD study group, formed in early 1975, evaluated four possible organizational structures for improving commissary efficiency, organization, and operation, which follow:

1. Create separate servicewide commissary management organizations.
2. Create one agency to operate all DOD commissaries.

Although the group believed that recommending a consolidated system at that time was inappropriate, it recommended that, after centralized management had been operational for a time, the services assess the cost advantages of consolidating their systems. The group reported, in fairly specific terms, numerous improvements in the following areas that could be expected from a consolidated commissary system.

Headquarters and field organization--A consolidated system would permit the reduction of a large number of management and supervisory personnel at the headquarters, region, and field office levels at a cost savings of \$8.7 million.

Personnel management--A consolidated system would provide more effective personnel management because:

- Full control of funds and personnel resources would facilitate the allocation of these resources on a uniform basis commensurate with workload requirements and provide for a substantial increase in the use of part-time and intermittent employees to achieve economy and flexibility in adjusting the work force to the workload.
- Uniform personnel policies would provide for standard position descriptions and job classification with appropriate performance standards for each position.
- System consolidation would help the services to provide better quality basic orientation and technical training at a lower cost per employee than is possible under separate systems.

Merchandising--Uniform commissary store merchandising policies under a consolidated system would result in savings and improved customer service through:

- Standardization of products, categories, and mixes.
- Uniform pricing.
- Reduction in stock outages by transfers of stock within consolidated regions.
- Interstore transfer of perishable meat and produce to avoid spoilage and reduce the need for markdowns.
- Purchase of carload or special lots resulting in lower cost of goods and other economies of scale.

assumption that appropriated funding would be reduced, costs would be assumed by patrons, and thus increased prices would adversely affect sales; but the extent was unknown. It therefore recommended that consolidation be reassessed after centralizing service commissary management.

Although the appropriation reduction did not materialize, thus negating the group's concerns, the services proceeded with centralization. OSD, in July 1975, planned to reassess the commissary situation in the spring of 1977. After consulting with the military services, OSD, in February 1977, postponed that reassessment to the spring of 1978. In August 1977 we announced our intention to evaluate the need for commissaries and for four separate systems to manage them. OSD, in November 1977, concluded that consolidation was an appropriate alternative to four separate centralized systems and requested the views of the services and the Defense Logistics Agency on three alternative operating modes:

- Establishing a joint-services commissary store agency under the Chiefs of Staff of the Army and Air Force, the Chief of Naval Operations, and the Commandant of the Marine Corps.
- Establishing a joint-services commissary store agency under the jurisdiction of the Director, Defense Logistics Agency.
- Authorizing one of the services to operate DOD commissaries as executive agent.

The services expressed the view that the existing arrangement was most desirable; however, if required to consolidate, they favored the first alternative. The Defense Logistics Agency said that a single activity under its jurisdiction was the best alternative.

The services argued that cost reduction initiatives had resulted in significant savings and would produce additional savings in future years. They further contended that evidence was lacking that consolidation would result in additional savings. These statements contradict the conclusions of the 1975 DOD study that greater savings could be expected from consolidation--the savings realized under the present system did not preclude further economies attainable by a consolidated system. The study group reported numerous management and operational efficiencies which could accrue from a consolidated system.

(2) processing data faster and more efficiently thereby improving commissary managers' decisionmaking. Additional savings were expected by using one central design activity, instead of four, to develop the system and maintain it after implementation. The automated data processing equipment for the system was to be purchased and maintained using commissary revenues.

The Air Force instituted meetings of the four services in an attempt to get the program underway but encountered difficulties arising mostly from major differences in modes of operation of the services and inability to achieve full cooperation and agreement of the services. The program has been dormant since May 1977.

#### Missed opportunity for a more uniform operation

The services have not implemented a major management improvement suggested by the 1975 DOD study group. The study group recommended separate service centralized commissary management systems. The Navy already had a system and the Marine Corps was believed too small to warrant one. Although the study group did not specifically recommend that the Army and the Air Force create exactly the same system as each other or the Navy, it did suggest that much was to be gained by having commonality of systems rather than distinctly different ones. Also, commonality of systems would smooth the path to eventual consolidation into a unified system envisioned by the study group. Despite the obvious advantages, the Army and the Air Force were reorganizing and were perpetuating distinctly different organizational structures and management and operational practices.

#### AGENCY COMMENTS

DOD said that commissary subsidies, discounted for wage growth, 1/ have been declining since fiscal year 1977 and for fiscal year 1980 will be 5 percent below the fiscal year 1975 level. DOD also said the constant dollar subsidy, discounted for increases in the Consumer Price Index, has decreased sharply since fiscal year 1977 with the estimated fiscal year 1980 amount 15 percent below the fiscal year 1975 level. DOD provided two charts illustrating this data

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1/According to DOD, wages for civilian and military personnel account for 95 to 98 percent of the appropriated fund support discussed. Transportation costs are shown separately in this report.

shows that the subsidy has not been reduced below the fiscal year 1975 level despite management improvements and store closings.

The fiscal year 1980 subsidy, if restricted to the \$330.6 million estimated by DOD, would result in the first real decrease in the appropriated fund subsidy since 1975. However, we expect this amount to increase in consonance with commissary store operating cost increases in fiscal year 1980. For instance, the recent pay raise granted Federal employees, effective October 1979, will increase military and civilian payroll costs (which account for 95 to 98 percent of the subsidy) by about 7 percent. Comparing the fiscal year 1980 budget amount inflated by the 7 percent wage increase with the 1975 subsidy inflated by similar wage increases would show them roughly comparable at about the \$360 million level.

We have adequately recognized management improvement actions taken to reduce the appropriated fund commissary subsidy in view of

- DOD's apparent overstatement of savings attributable to management improvements,
- the lack of documentation substantiating claimed savings, and
- inadequacies in the accounting systems compounding difficulties in measuring the effects of individual actions.

Base closures in fiscal year 1978 resulted in closing some commissaries at an annual operating cost savings of about \$3.7 million which may have been reflected to some extent in the 1979 subsidy. Other, relatively small closures were made in 1979 and will be made in 1980 which in total will reduce annual operating costs by about \$.7 million. Although closing installations not needed by the services is commendable in terms of reducing military costs, commissary store closures in connection with closing installations they serve should not be viewed as a separate commissary management improvement action. A detailed analysis would be required to determine the precise effect on commissary sales and costs since commissary patrons as well as personnel have been transferred to other installations. On the other hand, new commissaries have been opened recently and their offsetting costs also would have to be considered.

OMB commented that our draft report clearly annunciated the myriad of complex issues which have been addressed by

OUR EVALUATION OF DOD CRITERIAUSED TO JUSTIFY COMMISSARIES (note a)

Since 1953 the annual DOD appropriation acts have required the Secretary of Defense to authorize only those commissaries in the United States for which he certifies that items normally sold in commissary stores are not otherwise available to DOD employees at a reasonable distance and a reasonable price in satisfactory quality and quantity. To provide a basis on which the Secretary may certify the need for commissaries, the services triennially reexamine the justification for each commissary that he had previously certified. For the 2 years between reexaminations, the services update their listings of the commissaries and the Secretary certifies the need for them. In their justification surveys, the services use criteria established by DOD in 1949. A commissary is considered justified if at least one of the following criteria is met.

- Commercial stores are an unreasonable distance from the installation (convenience criterion).
- Commercial store prices are unreasonable (price criterion).
- Commercial stores are inadequate (adequacy criterion).

These criteria and our evaluation of them are explained more fully below.

CONVENIENCE CRITERION

DOD considers the distance to the nearest adequate store to be unreasonable if the time to travel to it by private vehicle from the center of base housing exceeds 10 minutes. If only one commissary patron on base does not have the use of a private vehicle, commercial or military transportation is considered. To be considered reasonable, such transportation must be able to provide, every 30 minutes, a one-way trip of no longer than 15 minutes to the nearest adequate commercial store.

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a/This evaluation is a synopsis from our earlier report, "The Military Commissary Store: Its Justification and Role in Today's Military Environment" (FPCD-75-88, May 21, 1975). DOD still uses the same criteria.



industry and uses a countrywide average markup that is about 32 years old. Reasonable prices usually result from free and open competition. In fact, DOD's instruction for selecting the commercial stores to be used in the survey recognizes the influence that competition has on prices. That instruction provides, in part, that stores selected should be within such distance of each other so as to permit free and open competition, which will allow prices to reflect demand.

The competitiveness of the grocery industry varies from region to region, as does the grocery markup. Where a large number of chain and independent stores are vying for the customer's grocery dollars and the profit margin on which they operate is low, it is reasonable to assume that the theory of supply and demand and free and open competition will insure reasonable prices in the grocery industry. We therefore believe that price should be considered on an exception basis only in unusual circumstances, such as at remote locations where commercial stores may meet convenience and adequacy criteria but charge prices that are clearly unreasonably high, compared with those where stores are competitive.

#### ADEQUACY CRITERION

To be considered adequate by DOD, commercial facilities must sell goods normally found in commissary stores: groceries, meats, meat products, seafoods, dairy products, frozen fruits and vegetables, and authorized miscellaneous household items. These broad categories need not be found in any one store but must be available from commercial sources within the immediate shopping area. The commercial stores must have the capacity to serve all commissary patrons quartered on the installation and those quartered closer to the commissary than to adequate commercial stores.

#### Evaluation

Inasmuch as enough stores are considered adequate in most areas, the adequacy criterion alone is not currently used to justify any commissary. However, this criterion is used with the price and convenience criteria to justify some commissaries.



MANPOWER,  
RESERVE AFFAIRS  
AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D C 20301

21 AUG 1979

Mr. H. L. Krieger  
Director, Federal Personnel  
and Compensation Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Krieger:

This is in response to your letter of June 22, 1979, to the Secretary of Defense regarding your draft report "The Military Commissary Store: Its Justification and Potential to Achieve Operational Efficiencies and Cost Savings" (FPCD-79-16, OSD Case #5219).

The draft report addresses three major aspects of the military commissary system: the justification for the stores, and their support and management. It also contains a number of other recommendations that require expanded comment. Initial comments on the draft report are attached; they will be addressed further upon receipt of the final report.

The draft report fails to recognize evolutionary changes in the commissary concept and does not consider the continuing need for these stores overseas and within the United States to maintain the quality of life of military personnel and their families. It does not acknowledge the need for commissaries to partially offset the demands and lower pay of military service. In addition, its recommendations contradict those contained in recent studies such as the Defense Manpower Commission Report to the President and Congress, Third Quadrennial Review of Military Compensation, and the President's Commission on Military Compensation.

We are concerned that adjustments are not made for inflation when discussing the size or growth of the appropriated subsidy. When discounted for increases in the Consumer Price Index (CPI), the constant dollar (FY 1975) amount spent on the commissary subsidy has decreased sharply since FY 1977, and is an estimated 15% below the level of FY 1975 for FY 1980.

Thank you for the opportunity to comment on your draft.

Sincerely,

*Richard Danzig*  
Richard Danzig  
Principal Deputy Assistant Secretary  
of Defense (MRA5L)

Enclosure

[19] patron to pick up the costs currently provided through the appropriated subsidy will exacerbate the situation. The adverse impact on recruitment and retention is well documented. Commissaries are seen second only to medical care in importance as an institutional benefit by servicemembers.

[20] While current dollar expenditures for the commissary subsidy have increased since FY 1975, a better perspective of those expenditures can be gained by looking at the trend in "real" dollars. Since civilian and military pay accounts for 95-98% of the commissary subsidy, the expenditures can be discounted by wage growth to show the real changes in the program. As shown in the following table, expenditures discounted for wage growth have been declining since FY 1977 and in FY 1980 are 5% below the level of FY 1975.

	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>	<u>FY 80</u>
Current Expenditures	270.6	292.4	313.5	330.5	330.0	336.2
Wage Growth	-	5.0%	4.8%	7.1%	5.5%	5.5%
Discounted Expenditures	270.6	278.5	284.8	280.5	265.5	256.3
Increase/Decrease in FY75\$	-	+7.9	+6.3	-4.3	-15.0	-9.2

A more dramatic real decrease has occurred in terms of the consumer purchasing power of the commissary expenditures. Discounted for increases in the CPI, the constant dollar amount spent on the commissary subsidy has decreased sharply since FY 1977 with the estimated FY 1980 expenditures 15% below the level of FY 1975.

	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>	<u>FY 80</u>
Current Expenditures	270.6	292.4	313.5	330.5	330.0	336.2
CPI Growth	-	5.5%	6.6%	8.2%	10.0% <u>1/</u>	9.0% <u>1/</u>
Discounted Expenditures	270.6	277.2	278.8	271.6	246.5	230.4
Increase/Decrease in FY75\$	-	+6.6	+1.6	-7.2	-25.1	-16.1

1/ Estimated. CPI increased 7.6% through the first 8 months of FY79.

[35] This real reduction in the appropriated subsidy is attributable to: Management improvements and store closings; actions not adequately recognized in the draft report.

<u>FY</u>	<u>FTP Reduced</u>	<u>PT Increased</u>
77	850	567
78	425	266
79	<u>0</u>	<u>300</u>
	1275	933

The display utilized in the report which states the Army may not be reducing the number of full-time civilian employees in line with increases in the number of part-time and intermittents is based on misinterpretation of data. Information was provided to GAO representatives that conversion actions directed for FY77 were not completed until FY78. This was a result of an agreement between HQDA/TSA and National Labor Unions that FY77 conversions would be completed through attrition or voluntary conversions only. Reduction in force (RIF) actions were approved and utilized in FY78 to meet all remaining conversion levels assessed against the U.S. Army commissary system. Actual FTP on-roll strength at 30 April 1979 was 5,326, or a loss of 844 FTP personnel over the 1977 actual level displayed by the GAO and a decrease of 2,297 FTP since 30 June 1975 when DA MACOM's reported on actual FTP spaces on board in the commissary stores. Additionally, the Army commissary system has absorbed other FTP reductions since assumption by TSA. Many of these were not associated with conversion actions but were the TSA share of overall Army reductions imposed by OSD-OMB which continue each fiscal year.

GAO note:

The numbers in brackets refer to pages in this report.

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## EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

AUG 15 1979

Mr. Allen R. Voss  
Director, General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

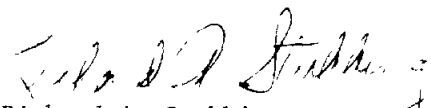
Dear Mr. Voss:

Thank you for the opportunity to comment on your draft report "The Military Commissary Store: Its Justification and Potential to Achieve Operational Efficiencies and Cost Savings". (FPCD 79-16)

The justification for existence and the continued appropriated funds support of the commissary systems has been scrutinized by Congress, OMB and OSD for some time. The GAO report in question clearly announces the myriad of complex issues which have been addressed.

The most substantive issues raised in the report concern management improvements, specifically, the question of commissary systems consolidation. The 1975 OSD study on consolidation clearly identified means to reduce overhead, lower distribution costs, and achieve economies through centralization of functions. The potential to realize long range cost efficiencies through the consolidation of functions merits further consideration and research. We have been advised that an OSD implementation plan, as a result of these studies, is forthcoming.

Sincerely,

  
Richard A. Stubbing  
Acting Deputy Associate Director  
for National Security

(963072)

3. MANAGEMENT CAN BE IMPROVED

[27 to

32] This portion of the report deals primarily with the desirability of consolidating the four separate Services' commissary systems into one joint agency. A complete assessment of consolidation is being conducted. This study which nears completion, analyzes in depth the feasibility and costs of consolidation based on existing organization structures. It will be presented to the Deputy Secretary of Defense for a decision this fall.

[22 to

27] Since publication of the DoD 1975 report on commissaries the Services have initiated major internal changes in organization, management and operational philosophy. These include complexing management functions of large groups of stores, moving to automation, and examination of select sub-functions as candidates for contracting. These initiatives have significantly reduced the real value of the subsidy.

4. AIR FORCE IS NOT DEPOSITING INCOME FROM REDEMPTION OF "CENTS-OFF" IN THE TREASURY

[25 and

26] The Air Force was directed by DoD to deposit handling income from redemption of vendor coupons as an offset to personnel costs. AFCOMS attempted to apply such income to the operations and maintenance appropriation, as a reimbursement to the fund which paid the salaries of personnel who processed the coupons. However, a decision by the Air Force General Counsel determined that it should be deposited to the working capital fund. The Air Force Accounting and Finance Center interpreted this to be the Commissary Division AFSF, and, at their direction, all handling income is deposited in that appropriation.

5. END STRENGTH DATA INDICATES ARMY MAY NOT BE REDUCING THE NUMBER OF FULL-TIME EMPLOYEES [See GAO note below.]

The GAO was provided data by Troop Support Agency (TSA) relating to Army savings identified as a result of Central Management of Army Commissaries (838 rather than 848 as cited in the draft), and data on savings resulting from conversion of full-time to part-time status of civilian employees. Eight hundred and thirty-eight FTP personnel were removed from commissary rolls at the time TSA assumed command and control. These are a validated savings. This is a completely separate action from OSD directed initiatives to increase use of other than full-time personnel in the commissary system. The following reductions in full-time permanent (FTP) and increases in part-time (PT) personnel have been completed by TSA:

## GAO note:

Data provided by the Troop Support Agency in this letter and subsequent to our draft report shows a reasonable reduction in the number of full-time personnel compared with increases in part-time and intermittent personnel; therefore, the issue is not discussed in this report.



1. COMMISSARIES ARE NOT ADEQUATELY JUSTIFIED

Under this broad heading, the report discussed two related issues: the justification (including certification methodology); and the need.

[4 to 6] The report details how the original intent of Congress in authorizing commissary stores was to sell food to military personnel at isolated locations, and criticizes the Department of Defense (DoD) for now operating "a widespread big business with vast operations in metropolitan areas of the United States." It recommends returning to that original intent. It does not recognize the evolutionary changes since the turn of the century [11 & 12] that have affected every aspect of U.S. life have been reflected in military life as well.

[12] The current method used to certify commissary stores is also a reflection of the changes since commissaries were originally authorized. The triennial survey method using the price, convenience and adequacy criteria recognizes the reasons why a commissary would be required. This methodology is contained in DoD Directive 1330.17, "Armed Services Commissary Store Regulations."

[4] The need for commissaries is a related matter. The report states the DoD has never adequately demonstrated the need for commissaries. Several authoritative studies and reports have been conducted within and without the DoD; most notably, the Defense Manpower Commission Report to the President and Congress, The Third Quadrennial Review of Military Compensation, and most recently, the President's Commission on Military Compensation. [8, 9, & 12] These reports have all strongly established the need for commissary stores in their present configuration as an institutional benefit. Commissaries are recognized as a non-pay compensation in recognition of the general military factor.

2. APPROPRIATED SUPPORT CAN BE REDUCED

[13] Appropriated support cannot be reduced without penalizing the serviceman and his family. The report states "commissaries can assume more of their costs." Patrons now pay for commissary operating costs through mark-up/surcharge revenues. The appropriated subsidy is used to pay personnel salaries and utilities overseas. If the subsidy were reduced or eliminated, [18 & 19] costs to support that portion of the system would be borne by the individual patron whose purchasing power is continually decreasing because of the failure of military pay raises to keep pace with inflation. Whereas military pay and allowances have increased 31.2% since 1973, the Consumer Price Index (CPI) has increased 46.5% during the same period, resulting in a "real" reduction of about 10% in military pay rates. Requiring the

Result of Latest (1979) DOD Survey  
to Justify Commissaries

Number of commissaries justified

	<u>Adequacy</u>	<u>Convenience</u>	<u>Price</u>	<u>Adequacy, convenience, and price</u>	<u>Convenience and price</u>	<u>Adequacy and convenience</u>	<u>Adequacy and price</u>	<u>Total</u>
Army	-	-	23	14	25	-	10	72
Navy	-	1	28	-	25	-	6	60
Air Force	-	-	51	15	41	-	7	114
Marine Corps	-	-	<u>6</u>	<u>-</u>	<u>6</u>	-	<u>-</u>	<u>12</u>
Total		<u>1</u>	<u>108</u>	<u>29</u>	<u>97</u>		<u>23</u>	<u>258</u>

Evaluation

The criterion should be applicable to the majority of persons it affects. This criterion is unrealistic because it applies to only 40 percent of the married, active duty personnel who reside in the base housing. Over 60 percent of the married personnel and all reservists and retirees live off base in civilian communities where, according to a grocery trade magazine survey, food stores are quite convenient. This survey of the shopping habits of families in the United States showed that over 70 percent of the families surveyed traveled no more than 3 miles to commercial stores.

PRICE CRITERION

If food items in commercial outlets cost as much as 20 percent more than in the commissary, DOD considers the commercial price to be unreasonable. Retail prices for at least 83 brand name food items are obtained from the two adequate commercial stores closest to the commissary. The prices are averaged, totaled, and compared with prices of the same items in the commissary.

Evaluation

The price criterion is based on 1947 data when the average grocery store markup was 20 percent of cost. That markup has increased to about 26 percent. 1/

In 1959 the Army recognized the changing conditions and recommended raising the percentage differential. However, the Air Force disagreed, stating that "any further instructions limiting the present criteria would jeopardize continued operations of our commissary stores."

A DOD-sponsored study in 1969 concluded that probably no commissary would ever show less than a 20-percent differential between the commissary cost and the commercial retail price. The report on the study commented that, if present market trends continued, there was no reason to believe that the survey would not perpetually insure that commercial prices would appear unreasonable in comparison with commissary prices.

We believe that the price criterion is unrealistic because it ignores the competitiveness of the grocery

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1/The markup for 1978 was 28 percent.

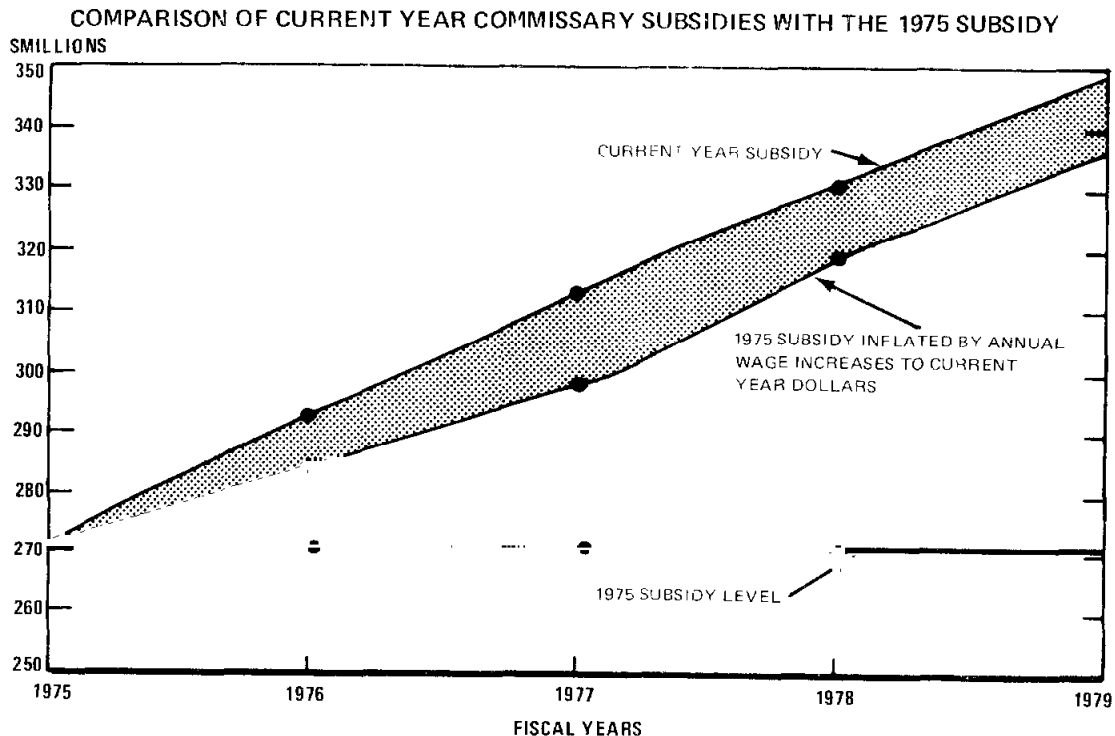
it, the Congress, and OSD for some time. OMB believed the most substantive issues raised in the draft report concern management improvements, specifically, whether commissary systems should be consolidated. OMB said the 1975 OSD commissary study on consolidation clearly identified a means to reduce overhead, lower distribution costs, and achieve economies through centralization of functions.

As previously stated, OMB's 1975 study of commissaries also pointed out the need for improved management and reduced appropriated fund support, recommending a consolidated commissary system and reimbursement of personnel costs by commissary patrons. OMB, in commenting on our draft report, said that the potential to realize long range cost efficiencies through the consolidation of functions merits further consideration and research. OMB also stated that it was advised that an OSD implementation plan was forthcoming.

and said that this real reduction is attributable to management improvements and store closings which, according to DOD, were not adequately recognized in our draft report.

We recognized management improvements and the effect of inflation on the appropriated fund subsidy in our draft report. It stated that the fiscal year 1978 subsidy was \$61.1 million (or 22.6 percent) higher than the fiscal year 1975 subsidy. It also stated that we recognized that inflation was a major contributing factor, increasing costs by 21.3 percent and that the subsidies would have been higher if the services had not taken some action to control costs. A reasonable estimate of fiscal year 1979 costs was not available at that time, but appendix III of the draft report included budgeted fiscal year 1979 costs for comparison purposes.

This report compares the fiscal year 1979 subsidy with the subsidy for fiscal year 1975 in which DOD began cost reduction actions in response to congressional and OMB requests and shows an increase of \$77.7 million (or 28.7 percent). Inflation, in the form of wage increases, accounted for 23.4 percent of the increase. The difference between these figures and those presented in the DOD comments is due largely to our using a more recent DOD-provided measure of the fiscal year 1979 subsidy (\$348.3 million) than the one DOD used in its comments. The following graph, displaying the annual subsidy and effect of inflationary wage increases,



In April 1978 DOD established another study group to address the following two alternatives to the present centralized system:

--A joint-service commissary store agency under the Chiefs of Staff of the Army and the Air Force, the Chief of Naval Operations, and the Commandant of the Marine Corps.

--A joint-service commissary store agency within the Defense Logistics Agency.

Although OSD's analysis of the study group's efforts has not been completed and a report not issued by the date of this report, we learned that cost data developed by the group confirmed that a savings was possible through consolidation, but of a lesser magnitude than estimated by the 1975 DOD study group. Transition costs also were estimated. We understand that OSD officials responsible for the study will decide early this year what form of consolidated system will be recommended to the Deputy Secretary of Defense for approval and implementation.

A standard automated management information system not established

The 1975 DOD study group had recommended that, concurrent with centralizing commissary management, necessary accounting and automatic data processing systems be established. The study group, perhaps to facilitate future consolidation of commissary systems, noted the desirability of establishing a joint-service committee early to promote standardization.

In April 1976 OSD designated the Air Force as executive agent for the program to develop a common system, which would require cooperation of the four military services and the Defense Logistics Agency and monitoring by a DOD steering group. The tasking directive had tentatively scheduled testing the system at its first site within 18 months or by October 1977.

DOD, later in January 1977, reported to the House and Senate Armed Services Committees on the services' improvements in commissary management and stated that, in fiscal years 1978 and 1979, an undetermined amount of savings would result from developing and maintaining a standard automated management information system to be used by all services to support commissary operations. The system was expected to produce savings by allowing for (1) consolidating more functions than was possible with the systems in use and

--Uniform control of promotional sales campaigns offered by vendors for guaranteed sales, floor stock protection, special labels, and voluntary price reduction.

Distribution system--A consolidated system provides the potential for savings in distribution costs through consolidating and centralizing warehouse and meat and produce processing and distribution.

Equipment and facilities--A consolidated system would provide for a construction program that could standardize stores, warehouses, and equipment lists in commissaries thereby reducing construction and modernization costs.

Management and data services--A consolidated system would permit development of standard accounting and financial reporting and automated systems for administrative and operational control, including standard records for inventory control, stock replenishment, and purchasing.

The group also reported that consolidation would have certain disadvantages, since it

- would be a major undertaking, involving substantial funds for relocating personnel in a new organization;
- would result in significant temporary personnel turbulence due to organizational realignments;
- might be viewed by some as creating a large and unwieldy business entity; and
- might reduce local command support of commissaries.

#### Need for greater initiative to consolidate

Despite the commonality of objectives and operations of the four commissary systems as well as the overwhelming advantage of a unified system, the services have resisted consolidation.

The only notable initiative occurred in September 1976 when the services began holding quarterly joint meetings to discuss common problems.

The 1975 DOD study group concluded that consolidation was the most cost-effective alternative, but it could not be done within the time set by the program budget decision which required the study. Its conclusion was based on the

3. Establish common management organizations for exchange and commissary operations for each service.
4. Operate commissaries under a Government-owned, contractor-operated arrangement.

The group concluded that the Government-owned, contractor-operated arrangement was not practicable because it would provide considerably less savings and that common management of exchange and commissary operations for each service would be more costly than the existing system. The following chart shows the group's operating cost estimates for the remaining two choices.

<u>Management system</u>	<u>FY 1978 estimated cost</u>			<u>Total cost reduction</u>
	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	
	------(000 omitted)-----			
System in place in 1975	\$373,500	\$158,500	\$532,000	\$ -
Separate service-wide management organizations	353,600	144,500	498,100	33,900
Single agency to operate all commissaries	337,100	140,100	477,200	54,800

The group concluded that a single-agency operation would provide the greatest customer savings and overall cost reductions--about \$21 million greater than separate service-wide systems. The group said that a major deterrent to immediately carrying out such a system was the lack of an existing automated management and information system, and the alternative was not obtainable within the time established by the program budget decision. Also, because of uncertainties of future sales, savings, and cost allocations due to an expected drastic reduction in the appropriated fund subsidy, the group believed it inappropriate to recommend a joint agency at that time.

Instead, the group recommended centralizing management within each service because centralization would have the least impact on commissary personnel and customers and was attainable within the imposed time limit. The group recommended also that the services develop necessary accounting and automatic data processing systems and suggested establishing a joint-service committee to promote their standardization.



procure commissary resale items. The statute authorizing the stock fund, 10 U.S.C. 2208(h), does not allow the Air Force to credit it with coupon handling fees. The statute says, in part:

"Working capital funds shall be reimbursed for \* \* \* services so rendered \* \* \* by payments in cash." (Emphasis added.)

Since the stock fund does not pay for commissary personnel costs, it is not providing the "service so rendered" (handling the cents-off coupons); therefore, there is no authority to reimburse the stock fund for those personnel costs.

Also, authority is lacking to credit the operations and maintenance account for those personnel costs borne by the account. Thus, since the income cannot be deposited into the stock fund or credited to the operations and maintenance account, the only account legally available for deposit is the Miscellaneous Receipt Account established pursuant to 31 U.S.C. 484. Although the Air Force is improperly crediting the stock fund, as noted above, the Army and the Navy are correctly handling the income by depositing their cents-off coupon handling income into miscellaneous receipts.

The following chart shows the differences between the services' and OSD's estimates of savings from collecting coupon handling fees.

<u>FY</u>	<u>Estimated by the services</u>	<u>Reported by DOD</u>	<u>Difference</u>
------(000 omitted)-----			
1977	\$200	\$ 400	\$200
1978	600	1,200	600
1979	800	1,200	400

OSD was unable to explain the basis for its estimates and could not locate supporting evidence.

#### Mandated personnel reductions

The services reported to OSD cost reductions which were not included in the DOD report to the Congress because they resulted from reduced service rather than from management improvements. The bulk of these cost reductions was claimed by the Air Force and the Marine Corps as resulting from reductions in the number of store personnel made in response to an OSD mandate, as follows:

### Centralizing Army and Air Force management systems

Management of the Army and the Air Force commissary systems was centralized under the Army Troop Support Agency and the Air Force Commissary Service in 1976. Previously, commissary management functions were performed at each installation and major command. Savings associated with centralized management were primarily related to manpower reductions at local installations and major commands. Some of the functions previously performed at the store level are now being performed at supervising field offices.

The estimated savings for fiscal years 1977-79 were greatly overstated by DOD. They included \$3.2 million for the cost of 227 personnel reductions resulting from closure of 4 commissaries with base closures rather than from management centralization. Commissaries traditionally have been closed when bases on which they were located were closed. Therefore, ensuing personnel cost reductions cannot be properly attributed to a commissary management improvement.

Similarly, estimated savings included amounts for the pay of unfilled authorized positions which were eliminated. Although this action is commendable, a paper transaction eliminating authorized positions which were not filled does not constitute a savings resulting from management improvements. Furthermore, even the number of authorized positions is questionable, because both the Army Troop Support Agency and the Air Force Commissary Service had estimated these numbers. According to the Support Agency and the Commissary Service, validated data was not readily available from commissaries which operated as independent stores before 1976.

### Increasing the use of part-time and intermittent employees

Using a high percentage of part-time and intermittent employees in the retail food industry is more economical because the number of on-duty employees can be scheduled to better meet peak customer demands. In addition, for a variety of reasons part-time and intermittent employees are less expensive than full-time permanent employees.

DOD reported savings substantially in excess of those estimated by the four services as shown in the following table.

(management, procurement, warehousing, inventory control, fiscal) within geographic areas, as is done in retail food chains."

In response to growing congressional and OMB concern, DOD established a study group in 1975 to determine what changes, if any, should be made to the commissary store system organization and operating structure for improved efficiency, reduced costs, and better service to patrons. The group recommended that:

- The Army and the Air Force create separate servicewide management organizations to operate their commissaries.
- Resale and troop issue functions be separated.
- Automatic data processing systems be developed and implemented.
- A greater number of part-time employees be used to more effectively match workload.

As a consequence, OSD:

- Directed the services in July 1975 to carry out the recommendations of the study group.
- Directed the services in December 1975 to reduce commissary personnel end strengths by a total of 2,228-- Air Force, 877; Army, 848; Navy, 437; and Marine Corps, 66.
- Directed the services in July 1976 to increase the use of part-time and intermittent employees in lieu of full-time employees.
- Directed the services in December 1976 to implement additional cost saving initiatives and provided them with guidance in preparing estimates of resulting savings as input to a report to the Congress.

Requests for improved commissary management practices were made by congressional committees, such as the House Appropriations Committee in its reports on fiscal years 1976 and 1977 DOD appropriation bills, the House-Senate Conference Committee in its report on the fiscal year 1977 DOD authorization bill, and the Senate Appropriations Committee in its report on the fiscal year 1978 DOD appropriation bill. The latter report stated that there was no question that better management of the commissaries was an absolute necessity.

CONSOLIDATION: AN OPPORTUNITY FOR  
ACHIEVING ADDITIONAL IMPROVED MANAGEMENT  
AND OPERATIONAL ECONOMIES

The growth in the amount of funds appropriated annually to support commissary operations during 1970-74 generated considerable interest in the Congress, the Office of Management and Budget (OMB), and DOD to reduce costs. Consequently, the Congress has repeatedly requested improvements in commissary management and operations.

OMB and DOD studies have concluded that costs can be reduced and service to commissary patrons improved. Although the military services have made management and operational improvements, DOD has not availed itself of the opportunity to save an estimated \$21 million annually by consolidating the four separate commissary systems. Furthermore, the military services have not taken other actions to improve commissary management and facilitate consolidation by establishing similar centralized management organizations and a standard automated management information system. Consequently, the appropriated fund subsidy continues to grow.

The fiscal year 1979 subsidy was \$77.7 million (or 28.7 percent) higher than the fiscal year 1975 amount. We recognize that inflation was a major contributing factor, increasing costs by 24.3 percent, <sup>1/</sup> and that the subsidies possibly would have been higher had not the services taken some actions to control costs. It is evident that more action is needed to achieve a measurable reduction in appropriated fund subsidies while improving customer services.

One of the major deterrents to an efficient and economical DOD commissary operation is the fact that, although the services have a commonality of purpose and delivery systems, DOD maintains four distinct and fragmented management structures and operating systems. Both DOD and OMB studies concluded that additional savings could be achieved by consolidating the separate systems--DOD estimated as much as \$21 million annually. However, the services are reluctant to consolidate because of strong desires to preserve visibility as separate military services.

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<sup>1/</sup>Fiscal year 1979 costs used are based on a 10-month actual figure and a 2-month estimate of obligations. The 1979 wage growth factors were used as an indication of inflation since, according to DOD, wages are 95 to 98 percent of the appropriated fund subsidy we are discussing.

- the need for commissaries was questionable;
- the defense budget had risen by 9 percent despite military forces being the lowest in 25 years and the cost of defense manpower was very high;
- military salaries were comparable to civilian pay, and, with benefits included, exceeded civilian compensation; and
- there was no question that better management of the commissaries was an absolute necessity.

The Senate did not adopt the committee's recommendation for fiscal year 1978. However, it adopted the committee's recommended phaseout for fiscal year 1979, but committee conferees did not sustain that position, and the conference committee deleted the phaseout without stating the reasons in its report.

The fiscal year 1980 DOD budget request included the commissary subsidy, and the House Budget Committee did not address the issue. On the other hand, the Senate Budget Committee report on the "First Concurrent Resolution on the Budget FY 1980" included a phaseout of the subsidy, and the resolution was passed by the Senate in April 1979. Nevertheless, the fiscal year 1980 DOD authorization and appropriation bills provide for continued commissary funding.

#### AGENCY COMMENTS

DOD said that if the appropriated fund subsidy were reduced or eliminated support costs would be borne by individual (commissary) patrons whose purchasing power is continually decreasing because of failure of military pay raises to keep pace with inflation.

A part of this problem, of course, is the cap imposed by the President on Federal civilian and military personnel as a part of an inflation control program which includes wage guidelines for the private sector.

As discussed on page 15, requiring commissary patrons to pay for costs currently paid from appropriated funds could reduce commissary savings from 22 percent to between 11 and 15 percent. This expectation was based on 1975 factors. The appropriated fund subsidy, discounted for inflation, has increased slightly since then, despite several management improvements. The savings percentage also has increased to about 25 percent based on the 1979 DOD survey.

fund savings may be illusory. 1/ Their concerns were based on the possibility that an increase in the surcharge could result in commissary closures. House Concurrent Resolution 198 was then introduced and approved, which opposed any change in the present method of providing financial support for commissaries through appropriations to meet payroll and utility costs.

The House, in the fiscal year 1976 DOD appropriation bill, restored full commissary funding. The Senate, in its version of the bill, however, provided for phasing out 2/ the commissary subsidy over a 5-year period and decreased the House-provided amount accordingly. The Senate Appropriations Committee, also concerned with morale and welfare of military personnel and retirees, emphasized in its report on the bill that the proposal to phase out the commissary subsidy over 5 years was not intended to close commissaries but rather, to shift some of the cost burden from taxpayers to individuals that benefit from this special privilege. Nevertheless, the House prevailed in its position during the conference, and full funding support for commissaries was eventually provided in the 1976 Defense Appropriation Act.

DOD's 1977 budget request again provided for reducing appropriated fund support for commissaries; this time over a 3-year period rather than a 2-year period as proposed in 1976. The House rejected this proposal and included language in the authorization bill expressing congressional opposition to any change in the present method of providing financial support for commissaries. The Senate, to the contrary, included a provision in the authorization bill which would have required phasing out the appropriated subsidy

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1/The concern for the possibility that the savings may be illusory was based on a study done for the Navy in 1975. The study concluded that, for each dollar of appropriated fund subsidy removed from Navy commissaries, more than a dollar would be spent in increased recruiting and training costs or extra compensation that otherwise would not have to be paid to retain personnel. We evaluated that study and concluded that a much more advanced technology than used in that study was required to make such strong statements about causes of human behavior. Important assumptions used in the study were either not supported by empirical data or had been generally rejected by behavioral scientists for many years.

2/The use of phase out or phasing out in this context may not mean elimination of the total subsidy.

supporting commissaries provide free procurement, inspection, receiving, warehousing, and issuing services for commissaries. Other free support services include finance, accounting, and auditing services; civilian and military personnel administration; contract administration; security and inspection services; and real property maintenance.

DOD's accounting system does not provide for accumulating all costs chargeable to commissary operations; therefore, it is not practical to develop the total amount of appropriated fund support. The services, however, estimated that at a minimum the following amounts of appropriated funds were spent or would be spent to support commissaries during fiscal years 1975-79.

<u>FY</u>	<u>Operations and maintenance (note a)</u>	<u>Military personnel</u>	<u>Military construction</u>	<u>Total</u>
------(millions)-----				
1975	\$250.2	\$20.3	\$ -	\$270.5
1976	271.3	21.1	-	292.4
1977	291.0	22.5	-	313.5
1978	307.9	23.7	4.2	335.8
1979	325.8	22.5	-	348.3

a/Does not include costs of transporting commissary goods overseas. This cost was estimated to be \$17.5 million in fiscal year 1975, \$58.3 million in fiscal year 1978, and \$63.3 million in fiscal year 1979.

Furthermore, since the commissaries are an instrumentality of the Federal Government, they do not pay Federal, State, or local income and property taxes and related fees, and they do not have to collect sales taxes from their customers. The State sales tax exemption alone saved commissary patrons about \$61 million in 1977. We did not estimate the savings accruing from the remaining tax exemption, but DOD estimates that more than \$150 million annually is lost to Federal, State, and local governments because commissaries are tax exempt.

In response to a DOD program budget decision, a study group was established in 1975 by the Assistant Secretary of Defense (Manpower and Reserve Affairs) to determine what changes, if any, should be made to the commissary system organization and operating structure for improved efficiency, reduced costs, and better service to patrons. A constraint placed on the group by the decision was that appropriated fund support for personnel and overseas utilities would be

Such efforts should recognize the evolutionary changes affecting the need for commissaries. Most importantly, commissaries, in most cases, are no longer needed because military installations are remote and adequate stores charging reasonable prices are not convenient. Nevertheless this continues to be the basis on which commissaries are justified and authorized by DOD.

Service representatives agreed that the triennial survey based on this concept is outdated. DOD fails to recognize this fact and supports continuation of the process on the grounds it recognizes the reasons why a commissary would be required. Furthermore, as discussed in appendix V, DOD's detailed interpretation and application of the criteria during the triennial surveys are clearly unreasonable.

DOD said several authoritative studies and reports have been conducted which strongly established the need for commissaries in their present configuration as an institutional benefit. DOD mentioned three particular studies, from which we have incorporated specific information in this report. (See pp. 7 and 8.)

However, we do not agree that the studies strongly establish the need for commissaries in their present configuration. The study groups appear to have concluded that the commissary benefit should be maintained based to a great extent on the fact that it has been provided in the past. The conclusions were not based on an adequate data base on benefits derived by DOD in relation to costs incurred because such a data base has not been established by DOD.



MEANINGLESS JUSTIFICATION PRACTICES

Each year since 1953, as required by annual DOD appropriation acts, the Secretary of Defense must authorize each commissary by certifying that:

"\* \* \* items normally procured from commissary stores are not otherwise available at a reasonable distance and a reasonable price in satisfactory quality and quantity \* \* \*."

The certification is based on triennial surveys using criteria established by DOD in 1949 which remains unchanged. In summary they are:

1. Convenience criterion--commercial stores are too far from the installation.
2. Price criterion--store prices are too high.
3. Adequacy criterion--stores do not carry a full line of goods similar to a commissary.

In general, these criteria satisfy the annual appropriation act requirement. However, in response to congressional committee requests, we reported in 1964 and 1975 that the DOD detailed interpretation of these criteria and the manner in which they were applied were clearly unreasonable.

DOD considers commercial stores to be too far away if driving time from the center of base housing is more than 10 minutes or if one person living in base housing does not have a car and public transportation is not available or such transportation takes more than 15 minutes to reach commercial stores and is not provided every half hour. DOD considers commercial store prices unreasonable if they exceed commissary stores' costs by more than 20 percent (1949 average commercial store markup). The commercial stores are considered inadequate if they do not carry the same line of goods as the commissary and meet sanitary requirements. Furthermore, two adequate, competing stores must be within the prescribed distance.

Because of the severely restricted traveling times; the low, years old commercial markup; the two-store requirement; and the general availability and competitiveness of commercial stores, particularly in metropolitan areas, we consider the implementing criteria unrealistic and their application

because the Commission believed they were considered by most military personnel to be extremely important from a psychological view and as a financial advantage and a convenience. Since DOD did not have a current valid data base on benefits it derived from these programs in relation to costs incurred, the Commission's opinion appeared to be based on the fact the program existed. The Commission presented no other support for its position.

A final report on the Third Quadrennial Review of Military Compensation was not issued, but in March 1977 a draft report was referred for consideration to the President's Commission on Military Compensation. The draft contained the conclusion that in recognition of the "military factor" the traditional benefits of military service (commissary, exchange, and a portion of health care) should be retained at current levels and not reduced except as a result of major reviews of the principles and concepts of total military compensation.

Staff studies prepared for the Review include a cost-benefit analysis of commissary and exchange benefits. The analysis showed both programs to be cost effective. However, a key assumption of the analysis--that the estimated effects of pay increases can be used to estimate the effects of an increase or decrease in commissary benefits--was theoretically and empirically invalid. Theoretically, because the change in the estimated effect of a particular, larger quantity pay increase cannot be broken down to a single dollar and substituted for a single dollar increase or decrease in a perceived benefit and used to estimate the effect of a larger quantity perceived benefit. Empirically, because much of the data was old, its representativeness at that time was questionable, and data gathering methodology confused the effects of pay and other variables on reenlistment.

The President's Commission in its April 1978 report specifically mentioned commissary benefits only as a part of a retirement proposal. The Commission drew no specific conclusions on the appropriateness of the commissary benefits as compensation for the "military factor."

The services contend that eliminating commissaries--even in metropolitan areas--would have a detrimental effect on recruiting and retaining personnel, but they have not made any valid studies or developed any data to substantiate their contention.

the Secretary of Defense to annually certify the need for commissaries. In July 1953 the Senate Committee on Appropriations reported that:

"The Committee fails to find any justification for the continuation of \* \* \* commissaries at military installations which are surrounded by or which abut metropolitan areas."

In 1963 the Joint Economic Committee recommended that we review the criteria established by the Secretary of Defense for the authorization of commissaries located in the continental United States. We found that implementation of the criteria was unrealistic and that it did not meet congressional intent. 1/

In 1974 the House Appropriations Committee requested that we determine the need for commissaries in U.S. metropolitan areas where other shopping accommodations were available. We found that commissaries were not necessary at military installations in large metropolitan areas because enough commercial food stores were reasonably close to the commissaries to meet the shopping needs of service personnel living on the installation or in its immediate vicinity and (2) commercial food store prices were reasonable because such stores are very competitive in most areas and operate on low profit margins. 2/

In recognition of these circumstances, the committee recommended in its report on the fiscal year 1976 DOD appropriation bill that DOD close duplicative stores in metropolitan areas to reduce appropriated fund support. OSD asked the military services to identify such stores for closure consideration, but the services maintained that all stores were needed.

COMMISSARIES ARE OPERATED WITHOUT  
ADEQUATE EVIDENCE OF THEIR NEED

The services believe that the need for commissaries has changed and that now they are justified for reasons

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1/"Failure to Curtail Operations at Government Expense of Military Commissary Stores in Continental United States Where Adequate Commercial Facilities are Available" (B-146875, Apr. 16, 1964).

2/"Information on Commissary Store Operations" (FPCD-75-132, Mar. 19, 1975).

ARE COMMISSARIES JUSTIFIED  
IN TODAY'S MILITARY ENVIRONMENT?

The Congress originally authorized subsistence items to be sold at cost only in certain isolated areas. Later, congressional committees reiterated that commissary stores were to be operated only where food was not conveniently available at reasonable prices. Nevertheless, in 1977 DOD was operating with appropriated funds at least 109 of its 265 U.S. commissaries in metropolitan areas where food was conveniently available at reasonably competitive prices.

DOD believes that the need for commissaries has changed and that commissaries are now justified for reasons other than those used to originally authorize them. It contends that the benefit provided by the commissaries has become a routine fringe benefit which DOD is committed to provide to active duty and retired military personnel and is necessary to attract and retain personnel. DOD has not, however, developed or presented data showing the need for such an extensive commissary program nor the value of the benefits derived from the program in relation to the cost of providing the program.

Rather, the services continue to waste valuable resources on triennial surveys (about \$118,000 in 1976) using unrealistic criteria to assess the availability and adequacy of commercial stores and the reasonableness of their prices to serve as a basis for the Secretary of Defense to authorize individual commissaries.

To adequately demonstrate a need for the commissary benefits, DOD should (1) determine whether an actual need exists, (2) develop adequate data to support that need, (3) identify alternative programs that would meet that need, and (4) perform a cost-benefit analysis to determine which alternative would best meet the need. If commissaries are the most cost-effective means, DOD should develop realistic criteria on which the individual stores could be justified consistent with the demonstrated need.

The Congress should enact legislation that clearly defines the purposes for which commissaries may be operated and funded, recognizing, if acceptable, DOD's demonstrated need and revised justification criteria.

COMMISSARIES IN METROPOLITAN AREAS ARE  
CONTRARY TO ORIGINAL CONGRESSIONAL INTENT

The Congress, since 1825 when it first authorized the Army to sell food and other items at frontier posts, has

Number of DOD commissaries  
and their sales for fiscal year 1978

	Continental United States (note a)		Overseas		Total	
	<u>Stores</u>	<u>Sales</u>	<u>Stores</u>	<u>Sales</u>	<u>Stores</u>	<u>Sales</u>
	(millions)		(millions)		(millions)	
Army	72	\$ 857.2	69	\$253.5	141	\$1,110.7
Navy	60	466.2	23	60.2	83	526.4
Marine Corps	12	89.1	3	9.6	15	98.7
Air Force	<u>116</u>	<u>1,162.2</u>	<u>39</u>	<u>174.7</u>	<u>155</u>	<u>1,336.9</u>
Total	<u>260</u>	<u>\$2,574.7</u>	<u>134</u>	<u>\$498.0</u>	<u>394</u>	<u>\$3,072.7</u>

a/In 1976 the United States had 270 commissaries which dropped to 265 in 1977. The 260 commissaries, however, do not include commissaries in Alaska and Hawaii.

Often the Congress has expressed concern that DOD may not be adequately controlling its commissaries in terms of growth in the number of commissaries, growth in the amount of appropriated fund subsidies, and inefficiencies in its management and operating practices. In response to congressional requests, we have issued five reports 1/ on commissaries.

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1/"Failure to Curtail Operations at Government Expense of Military Commissary Stores in Continental United States Where Adequate Commercial Facilities are Available"  
(B-146875, Apr. 1964).

"Information on Commissary Store Operations" (FPCD-75-132, Mar. 1975).

"The Military Commissary Store: Its Justification and Role in Today's Military Environment" (FPCD-75-88, May 1975).

Letter report to Senator Charles H. Percy (FPCD-76-44, Mar. 1976).

Letter report to Senators Lawton D. Chiles and Lowell P. Weicker (PSAD-76-157, July 1976).



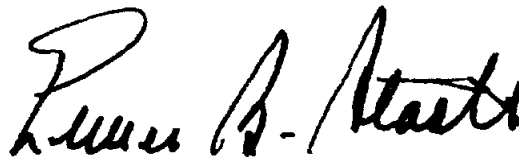
need for the stores to maintain the quality of life for military personnel or to partially offset the demands and lower pay of military life. DOD stated that if the appropriated fund subsidy were adjusted for increases in the Consumer Price Index, the subsidy would be less than the 1975 level.

We recognized the evolutionary changes in the commissary concept and stated that DOD also should recognize them when justifying commissaries. DOD's current method does not relate to pay or the need to maintain a quality of life for military personnel. Insufficient pay should be dealt with as a pay matter and DOD should develop a data base to support other claimed needs for commissaries.

We recognized inflation in evaluating DOD's efforts to reduce the appropriated fund subsidy. Through fiscal year 1979, that subsidy has not been reduced below the 1975 level, when management improvements were begun, despite several improvements and commissary closures resulting from base closures. More can and should be done to decrease reliance on taxpayers to support such a system that could very well support itself and continue to produce savings for military personnel.

These matters are more fully discussed in the appendixes to this report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Defense.



Comptroller General  
of the United States

need for separate systems to meet a commissary function which is basically civilian in nature. Because significant savings to taxpayers could result, the services' reluctance to consolidate becomes even more questionable.

Another matter requiring further Office of the Secretary of Defense management action is that the Air Force is not complying with the Office of the Secretary of Defense requirement to partially offset appropriated civilian personnel costs with income from cents-off coupons because it is not depositing the income in the correct Treasury account. The Army and the Navy are properly depositing the income into Treasury's miscellaneous receipts account while the Air Force is depositing its receipts into the Air Force stock fund. The Air Force lacks legal authority to do this.

#### CONCLUSIONS

Because of the large appropriated subsidy, the services have little incentive to operate commissaries economically. Also, it does not seem fair that taxpayers should subsidize commissaries in metropolitan areas where large commercial grocery stores are generally available, particularly since the original congressional intent was that the commissaries would be authorized only in isolated areas.

Commissaries can assume more of their costs. A 1975 DOD study group estimated that customers could save from 10 to 12 percent over commercial prices even if the subsidy were completely eliminated. More recent studies indicate that the savings would be even greater. Eliminating the subsidy would give commissaries an incentive to operate much more economically and could result in savings in excess of those projected by the study group.

#### RECOMMENDATIONS

We believe that, as a minimum, the following actions are necessary to place the commissaries on a firm, legal, and justified basis and to promote a more economical and efficient organization with support provided by taxpayers only where needed.

We recommend that the Secretary of Defense

- determine whether a need exists to provide commissary benefits;
- develop adequate data to support that need;
- identify alternative programs that would meet that need;



COMMISSARIES NOT ADEQUATELY JUSTIFIED

Although the Congress originally authorized commissaries only in isolated areas, DOD operates a large number of commissaries in metropolitan areas where adequate commercial facilities are available.

The number of U.S. commissaries has grown rapidly since their beginning in the late 1800s. By 1953, DOD had established 210 commissaries in the United States and their number has grown by one-third since then.

DOD contends that the need for commissaries has changed and that they are now justified for reasons other than those used for authorizing them. DOD says that commissaries have become a routine fringe benefit which it is committed to provide to active duty and retired military persons and which is necessary to attract and retain personnel.

Although recent military manpower requirements and compensation study groups believed some form of commissary benefit should be maintained, the need for commissaries as a recruitment and retention benefit has not been established. The services have neither developed valid data showing that recruitment and retention have been enhanced by the commissary program nor shown that commissaries are more cost beneficial than other programs in recruiting and retaining people.

The commitment to retirees should only be one of access to a commissary program limited in scope to that needed by the Active Forces. The services have not demonstrated that retiree income is so low as to require special benefits which are not available to others with similar or lower income.

The services have not substantiated their contentions, but have continued to waste resources (about \$118,000 in 1976) on triennial surveys of each U.S. commissary using criteria which are inconsistent with the changed need and which are not realistic assessments of commercial store facilities, location, and prices.

APPROPRIATED SUPPORT CAN BE REDUCED

Collectively, commissaries are among the 10 largest retail food sales organizations in the country, with annual sales of over \$3 billion. In fiscal year 1978 they received direct and indirect subsidies estimated at \$544 million--\$394 million for operating support and more than \$150 million through exemptions from Federal and State income taxes

