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Report On
The Army's
Open Mess
Centralized Club Card Program

B-176789

Department of the Army

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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MARCH 15, 1973



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

B-176789

The Honorable Wright Patman
Chairman, Committee on Banking and Currency
House of Representatives

Dear Mr. Patman:

In accordance with your request of August 1, 1972, we reviewed the Department of the Army's nonappropriated funds clubs and open messes' award of a 5-year contract to the Bank of America, San Francisco, California. Bank of America was awarded the contract to operate a centralized club card program in officers' open messes in the continental United States after it had received another contract to operate a 6-month pilot project. The enclosed report summarizes our findings of the contract award and operations under the contract.

As requested, we have not obtained advance reviews and comments on this report from agency officials or the retired Army general hired by the Bank of America.

Pursuant to his request and as agreed with a member of your staff, we are providing a copy of the enclosed report to the Chairman, Senate Banking, Housing, and Urban Affairs Committee.

Sincerely yours,

A handwritten signature in cursive script that reads "Thomas B. Staats".

Comptroller General
of the United States

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ABBREVIATIONS

ACMF Army Central Mess Fund
ASPR Armed Services Procurement Regulation
GAO General Accounting Office

COMPTROLLER GENERAL'S REPORT TO
THE CHAIRMAN, COMMITTEE ON BANKING
AND CURRENCY
HOUSE OF REPRESENTATIVES

ARMY'S OPEN MESS
CENTRALIZED CLUB CARD PROGRAM
B-176789

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman, House Committee on Banking and Currency asked the General Accounting Office (GAO) to review an award by an Army organization of a 5-year contract to the Bank of America of San Francisco to operate a centralized club card program in officers' open messes in the continental United States. GAO was requested to determine whether:

1. The credit program would result in additional subsidies to banking organizations to the detriment of taxpayers and in restrictive credit policies toward servicemen.
2. The nonappropriated funds clubs and open messes and Bank of America acted legally and ethically in negotiating and awarding the contract.
3. A retired general hired by Bank of America had helped secure the contract.

As requested, GAO did not obtain advance review and comments from officials of organizations whose activities are discussed in this report.

FINDINGS AND CONCLUSIONS

Summary

1. The program will not seriously affect taxpayers and servicemen. (See p. 7.)

2. Established contracting procedures had been followed in awarding the contract to the Bank of America but GAO had some reservations, as explained below. (See p. 12.)
3. The retired general disclaimed any role in obtaining and negotiating the contract and Bank of America officials corroborated this statement. (See p. 25.)

Economic implications of the mess club card program

The Army open mess club card program is a computerized system that centrally administers accounts receivable, billing, lockbox, banking, accounting, and data processing services for all credit sales and dues of the Army officers' open messes. All mess members' receipts collected are deposited in a central Bank of America account and credited to individual mess subaccounts. Each mess has access to the funds deposited in its account and may withdraw these funds at any time.

The Army Central Mess Fund, the activity responsible for the program, has access to all unwithdrawn funds in the central account. Unwithdrawn funds are deposited in the Army's investment program which enables productive use of money that may otherwise remain idle in the messes' checking accounts. Proceeds are credited to the messes according to their share of the total. Each mess is responsible for extending and

controlling credit, including collecting delinquent accounts and for absorbing losses from uncollectable accounts.

If the program is extended to all Army officers' and noncommissioned officers' open messes, worldwide, the Department of the Treasury's deposits in subsidized military banking facilities could increase by at least \$860,000. Using the 182-day Treasury bill interest rate of 5.52 percent, the banks would earn about \$47,700 on these deposits. This amount would represent an interest cost to taxpayers, because the Treasury funds could be used to decrease Government borrowings. (See pp. 7 and 8.)

Treasury officials informed GAO that, since the program affects only a few domestic banks, they do not object to operating the program in the United States. However, they oppose expanding the program overseas, because most overseas banking facilities are nonprofitable and supported by the Treasury. (See p. 8.)

The program changes the messes' banking arrangements by channeling mess funds away from military-based banks to the Bank of America. The loss of these funds affects the banks' profitability and may affect the services they can provide unless service charges are assessed. However, GAO did not find that the banking community was imposing any restrictive credit policies on servicemen because of the program. (See pp. 9 to 11.)

Negotiating and awarding pilot and permanent contracts

An Army regulation gives custodians wide latitude in selecting procure-

ment procedures and awarding contracts for non-appropriated-fund activities. GAO believes Army procurement policies and procedures applicable to non-appropriated-fund activities do not satisfactorily control their contracting actions. For example, GAO found that:

- The pilot contract did not provide a technical data package or a computer software program. (See pp. 12 and 17.)
- Bank of America was the only firm solicited which could have been expected to meet the startup date for the permanent contract. (See pp. 12, 15, and 17.)
- The Army Central Mess Fund did not give the firms solicited for the permanent contract operating manuals developed for the clubs during the pilot program even though these manuals would have helped them understand input and output documents wanted from the system. (See pp. 12 and 17.)
- The Army reduced the pilot contract from 2 years to 6 months, after 9 of the 12 offerors had been eliminated, without resoliciting offers on what was essentially a new procurement. (See p. 13.)

Program evaluation

GAO found that the pilot program did not satisfactorily meet all program objectives. The objectives were to:

- Reduce high operating costs of individual mess-operated systems.
- Enable productive use of otherwise idle money in mess checking balances.

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--Reduce use of currency in open messes.

--Provide mess members credit conveniences at all Army open messes and not only at the home mess.

--Apply internal management controls more easily.

The Army said all objectives, except reducing the use of currency in the open messes, were met to a high degree. GAO found that:

--The new system would not significantly reduce mess operating costs. (See pp. 19 to 21.)

--Deposits in the investment program did earn money. However, GAO's evaluation was restricted by limited information made available. (See pp. 21 and 22.)

--Charge sales decreased and cash

sales increased. (See p. 22.)

--Interclub transactions accounted for about one-half of 1 percent of the total monthly credit transactions. Because of the limited participation in the pilot project, this may not be a true indication of the mess members' willingness to use the club card. (See p. 22.)

--Various computer printouts had been generated by the new system which mess custodians found useful. However, mess officials said they were not completely satisfied with controls under the new system. (See p. 22.)

GAO estimated that permanent program costs under the 5-year contract will be about \$5.2 million rather than the \$3.9 million estimated by the Army. (See pp. 22 and 23.)

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CHAPTER 1INTRODUCTION

The Army's nonappropriated funds open mess club card program is a computerized system that centrally administers the accounts receivable, billing, lockbox, banking, accounting, and data processing services for all credit sales and dues at Army officers' open messes. All mess members' receipts collected are deposited in a central bank account that Bank of America maintains for the Army Central Mess Fund (ACMF), the activity responsible for the program. Individual messes' subaccounts are credited for all collections deposited. The messes have access to the funds deposited to their accounts and may withdraw these funds at any time.

ACMF has access to all unwithdrawn funds in the central account and invests the funds in the Army's investment program operated by the Army Central Welfare Fund. The investment proceeds are credited to ACMF which, in turn, prorates them to the messes according to their portion of the total amount. At the time of our review, the current rate of return on deposits was 6 percent, compounded annually.

The individual messes extend and control credit, including the collection of delinquent accounts, and absorb losses from uncollectable accounts. Bank of America is responsible only for providing delinquency notices to members.

ACMF awarded a contract to Bank of America for a 6-month pilot project at six officers' messes in the 6th Army Area from October 1, 1971, through March 31, 1972. This contract was extended to August 31, 1972, to insure that services would be continued to the messes already in the system until the program was evaluated and a permanent contractor was selected. The pilot contract cost ACMF \$77,457.

On July 31, 1972, ACMF awarded Bank of America a 5-year contract to operate the club card program in about 100 officers' open messes serving approximately 138,000 mess members in the continental United States. This contract provides for fixed service fees for transactions, at an estimated total cost to ACMF of \$3.9 million. Within 1 year of August 30, 1972, ACMF can extend the contract to cover

services to noncommissioned officers' open messes in the continental United States. Within 2 years of August 30, 1972, ACMF can extend the contract to cover services to commissioned and noncommissioned officers' messes overseas. If ACMF exercises these options, the contract will cover about 400 messes serving about 468,000 members.

SCOPE

We examined records and talked with officials concerned with various aspects of the club card program at the Directorate of Nonappropriated Funds Clubs and Open Messes, Department of the Army; the Department of Defense; the Bank of America; and four military installations in the 6th Army Area. We also examined records and held discussions with officials at the Department of the Treasury, the banking organizations affected by the club card program, and two firms that unsuccessfully bid on the contract.

CHAPTER 2

ECONOMIC IMPLICATIONS OF THE PROGRAM

We believe the Army's open mess club card program will not seriously affect taxpayers and servicemen. However, it could increase Treasury deposits in subsidized military banking facilities by at least \$860,000. This subsidy would cost taxpayers about \$47,700 annually in interest. The program changes the messes' banking arrangements by channeling mess funds away from the banks on military bases and thereby decreases the banks' mess account balances and earnings. Banking facilities may have to begin charging for services; however, we did not find that the local banking community was imposing any restrictive credit policies on servicemen because of the program.

IMPACT ON THE DEPARTMENT OF THE TREASURY

The Department of Defense, in concert with the Treasury, develops and monitors the policies and procedures for establishing, operating, and terminating banking institutions on military installations.

Generally, three types of banking institutions serve the military: (1) banks, (2) branch banks, and (3) banking facilities. Banks and branch banks provide customary commercial banking services. Banking facilities normally cannot provide loans or savings programs, but banking facilities overseas can provide loans to servicemen.

Banking institutions overseas consist almost entirely of banking facilities. The number of military banking institutions in the United States is:

<u>Type</u>	<u>All military departments</u>	<u>Army only</u>
Bank	10	8
Branch bank	81	28
Banking facility	<u>192</u>	<u>46</u>
	<u>283</u>	<u>82</u>

Bank and branch banks are self-supporting. The Treasury subsidizes banking facilities by maintaining deposits with these banks which earn interest to offset bank losses when operating expenses exceed income.

In the United States, only seven banking facilities have officers' messes accounts that could be affected by the club card program. We estimate that the program could increase Treasury balances in these facilities by about \$49,500. We estimate that, if the program is extended worldwide to include all commissioned and noncommissioned officers' messes, Treasury balances could increase by \$864,000, as shown below.

	Increases in Treasury balances (note a)
United States (note b)	\$ 83,000
Overseas (note c)	<u>781,000</u>
Total	<u>\$864,000</u>

^aSee appendix III for derivation of estimates.

^bBased on 1969 data.

^cBased on 1971 data.

Using the 182-day Treasury bill interest rate (5.52 percent at the time of our review), the banks would earn about \$47,700 on these deposits, which taxpayers pay in interest cost, because the Treasury funds could be used to decrease Government borrowings.

Treasury officials told us that, since the program will affect only a few domestic banking facilities, they do not object to the program operating in the United States. However, they would oppose expanding the program overseas, because most overseas banking facilities are nonprofitable and supported by the Treasury.

IMPACT ON BANKS

According to Defense and Army policy, when a military base has been granted a banking institution, custodians of nonappropriated funds are expected and encouraged to use the on-base banking and financial services as much as possible.

The President of the Association of Military Banks, in a letter to the Assistant Secretary of Defense (Comptroller), said that the Army's program would change the messes' established banking arrangements by channeling mess funds away from the banks to Bank of America. He explained to the Assistant Secretary that the funds deposited with, and handled by, banks supported the military bases banking institutions. He said the messes' active working fund balances compensate for the service costs and the loss of these balances would sharply affect the banks' profitability and services.

According to the Treasury, if the program reduces bank balances and if services are not correspondingly reduced to make a mess account self-sustaining, the account could be subject to a service charge. The Treasury explained that many banking facilities operate with minimum staffs. Therefore it may not be possible to significantly reduce operating costs even by reducing banking services.

Using the same methodology in estimating increases in Treasury balances (see app. III), we estimated that the officers' messes' net average daily bank balances maintained in the United States would decrease by over \$1.8 million. Assuming a minimum 4-percent earnings on these balances, the banks' total income could decrease about \$72,000 annually.

Banking officials at the four military installations we visited stated that the banks did not assess service charges on any Government accounts and that they had not analyzed officers' mess accounts to determine if the messes' balances compensated the banks for their costs. At our request, the banks made such analyses and determined that two of the four messes maintained insufficient bank balances. For example, one mess maintained an average daily balance of over \$48,000 for the year prior to the

pilot program (October 1970 through September 1971). In November 1972 the balance in this account was \$22,000. The bank estimated that the \$22,000 average daily balance offset only \$69.62, or 53 percent, of the total \$131.41 cost for handling the account. The bank stated that the mess would have to maintain an average daily balance of \$41,600 to cover the total monthly cost for handling the account.

The messes are allowed to withdraw funds from their Bank of America accounts for deposit in their banks. However, since ACMF has promised the messes a 6-percent return on their Bank of America accounts, the messes intend to maintain large balances in their Bank of America accounts. If the banks do not assess service charges, they will be indirectly subsidizing the cost of the program to the messes.

IMPACT ON SERVICEMEN AND MESSES

Banking officials in the 6th Army Area told us that the present program was too small to affect their ability to provide loans and other services to Army personnel. Although the program provides the mess members credit conveniences, the members are no longer allowed to use commercial credit cards at their messes.

This restriction could adversely affect mess operations. For example, under the Army program, charge sales made by members will not be credited to the mess account until they are actually paid to Bank of America. The timelag between the actual charge and the crediting of this charge could take 45 days or more. Under most commercial credit card programs, the charge sales are reimbursed to the venders (messes) within 1 or 2 days after the transaction is submitted for reimbursement.

IMPACT ON LOCAL INVESTMENT SOURCES

The impact of the program on local investment sources could not be readily ascertained. Messes in the 6th Army Area are required to invest their idle funds in the Army's investment program, unless they can obtain a higher rate of return locally. Three of the four messes had no funds invested in local sources, such as credit unions, savings

and loan associations, and certificates of deposits. The fourth mess had \$20,000 in a savings account with the on-base bank but also had over \$225,000 in the Army's investment program. The three messes with no local investments were paying off 3-percent-interest-bearing loans on funds borrowed from ACMF.

CHAPTER 3

NEGOTIATING AND AWARDING

PILOT AND PERMANENT CONTRACTS

Army Regulation 230-1, outlining procurement policies for non-appropriated-fund activities, gives fund custodians wide latitude in selecting procurement procedures and awarding contracts. This regulation provides that procurements be made through formal advertisement or negotiation. The custodian must select the most feasible and favorable method after he considers all the conditions and circumstances pertaining to a particular procurement.

The only requirement for negotiating a procurement costing more than \$1,000 is that the maximum number of qualified sources be solicited to insure that the procurement is to the best advantage of the fund, considering price, and other factors.

In contrast, the Armed Services Procurement Regulation (ASPR), which governs all appropriated-fund procurement, devotes more than 85 pages to explaining requirements and circumstances permitting procurement by negotiation. Non-appropriated-fund activities are not required to use ASPR, although they may.

In our opinion, the Army procurement policies and procedures applicable to the non-appropriated-fund activities do not satisfactorily control their contracting actions. To illustrate, ACMF

- did not obtain a technical data package or a computer software program from the pilot contract;
- set September 1, 1972, as the startup date for the permanent contract, when Bank of America was the only firm solicited which could have been expected to meet this deadline;
- did not give the firms solicited for the permanent contract operating manuals developed for the clubs during the pilot program even though these manuals would have helped them understand input and output documents wanted from the system;

--reduced the pilot contract from 2 years to 6 months, after 9 of the 12 offerors had been eliminated, without resoliciting offers on what was essentially a new procurement.

IMPORTANT EVENTS LEADING
TO THE CONTRACT AWARDS

Pilot contract

Bank of America officials told us that they first learned of the Army's intent to contract for a centralized club card system on September 11, 1969. Bank of America representatives met with the ACMF custodian to discuss the Army's proposed program and on October 13, 1969, submitted an unsolicited proposal to the Army. Other interested firms also submitted unsolicited proposals before ACMF requested quotations.

On March 20, 1970, ACMF mailed requests for quotations to 21 firms. The requests stated that:

- The initial contract would be for 2 years and would require a pilot project from 3 to 9 months.
- After the project evaluation, ACMF would consider extending the contract to all messes in the continental United States and perhaps to overseas commands.

ACMF mailed the requests even though it decided to award a contract only for the test period in one Army area. The offerors were not notified of this significant change which reduced the contract term from 2 years to 6 months. Twelve quotations were received by May 1, 1970.

An evaluation board was appointed on May 14 to select the pilot contractor. The board was to evaluate the proposals on the basis of the proposed costs and of the offerors' capability in the credit card field. It had no predetermined standards or procedures to follow. On June 11, 1970, the board recommended Bank of America as the primary firm for the negotiations and selected the First and Merchant's National Bank and the Financial Data Corporation as alternates. According to the board's report, it did not consider cost estimates in the final determination because the selected firms' experience differed.

On September 9, 1970, the Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) authorized the pilot test for only 6 months and stated that the board had to select the test contractor from among the three firms. He instructed ACMF to insure that the test contractor chosen would receive no preference if the system were extended Army-wide.

On December 2, 1970, ACMF notified the three firms that a contract would be awarded for only a pilot program for 6 months and that, if the services were expanded, another contract would be negotiated. Shortly after the announcement, the First and Merchant's National Bank withdrew from the competition under the revised conditions because of the limited contract period and the uncertainty regarding continuation of the operations beyond that period.

On December 18, 1970, the Army reported that the board eliminated the Financial Data Corporation because the board believed it lacked sufficient staff, plant equipment, experience, and financial resources to provide satisfactory service beyond the pilot project. Therefore the board recommended Bank of America for approval.

On February 10, 1971, the Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) approved the selection of Bank of America with the understanding that it would receive no preference if ACMF established a centralized billing and collection system. If the test indicated that such a system was desirable, the proposed method of selection, including selection criteria, procedure for evaluation, and weighting of various factors, should be coordinated with his office and "great weight" should be given to minimizing cost and encouraging the largest number of competitors.

The pilot contract, calling for the test to begin in August, was signed on February 18, 1971. However, the Army announced on August 16, 1971, that the test would begin October 1, 1971, and would run to March 31, 1972.

On February 18, 1972, Bank of America agreed to extend the contract services to September 1, 1972, to permit an adequate evaluation of the test results and a decision by June 30, 1972, to expand or terminate the system.

Permanent contract

To prepare for the possible expansion of the system to all officers' messes in the continental United States, in February 1972 the Assistant Secretary of the Army (Manpower and Reserve Affairs) approved the contract selection criteria and evaluation methods for selecting the contractor for this program. To comply with the Deputy Assistant Secretary's instructions of February 10, 1971, to prohibit favoritism in awarding the contract, ACMF added certain ASPR requirements to the non-appropriated-fund regulations. These additions included selecting a responsible firm, requiring a prequotation conference, and publishing a synopsis of the procurement in the Commerce Business Daily.

ACMF mailed requests for quotations to 93 firms in March 1972. Thirty firms attended a prequotation conference on April 5, 1972, 5 days after the pilot test was completed. Fifteen firms, including three banks, responded with formal quotations by April 25, 1972.

A selection board was appointed on May 15, 1972, to review the quotations. The selection criteria weighted 70 points for price, 15 points for organizational capacity, and 15 points for project-related experience. Within each of these categories, a value was assigned to subfactors on a scale of zero to 10, with the best quotation receiving 10. The following six firms were considered to be within the competitive zone and received a weighted value greater than 600 of a maximum 1,000 points.

	Weighted score			
	Price	Organization	Experience	Total
	(700)	(150)	(150)	(1,000)
Bank of America	537	117	117	771
National Timesharing	700	23	2	725
Eval-U-Metrics, Inc.	657	7	3	667
Interservice Club Card, Inc.	599	35	23	657
Diversified Data Services, Inc.	615	11	10	636
Itel Corporation, Data Processing Division	475	102	53	630

Bank of America placed fifth in pricing but first in organization and project-related experience.

During negotiations the board requested confirmation of certain quoted data, such as audited financial statements, resumes of key personnel, and a list of clients. On June 13 the board met again to reevaluate the firms' new information.

The board eliminated three firms as unresponsive or nonresponsive.

- National Timesharing, which had the lowest quoted price of the six firms, suffered recurring losses from 1969 through 1972.
- Eval-U-Metrics, Inc., could not meet its current obligations.
- Interservice Club Card, Inc., failed to provide financial statements, which made it impossible for the board to determine its financial condition. The board disqualified Interservice and quoted ASPR, stating that "doubt as to the productive capacity or financial strength which cannot be resolved affirmatively shall require a determination of nonresponsibility."

The remaining three firms were ranked as follows:

- Diversified Data Services had the lowest quoted price of the three responsive offerors. The board recommended a preaward onsite survey to validate the facts represented by the firm.
- Bank of America, which had the second lowest quoted price, was selected as the alternate. The board recommended that Bank of America be awarded the contract if the preaward onsite survey found Diversified Data Services nonresponsive.
- Itel Corporation, which had the highest quoted price of the six offerors, was selected with qualification. The board believed that Itel should be investigated to confirm its financial capability.

Even though the board voted in favor of Diversified Data Services, one member dissented because Bank of America had already proved itself. The dissenting member maintained that Diversified Data Services was financially weak and could only gain the required experience "on the job," which would degrade the quality of service to the messes for an unacceptable period of time.

The onsite survey disclosed that Diversified Data Services had no previous experience in credit card operations, no computer capable of providing the necessary services, and inadequate working capital. On July 14, 1972, the Deputy Chief of Staff for personnel recommended that Bank of America be given the contract. The contract was signed on August 30, 1972.

BANK OF AMERICA ADVANTAGES RESULTING FROM PILOT CONTRACT

To insure that Bank of America would not be favored in negotiating the permanent contract, the Army should have obtained a technical data package from the pilot contract. However, the Army contracted only for services and did not procure a technical data package or a computer software program as part of the pilot contract. Had a technical data package been available, the Army could have formally advertised the permanent contract.

The Army established September 1, 1972, as the startup date for the permanent contract. Since the contract was not awarded until July 14, 1972, any firm other than Bank of America would have had less than 2 months to develop the system before the program became operational. Bank of America was the only firm that could have met this deadline, and it had been given over 7 months to develop its program for the pilot project.

The club operating manuals developed for the Army under the pilot contract were not made available to offerors to help them understand the input and output documents wanted from the system. This was not a problem for Bank of America since it prepared the manuals and understood the system.

PROPOSED PROCUREMENT CHANGE

The Permanent Subcommittee on Investigations of the Senate Committee on Government Operations, the Special Subcommittee on Nonappropriated Funds of the House Committee on Armed Services, and the Blue Ribbon Defense Panel have expressed their dissatisfaction and concern with procurement. On August 23, 1972, the Office of the Judge Advocate General, Department of the Army, proposed that most nonappropriated funds be included under the Army Procurement Procedure which implements ASPR.

CHAPTER 4

PROGRAM EVALUATION

We evaluated the pilot project and found that the program did not satisfy all program objectives. We estimate that the permanent program costs were understated by more than \$1.2 million. In addition, Bank of America had access to funds in ACMF's account with which it could earn additional income.

EVALUATING THE PILOT PROGRAM

The pilot project sought to:

- Reduce the high operating costs now incurred by each mess-operated system.
- Enable productive use of otherwise idle money in mess checking balances.
- Reduce use of currency in the open messes.
- Provide mess members credit conveniences at all Army open messes and not only at the home mess.
- Apply internal management controls more easily.

ACMF stated that all objectives except reducing use of currency in the open messes were met to a high degree. Our comments concerning each objective follows.

Reducing mess operating costs

According to ACMF, the primary objective was to reduce mess operating costs related to accounts receivable. This had to be done to justify continuing the program. Before the pilot project began, ACMF had estimated that savings from the central club card program could offset about 80 percent of the contractor's charges, but its evaluation showed that only about 34 percent of these charges would be offset. However, we estimate that only 3 percent of

the contractor's charges will be offset. The differences in ACMF's evaluation and our estimates are shown below.

	<u>Former system</u>	<u>Club card system</u>	
		<u>ACMF evaluation</u>	<u>GAO estimate</u>
Payroll costs (note a)	\$6,896	\$2,637	\$3,543
Other costs (note b)	2,588	92	92
Contractor fees (note c)	-	5,748	6,490
Investment earnings (note d)	-	-973	-818
Total system costs	<u>\$9,484</u>	<u>\$7,504</u>	<u>\$9,307</u>
Savings	<u>-</u>	<u>\$1,980</u>	<u>\$ 177</u>
As a percent of contractor fees		34%	3%

^a Payroll costs were obtained as follows:

Former system--average monthly hours spent on accounts receivable functions for October 1970 through September 1971 as mess personnel estimated in January 1972, times the average hourly wage rate computed by ACMF.

ACMF--mess personnel estimates of hours spent on accounts receivable functions during March 1972, times the average hourly wage rate computed by ACMF.

GAO--estimates made by mess personnel of hours spent on accounts receivable functions at the time of GAO's visit to four messes and estimates used by the ACMF for the two messes not visited by GAO, times the average hourly wage rate computed by ACMF.

^b Other costs under the former system consisted of equipment rentals, postage, and miscellaneous costs. The ACMF and GAO computations include only the average monthly postage costs to the messes.

^c Contractor fees:

ACMF--average monthly contractor fees for the pilot contract.

GAO--average monthly contractor fees for the permanent contract.

^d ACMF--investment earnings were calculated using a 6.5-percent interest yield for November 1971 through April 1972.

GAO--investment earnings were calculated using 6-percent interest yield promised to the messes (November 1971 through March 1972).

BEST DOCUMENT AVAILABLE

We believe that ACMF's evaluation was inadequate because ACMF:

- Had from February 18, 1971, to October 1, 1971, to document the payroll costs under the former system, yet waited until January 1972 when the project was almost completed to have the messes estimate their previous costs.
- Estimated the average monthly payroll cost under the club card program on the basis of only March 1972's cost; this month may not have been typical of the messes average monthly costs.
- Knew at the time of its evaluation that the fees Bank of America would be charging as the permanent contractor had increased by about 13 percent over the pilot fees. However, ACMF used the pilot fees in computing the program savings.
- Used the total yield on investments instead of the 6-percent yield promised to the messes through the Army's investment program.

The pilot project costs for one mess were \$300 more than the monthly cost of its former system. Officials at two messes stated that they could automate their own accounts receivable system for substantially less than the Bank of America contract prices. They said they could handle everything except charge sales by members of other messes.

Enabling productive use of
idle money in mess checking balances

During the pilot project, ACMF invested about \$177,000 of the \$208,000 average daily balance maintained by the messes in its Bank of America account. ACMF invested the funds in the Army's central investment program which guaranteed its investors a 6-percent return. Our analysis of the return on ACMF's investments showed that from

January 1 through September 30, 1972, the investment earned 5.88-percent interest. Because only limited information on the Army's investment program was made available to us, we could not ascertain how the Army could continue to give the messes a 6-percent return.

Reduced use of currency
in the mess system

This objective assumed charge sales would increase in relation to cash sales; however, the opposite occurred. ACMF found that less than half of the members charged sales during the pilot project period. Cash sales increased 15 percent and charge sales decreased 4 percent. Our review confirmed ACMF's finding.

Providing mess members
conveniences in all Army messes

Intermess transactions accounted for only one-half of 1 percent of the total monthly credit transactions. Because of the limited geographical participation in the pilot project, this may not be a true indication of the members' willingness to use the club card. However, this service is the only direct advantage that mess members receive from the program.

Apply internal management controls
more easily

Various computer printouts have been generated by the new system which mess custodians found useful and acceptable as tools for internal controls. However, mess officials told us they were not as satisfied with controls under the new system as they had been under their former systems. One mess official stated that the club card program did not reconcile members' payments with intermess credit sales.

EVALUATING THE PERMANENT PROGRAM

ACMF estimated that the 5-year permanent contract would cost about \$3.9 million in contractor fees for officers' open

messes in the United States. We estimate the contract will cost about \$5 million, as follows:

<u>Contractor fees</u>	<u>ACMF estimate</u>	<u>GAO estimate</u>
Monthly	<u>\$64,100</u>	<u>\$84,600</u>
Annual	<u>\$846,200</u>	<u>\$1,015,200</u>
5-year total	\$3,846,000	\$5,076,000
One-time charges	<u>88,000</u>	<u>88,000</u>
Total	<u>\$3,934,000</u>	<u>\$5,164,000</u>

ACMF based its estimates on projections of pilot project activity. We based our estimates on a report of open mess accounts receivable costs and workload data, which the Secretary of the Army had ordered in January 1972. This report estimated the average monthly mess membership number and value of credit sales and other data relevant to determining the volume of activity against which contractor's fees would be assessed. For example, the messes estimated that their average monthly credit transactions numbered over 561,000, while the ACMF estimate was only about 185,000 transactions.

ACMF was supposed to use the report of open mess accounts receivable costs and workload data to compare the total costs of the club card program with the costs of individual mess operated accounts receivable systems. An ACMF official told us he did not use the data which the messes had provided because he believed it was unreliable, but he could not disprove the data's accuracy.

BANK OF AMERICA'S USE OF EXCESS FUNDS

In addition to using the contractor's fees, Bank of America will be able to use mess funds which ACMF does not invest. For example, from November 1971 through October 1972, an average daily amount of about \$31,000 (adjusted for reserve requirements and uncollected funds) was available for Bank of America

use. Using a 4-percent earnings rate on checking account balances, Bank of America would have realized about \$1,200 income from these funds. Neither the pilot contract nor the permanent contract restricts Bank of America's use of excess funds. The amount of funds retained in ACMF's account could increase substantially when the program is expanded Army-wide.

CHAPTER 5

GENERAL LINVILL'S ROLE IN SECURING

THE PERMANENT CONTRACT

We met with Major General Robert R. Linvill, Retired, and asked him about his role in securing and negotiating the permanent contract. General Linvill denied any such role and other Bank of America officials supported his denial.

General Linvill said that he has been employed by Bank of America as a military relations officer since January 3, 1972. From January 21 to December 31, 1971, he was Deputy Commanding General, Reserve Forces, 6th Army. He said that, while on active duty with the 6th Army, his only contacts with Bank of America were for employment interviews during which neither the program nor the contract was discussed. He said he had no knowledge of the program while in the Army except for receiving an information sheet describing the program and a credit card as a member of the Presidio Officers' Open Mess.

General Linvill said he visited Washington, D.C., from May 22 to 26, 1972, on Bank of America business not involving the Army club card program. He said that he visited several Department of Defense and Army personnel at which times they mentioned the program in general terms, but did not discuss the Bank of America contract. He wrote a trip report for this visit; however, Bank of America declined to furnish us with a copy because they did not consider it within the scope of our inquiry.

The specific questions asked General Linvill and his answers are included as appendix IV.

INITIAL QUOTATIONS FOR THE PERMANENT CONTRACT

Firm	First year costs		
	OM (note a)	OM and NCO (note b)	
	CONUS (note c)	CONUS (note c)	Army-wide
	(000 omitted)		
National Timesharing and Data Services, Inc.	\$ 537	\$ 881	\$1,617
Eval-U-Metrics, Inc.	653	1,157	1,956
Diversified Data Services, Inc.	727	1,408	2,480
Inter-Service Club Card, Inc.	822	1,504	2,419
Mountain States Computer Corp.	983	1,915	3,388
University Computing Company	989	1,998	3,580
Bank of America	1,007	1,819	3,021
Smith-Murray and Associates, Inc.	1,064	1,947	4,876
Kiddie Computer Services Co.	1,086	2,043	3,744
A-T-O Systems Management Group, Inc.	1,090	2,032	3,493
Itel Corp., Data Processing Division	1,200	2,150	3,523
Diversified Computers Applica- tions	1,369	2,935	4,952
First Union National Bank of North Carolina	1,866	3,271	4,705
RN-AAA Company, Inc.	2,072	4,047	7,085
First National City Bank of New York	2,454	4,635	8,445

^aOfficers' messes.

^bOfficers' messes and noncommissioned officers' messes.

^cContinental United States.

APPENDIX II

BEST AND FINAL OFFERS FOR THE PERMANENT CONTRACT

<u>Firm</u>	<u>First year costs</u>		
	<u>OM (note a)</u>	<u>OM and NCO (note b)</u>	
	<u>CONUS (note c)</u>	<u>CONUS (note c)</u>	<u>Army-wide</u>
	(000 omitted)		
National Timesharing and Data Services, Inc.	\$508	\$ 926	\$1,637
Diversified Data Services, Inc.	676	1,361	2,213
Inter-Service Club Card, Inc.	773	1,504	2,419
Eval-U-Metrics, Inc.	879	1,693	2,872
Bank of America	900	1,662	2,820
IteI Corp., Data Processing Divison	977	1,812	3,124

^aOfficers' messes.

^bOfficers' messes and noncommissioned officers' messes.

^cContinental United States.

BEST DOCUMENT AVAILABLE

COMPUTATION OF THE ESTIMATED INCREASES
IN DEPARTMENT OF THE TREASURY BALANCES

The estimated increases in Treasury balances which may be required to offset banking facilities' possible operating losses as a result of the Army's club card program were based on the following assumptions.

1. Under static conditions the only factor affecting the profitability of the banking facilities is the club card program.
2. All banking facilities are operating at their break-even points.
3. The activity which occurred during the program's pilot project is typical of what will occur Armywide.

Therefore

AMC = average monthly mess collections (charge sales and dues) and

ADB = average daily mess balances (adjusted for Federal Reserve requirements and uncollected funds) maintained in the Bank of America account, which equals the amount of loanable funds the program diverts from banking facilities.

The experience of those messes participating in the program's pilot project showed:

ADB = \$162,357

AMC = \$246,468

and

$ADB/AMC = \$162,357/\$246,468 = .66.$

Therefore

ADB = AMC (.66).

APPENDIX III

The ADB/AMC variable depends on the messes' need for funds and varies according to the cycle of members' deposits and mess withdrawals.

For overseas messes,

$$\text{AMC} = \$1,634,000.$$

Thus

$$\text{ADB} = \$1,634,000 (.66) = \$1,078,440,$$

and for messes using banking facilities in the United States,

$$\text{AMC} = \$173,500.$$

Thus

$$\text{ADB} = \$173,500 (.66) = \$114,510.$$

The Treasury Department calculates the earnings on ADB at 4 percent per annum. Therefore the losses to the banking facilities would be:

Overseas	\$1,078,440	(.04)	=	\$43,137.60
United States	114,510	(.04)	=	<u>4,580.40</u>
Total				<u>\$47,718.00</u>

The Treasury deposits compensating balances in banking facilities which generate earnings necessary to offset the losses. The earnings rate on Treasury balances is the 182-day Treasury bill interest rate which was 5.52 percent on January 10, 1973. Therefore, Treasury balances in banking facilities will increase by:

Overseas	\$43,137/.0552	=	\$781,467
United States	4,580/.0552	=	<u>82,971</u>
Total			<u>\$864,438</u>

This methodology can also be used to calculate the reduced earnings that banks will realize as a result of reductions in mess bank balances.

QUESTIONS AND ANSWERS OF

MAJOR GENERAL ROBERT R. LINVILL, RETIRED

1. What were your duties and responsibilities while with the 6th Army?

I was Deputy Commanding General, Reserve Forces.¹

2. What are your duties and responsibilities with the Bank of America?

My title is Military Relations Officer in California Division - Branches #3501. My next superior is J. B. Landon, Assistant Vice President, Military Relations.¹

3. During the years 1969 through 1971 while with the U.S. Army, did you have knowledge of the Army's decision to establish a centralized club credit card program for officers' open messes? What was the extent of this knowledge?

Yes. I read in an Army informational publication, I do not remember which one, that the contract for such a pilot program had been awarded Bank of America. It is my recollection that I read this prior to my arrival at Sixth Army from Fort Riley, Kansas but it may have been shortly after my arrival at Sixth Army on January 21, 1971. While on duty with Sixth Army I was given a credit card by Presidio Officers' Mess, as a member there. I recall this to have been in October. A short time prior to receiving the card all members of the Presidio Officers' Mess received an informational sheet describing the how and the why of the credit card.

¹A copy of his job description and responsibilities was provided to GAO but not included here.

4. Prior to joining Bank of America what was the extent of your banking knowledge?

No professional knowledge or experience. I was not a Finance Corps Officer.

5. When did the Bank of America first approach you for a position with the Bank?

Bank of America did not approach me for a position. Two local friends of mine knew I wanted a job after retirement and they suggested Bank of America. Each of these two individuals had friends with Bank of America to whom they recommended me and arranged for my initial interview. This was in November 1971. I retired on December 31, 1971, my statutory retirement date.

6. When and under what circumstances did you first become aware of the contract between the Bank of America and the Army?

Answered in (3) above.

7. What contacts did you have with the Bank of America while on duty with the 6th Army and the reasons for the contacts?

I had no contacts with Bank of America while on duty with Sixth Army or at any other time during my military career. I was acquainted with no one in Bank of America on my first day of employment, except for my pre-employment interviews.

8. Did you, on behalf of Bank of America interest, visit Washington, D.C. during the spring of 1972, and, if so, what were the dates of this visit and the purpose?

I visited Washington, D.C. on behalf of Bank of America from 22-26 May, 1972, arriving about 10:30 p.m. on May 22 and departing about 5:00 p.m., May 26. The purpose was to attend a business lunch on May 26 of Directors, Army Mutual Aid Association, a mutual benefit life insurance association for regular army officers. I was a counselor for this association prior to my

retirement from the Army. In addition, I had a mission of business development, defined as "relations to specific customers or groups of customers (present or potential) for new or increased business."

9. Who accompanied you on this trip?

No one accompanied me on this trip. I learned by chance the morning of May 22 that Mr. O'Neil and Mr. Sodini, Product Development of Bank of America, had reservations on the same flight as mine. They offered me a ride to the airport and I separated from them at Dulles International upon arrival there. I had lunch with them the next day and accompanied them to the office of Colonel (Ret.) Steve Davis in the Pentagon. I had not met Colonel Davis previously. Upon departure from Colonel Davis' office I did not see Mr. O'Neil or Mr. Sodini further in Washington.

10. During this visit did you meet with the following individuals and, if so, what were the purposes of these meetings and the extent of any discussions concerning the Army Centralized Club Credit Card program and contract? Also, list the persons with you at these meetings.

Lt. Gen. W.T. Kerwin, U.S. Army Deputy Chief of Staff for Personnel.

Lt. Gen. Robert C. Taber, Principle Assistant Secretary of Defense (Manpower and Reserve Affairs)

Maj. Gen. R.J. Seitz, U.S. Army Assistant Deputy Chief of Staff for Personnel

Maj. Gen. R.J. Richards, Commanding General, Finance and Comptroller Information Systems Command

Mr. Steve G. Davis, Director Personnel Activities and Facilities, OASD (Manpower and Reserve Affairs)

Mr. Paul Fraser, Project Manager for the Army Centralized Club Credit Card program

I did meet for varying periods of time with each individual named in question #10 except Mr. Paul Fraser. I have never met, to my knowledge never have seen, Mr. Fraser. Except for Colonel Davis

whom I had not met previously, the visits were personal and for business development for Bank of America. Except as noted in answer #9, I was alone on each visit. I was without appointment on each visit except for the visit with Major General Richards. Having known each person visited at various times in my military career, except Colonel Davis, and not having seen any of them since my retirement, the subject of my retirement came up along with the subject of post-retirement employment. A discussion of employment by Bank of America and my duties logically followed. The Army Centralized Club Credit Card program as to popularity, success or failure was mentioned in varying general terms. The Credit Card contract was not discussed during any visit because I had no knowledge of the bid submitted to Department of Army by Bank of America or any of its terms. I do not recall that the credit card program was mentioned in my visit with General Richards, however, as there were several other time consuming subjects.

11. Did you meet with any other military or government officials during this visit and, if so, what were the purposes of these visits and was the Army Centralized Club Credit Card program and contract discussed?

Other individuals with whom I visited, except for purely personal visits were: General Bruce Palmer, Jr., Vice Chief of Staff, U.S. Army; Brigadier General John T. Peterson, Director, Non-Appropriated Funds, Clubs and Open Messes, U.S. Army; Colonel Paul R. Holland, Director, Personal Commercial Affairs, Office Assistant Secretary of Defense; Commander T.D. Dickinson, Assistant Director Special Services Division, BUPERS, U.S. Navy.

- a. General Palmer and Brig. Gen. Peterson were friends from my military days and the conversation followed generally along the lines mentioned in answer #10 above. I do not recall the credit card program being mentioned with General Palmer but it may have been. The

credit card pilot program was discussed with Brig. Gen. Peterson, generally as described in answer #10 above. The contract for the regular program was not discussed, again because I was unfamiliar with it.

- b. My visit with Colonel Holland was in connection with military members personal commercial activities and my meeting with Commander Dickinson was in connection with Navy Special Service activities; the credit card was not discussed with either of these two officers.
- c. The visits to all four officers were made without appointment and I was alone on each visit.

12. Have you made any other visits to Washington, D.C. while employed by the Bank of America and, if so, what was the purposes of these visits?

I have made only one visit to Washington, D.C. since being employed by Bank of America.

13. To your knowledge, did other employees of the Bank of America visit Army personnel in Washington, D.C. during your visit and for what purposes?

To my knowledge no other Bank of America employees visited Washington during the period of my visit there except Mr. O'Neil and Mr. Sodini, as previously mentioned. They told me their purpose was to discuss the credit card contract with Department of Army officials; I do not know with whom they were to meet.

14. Are there any other declarations you desire to add regarding your participation or involvement in the Army's awarding of the centralized credit card pilot project or follow-on contract to the Bank of America?

I had no connection with the credit card pilot program or contract, or with the credit card regular program or contract, while in the Army. During my interviews for employment by Bank of

APPENDIX IV

America neither the credit card program nor the credit card contract was mentioned to me. After employment by Bank of America I became well aware that the Bank was interested in obtaining the regular contract, if and when, but I was given no responsibility with, or for, the regular contract, implied or stated, nor any negotiations thereupon. I was not remotely aware of any of the terms or provisions of the contract bid submitted by Bank of America. I state again that my mission in Washington, D.C. was totally unconnected with Bank of America's bid for the regular contract.

On my travel authorization for the subject trip to Washington, the asterisk notes the reasons for late submission of the travel request. I had declined the invitation by Army Mutual Aid some ten days to two weeks previously. During subsequent conversation with Mr. Topping, Vice President, my invitation was revealed, his opinion being that it might be advantageous for me to attend. Inasmuch as considerable expense would be involved it was decided to combine the basic reason for the trip with my military relations responsibility with Bank of America; therefore, the reason for my departure the afternoon of May 22.

Attached are my job description (omitted) for my duties while assigned to Sixth Army, the Military Orders (omitted) authorizing my only trip to Washington, D.C. while assigned to Sixth Army and the authorization for my only trip to Washington, D.C. since being employed by the Bank. I will take oath, or testify if necessary, that these answers are true and correct to my best knowledge and belief.