
THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The AID Excess Property Program Should Be Simplified

The Agency for International Development (AID) excess property program is not accomplishing its objective. Intended, when possible, to use excess instead of new property in U. S. foreign assistance projects, the program has moved in a different direction. A number of events have rendered the current structure of buying in advance of established needs unadvisable.

A less sophisticated program of soliciting property, as needed, directly from those generating the excess property would redirect efforts toward U. S.-funded projects and would eliminate the need for an inventory and reconditioning function.

GAO recommends that the Congress terminate the AID authority to obtain property in advance of need and require that non-excess property be liquidated and program funds be returned to the Treasury. GAO also recommends that AID continue to use available property from GSA and to educate mission personnel to use the property.



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

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

This report discusses the effectiveness of the Agency for International Development (AID) excess property program, and contains recommendations to the Congress aimed at restructuring the program to bring it more in line with its legislative purpose. Recommendations are also presented for the AID Administrator.

Information is contained on the impact of Public Law 94-519 on the AID program and private voluntary organizations, fulfilling a June 1979 request of members of the Senate Foreign Relations Committee and the Civil Service and General Services Subcommittee of the Senate Governmental Affairs Committee. This material, contained in chapters 3 and 4, also supplements information which will be provided in our report on the impact of Public Law 94-519 pursuant to section 10 of that law.

Copies of this report are being sent to the Director, Office of Management and Budget; the Director, International Development Cooperation Agency; and to the Administrator, Agency for International Development.


Comptroller General
of the United States

D I G E S T

The Agency for International Development (AID) excess property program was intended to use excess property instead of new property in AID-funded projects whenever possible. However, the program is not presently directed toward that end. Reductions in the supply of excess property, a decreased demand from customers, and the fact that a considerable amount of non-excess property is being distributed under the program indicate that the program needs redirection.

Intended to substitute excess property for new procurement, the AID program has, through the years, functioned as an effective outlet for foreign and domestic excess property and has sometimes filled needs that might have otherwise gone unsatisfied. In other cases, however, excess property has been a source of embarrassment to foreign mission personnel because property received did not meet recipients' expectations.

Excess property from the program more often supplements rather than supplants new property and most goes to non-AID financed projects. The typical big user is either a project sponsored by another country or a private voluntary organization. Only a few U.S. projects rely heavily on the excess property program. (See pp. 7 and 8.)

AID has had difficulty effectively managing the program since its inception in 1961. It does not centrally track project needs to systematically match them with available excess property. Instead, missions are responsible for such tracking, but many do not do so. In addition, no clearly defined strategy exists for using excess property in AID-financed projects. Overall, the program has little support within AID. (See pp. 3, 5, and 7.)

In implementing a 1976 amendment to the Federal Property and Administrative Services Act, the General Services Administration made excess property more difficult for AID to obtain and, in so doing, further disrupted the AID program. As a result, the Agency is using funds intended for excess property to buy other U.S.-owned property. (See ch. 3.) Other factors affecting the program include a shift in the types of AID projects, a decrease in overseas office staffs, and increased apathy on the part of overseas personnel regarding the value of excess property as a development tool.

Though it has made repeated efforts, AID has not been able to establish the procedures necessary to guide or motivate its key managers to effectively operate a sophisticated advance acquisition program. Under this program, AID can acquire excess property before the need is known, but officials of the program believe little can be done to increase AID project use of excess property-- projects for which the program was established.

GAO also observed that the supply of excess property made available to foreign governments and private voluntary agencies was decreasing. Termination of the advance acquisition program would further reduce the amount of property available for these users. Most of the private voluntary organizations contacted believed that this would have little effect on their operations, but several viewed it as a great loss. (See ch. 4.)

CONCLUSIONS

Though the program is not presently accomplishing the primary purpose intended by the Congress, GAO believes that excess property can be used under some circumstances in U.S. foreign assistance.

AID's current use of non-excess property is not within the intent of the law (Section 608 of the Foreign Assistance Act of 1961, as amended). AID should use non-excess property only to complement

excess property. For example, it could acquire property to fill out or complete excess property it has acquired.

GAO believes the effort required to redirect the advance acquisition program would be greater than the benefits to be derived; therefore, GAO believes that the advance acquisition program should be terminated.

To the extent practicable, AID should assist its own and other authorized projects to continue to use excess property available from the General Services Administration and other holding agencies. This will require a less sophisticated program and efforts to encourage AID personnel to use available property effectively.

RECOMMENDATION FOR THE CONGRESS

The Congress should terminate the authority of the Administrator of AID to operate the advance acquisition segment of the excess property program. This would include abolishing its revolving fund, liquidating the programs inventory, and returning all funds to the U.S. Treasury.

RECOMMENDATIONS FOR AID

The Administrator of AID should continue to use excess property otherwise available to AID by developing

--procedures to satisfy AID-assisted programs and project needs, where practicable, through the GSA allocation system and from holding agencies; and

--an education program to encourage mission personnel to use excess property.

Until such time as the Congress decides to implement GAO's recommendation or take other appropriate actions, the Administrator of AID should discontinue using the revolving fund to obtain non-excess property except to complement excess property.

AGENCY COMMENTS

AID does not agree with the GAO recommendation that the advance acquisition authority be terminated. The agency believes that such action would cripple the section 608 program and seriously diminish its worth.

AID does not concur with the conclusion that the use of the revolving fund should be restricted to acquisitions of non-excess property which complement excess property. AID plans no major restructuring of the program and expects greater use of non-excess property.

GAO analyzed the agency comments and concluded that no new facts were offered which were not earlier considered. Accordingly, GAO believes that the advance-acquisition program is no longer justified and simpler procedures can be established to encourage the use of excess property in foreign assistance programs.

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ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
GSA	General Services Administration

CHAPTER 1

INTRODUCTION

The matter of effectively using excess property has long been a concern of the U.S. Government. The U.S. policy on using excess property in foreign assistance was formalized in 1961 when the Foreign Assistance Act was passed. Soon after, the Agency for International Development (AID) was created to carry out many of the responsibilities of the act.

From time to time, AID has been able to use excess property--at a savings to the U.S. Government. When excess property is abundant, AID can serve its customers and the U.S. Government well. However, when supplies are limited, AID has trouble acquiring enough excess property to use it effectively.

THE EXCESS PROPERTY PROGRAM

Through grants and loans, AID provides economic assistance to developing countries. The policy for using excess property (the kind of assistance we are concerned with) was included in section 608 of the Foreign Assistance Act which states:

"It is the sense of the Congress that in furnishing assistance under part I excess personal property shall be utilized wherever practicable in lieu of the procurement of new items for United States-assisted projects and programs."

Thus, there is a clear mandate for AID to use excess property in its grant and loan programs. Each AID mission is responsible for insuring that all recipients of AID-financed assistance consider the acquisition and use of excess property in lieu of new property.

The several functions which comprise the excess property program are outlined in sections 608 and 607 of the Foreign Assistance Act. Under section 608, AID can (1) acquire excess property before the need for it is known; (2) repair, overhaul, preserve, stock, pack, crate, and transport property; and (3) maintain a \$5-million revolving fund to carry out the foregoing provisions.

The revolving fund is self-sustaining and, as such, normally recovers program costs through charges to its customers. The general AID policy is to account for and recover all direct costs (shipping, reconditioning, manuals, spare parts, etc.)

of items when ordered and to recover operating costs through service charges. The fund currently has a surplus of about \$2 million. The revolving fund is an integral part of the advance acquisition program, and it is not needed for direct acquisition of excess property.

Section 607 of the Foreign Assistance Act authorizes non-AID-financed recipients--friendly countries, international organizations, the American Red Cross, and properly registered voluntary nonprofit relief agencies--to obtain excess property under certain conditions:

- The property is needed in the requested quantities and is suitable for the requested purposes.
- The users can effectively use and maintain such property.
- The residual value, serviceability, and appearance of the property would not reflect unfavorably on the image of the United States and would justify the costs of packing, crating, handling, transporting, and other costs, and the residual value at least equals the total of these costs.

Those who receive property under these conditions are often referred to by AID as 607 recipients.

SOURCES OF EXCESS PROPERTY AND ITS DISTRIBUTION

Property distributed under sections 607 and 608 is generally categorized as domestic excess, foreign excess, and other property. The Federal Property and Administrative Services Act of 1949, as amended, confers upon GSA authority to prescribe policies and methods to promote maximum utilization of excess property. Until October 1977 when Public Law 94-519 was implemented, the Foreign Assistance Act authorized AID to obtain up to \$45 million in domestic excess property before it was offered to the States. However, Public Law 94-519, instituted a new system for distributing domestic excess property. Under this law, GSA allows States to select domestic excess property before AID grantees.

GSA generally controls foreign excess property (that property no longer needed by U.S. agencies overseas) through consultation with the owning agencies. Before October 1979, AID had an agreement with the Department of Defense allowing it to have first choice of that agency's foreign excess property for its program. Now, however, GSA selects property

generated in Europe before AID grantees and non-AID-financed recipients. GSA has decided not to do this for property in other parts of the world.

Situs ^{1/} excess property (that property generated by the Department of Defense in designated foreign countries--Panama, Philippines, Korea, or Turkey) is not reconditioned and is available to AID only on an "as is/where is" basis. Generally the property is available only for use in the Situs country. Thus, it does not have to go through GSA, making it immediately available for AID-supported programs.

Other property, complementary to excess property, may also be acquired under section 608, consisting of agency exchange sales, Department of Defense long supply, and commercial sources. Exchange sale property is that property which the owning Federal agencies wish to replace through exchange or sale. Long supply is excess inventory stock that the owning agencies try to sell before turning it over to GSA as excess. This property is more costly to bring into the AID inventory than excess.

MANAGING EXCESS PROPERTY HAS BEEN DIFFICULT FOR AID

Since 1963, AID has issued excess property valued at about \$278 million through its advance acquisition program. Annual amounts issued, valuing property at its original acquisition cost, have fluctuated widely. The program grew from \$1 million issues in 1963 to \$42.7 million issues in 1967. During 1970 and 1971, the amount issued declined to \$7.5 million and \$7.2 million, respectively. In the mid-1970s, property issued increased to \$18.5 (1974), \$19.7 (1975), and \$19.9 million (1976). Since 1976, the program has steadily declined, reaching a low of \$9.8 million issues in fiscal year 1979.

The supply of excess property has been a factor in determining the amount AID used. In a report entitled "AID's Mismanagement of the Excess Property Program," (April 1968) the Senate Committee on Government Operations stated:

"The aggressive acquisition by AID of property excess to the needs of the military services resulting from the withdrawal of United States forces from France in 1967 became the major factor in the increase of

^{1/}Situs means the place where something exists or originates.

the excess property inventory which rose to a peak of \$85 million as of July 1, 1967, as compared to the \$40 million a year earlier."

Today, the program has a supply problem. The following table shows that acquisitions of property have declined significantly in recent years.

<u>Fiscal year</u>	<u>Domestic excess</u>	<u>Foreign excess</u>	<u>Totals</u>
	------(millions)-----		
1974	\$ 14.7	\$ 6.8	\$ 21.5
1975	14.8	11.2	26.0
1976	16.2	8.8	25.0
1977	11.3	6.8	18.1
1978	7.5	3.2	10.7
1979	9.9	2.8	12.7

In a January 1979 report to the House Committee on Government Operations, the Administrator, AID stated that recent problems in acquiring property had significantly impaired the Agency's ability to provide enough property for its customer's needs.

AID operated direct acquisition programs during the 1960s. Missions and other recipients obtained property directly from GSA and holding agencies. In 1968, a Senate committee reported that from 1960 through 1967, missions acquired \$186.2 million (original acquisition cost) through direct acquisition; 607 recipients acquired \$106.6 million in similar fashion over the same period. Additional property acquired through advance acquisition during that period was \$106.6 million. Supplies of excess property were more abundant in the 1960s and priorities were different.

The demand for excess property has changed. During the 1960s, the AID excess property program consisted of three distinct segments. The primary users of excess property through advance acquisition were AID-financed projects. Under a second program (non-AID financed), friendly countries, international organizations, the American Red Cross and registered voluntary nonprofit relief agencies acquired property directly from the holding agencies. A third program allowed AID missions direct acquisition of excess property from holding agencies, including property held overseas. Only two programs exist today

servicing primarily non-AID financed projects. The section 608 program is a combination of the previous three and the Situs program deals only with Situs excess as described on page 3.

Of all these program structures, the advance acquisition concept has been the most difficult to manage. Acquiring property in advance of known needs requires a sizable staff to inspect and track property; additional overhead for storage; steady demand for the property; and a stable supply of property. In 1968, the Senate Committee on Government Operations reported that AID had mismanaged its excess property program. AID attempted to improve its program by reducing inventories and by eliminating reconditioning overseas. In 1970, a congressional subcommittee became concerned over the program's financial reports. A 1971 AID study revealed a lack of interest in using excess property in AID projects. Later, AID attempted to terminate the advance acquisition program, but instead they reorganized in an attempt to improve operations. A 1979 study prepared for AID recommended that the advance acquisition program be phased out, but a follow-up study is instead currently exploring ways to stimulate AID project usage.

SCOPE

This review covers excess property activities in 13 countries. Countries visited represent both the biggest users of excess property as well as countries that receive a large amount of U.S. assistance but use little or no excess. During visits to these countries, we physically located a selected number of property items to make sure they were being used, and we studied the country systems for substituting excess for new property.

We also reviewed the activities of the AID excess property central office in New Cumberland, Pennsylvania, and discussed program operations with AID management officials in Washington, D.C. In addition, we met with officials representing 14 private voluntary agencies to determine the effect of Public Law 94-519 on their access to excess property. Because the Congress is particularly interested in the effects of this public law on AID and private voluntary agencies, this subject is addressed in chapters 3 and 4.

We did not review the Situs program, however, certain references are made to that program in the text of this report. Conclusions and recommendations focus on surfacing problems AID has had operating under an advance acquisition concept. This program concept is authorized by section 608 of the Foreign Assistance Act and is often referred to in this report as the 608 program.

CHAPTER 2

SECTION 608 PROGRAM NOT ACCOMPLISHING OBJECTIVES

That segment of the AID excess property program authorized by section 608 of the Foreign Assistance Act has shifted from the purpose envisioned by the Congress--using excess rather than new property in the Agency's foreign assistance projects and programs wherever practicable. Factors causing the AID program to lose sight of its purpose are many (some even beyond the Agency's control), yet better management could have made the program more effective. Two essential characteristics needed to make the best use of excess property in the Agency's grant and loan projects are missing:

- procedures to match project's commodity needs with available excess property and
- managers who are knowledgeable about equipment and are motivated to use excess instead of new property.

PROGRAM NOT WHAT THE CONGRESS ENVISIONED

The AID program functions best when it services AID grant and loan projects. These projects are funded by the U.S. Government, through AID, and represent planned development efforts that have been reviewed and approved through the U.S. budgetary process. Thus, they are a tool used by the U.S. Government to carry out its planned economic development strategy.

The AID program was intended to substitute excess for new property in AID grant and loan projects. Today's program deviates from that aim:

- Much of the property in the programs inventory is not excess property.
- Most property provided is not used in lieu of new procurement.
- Most property provided does not go to AID grant and loan projects.

Over the past 2 fiscal years, AID used funds appropriated for its excess property program to acquire sizable amounts of non-excess property. Although the law provided that other property could be obtained, AID reached the point in fiscal year 1979 where about 45 percent of its inventory was not excess property. Thus, the program is shifting much of its activity

out of the excess property business. AID attributed its heavy utilization of non-excess property to problems stemming from enactment of Public Law 94-519. (See ch. 3.)

Saving versus supplemental assistance

If an AID project manager uses an excess-property truck instead of buying a new one, the cost of the new truck is avoided--thus, the theory of saving dollars. In 1965, we reported that little, if any money was being saved by substituting excess for new property in AID-financed grant and loan projects reviewed. The report concluded that \$34 million in excess property transferred in 1963 was mostly supplemental assistance--property in addition to that planned for a country. We also reported that transfers to projects not financed by AID (pursuant to section 607 of the Foreign Assistance Act) resulted in no direct savings. Similarly, the Senate Committee on Government Operations reported in 1968 that:

"Many millions of dollars could be saved each year if AID were to use excess property in the economic assistance program instead of buying new items. However, the subcommittee found that such substitution was the exception rather than the rule. In most cases excess property acquired and repaired by AID was delivered to foreign countries in addition to the normal flow of equipment and supplies and too little attention has been paid to the savings which could be obtained by substituting excess material for new purchases. The subcommittee recommends that AID develop agency-wide procedures for screening requests for new procurements against available excess property to minimize dollar expenditures."

Today, the AID program still provides mostly supplemental assistance, however, excess property officials refer to this practice as dollar stretching. AID was warned in the past about overemphasizing dollar stretching. A 1967 House report commenting on deficiencies in the AID program stated that using excess property to save money should be emphasized and that AID should seek "dollar savings" before "dollar stretching".

Most excess property does not replace new procurement. Over the past 6 years, AID has not succeeded in using a large amount of excess property in its projects. About 68 percent of the property has been sent to recipient-financed projects offering little opportunity for dollar

savings. Even the small amount of property going to AID projects has not always replaced new procurements. Most mission personnel we talked with said that the excess property they used did not replace planned purchases of new property. As one project officer said "instead of buying the four planned trucks, they bought five"; however, he said all could be used.

CONDITIONS ADVERSELY
AFFECTING THE 608 PROGRAM

Since the program's inception, AID has had difficulty in managing its 608 program. Inadequate procedures and apathy on the part of key managers are problems that AID management has been unable to solve. Repeated efforts to increase AID project use of excess property and to match project commodity needs with available excess property have failed. Under the current program structures, AID officials do not believe these problems can be solved. Thus, the Agency is studying ways to reorganize the program.

Program constraints studied

In late 1978, AID reviewed its excess property program. Problems were deemed so significant that one option was to terminate the program. The problems AID studied follow.

- Inflation had increased the cost of reconditioning equipment to new highs, making such equipment purchases less attractive to potential buyers.
- The decline in popularity of this program within the Agency affected sales. The absence of equipment specialists at the field level was cited as a major reason for the decline in interest in this program. In the past, such personnel had been responsible for promoting the program and for advising potential users on the best ways to use excess property.
- AID was accorded a lower priority for access to domestic excess property under Public Law 94-519. This legislation has all but shut off the flow of domestic excess equipment for use in grant-financed programs.
- Expected higher transportation costs to move property through Department of Defense channels may discourage potential buyers.

--Purchases of non-excess property may no longer be appropriate under section 608 unless such property complements excess property.

Among the recommendations of this study, was for AID to redefine the functions of its Excess Property Division. Conclusions supporting this recommended action centered on the belief that the 608 program was out of focus with both the objective of the Agency and that of section 608. AID is studying ways to implement the recommendation, and a plan is expected to be completed in 1980.

Inadequate procedures

AID did not create the procedures necessary to adequately match project commodity needs with available excess property. Missions were assigned prime responsibility for using excess property, but they did not implement policies designed to insure that projects used excess property.

AID estimates that projects spend hundreds of millions of dollars each year on commodities, yet little information on project requirements flows to those who stock and maintain the excess property inventory. Instead, during the project planning phase, missions must decide whether to use excess property. To see that excess property is considered, missions are required to appoint an excess property officer who is also charged with coordinating and promoting the program. We found

--many missions do not have an excess property officer and

--many project officers do not realistically consider the use of excess property.

Under these conditions, potential customers and suppliers rarely communicated. Thus, potential opportunities to use excess property were lost.

The extent to which opportunities have been lost cannot be measured because project procurements are not centrally recorded. Inspection of records at GSA, AAPC Incorporated,^{1/} and the mission, however, disclosed that projects purchased sizable amounts of property traditionally available through excess property inventories. For example, new passenger and

^{1/}Formerly the Afro-American Purchasing Center, an organization that assists African countries in purchasing commodities.

industrial vehicles valued at about \$12 million were procured through GSA and AAPC, Inc. from May 1977 through July 1979. Such property is normally found in excess stocks. An excess property official in Panama identified items totaling \$55,000 which were procured for projects in that country during fiscal year 1979 that he believed were available through the excess property program. Documents obtained from the Mission in Egypt show that projects there required the types of property normally available through the AID 608 program. For example, five loan projects required about \$500 million in high-cost equipment of the type normally excessed by Federal agencies.

Missions do not support program

Some misconceptions, some unresolved complaints--but mostly bad experiences--have caused a general feeling of apathy regarding the use of excess property. AID could have done more to resolve these problems, but past efforts to promote the program have not been successful. Excess property officials do not believe much can be done to increase mission support.

Apathy

AID asked 67 missions to identify their excess property needs during an attempt to get a handle on the program in 1979, but only 28 missions responded. The attitude of those choosing not to respond may have been best stated by the AID Mission Director in Peru in correspondence to us:

"You asked that I comment on the statement of AID policy set forth in AID Handbook 16: 'Excess property is to be used in the U.S. foreign assistance program as a substitute for new procurement wherever it is practical to do so.'"

"I believe that this principle is valid and well-stated. The key word is 'practical.' Every manager wants to save money and save time. Under the existing circumstances, the excess property program offers little of either benefit to our program in Peru."

Another Mission Director cabled AID stating flatly that he had no future plans to use excess property in his country.

Reasons often cited by mission personnel for not using excess property are:

--the high cost of excess property,

- the excessive time required to obtain property,
- the difficulty in getting spare parts,
- projects being not appropriate for using excess property,
- country government officials are not interested in using excess property because of bad past experiences,
- inadequate mission staffing and technical expertise to aggressively use excess property,
- not having technical expertise to maintain the property,
- new equipment being more reliable than excess equipment,
- complete orders not being possible because of limited excess property inventory,
- short life of excess property, and
- country officials doing much of the buying.

Misconceptions

No doubt, missions have had problems in the past with high-cost items, property not received on time, and difficulty in obtaining spare parts, but these have not always been legitimate claims. Good quality unreconditioned excess property is not costly despite increased transportation costs, and even after reconditioning, it can be much cheaper than new. The following excerpt from a May 1979 AID Auditor General report deals adequately with this point.

"Specific benefits derived from the use of excess property during the past three years are best illustrated by the accomplishments of some joint AID/Government of Philippines projects and programs. The rural electrification program provided additional electric power of 15,525 K/W benefiting approximately 62,100 families. Forty-two excess property generators were acquired at a cost of \$256,797. New equivalent generators would have cost about \$7 million more.

The Provincial Development Assistance Program (PDAP). * * * as part of its secondary road construction maintenance program, has been able to construct an additional 510 kms. of roads, and was also better equipped to maintain existing roads. The Mission provided 1,522 units of road construction equipment, various types of vehicles, shop and office equipment valued at \$7.6 million * * * at a saving of over \$30 million."

Spare parts are generally available on furnished equipment through the Excess Property Division and are usually included in packages when equipment is shipped. The Excess Property Division is committed to assisting property recipients in obtaining spare parts.

The Excess Property Division can sometimes respond to its customers more quickly than projects can obtain new property. This happens when needed equipment is already in the inventory. Such was the case when property was sent within a few days to the Dominican Republic. In the aftermath of Hurricane David in September 1979, the Dominican Republic found much of its populace without power. The AID 608 program responded with 15 generators, providing welcome relief to that country. AID's timely response received much praise. By relating this and similar positive experiences to mission personnel, AID management could have eliminated some serious misconceptions.

Inadequate management attention

Some unresolved mission complaints could have been solved with proper management attention. The size of mission staffs has been reduced in recent years. As a result, many missions do not have as many equipment specialists as they once had. Such expertise is sorely missed by some who, in the past, relied on these specialists to inspect equipment and advise potential users on the most effective use of excess property. AID needed to devise a way to provide this knowledge to its field offices. Perhaps, educating personnel through training courses, video tapes, or other devices would have helped alleviate the problem.

Another real problem is the absence of technical expertise to maintain equipment once it becomes operative. In Zaire, the Mission Director felt that technical skills were generally limited and spare parts were very difficult to obtain. As a result, the Mission has deemphasized the use of excess property and has begun encouraging projects to procure new vehicles from General Motors which has a plant in the area.

The situation in Haiti, although unique, does present a plausible option for a truly poor country. AID attributes a fiscal year 1978 upsurge in the use of excess property to a personal service contract the Mission let with an equipment specialist. Thus, the technical void is being filled.

Comparing excess with new equipment, mission personnel point out that procurement of new equipment

- provides more reliable equipment;
- allows for procurement of entire packages from a supplier rather than a variety of mixed units as often happens when the small excess-property inventory is used;
- results in equipment that lasts longer and provides company warranties.

Obviously, excess property is not always the most reliable means for meeting commodity needs. When factors, such as those above, outweigh the benefits that could be achieved, purchasing new property is the most appropriate decision. Yet, AID should have encouraged its managers to weigh the costs and benefits of acquiring property rather than generally deciding that use of excess property was inappropriate.

Bad experiences

A supply management consultant with considerable experience in Latin America said that defects in new equipment are tolerated better than those in excess property. Indeed, bad experiences from using excess property are probably the overriding cause of the program's decline in popularity. Some governments even have restrictions on bringing used equipment into their countries because of problems in the past.

Though excess property officials believe that their program has become much more service-oriented recently, recipients of excess property are still having problems. These problems occurred because AID has not always insured that the proper conditions for using excess property existed. As a result, some countries who received property did not properly use and maintain it. AID needed to make sure that the conditions leading to the effective use of excess property were met by all recipients. Our study revealed that effective users

- had the technical capability to maintain the property;

- received the property in good condition; and
- truly needed the property, and received property that met their expectations.

When these conditions were not met, the program suffered. For example, an x-ray processor ordered by a small health clinic in Thailand turned out to be almost as large as the hospital itself. Clinic officials plan to sell the equipment on the Thai market for what they can get. A cobalt machine for treating cancer was ordered by the Government of Zaire, but unfortunately technical expertise for operating the machine was not present.

Bad experiences such as these can cause damage for years. After citing several successful excess property procurements, Guatemalan recipients related other unsatisfactory episodes.

- The Ministry of Health, which had previously ordered over \$500,000 in excess medical equipment has stopped using excess property because of criticism of such property in the Guatemalan press. Although the story was exaggerated, the effect was extremely negative.
- Fire hoses ordered for use in alleviating a drought did not arrive in time to help with the crisis.

Inspection of excess property files shows that AID often goes to great length in resolving complaints. Such positive actions needed more publicity to help erase negativism. In addition, good experiences should have been relayed to mission personnel to counter the more prevalent horror stories. For example, AID's "Front Lines," an internal newsletter, recently covered Egypt's purchase of over 700 rail cars through the AID excess property program. Thus far, about \$1.8 million have been used to obtain equipment that would have cost about \$21 million new. The railway cars could not be used in the United States because of age and design. Brand new, the cars had been in storage since the 1940s, and, because of the AID program, they are currently being used in the Egyptian transportation network.

Such positive exposure on a regular basis may have greatly influenced AID personnel in decisions regarding the use of excess property. This, coupled with more attention to (1) insuring that the proper conditions existed before shipping equipment and (2) continuing emphasis on resolving complaints, could have in our opinion, enhanced mission acceptance of the program.

REORGANIZATION PLANS
MAY BE MISDIRECTED

AID officials have informed us that they prefer to establish a property resource unit which will make maximum use of the revolving fund to procure non-excess property. These officials concurred that the current program is predominately providing supplementary assistance to 607 recipients rather than substituting excess property for new procurement in AID projects, the purpose of section 608. They believe, however, that providing supplemental assistance to 607 recipients should be the general thrust of the future program. Because of the many circumstances described in this report, they did not believe the agency could significantly stimulate project interest in excess property acquisitions. They cited numerous past attempts to increase project demand and to establish a system for matching project needs with available excess property.

Given its current supply problems, which AID excess property officials attributed to Public Law 94-519, the officials maintained that nonexcess property was essential to their program. They regarded this property as a bargain to 607 recipients, primarily host-country governments, who have been the primary recipients. These officials also believed that continuous cutbacks in the U.S. foreign assistance program have weakened the U.S. influence in developing countries and that their excess property programs should be continued to avoid further cutbacks.

CONCLUSIONS

The 608 program structure which was designed to operate primarily under the concept of acquiring property in advance of known needs is not effective. Acquiring property in advance of known needs requires a sizable staff to inspect and track property; additional overhead for storage; steady demand for the property; and a stable supply of property. It also emphasizes moving property rather than satisfying needs. Procedures are needed to match commodity needs with available excess property. Motivated managers are also necessary.

We believe that a major restructuring of the program is necessary to bring it in line with the objective of section 608. The revolving fund was authorized for obtaining excess property and renovating it in advance of established needs for the property. Today, only a marginal amount is used for advanced acquisition or for reconditioning. Instead, the fund is being used to obtain and, when necessary, recondition non-excess property in a manner which was not intended by the law.

The program has traditionally been, and continues to be, little more than a program providing supplemental assistance with little direct savings. Procedures and motivation necessary to redirect the program in accomplishing its purpose are not present. Historically, their absence has been a continuing stigma and many bad experiences are the result. But other factors, including the rules governing the distribution of excess property, have contributed to an array of obstacles.

Given the small demand for excess property in AID projects; decreased supply of quality property; reductions in mission staffs; apathy of AID project personnel regarding the use of excess property; and the absence of a system to match commodity needs with available excess property; we believe the effort required to redirect the program would outweigh the benefits. Thus, we believe that the need for the revolving fund no longer exists.

We believe that the current level of AID project needs can be met, where practicable by direct acquisition through GSA and holding agencies. If property is not available through direct acquisition, it would not be practicable to use it.

Elimination of the AID advance acquisition program would take AID out of the non-excess business and could cut back on the amount used by 607 recipients; however, these recipients may be able to procure this property directly from holding agencies.

RECOMMENDATION FOR THE CONGRESS

The Congress should terminate the authority of the Administrator of AID to operate the advance acquisition segment of the excess property program. This would include abolishing its revolving fund, liquidating the programs inventory, and returning all funds to the U.S. Treasury.

RECOMMENDATIONS FOR AID

The Administrator of AID should continue to use excess property otherwise available to AID by developing

- procedures to satisfy AID-assisted programs and project needs, where practicable, through the GSA allocation system and from holding agencies; and
- an education program to encourage mission personnel to use excess property.

CHAPTER 3

HOW PUBLIC LAW 94-519 HAS AFFECTED

THE AID EXCESS PROPERTY PROGRAM

The revised property disposal system initiated by Public Law 94-519 has restricted AID access to domestic and foreign excess property. The amount of domestic and foreign excess property that the AID excess property program obtained has decreased, encouraging AID to buy other U.S. Government-owned property. Using resources intended for excess property activities for obtaining, renovating, storing, and issuing non-excess property, other than as a complement to excess property, is, in our opinion, contrary to the intent of section 608 of the Foreign Assistance Act.

DISTRIBUTING EXCESS PROPERTY BY PRIORITY

Traditionally, excess property has been distributed by priority. Domestic property no longer needed by Federal agencies was made available first to other Federal agencies. If unclaimed, the property was declared surplus and became eligible for donation to States and local organizations.

Before October 1977, Federal agencies were claiming excess property for their grantees. In addition, Federal agencies were independently operating a number of separate excess property programs. Without central control, property was not equitably distributed. Reporting on the situation in 1974, an interagency study group concluded that very little good quality property was passing through Federal screening and becoming donable to the States and local organizations.

In October 1976, the Congress passed Public Law 94-519, amending the Federal Property and Administrative Services Act of 1949. This law was aimed at improving the method of distributing Government surplus property by strengthening the role of GSA, thereby, centralizing control and restricting the property available to Federal agency grantees. Thus, more property would be available to States and local organizations by giving them priority over Federal grantees.

The public law specifically addressed the AID excess property program. Section 3 reads:

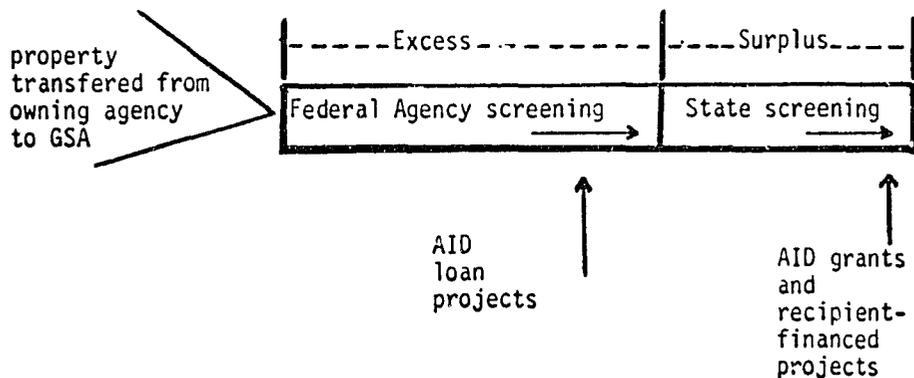
"(d) Notwithstanding any other provisions of law, Federal agencies are prohibited from obtaining excess personal property for

purposes of furnishing such property to grantees of such agencies * * *.

"(2) Under such regulations and restrictions as the Administrator may prescribe, the provisions of this subsection shall not apply to the following:

"(A) property furnished under section 608 of the Foreign Assistance Act of 1961, as amended, where and to the extent that the Administrator of General Services determines that the property to be furnished under such act is not needed for donation pursuant to section 203 (j) * * *."

GSA has implemented the public law by stipulating that AID can obtain domestic excess property for its loan projects after Federal agency screening--but before State screening--and that AID can obtain property for grantees only after State screening. State agencies distribute property to local organizations, including hospitals and clinics. Following is a simplified diagram showing the points when AID loan and grant projects can obtain property.



The new allocation system for domestic excess property affects only AID grantees. Before the new system, AID could claim up to \$45 million in domestic excess property each year for grant and loan recipients. Now, AID can only obtain excess property for its loan projects before State screening. Property available to grantees has been subjected to screening by Federal agencies, determined not to be needed by the Government, and passed through the donation screening cycle as surplus property. Although section 3 of the law makes the AID excess property program one of four exceptions, the extent to which it is

excepted is determined by the GSA Administrator who must decide that property is not needed for the donation program before it can be offered to AID grantees. Under the new system, GSA has not provided AID grantees with any excess property unless it was first subjected to the State screening. Obviously, the fact that the States are allowed to take property before AID for its grant-funded projects means that less quality property is available for grantees.

LESS DOMESTIC PROPERTY AVAILABLE

Since 1961, AID has had a formal policy of using excess property in its foreign assistance program. Section 608 requires agencies to use excess property wherever practicable, rather than buying new items for U.S.-assisted projects. When excess property is abundant, AID may serve as an outlet for the property; specifically, property can be used in developing countries rather than sitting idle or oversaturating domestic markets. During scarce periods, however, AID becomes a competitor, vying for the limited amount of high-quality property, and AID grantees are low on the list for acquiring excess property.

Today, competition for good quality excess property is keen. Because much AID development assistance is provided through grants, AID grantees now have less chance of using excess property in their projects. Approximately \$3.2 billion in U.S. domestic excess property was available in fiscal year 1979. The annual amount has been declining over the past 7 years, but GSA expects the level to remain around \$3 billion per year. The AID program took only \$4.2 million in fiscal year 1979 which seems almost insignificant when compared to the \$3 billion available. The \$3 billion figure is deceptive, however, inflated by military-type items with high original acquisition costs that may not be desirable for use by AID or the States. More importantly, the kind of property AID could use is often in poor condition. Thus, there is a limited amount from which to choose because the States desire the same type property. For example, for fiscal year 1979, GSA received \$76.4 million in excess vehicles, tractors, and construction equipment. Of that amount, only \$1.4 million (about 2 percent) was classified as excellent (not needing repairs).

AID buys property to offset loss of excess supply

To offset the loss of domestic excess property, AID began acquiring reimbursable property, primarily from exchange/sale and Department of Defense long supply inventories. Although

neither of these types of property fall within the legal definition of excess property, section 608 authorizes AID to acquire "other property". Legislative history indicates that other property refers to property complementary to excess property.

For the most part, excess property can be obtained without reimbursement; however, acquisition of exchange/sale and long supplies results in AID reimbursing the holding agency. AID estimates that such charges range from 5 to 90 percent of the property's original cost. Though it is more costly than excess property, AID believes non-excess property is generally of better quality. AID has begun to use large amounts of such property. The following table shows that AID is obtaining 45 percent of the property it distributes from non-excess sources.

Sources of Property
October 1978 - September 1979

<u>Sources of supply</u>	<u>Original acquisition cost</u>	<u>Percent of total</u>
	---(million)---	
Traditional excess:		
Domestic	\$ 4.2	33.0
Foreign	<u>2.8</u>	<u>22.0</u>
total	\$ <u>7.0</u>	<u>55.0</u>
 Nonexcess:		
Long supply and shelf items	4.9	38.6
Exchange/sale	0.5	4.0
Other	<u>0.3</u>	<u>2.4</u>
total	\$ <u>5.7</u>	<u>45.0</u>
Total	<u>\$12.7</u>	<u>100.0</u>

The AID foundation for obtaining property for its excess program is section 608 of the Foreign Assistance Act, which specifically states:

"(a) It is the sense of the Congress that * * * excess personal property shall be utilized wherever practicable in lieu of the procurement of new items for United States assisted projects and programs. The President is authorized to maintain in a separate account * * * \$5,000,000 of funds * * * which may be used to pay costs (including personnel costs) of acquisition, storage, renovation and rehabilitation, packing, crating, handling, transportation, and related costs of property classified as domestic or foreign excess * * * or other property, in advance of known requirements * * *." (Emphasis added.)

AID has used the reference to other property to justify its heavy acquisition of long supply and exchange/sale property. However, in September 1978, the AID Office of General Counsel concluded:

"Congress contemplated acquisition of 'other property' only as might be necessary to complement excess property * * *. Accordingly, it seems clear that use of the revolving fund to acquire other property from government and commercial sources for repair and support of excess property would be within AID's authority. Whether acquisition for any other reason is appropriate would depend on the particular facts of each case." (Emphasis added.)

AID has restudied this opinion, taking the position that long supply and off-the-shelf items are actually items that the owning agencies had considered excess to current requirements and made available to AID. Thus, AID has continued to purchase nonexcess property without first considering whether it is complementary. We disagree with this interpretation. We believe that the congressional intent is clear, that non-excess property should be used only to complement excess property.

LESS FOREIGN EXCESS PROPERTY AVAILABLE

Until late 1979, AID could obtain Department of Defense foreign excess property throughout the world for use in foreign assistance projects before GSA screened the property.

Public Law 94-519 gave GSA greater authority to return foreign excess property to the United States with the agreement of the owning agencies, if it determined that returning the property was in the interest of the United States.

In October 1979, an agreement between GSA and the Department of Defense accorded GSA first choice of property excessed in Europe; AID retains first choice of property in the Pacific and Sibus countries. This new allocation structure may seriously disrupt the AID excess property program because the Department of Defense generates most of the excess property in Europe. AID and GSA believe that much of the high quality excess property in Europe will be returned to the United States and, thus, no longer be available to AID. GSA plans to prescribe priorities similar to those for domestic excess. AID loan project needs will be subordinate to those of Federal agencies. Grantee and 607 recipient needs will be subordinate to those of the States. Other sources of excess property are not affected.

CONSEQUENCES OF REDUCED SUPPLY

As stated earlier in this chapter, the supply of property for the AID excess property program has been reduced by Public Law 94-519, which, in effect, limited domestic excess property for grant projects to that which the States and local organizations did not need. The property supply will be further reduced by the change in the system for allocating foreign excess. A third and possibly more serious reduction in supply may also occur if AID complies with section 608 and stops buying non-excess property, except to complement excess property. These reductions in supply would seriously curtail the AID 608 program.

CONCLUSIONS

We believe that the existing and anticipated reductions to supply for the AID excess property program inhibit AID in meeting the objectives of section 608 and threaten the viability of the program. GSA's implementation of Public Law 94-519 has restricted AID access to foreign excess property in Europe and to domestic excess property for grant-funded projects. The restriction could be substantial, but it is not fully measurable at this time, because AID has been providing non-excess property to 607 recipients and grantees to offset losses in domestic excess property. Thus, the overall loss in property acquisitions has been minimized.

AID is misusing funds in purchasing large amounts of non-excess property that do not complement orders of excess property. We believe that long supply, exchange/sale, and other property not falling within the legal definition of excess property are not excess property. AID should acquire other property only if it complements excess property. We recognize that AID's ability to acquire property for its excess property program will be further restricted.

We believe the system GSA established to determine if property is needed by the States is consistent with the law. The most practical way for AID to obtain more excess property is for the law to be changed, raising the priority of its grantees above that of the States.

RECOMMENDATION

Until such time as the Congress decides to implement GAO's recommendation or take other appropriate actions, the Administrator of AID should discontinue using the revolving fund to obtain non-excess property except to complement excess property.

CHAPTER 4

VOLUNTARY AGENCY USE

OF EXCESS PROPERTY

Section 607 of the Foreign Assistance Act authorizes the transfer of services and commodities to friendly countries, international organizations, the American Red Cross, and voluntary nonprofit relief agencies registered with AID. Another section of the act stipulates that the registered voluntary agencies are to be used where practicable in furthering the purposes of the act.

At the time of our review, the American Red Cross had just begun to acquire property through the advance acquisition program. Our report does not specifically address the Red Cross and other 607 recipients; however, since their priority to acquire excess property is the same, we conclude that the effects will be similar to that of the voluntary agencies.

Although few voluntary agencies use excess property and some have had negative experiences using it, most wanted to continue having it available to them. They have endorsed proposed changes to the law which would allow them to acquire more excess property.

DISTRIBUTION SYSTEM TO VOLUNTARY AGENCIES

In the past, voluntary agencies and other 607 recipients acquired excess property directly from GSA or from the agencies holding such property overseas. In 1968, the Senate Committee on Government Operations explained that these recipients:

"* * * submit their request directly to the GSA region in which the property is physically located' and if the transfer is approved the property is acquired directly from the Federal agency holding the excess. Accessorial and transportation costs are paid by the recipient agency. Considerable quantities of excess property have been obtained abroad by these countries and organizations with the assistance of the AID missions, with acquisitions made directly from military service disposing of the excess property."

607 recipients have always been large users of excess property. From 1960 to 1967, 607 recipients used excess property valued at \$106.6 million. Of this amount, \$84.5 million was from domestic sources and \$22.1 million was from foreign sources. During the late 1960s, these recipients stopped acquiring property directly from GSA. According to an AID official, this change was made to provide AID better control of the non-AID financed segment.

Presently, the voluntary agencies are acquiring excess property through both the AID 608 and Situs programs. AID was the only source of federally owned excess property of the agencies we reviewed, although any Government agency can furnish services and commodities to voluntary agencies and other eligible recipients.

Today, voluntary agencies and other 607 recipients are the biggest users of excess property provided through AID programs, averaging about 68 percent of the property used through the advance acquisition program over the past 6 years. In fiscal year 1978, voluntary agencies and other 607 recipients used about 82 percent of the \$9.6 million made available through the Situs program.

FEW VOLUNTARY AGENCIES
USE 608 EXCESS PROPERTY PROGRAM

To acquire excess property, voluntary agencies must be registered with AID and must obtain specific authorization to use excess property. As of March 1979, 130 private and voluntary organizations were registered, but only 19 organizations have asked for and have been authorized to acquire property. Thus, only a few have chosen to use excess property in furthering their programs overseas. Because of such limited interest, authorization requests to receive property are rarely denied.

During the last 4 fiscal years, only 13 percent of all voluntary agencies currently registered with AID have actually used excess property. In addition, of the voluntary agencies that use excess property, five use most of it. In fiscal year 1976, these five acquired 86 percent of all excess property shipped to voluntary agencies. Similarly, for fiscal years 1977, 1978, and 1979, the five largest users acquired 71, 75, and 82 percent respectively. The following table shows the big users in fiscal year 1979, also illustrating that almost 78 percent of the total excess property that voluntary agencies acquired went to only two countries. Israel received almost 41 percent; the Philippines the received almost 37 percent.

608 EXCESS PROPERTY ACQUIRED
BY VOLUNTARY ORGANIZATIONS
DURING FISCAL YEAR 1979

<u>Country</u>	<u>Voluntary organizations</u>	<u>Original acquisition cost of property acquired</u>	<u>Percent of total</u>
Israel	United Israel Appeal	\$393,323	
	Magen David	99,441	
	Hadassah	59,520	
	Shaare Zedek	242	
	American Mizarachi Women	<u>600</u>	
	total		<u>\$553,126</u>
Philippines	Seventh-Day Adventist World Service	361,987	
	Catholic Relief Services	121,357	
	International Human Assistance Programs	<u>15,441</u>	
	total		<u>498,785</u>
All others		<u>300,250</u>	<u>22.20</u>
	Total	<u>\$1,352,161</u>	<u>100.0</u>

VOLUNTARY AGENCIES HAVE VARIED EXPERIENCES USING EXCESS PROPERTY

We met with officials representing 14 voluntary agencies who described varying experiences using excess property. Some believed that the excess property program contributed significantly to their operations abroad. Others believed that changes are necessary to make the program more useful. For some, negative experiences of the past seem to linger. Thus, they are reluctant to use excess property.

Generally speaking, larger users of excess property reported the most dissatisfaction with the program. Their dissatisfaction usually arose over mechanical equipment and/or reconditioned excess property. Complaints stemmed from the fact that some reconditioned property broke down soon after it was delivered. As a result, malfunctions were too often a source of embarrassment for the voluntary agencies. For example, one official said his agency procured two reconditioned

bulldozers for use in Liberia. One bulldozer could never be started, and the other lasted only 2 weeks, apparently due to faulty reconditioning. Because of similar instances, some voluntary agencies are reluctant to use reconditioned and mechanical excess property.

Inadequate spare parts and high costs have caused other complaints. One agency official stated that AID reconditioning is so costly that they ask for most items "as is" and recondition the property themselves. The same representative said that four generators were obtained "as is" for use as standby electrical systems overseas. Valued at \$40,000 when new, generators would have cost \$35,000 to recondition in the United States. The voluntary agency's costs, including transportation and surcharges, were \$8,904 "as is". The official stated that these generators will be reconditioned overseas at substantial savings.

Despite complaints, many voluntary agencies have effectively used excess property in their programs, saving much money. The following are examples.

- One agency stated that "Purchasing Excess Property has helped us to a great measure and we take advantage of every possible opportunity to avail ourselves of excess property." This agency had purchased hospital beds and saved what its officials believed to be a "tremendous amount of money."
- Another agency praised the Excess Property Division for working very closely with them in supplying generators it urgently needed.
- One agency acquired vast amounts of pipe for use in an irrigation system in Israel.

Almost all voluntary agencies we surveyed believed that excess property was useful in furthering their programs overseas. Most, including those that rarely used excess property, wanted to keep it as an available source of supply. Most agency representatives, however, stated that they do not depend on excess property. They viewed excess property as an alternative resource, to be used if items were available to meet their requirements. Most believed that reducing or eliminating the AID excess property program would have little effect on their overseas activities, and only five agencies stated that the effect would be a great loss.

PUBLIC LAW 94-519 REDUCES PROPERTY
AVAILABLE TO VOLUNTARY AGENCIES

As in the case of AID grantees, GSA's implementation of Public Law 94-519 has upset some traditional channels of supply for 607 recipients; however, the Situs program and foreign excess property through the 608 program--except for that generated in Europe--have not been affected. The new law allows GSA to return foreign excess to the United States after consultation with the holding agencies.

However, the American Council of Voluntary Agencies for Foreign Service believes that GSA's implementation of the public law has virtually cut off the "insignificant trickle" of excess property previously available through the AID program. Voluntary agencies and other 607 recipients are last on the GSA priority list for obtaining domestic excess property and foreign excess property in Europe. Regarding domestic excess property, section 608 has always stipulated that such property was available to 607 recipients only if it was not needed for donation to the States. This was not enforced until after the public law was enacted; thus, some domestic excess property was previously provided to 607 recipients through the advance acquisition segment--the amount not used by AID-financed projects.

Because of their concerns about the effects of Public Law 94-519, representatives of three voluntary agencies drafted a paper detailing the problem as they saw it. This paper was adopted by the American Council of Voluntary Agencies for Foreign Service, and it represents a consensus of the 10 agencies on the Council, all of which have participated in the AID program. The paper states that:

"The Section 607 program has always been bogged down in problems of priorities and procedures. In short, it has been almost impossible for the voluntary agencies to implement any program under Section 607 of the Foreign Assistance Act, and the good intentions of Congress in this respect have been largely vitiated."

The American Council believes that the program for the voluntary agencies has collapsed and will remain so until provisions are made to insure them annual amounts of excess property. Such a proposal has been suggested as an amendment to the Foreign Assistance Act.

The Council believes that from the very inception of the program more than 15 years ago, voluntary agencies actually found it difficult to obtain excess property. The Council paper put it this way:

"Even though difficult in the past, of recent date it has become virtually impossible; the flow of excess property to the voluntary agencies has slowed down to an insignificant trickle."

Most of the agencies interviewed said they could not acquire all of the excess property they needed from AID.

In recent years, the dollar value of excess property used by voluntary agencies has declined. AID provided the following data on voluntary-agency use of excess property through the advance acquisition program.

<u>Property Received by Voluntary Agencies</u>			
<u>Fiscal year</u>	<u>Grant-financed</u>	<u>Recipient-financed</u>	<u>Totals</u>
	------(millions)-----		
1977	\$.53	\$3.89	\$4.42
1978	1.41	2.04	3.45
1979	<u>.47</u>	<u>.92</u>	<u>1.39</u>
	<u>\$2.41</u>	<u>\$6.85</u>	<u>\$9.26</u>

One voluntary agency reported that shipments of excess property were reduced 76 percent when Public Law 94-519 began to affect its acquisitions. Other large voluntary agencies receiving excess property also believed that the Public Law affected their ability to acquire property. Nevertheless, such property was not generally depended upon and the amounts received were not a major portion of their overseas program requirements. Six voluntary agencies in the United States, however, said that Public Law 94-519 had not affected their ability to acquire excess property--primarily because AID was providing them non-excess property in its place.

Because AID has purchased non-excess property, voluntary agencies have received a steady, but limited, amount of property despite the effects of Public Law 94-519. During fiscal years 1978 and 1979, approximately 35 percent of the property shipped to voluntary agencies was non-excess.

CONCLUSION

GSA's implementation of Public Law 94-519 has caused voluntary agencies and other 607 recipients to receive less excess property. They will receive an even smaller amount of property if AID's use of non-excess property is reduced to conform with the intent of section 608. We believe the most practical way 607 recipients can obtain more property is for the law to be amended, raising their priority above the States.

CHAPTER 5

AGENCY COMMENTS AND OUR RESPONSE

AID comments on our report take issue with the recommendations and certain conclusions regarding the manner in which non-excess property is being used. Overall, AID's comments offer no new information and have not resulted in any substantive changes in the report. Thus, there are opposing points of view, and the following highlights the major differences. (AID comments are presented in app. 1.)

USE OF NON-EXCESS PROPERTY

Our analysis of the legislative history resulted in a conclusion that the section 608 revolving fund should be used to provide other property only if it complements excess property. For example, AID could acquire property to fill out or complete excess property it has acquired. AID does not believe that complementarity is a condition to the use of other property.

In challenging our conclusion, AID describes three events which the Agency infers has altered the original legislative history. First, AID points out that in 1968 the House Committee on Government Operations reported that the advance acquisition program was not limited to acquisitions of excess property. Second, AID maintains that the Agency has, on several occasions, discussed the matter of using exchange/sale and long supply property with a staff member of the House Committee on Government Operations. Third, AID points out that it advised the Chairman of that Committee in January 1979 that the Agency had begun to acquire other property to meet needs that were previously met from excess property sources.

During our review of the AID program, we analyzed each of the reports cited above and also met with the congressional staff member cited. In addition, we met with congressional staff representing members of the Senate Committees on Governmental Affairs and Foreign Relations. We studied memos on this subject prepared by the AID Office of General Council representatives. Based on a thorough assessment of all views expressed and examination of the legislative history, we believe that the 608 revolving fund can be used to acquire non-excess property as long as it complements excess property. AID did not adequately deal with this point in its comments. Thus, we still believe that the extent to which AID excludes complementarity as a condition to acquire long supply and exchange/sale is improper.

TERMINATING THE ADVANCE ACQUISITION
AUTHORITY AND REVOLVING FUND

Our study of the section 608 program revealed that it bears little resemblance to that originally prescribed by the Congress. Though we initially sought to suggest ways to improve the current program structure to bring it more in line with its legislative intent, we found a variety of problems for which there are no easy solutions. Many problems are recurrent; others are outside AID's control. We therefore recommended that the advance acquisition program, which is difficult to manage, be terminated and a more limited, less-sophisticated program be adopted.

In its comments, AID contends that elimination of its advance acquisition authority, revolving fund, and inventory would so restrict the program that it would no longer be worthwhile. AID predicted the following specific consequences if the Congress adopted our recommendation.

- The Agency's ability to provide excess property for disaster relief and to meet selected project needs would be crippled.
- The Agency's ability to assist 607 recipients--private voluntary agencies and friendly foreign governments--would end.

The Office of U.S. Foreign Disaster Assistance reported that it received approximately 5 to 10 percent of its materials from excess property (primarily medical items, blankets, and small generators). From fiscal year 1978 through August 1979, less than \$4,000 in property was provided from the 608 program. This Office operates under separate authority and stockpiles materials for use in disasters. Dollarwise, the 608 program's contribution to disasters represents a very small portion of the annual property shipped. Elimination of the AID advance acquisition program should have little effect on the activities of the Office of Foreign Disaster Assistance except that a small supply source may be eliminated. The 608 program does not normally stockpile medical supplies, blankets and other small items, preferring to obtain them when a specific need surfaces. Generators are stockpiled. Thus, it is hardly justified to maintain an excess property inventory to assist another AID office when the latter has the authority to stockpile and acquire materials itself.

We found that excess property supplements, rather than replaces, new property even in AID-financed projects. Any crippling effect on AID's ability to respond to AID project needs would, for the most part, curtail supplements to planned assistance. Loan projects still have a high priority for excess property, but their overall use of excess property is small. Likewise, grantees have shown little interest in excess property. Last year, AID shipped less than \$10 million in excess property which was predominately a supplement to programmed assistance. This unstructured method of moving property is void of any formal plan aimed at assisting planned AID projects. We believe that using the 21 persons, who comprise the Excess Property Division, to provide this form of assistance is not an effective use of staff.

The AID statement that our recommendations would end AID's ability to assist 607 recipients is misleading. Private voluntary agencies and friendly countries receive millions of dollars each year in the form of AID grants and development loans--this is planned assistance aimed at accomplishing specific objectives. In January 1980, AID reported that about \$558 million in assistance will be provided through private voluntary agencies this fiscal year. The amount from excess property was projected as \$4.8 million (less than one percent).

The effect of our recommendation would be as follows.

- It would shut off the flow of non-excess property, acquired with the 608 revolving fund. This amount for Private Voluntary Organizations is small. For example, Private Voluntary Organizations received a total of only \$1.3 million of excess property through the program during fiscal year 1979.
- It would not effect foreign excess property available in Situs countries. About two \$2.0 million went to Private Voluntary Organizations and about \$5.7 million to country governments in fiscal year 1979 (total used \$9.6 million) for projects they finance.
- It would not prevent AID from advising Private Voluntary Organizations and friendly countries on how to acquire property from either domestic or foreign sources using their own funds or through the advance of funds provision authorized under section 607 of the Foreign Assistance Act.

The law is clear regarding the disposition of excess property from domestic sources to Private Voluntary Organizations and friendly foreign governments--it should first be determined that such property is not needed for donation to the States. In the 1960s when supplies were more plentiful, these users acquired property directly from GSA and the military service with minimum AID involvement. The amount of domestic excess property acquired in this manner, for projects not funded by AID was over \$84 million covering a 7-year period--nearly double that used through the advanced acquisition program. Though supplies are less today, the priority of these projects has not changed, and our recommendation would not prohibit AID from operating a simple program of this sort in the future.

Abuses in this program in the 1960s led to more AID involvement, as outlined in section 607(c) of the Foreign Assistance Act. The extent to which AID currently carries out section 607(c), however, can easily be retained at virtually no expense.

We do not believe that termination of the advance acquisition authority will so cripple AID that it cannot continue to use excess property in its assistance program. Furthermore, we do not feel that AID's ability to carry out its responsibilities for disaster relief need be impeded at all, nor need there be any curtailment of legitimate assistance to Private Voluntary Organizations and friendly countries. Instead, we believe that a small core group of the current 21 full-time persons should be retained to continue in carrying out AID responsibilities under sections 608 and 607 of the act. Effective reassignment of the remaining staff resources could greatly enhance AID's ability to meet other foreign assistance needs. It could also result in the return to the U.S. Treasury of over \$7 million dollars currently tied to the revolving fund and allow for liquidation of that portion of the \$10- to 12-million (original acquisition cost) inventory not immediately needed to carry out section 608.

Accordingly, we continue to believe that the advance acquisition program is no longer justified and that simpler management procedures can be established to acquire property from GSA and holding agencies. Therefore, we reaffirm the conclusions and recommendations made in our report.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

May 14, 1980

Mr. J. K. Fasick
Director
International Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Fasick:

Thank you for your letter of April 16, 1980 enclosing copies of the draft report to Congress entitled: "Excess Property -- Need for Direction." I have carefully studied the draft and have a number of comments and observations to offer on its recommendations.

Before offering them, I think it is important to state, at the outset, that our experience with the Excess Property Program has been that it is a limited but nonetheless quite valuable program of opportunity. Without a total change in A.I.D.'s decentralized procurement systems, development of new procedures and substantial increase in staffing, it is not feasible, nor in other very important regards desirable, to centrally screen every procurement document for possible substitution with excess property. Even were it possible, the practical impact would be marginal and the overall costs excessive. This Agency has been criticized from time to time by the GAO and others for not attaining greater substitution of excess properties for new procurement and advised that this problem could be corrected, in part, by consolidating A.I.D. equipment and material requirements and then reviewing excess availabilities against these requirements. A.I.D. is not, however, principally a logistics management agency dealing in consolidated material and equipment procurement centered in a single supply/demand control point. A.I.D.'s task is to design, finance and monitor development projects around the world, in concert with host countries and a multiplicity of other public and private entities. The dimensions of this task are graphically apparent in our multi-billion dollar portfolio of roughly 1,325 essentially unique development projects often carried out in conjunction with one or more of 16 other contributing aid donors, in some 60 host countries, whose government should and must play a central role in managing their development programs. The potential for substitution of excess property in this organizational and programmatic setting is less than might appear on the surface. It is fundamentally limited. These

-2-

1,325 projects draw on individual U.S. entities including firms, voluntary organizations, and universities for implementation. The requirements for material and equipment are generated at the project level requiring different times for input and many require many different models of equipment. For example, different ministries of the same government may standardize on different types of equipment. These realities have to be accommodated. In view of the disparity in both the types and the timing of commodity inputs, it is not possible to consolidate all material and equipment requirements to support A.I.D.'s overseas activities without paying a heavy price in overall program management efficiency. Such considerations have been set forth in greater detail in A.I.D.'s response of April 22, 1980 to the GAO report on project implementation. A copy of the response is attached for your convenience. ^{1/}

In recent years, the Excess Property Program has been one of opportunity for supplementing activities authorized under the Foreign Assistance Act, which includes, under Section 607, the authority to meet requirements generated by friendly foreign governments and Private Voluntary Organizations (PVOs) for their own programs overseas. As noted by the GAO, Section 607 recipients are the major users of excess property, particularly five PVOs in Israel and the Philippines. While the GAO report cites the successful use of excess property in the Philippines and Egypt, it also acknowledges the fact that because of mission staffing reductions over the years, few missions have equipment specialists on-board to oversee the selection, receipt and utilization of excess property. Such expertise is essential for effective use of the property and it is important to point out that two of the very few missions with such staff are those in Egypt and the Philippines. This linkage was not made in the report.

Given the realities of A.I.D.'s Congressionally mandated programming shifts to "New Directions", decentralized procurement systems, limited and declining availability of excess property and staffing constraints, I think the draft report misperceives A.I.D. mission management as one of "apathy" toward the program. While I do not necessarily agree with all the reasons cited by mission personnel on pages 13-14 of the report for using excess property, they deserve attention and weight. There is, of course, a proper place for positive publicity about any program achievements and the "Front Lines" coverage of Egypt's purchase of over 700 excess railcars is an example that was referred to by the GAO. There was also a feature article in the March, 1980 issue of "Agenda" on the railcars, and on the front cover of that A.I.D. publication there was a picture of the Alexandria rail facility where the railcars were assembled. This coverage was not mentioned. In sum, our posture might be described as "publicity - yes, hard sell - no." ^{2/}

Your report correctly identified increased costs of shipping through the Defense Transportation System and the implementation of P.L. 94-519 by GSA as other factors which have increased costs and reduced the available supply

1/ Pages 7, 10, and 11 of our report presents our view on the importance of matching project commodity needs with available excess property. Page 18 points out that the absence of an adequate system to do this, among other things, resulted in our conclusion that the effort required to redirect the program would outweigh the benefits.

2/ Our perception of mission personnel's attitude toward excess property is presented on pages 12-14.

-3-

of excess property. It is correct that we have addressed the short supply situation, in part, by utilizing the "other property" provision of our authority under Section 608 to acquire exchange sale and long supply property at less than full cost from the holding activities, mostly the Department of Defense and the Veterans Administration, which wished to turn over or freshen stocks. We recognize that the original legislative history of this provision states an intention that advance acquisition of "other property" would be used to acquire only items necessary to complement excess property. However, it was clearly stated in a report of the House Committee on Government Operations dated December 1968 that "AID's advance acquisition program under Section 608 of the Foreign Assistance Act of 1961, as amended, is not limited to acquisitions of excess property." Further, we have discussed the matter of utilizing exchange/sale and long supply property with a staff member of the House Committee on Government Operations on several occasions and, in a letter dated January 5, 1979 to Chairman Jack Brooks, we advised him, in part, that: "A.I.D. has begun to utilize the Section 608 revolving fund to acquire long supply and exchange sale property from Department of Defense and other Federal agencies to meet needs which used to be met from GSA sources."

We are comfortable, therefore, that A.I.D.'s current use of non-excess property is entirely proper, and believe that the contrary findings and conclusions presently in the draft report should be removed.

The two specific recommendations in the draft report are as follows:

1. "...that the Congress terminate the authority of the Administrator of AID to operate the advance acquisition segment of the 608 program including the termination of its revolving fund, the liquidation of the program's current inventory and the return of the funds assets to the U.S. Treasury."
2. "...that the Administrator of AID continue to utilize excess property otherwise available to AID by developing:
 - a. -- Procedures to satisfy AID assisted programs and project needs, to the extent practicable, through GSA's allocation system and from holding agencies.
 - b. -- An education program to encourage mission personnel to use excess property."

If the Congress should accept your recommendation and terminate A.I.D.'s advance acquisition authority, the consequences would be as follows:

- Our ability to utilize the Excess Property Program for disaster relief and to meet selective project needs would be crippled by

-4-

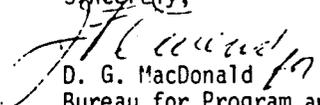
having to rely on the small amount of property allocated by GSA, property which is correctly described on page 25 of the report as being "...often in poor condition or not functional." The provision of disaster assistance to meet emergency needs, e.g., hospital equipment, beds, tents, generators, etc., is of particular importance because A.I.D. is the U.S. agency charged by the President to respond to natural disasters. Many of the most successful operations of the program have been in this area of A.I.D.'s responsibilities, as noted in the draft report.

- Our ability to assist Section 607 recipients - Private Voluntary Agencies and friendly foreign governments - would be ended. Requiring those recipients to struggle alone and procure what little property would be available directly from holding agencies, as they once did, would have very adverse consequences for their programs. The impact on PVOs, would be the greatest, especially for the five major user organizations and their multiple projects in Israel and the Philippines. It would also invite the same abuse and mismanagement which caused such strong Congressional and auditor criticism of A.I.D and led Congress to establish the very authorities for the Agency that GAO now recommends be terminated.
- Without advance acquisition authority, without an inventory of excess and other property, and without a revolving fund which gives us the opportunity to exploit what property is available and which covers all staffing and administrative costs, it is our judgment that the game would no longer be worth the candle and that the program should probably be terminated.

We do not plan a major restructuring of the program nor do we believe one is needed. But within the limitations which I have noted previously, and based on a very careful study, we plan some changes in the program which would better link it to the project development and review system to achieve a somewhat better measure of substitution for new procurement. Because of the severe impact of PL 94-519 on A.I.D.'s ability to acquire excess property in the U.S. and Europe, it is important to be clear that this will require a heavier reliance on our use of non-excess property, primarily long supply stocks, to selectively supplement A.I.D.-financed requirements and those of the PVOs and friendly governments. Finally, however, we do not feel we can mount such an effort if stripped of our advance acquisition authority, our inventory of excess and non-excess property, and the revolving fund. 1/

We very much appreciate the opportunity you have afforded us by having the chance to comment on the draft report, and to provide you with our view of the consequences of the recommendations, as presently drafted, for the future of the program. We hope these views will be useful in your final deliberations on the matter.

Sincerely,


D. G. MacDonald
Bureau for Program and
Management Services

1/Our views on the impact of Public Law 94-519 and on AID's use of non-excess property are fully presented in chapter 3.

(471690)

PN- AAJ-090
30 SEP 1980

AID COMMENTS ON THE GAO REPORT
"THE AID EXCESS PROPERTY PROGRAM SHOULD BE SIMPLIFIED"

The purpose of this statement is to set forth the views of the Agency for International Development (A.I.D.) on the findings and recommendations contained in GAO Report ID-80-32 dated July 31, 1980. The subject of the report is the A.I.D. excess property program.

Section 608 of the Foreign Assistance Act (FAA) of 1961 authorized the establishment of a \$5 million revolving fund which A.I.D. utilizes to acquire U.S.-owned excess property and other property for use in carrying out its programs. There is currently a surplus of \$2.4 million in the revolving fund.

The Agency's detailed comments on the draft GAO report, the principal recommendation of which is that the Section 608 authority to administer the revolving fund be terminated, are contained in a May 14, 1980 letter, a copy of which is attached hereto and which constitutes Appendix A of the final GAO report. This recommendation rests principally on three grounds: first, that A.I.D. does not centrally and comprehensively track all its project commodity needs to systematically match them with available excess property in lieu of new procurement; second, that excess property more often supplements rather than supplants new procurement; and third, that A.I.D. has compensated for its reduced priority for acquiring excess property, in part, by utilizing the "other property" provision of its authority under Section 608 to acquire long supply and exchange sale property contrary to the intent of the Congress.

A.I.D.'s reply to the first finding was that "without a total change in A.I.D.'s decentralized procurement systems, development of new procedures and substantial increase in staffing, it is not feasible, nor in other very important regards desirable, to centrally screen every procurement document for possible substitution with excess property."

As the GAO report points out, the first sentence of Section 608 of the Foreign Assistance Act (FAA) expresses the sense of the Congress that "... excess personal property shall be utilized wherever practicable in lieu of the procurement of new items for U.S.-assisted projects and programs." In practice and in spite of our best efforts, it has proved practicable to locate and use excess property "in lieu" of new procurement in only a limited number of cases. While property with an original acquisition cost in excess of \$275 million has been acquired and used since inception of the program, more than half of that has gone to supplement rather than to replace planned procurements of new property. This property has been of significant value as an element of our programs in Turkey, Korea, the Philippines, Zaire, Tanzania and currently Egypt. A.I.D.'s experience with the excess property program has been that it is a limited but nonetheless quite valuable program of opportunity for supplementing activities authorized under the FAA, which include, under Section 607, the authority to meet requirements generated by friendly foreign governments and Private Voluntary Organizations (PVOs) for their own programs

overseas. As noted by the GAO, Section 607 recipients are the major users of excess property, particularly five PVOs in Israel and the Philippines.

The GAO report also points out correctly that A.I.D. has compensated for the reduced supply of excess property, in part, by utilizing the "other property" provision of its authority under Section 608 to acquire exchange sale and long supply property at less than full cost from the holding activities, mostly the Department of Defense and the Veterans Administration, which wished to turn over or freshen stocks. A.I.D. recognizes that the original legislative history of this provision states an intention that advance acquisition of "other property" would be used to acquire items necessary to complement excess property. However, it was clearly stated in a report of the House Committee on Government Operations dated December 1968 that "AID's advance acquisition program under Section 608 of the Foreign Assistance Act of 1961, as amended, is not limited to acquisitions of excess property." Further, the matter of utilizing exchange sale and long supply property has been discussed with a staff member of the House Committee on Government Operations on several occasions and, in a letter dated January 5, 1979 from the Administrator to Chairman Jack Brooks, he was advised, in part that: "A.I.D. has begun to utilize the Section 608 revolving fund to acquire long supply and exchange sale property from Department of Defense and other Federal agencies to meet needs which used to be met from GSA sources."

The GAO disagrees with A.I.D.'s use of this "other property" authority and, in fact, recommends the following:

"Until such time as the Congress decides to implement GAO's recommendation or take other appropriate actions, the Administrator of A.I.D. should discontinue using the revolving fund to obtain non-excess property except to complement excess property."

The Agency does not wish to prejudge the conclusions of the Congress concerning this recommendation by terminating such procurement at this time. Given the divergence of views on this question and the reality of acquiring property to supplement activities as well as in lieu of new procurement, A.I.D. plans to seek Congressional clarification and/or modification of the intent of Section 608.

As noted above, the GAO recommends that "The Congress should terminate the authorization of the Administrator of A.I.D. to operate the advance acquisition segment of the excess property program." This would include abolishing its revolving fund, liquidating the program inventory and returning all funds to the U.S. Treasury. Yet the report recommends that A.I.D. continue to use excess property by developing:

- Procedures to satisfy A.I.D.-assisted programs and project needs, where practicable, through the GSA allocation system and from holding agencies; and
- An education program to encourage mission personnel to use excess property.

If the Congress should accept the GAO's recommendation, the consequences would be principally those set forth in the attached letter as follows:

- A.I.D.'s ability to utilize the program for disaster relief and to meet selective project needs would be crippled.
- A.I.D.'s ability to assist Section 607 recipients -- PVOs and friendly foreign governments -- would be ended.
- "Without advance acquisition authority, without an inventory of excess and other property, and without a revolving fund which gives us the opportunity to exploit what property is available and which covers all staffing and administrative costs, it is our judgment that the game would no longer be worth the candle and that the program should probably be terminated."

As the GAO was informed in May, A.I.D. does not plan a major restructuring of the program, nor does it believe one is needed. But within the limitations noted, and based on very careful study, A.I.D. plans some changes in the program which would better link it to the project development and review system to achieve a somewhat better measure of substitution for new procurement. Because of the severe impact of PL 94-519 on A.I.D.'s ability to acquire excess property in the U.S. and Europe, it is important to be clear that this will require a heavier reliance on the use of non-excess property, primarily long supply stocks, to selectively supplement A.I.D.-financed requirements and those of the PVOs and friendly governments. Finally, however, the Agency does not feel it can mount such an effort if stripped of its advance acquisition authority, its inventory of excess and non-excess property, and the revolving fund.

Attachment: MacDonald/Fasick letter of May 14, 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

ASSISTANT
ADMINISTRATOR

Mr. J. K. Fasick
Director
International Division
United States General Accounting Office
Washington, D. C. 20548

14 MAY 1980

Dear Mr. Fasick:

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Before offering them, I think it is important to state, at the outset, that our experience with the Excess Property Program has been that it is a limited but nonetheless quite valuable program of opportunity. Without a total change in A.I.D.'s decentralized procurement systems, development of new procedures and substantial increase in staffing, it is not feasible, nor in other very important regards desirable, to centrally screen every procurement document for possible substitution with excess property. Even were it possible, the practical impact would be marginal and the overall costs excessive. This Agency has been criticized from time to time by the GAO and others for not attaining greater substitution of excess properties for new procurement and advised that this problem could be corrected, in part, by consolidating A.I.D. equipment and material requirements and then reviewing excess availabilities against these requirements. A.I.D. is not, however, principally a logistics management agency dealing in consolidated material and equipment procurement centered in a single supply/demand control point. A.I.D.'s task is to design, finance and monitor development projects around the world, in concert with host countries and a multiplicity of other public and private entities. The dimensions of this task are graphically apparent in our multi-billion dollar portfolio of roughly 1,325 essentially unique development projects often carried out in conjunction with one or more of 16 other contributing aid donors, in some 60 host countries, whose government should and must play a central role in managing their development programs. The potential for substitution of excess property in this organizational and programmatic setting is less than might appear on the surface. It is fundamentally limited. These

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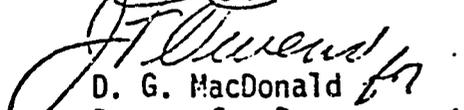
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Sincerely,


D. G. MacDonald
Bureau for Program and
Management Services

Attachment:

A.I.D Administrator Bennet's letter