

REPORT TO  
THE CONGRESS OF THE UNITED STATES



OPERATION OF A DAIRY FARM  
BY  
THE UNITED STATES NAVAL ACADEMY  
ANNAPOLIS, MARYLAND

---

DEPARTMENT OF THE NAVY



BY  
THE COMPTROLLER GENERAL  
OF THE UNITED STATES

MARCH 1966

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

B-156167

MAR 23 1966

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

Herewith is our report on the operation of a dairy farm by the  
United States Naval Academy, Annapolis, Maryland.

The dairy was established in 1911 to provide the midshipmen with a source of pure milk following an outbreak of typhoid fever attributed to the unprocessed milk purchased for the midshipmen's mess. In the 54 years which have passed since the dairy was established, commercial dairy operations have improved to the point that there is no longer any reason to consider it necessary for the Naval Academy to operate a dairy to ensure the availability of a supply of pure milk and milk products. Further, its continued operation appears to be contrary to Government policies with respect to competition with private enterprise and retention of real property.

The records maintained by the dairy indicate that the cost to the Government for milk and milk products obtained from the Academy dairy was less than the prices charged other Government activities by commercial sources. We found, however, that certain additional adjustments to the dairy farm costs were necessary in order to reflect the true cost to the Government. After these adjustments, annual savings of about \$84,000 would be realized by the Government if the Academy dairy farm was sold and the Academy's milk needs were obtained from commercial sources.

Inasmuch as the continued operation of the dairy farm appears contrary to Government policy and in view of the economies which could be realized through discontinuing its operation, we proposed to the Navy that consideration be given to the disposal of the dairy farm.

The Navy has agreed that the dairy is no longer necessary and has advised us that a plan will be developed to phase out the dairy with the objective of minimizing the impact on the local farm community and providing the maximum return on the midshipmen's store investment. The Navy advised us also that the Department of Defense was preparing

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a directive which would provide specific guidelines for an evaluation of commercial activities operated by the military departments in order to arrive at a decision which would be in the best interests of the Government.

Concerning the Navy's comment on providing the maximum return on the midshipmen's store investment in the dairy farm, we were advised by a cognizant official that the Navy was considering whether the midshipmen's store should participate in the proceeds from the sale of the dairy farm. We were further advised by this official that a final decision on this matter had not been made by the Navy as of January 18, 1966.

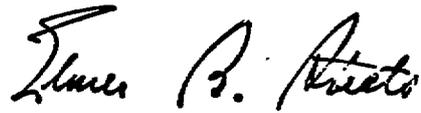
It should be recognized that the computations in this report were based on the assumption that the proceeds from the sale of the dairy farm would accrue to the United States Government and that any other disposition of such proceeds would alter the comparative costs of the procurement of dairy products by the Academy and, thus, the savings to the Government. In the event that the Navy determines that any proceeds from the sale of the dairy should not be deposited with the Treasury, the proposed disposition of the proceeds should be submitted with appropriate explanation of the basis for the Navy's determination to the Comptroller General for a decision.

Since the Navy plans to phase out the dairy at the Naval Academy, we are making no recommendations at this time. We shall, however, continue to examine into the economic aspects of these commercial activities which are operated by the military departments.

This review was undertaken in response to a request from Congressman Charles McC. Mathias, Jr. However, we are reporting our findings to the Congress because the matter relates to the general policy of the Government in conducting activities to produce supplies available from private enterprise.

B-156167

Copies of this report are being sent today to the President of the United States, the Secretary of Defense, the Secretary of the Navy, and the Secretary of Agriculture.

Handwritten signature of Thomas B. Arto in cursive script.

Comptroller General  
of the United States

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REPORT ON  
OPERATION OF A DAIRY FARM BY  
THE UNITED STATES NAVAL ACADEMY  
ANNAPOLIS, MARYLAND  
DEPARTMENT OF THE NAVY

INTRODUCTION

The General Accounting Office has examined into the operation of the Naval Academy dairy, an activity of the midshipmen's store of the United States Naval Academy, Annapolis, Maryland. Our review, conducted at the request of Congressman Charles McC. Mathias, Jr., was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our examination was directed, primarily, toward an evaluation of the Naval Academy's need to operate a dairy to fulfill its mission. In connection therewith, we considered (a) the purpose for which the dairy had been established and the need for its continued existence, (b) the relative costs to the Government for milk and milk products produced by the Academy dairy with those available from commercial sources, and (c) the operation of the Academy dairy in relation to the Government's policies with respect to retention of high-value properties and competition with private enterprise.

Our review was performed at the United States Naval Academy dairy, Gambrills, Maryland; the United States Naval Academy, Annapolis, Maryland; and the Bureau of Naval Personnel, Washington, D.C.

The principal officials of the Departments of Defense and the Navy responsible for administration of activities discussed in this report are listed in appendix I.

### BACKGROUND

A dairy was established at the Naval Academy in 1911 as the result of certain health problems. A medical board determined that a serious outbreak of typhoid fever in 1910 and other illnesses prevalent among the midshipmen had been caused by the raw, unprocessed milk purchased for the midshipmen's mess. At that time, the pasteurization process was little known or used. To ensure that milk supplied to the midshipmen's mess was of the highest purity attainable, the midshipmen's store, an organization which operated such facilities as the cobblers shop, tailor shop, and barbershop for the midshipmen, established a small dairy herd and the necessary facilities with the expenditure of \$40,000 in 1911. The facilities were located on Naval Academy property which is now the location of Naval Academy quarters known as Perry Circle.

In 1913 the size of the brigade of midshipmen had grown, and it became necessary to increase the size of the herd and facilities to meet the demand for milk. The midshipmen's store was not in a position to fund such expansion. Consequently, the Naval Academy turned to the Congress for funds to buy land and buildings necessary for the increased herd.

The act of March 4, 1913 (37 Stat. 904), appropriated \$100,000 "For the purchase of the necessary land for the location of the Naval Academy dairy \*\*\* and for the transfer to the new dairy site, and re-erection thereon, of buildings belonging to the present dairy, the repair and alteration of such buildings as may be found on the land to be purchased, and for all other necessary purposes connected with the establishment of a dairy on such land \*\*\*." The act contained the provisions (1) "That the cost of said land shall not exceed \$75,000" and (2) "That the amount appropriated \*\*\* shall be treated as an advance to the midshipmen's store fund at the

Naval Academy, to be ultimately repaid to the United States." The record indicates that the advance was repaid in full on January 20, 1925.

The act of August 29, 1916 (39 Stat. 603), appropriated \$100,000 as an additional advance to be returned to the United States and the act of March 28, 1918 (40 Stat. 488), appropriated \$55,000 also as an advance to be returned.

The act of March 4, 1925 (43 Stat. 1278), repealed those portions of the act of August 29, 1916, and March 28, 1918, which required the ultimate return to the United States of advances aggregating \$155,000 made to the midshipmen's store fund with the provisions (1) "That the dairy and farm, cattle and work animals, machinery and implements, buildings, and other stock, equipment, and supplies heretofore purchased from the funds so advanced shall become and remain the property of the United States" and (2) "That the dairy farm shall be continued and operated as an activity of the midshipmen's store."

The Comptroller General in a decision dated February 26, 1926 (5 Comp. Gen. 663,664), stated that:

"From the provisions of the above acts, it appears that the only funds expended in the establishment, maintenance, and operation of the dairy farm were public funds, either appropriated by the Congress or accruing through profits from the sale of the dairy-farm products, etc., which profits must also be regarded as Government funds. The moneys expended in the establishment and development of the dairy farm having been exclusively Government funds it appears that the dairy farm was the property of the United States from the time of its establishment and that therefore the act of March 4, 1925, passed no title in the property to the United States, the title having been in the United States at the time of the passage of the act. It is also shown by these acts that the Naval Academy dairy farm is an instrumentality of the

Government under the administrative control of the Secretary of the Navy, as an activity of the midshipmen's store."

The dairy is located in Gambrills, Anne Arundel County, Maryland, on 876 acres of land. This location is close to Friendship Airport, Annapolis, and Baltimore, Maryland, and Washington, D.C. There are approximately 97 buildings and/or structures that were erected during the period 1914 to 1963, of which 19 are used as housing for permanent civilian employees of the dairy and their families. In addition, one large housing unit is occupied by a Lieutenant Commander, United States Navy, the sole military person assigned to the dairy. In 1964, there were 45 permanent civilian employees of the dairy.

The farm's dairy herd at December 31, 1964, consisted of 377 cows, 262 calves, and 4 bulls. Through the years the dairy has improved its facilities and now provides homogenized, pasteurized milk in half gallon cartons to the midshipmen's mess. It also provides to the midshipmen's mess, chocolate milk and cereal cream in half gallon cartons and heavy cream in six-gallon containers.

Milk production is regulated by the dairy management so as to provide the highest production when the brigade of midshipmen is in residence at the Academy and its lowest production when the brigade is not in residence. Production averages 1,400 to 1,500 gallons of milk a day during the winter months and drops to approximately 700 gallons a day in the summer months. During the summer months, the dairy separates the milk to produce heavy cream which it freezes for use in making ice cream for the midshipmen's mess when the brigade returns. The resulting skim milk is either fed to the calves or processed at the dairy's milk-drying plant to produce powdered

milk. The powdered milk is sold, used as a feed supplement in feeding the regular herd, or bartered for other animal feed. In addition, a large portion of the feed for the dairy herd is grown on the dairy's land or on land it leases.

The Academy dairy is not designed to be a profit-making organization, consequently, prices charged for the milk and milk products produced at the dairy closely approximate the actual cost of the dairy operation.

## FINDINGS

### ACADEMY DAIRY NOT NEEDED FOR HEALTH OR ECONOMIC REASONS

Our review disclosed that adequate supplies of milk and milk products are readily available from commercial sources to satisfy the needs of the Naval Academy. We found also that the continued operation of the Academy dairy farm would prevent the Government from realizing estimated annual savings of about \$84,000. In our opinion, therefore, the dairy farm is no longer required for the purpose for which it was established and its continued operation appears to be contrary to the Government's policies with respect to competition with private enterprise and retention of real estate. The Navy has agreed and has informed us that it plans to close the dairy in a prompt and orderly fashion and with minimum impact on the local community.

### Operation of the dairy no longer required to safeguard midshipmen's health

As stated in the background section of this report (see p. 2), the Naval Academy in 1911 established a dairy to provide the midshipmen with a source of pure, safe milk. At that time pasteurization was not a general practice and the midshipmen had suffered typhoid fever and other illnesses attributable to impure milk. In the 54 years which have passed since establishment of the dairy, the quality of commercially available milk has improved greatly. Almost all milk sold in fluid form is pasteurized, and it is no longer necessary for the Academy to operate its own dairy to ensure the availability of safe, pure milk and milk products.

Also, an adequate supply of pasteurized fluid milk--produced, processed, and distributed under regulations established to assure wholesomeness and purity--is readily available in the Upper

Chesapeake Bay, Maryland, the marketing area in which the Naval Academy is located. The Federal market administrator has compiled data which shows that during calendar year 1964 receipts of milk by cooperative associations and pool plant operators in this area amounted to about 91.4 million gallons. These data disclosed that about 65.9 million gallons of this milk were processed and sold in fluid form during that year. There being no market for the remaining 25.5 million gallons of milk in fluid form, this quantity was considered to be surplus and was converted into manufactured dairy products. The 25.5 million gallons of surplus fluid milk were more than adequate to satisfy the Naval Academy's demand for fluid milk, which is the equivalent of about 415,000 gallons a year.

Furthermore, responsible officials in the Consumer and Marketing Service and Agricultural Stabilization and Conservation Service, United States Department of Agriculture, formally advised us that adequate supplies of milk were available in the Upper Chesapeake Bay area, and in other areas, to supply the Academy's needs.

Cost of milk available from commercial sources is comparable to the cost of milk produced by the Academy dairy

Although the records maintained by the dairy indicate that the cost to the Government for milk and milk products obtained from the Academy dairy was less than the prices charged other Government activities by commercial producers, we found that certain additional adjustments were necessary to reflect the true cost to the Government. For example, adjustments were necessary for interest savings to the Government, for certain salaries and

also for Federal payments to Anne Arundel County. As shown in the following schedule, after these adjustments are made to the dairy farm costs, an annual savings of about \$84,000 would be obtained if the dairy farm were not in operation.

Comparison of commercial prices  
with cost to produce milk and milk products  
at Naval Academy Dairy Farm during 1964

	Sales to Naval Academy (in gallons)	Commercial prices per gallon	Total sales at commercial dairy prices
<b>Commercial prices (note a):</b>			
Whole milk	242,262	\$0.6276	\$152,044
Chocolate milk	11,078	0.708	7,843
Coffee and cereal cream	24,743	1.52	37,609
Heavy cream	9,846	3.60	<u>35,446</u>
Total			232,942
<b>Dairy farm:</b>			
Cost of sales	\$171,174		
Salaries and related costs	20,937		
Insurance (fire, comprehensive)	11,298		
Utilities	7,970		
Maintenance and repair	2,989		
Supplies and services	1,699		
Loss on death of cattle	1,020		
Other income	<u>-11,942</u>		
Total			<u>205,145<sup>b</sup></u>
Difference			27,797
<b>Other elements:</b>			
Interest savings on real property	68,100		
Interest savings on net assets	26,000		
Manager's salary and allowances	10,500		
Payments to Anne Arundel County	<u>7,000</u>		
Subtotal			<u>111,600</u>
Estimated annual savings			<u>\$83,803</u>

<sup>a</sup>Based on 1964 Defense Supply Agency contract for Washington area.

<sup>b</sup>Obtained from Naval Academy Dairy Financial Statement January 1 to December 31, 1964.

A discussion on each of the additional adjustments which were included in our comparison follows.

Interest savings

The Government could realize at least \$1.7 million if the dairy was sold at its current value. The Academy dairy occupies 876 acres of land situated about one mile from Maryland Highway Number 3, a four lane divided highway. Also, it is located about 5 miles from the head of the Severn River, and within short distances of Friendship Airport, Annapolis and Baltimore, Maryland, and Washington, D.C. The terrain of the dairy is described as having a gentle roll, and is well suited for residential or industrial purposes. In May 1965, Anne Arundel County officials informed us that, if used for residential or industrial purposes, the land would have a probable market value of at least \$1,752,000, or the equivalent value of \$2,000 an acre.

At rates currently paid for funds borrowed by the Government, reduction of the Federal debt by \$1,752,000 would reduce interest costs by about \$68,100 annually. We did not consider it practical to estimate the current market value of the remaining net assets (such as production and breeding herds, buildings, and machinery and equipment), which according to dairy records were valued at about \$670,000 at December 31, 1964. However, assuming that the \$670,000 value is a realizable amount, we estimate that the Government would reduce its annual interest costs by an additional \$26,000 if the money received from the sale of the assets was used to pay the liabilities of the dairy farm and the remainder returned to the Treasury to reduce the Federal debt.

### Salary and allowances

The dairy farm is managed by a naval officer, presently a Lieutenant Commander. We estimate that his pay and allowances, including maintenance of his residence, for calendar year 1964, during which time he held the rank of Lieutenant, amounted to approximately \$10,500.

### Payments to Anne Arundel County

Payments are made by the Federal Government under the provisions of the act of September 30, 1950 (20 U.S.C. 236), to the Anne Arundel School District as financial assistance to the school district for providing education for children whose parents are employed by the dairy.

In January 1964, 31 of the children of dairy employees living on the dairy property were attending the Anne Arundel County schools. Navy officials estimated an annual Federal payment under this school-aid program of about \$7,000.

### Other items

Although we recognize that certain other costs may be appropriate for consideration in making cost comparisons, we did not consider them to be of sufficient significance to alter our conclusion as to the economy of purchasing milk and milk products from commercial sources. These costs include depreciation which, according to the dairy farm records, amounted to about \$2,100 in 1964 and Federal income taxes which would be foregone under a Government operation. Both of these factors, if included, would make a commercial operation even more attractive.

We did not include an amount in our comparison for discontinued-service retirement of the 45 employees at the dairy farm since the employees are entitled only to Social Security retirement benefits.

In view of the above, it is apparent that it would be more economical for the Government to purchase the milk and milk products from commercial sources rather than to maintain and operate the dairy farm.

Government policy concerning  
competition with private enterprise

Government policy in effect during our review concerning competition with private enterprise was set forth in Bureau of the Budget Bulletin No. 60-2 dated September 21, 1959, which stated that generally the Federal Government would not carry on any activity to provide a product for its own use if such product could be procured from commercial sources. It also stated that the continuing use of a Government operation on the grounds that procurement from commercial sources would involve higher costs might be justified only if the costs were analyzed on a comparable basis and the differences were found to be substantial and disproportionately large. The Bulletin required also that, in making cost comparisons, the costs assigned to the Government operation must cover all direct and indirect costs of the Government.

Effective March 31, 1966, Bureau of the Budget Bulletin No. 60-2 will be superseded by Bureau of the Budget Circular No. A-76. This Circular restates the Government's general policy of relying on the private enterprise system to supply its needs and--except under specified conditions generally relating to effective conduct of the Government's programs, none of which appear pertinent to the case involved--prohibits Government operation of a commercial or industrial activity unless the Government can provide or is providing a product or service at a lower cost. The Circular also contains guidelines for the analyses of comparative costs.

In making our cost comparisons as discussed in the preceding section of this report, we considered those direct and indirect costs that were incurred by the Academy dairy farm during calendar year 1964.

Our comparison disclosed that potential savings would accrue to the Government if the dairy farm was sold and the milk and milk

products were purchased by the Naval Academy from commercial concerns. It is our opinion, therefore, that continued operation of the dairy farm would be contrary to Government policy concerning competition with private enterprise.

Government policy on  
retention of real property holdings

Government policy on the retention of real property holdings is set forth in Bureau of the Budget Circular No. A-2, dated October 18, 1955, and generally states that unneeded real property holdings should not be retained by the Government. The Circular sets forth general guidelines to be applied by the heads of executive agencies when making the determination as to the necessity for retention of the real property. One of the general guidelines listed in the circular as it would pertain to the real property at the dairy farm follows.

"They are being used by the Government to produce goods or services which are available from private enterprise, except when it is demonstrated clearly in each instance that it is not in the public interest to obtain such requirements from private enterprise."

The implementing instruction issued by the Department of Defense is Directive 4165.20, dated August 29, 1958. The directive lists seven factors which should be considered when evaluating whether real property holdings should be retained.

The factor pertinent to the matter discussed in this report is that the product for which the property is utilized cannot be obtained from private enterprise. In determining whether the product can be obtained from private enterprise, the directive requires that the instructions as contained in the implementing DOD directive on Bureau of the Budget Bulletin No. 60-2 be utilized.

As shown on page 12 in the preceding section of this report, application of the instructions set forth in Bureau of the Budget Bulletin No. 60-2 should result in a decision to procure the milk and milk products from commercial concerns. Therefore, it appears that retention of the real property, valued at about \$1,752,000, would be contrary to Government policy on this matter since the purpose for which it is currently being utilized would no longer exist and that retention of the property would prohibit the Government from obtaining a reduction in the annual interest cost which we estimate to be about \$68,100. (See p. 9.)

Review by Navy of the dairy farm operation

During the past several years, the Navy has on various occasions reviewed the operations of the Naval Academy dairy with respect to the need for its continued operation, as well as the consideration of alternate uses for the land in the event of termination of dairy operations. On each occasion the Navy has decided that it was realizing sufficient benefits to justify continued operation of the dairy.

While the Navy may realize some economic benefits from the dairy, its continued operation by the Academy is not economical to the Government when all elements of cost are considered. As shown on page 8, continued operation of the dairy farm would prevent the Government from realizing estimated annual savings of about \$84,000. In the sense that the Academy dairy does not offer its products on the open market, it is not in direct competition with private enterprise. As shown on page 7, however, the surplus fluid milk available in the area from commercial sources is more than enough to meet the Academy's needs.

The dairy is operated as a nonappropriated fund activity. The funds expended in the establishment, maintenance, and operation of the dairy, however, have been public funds, either appropriated by the Congress or accruing through profits from the sale of dairy products, which profits are also regarded as Government funds.

Agency comments and  
our conclusions

We brought our findings to the attention of the Secretary of Defense and proposed that prompt consideration be given to the disposal of the Naval Academy dairy--including land, buildings, dairy herd, machinery, and other assets. We also proposed that the Secretary of Defense advise the various military services that determinations as to the economic feasibility of retaining installations or facilities should not be based on the economic benefits to an individual service but should be based on whether continued operation of such installations or facilities is economical, considering the Government as a whole.

In a letter dated October 25, 1965, the Assistant Secretary of the Navy (Financial Management) commented on our proposals at the request of the Secretary of Defense. (See Appendix II.)

The Navy advised us that a plan would be developed to phase out the Naval Academy dairy with the objective of minimizing the impact on the local farm community and providing the maximum return on the midshipmen's store investment. The Navy advised us also that the Department of Defense was preparing a directive which would provide specific guidelines for an evaluation of commercial activities operated by the military departments so as to arrive at a decision which would be in the best interest of the Government.

Concerning the Navy's comment on providing the maximum return on the midshipmen's store investment in the dairy farm, we were advised by a cognizant official that the Navy was considering whether the midshipmen's store should participate in the proceeds from the sale of the dairy farm. We were further advised by this official that a final decision on this matter had not been made by the Navy as of January 18, 1966.

It should be recognized that the computations in this report were based on the assumption that the proceeds from the sale of the dairy farm would accrue to the United States Government and that any other disposition of such proceeds would alter the comparative costs of the procurement of dairy products by the Academy and, thus, the savings to the Government. Also, in the event that the Navy determines that any proceeds from the sale of the dairy should not be deposited with the Treasury, the proposed disposition of the proceeds should be submitted with appropriate explanation of the basis for the Navy's determination to the Comptroller General for a decision.

Since the Navy plans to phase out the dairy at the Naval Academy, we are making no recommendations at this time. We shall, however, continue to examine into the economic aspects of those commercial activities which are operated by the military departments.

APPENDIXES

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE  
AND THE DEPARTMENT OF THE NAVY  
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Robert S. McNamara	Jan. 1961	Present
DEPUTY SECRETARY OF DEFENSE:		
Roswell L. Gilpatric	Jan. 1961	Jan. 1964
Cyrus R. Vance	Jan. 1964	Present
<u>DEPARTMENT OF THE NAVY</u>		
SECRETARY OF THE NAVY:		
Fred Korth	Jan. 1962	Nov. 1963
Paul H. Nitze	Nov. 1963	Present
UNDER SECRETARY OF THE NAVY:		
Paul B. Fay, Jr.	Feb. 1961	Jan. 1965
Kenneth E. Belieu	Feb. 1965	June 1965
Robert H. B. Baldwin	July 1965	Present
ASSISTANT SECRETARY OF THE NAVY (INSTALLATIONS AND LOGISTICS):		
Kenneth E. Belieu	Feb. 1961	Feb. 1965
Graeme C. Bannerman	Feb. 1965	Present
CHIEF OF NAVAL OPERATIONS:		
Admiral George W. Anderson	Aug. 1961	July 1963
Admiral David L. McDonald	Aug. 1963	Present

## PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE

## AND THE DEPARTMENT OF THE NAVY

## RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

Tenure of officeFromToDEPARTMENT OF THE NAVY (continued)

## CHIEF, BUREAU OF NAVAL PERSONNEL:

Vice Admiral William R. Smedberg III	Feb. 1960	Feb. 1964
Rear Admiral A. S. Heyward, Jr.	Feb. 1964	Mar. 1964
Vice Admiral Benedict J. Semmes, Jr.	Apr. 1964	Present

## SUPERINTENDENT, U.S. NAVAL ACADEMY:

Rear Admiral C. C. Kirkpatrick, Jr.	Aug. 1962	Jan. 1964
Rear Admiral C. S. Minter, Jr.	Jan. 1964	Present



DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C. 20350

APPENDIX II  
Page 1

OCT. 25, 1965

Dear Mr. Fasick:

The Secretary of Defense has asked me to reply to your letter of 31 August 1965 which forwarded your draft report on operation of a dairy farm by the United States Naval Academy.

I am enclosing the Navy reply to the report.

Sincerely yours,

A handwritten signature in cursive script, reading "Victor M. Longstreet", is written over the typed name.

VICTOR M. LONGSTREET  
ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT)

Mr. J. K. Fasick  
Associate Director  
Defense Accounting and Auditing Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Enclosure

- (1) Navy Statement on GAO Draft Report of August 31, 1965 on Review of Operation of a Dairy Farm by the United States Navy Academy (OSD Case #2359).

APPENDIX II

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NAVY STATEMENT  
ON  
GAO DRAFT REPORT OF AUGUST 31, 1965  
ON  
REVIEW OF OPERATION  
OF A DAIRY FARM BY THE  
UNITED STATES NAVAL ACADEMY

(OSD Case #2359)

GAO FINDINGS

The General Accounting Office (GAO) has examined into the operation of the Naval Academy Dairy. They found that the milk and milk products required by the Naval Academy can be obtained from local commercial sources at comparable or lower costs than the cost to the Government of operating the Academy's dairy farm. They believe that disposal of the dairy, including the land it occupies, would make at least \$1.9 million available to the Government which could be used to reduce governmental indebtedness with a reduction in interest cost of about \$73,200 annually and that subsidies paid by the Government could have been reduced by as much as \$135,000.

GAO RECOMMENDATIONS

The GAO recommended:

(1) That the Secretary of Defense give prompt consideration to disposal of the Naval Academy dairy farm, including the land, buildings, dairy herd, machinery, improvements and other assets.

(2) That the Secretary of Defense advise the various military services that determinations as to the economic feasibility of retaining installations or facilities should not be based on the economic benefits to an individual service, but should be based on whether continued operation of such installations or facilities is economical considering the Government as a whole.

NAVY STATEMENT

The Department of the Navy will develop a plan to phase out the U. S. Naval Academy Dairy with the objective of minimizing the impact on the local farming community, and providing the maximum return on the Midshipmen's Store investment. The Department of the Navy will proceed therewith upon approval of said plan.

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was of poor quality.

DEFENSE STATEMENT

The Department of Defense is now preparing a new directive on operation of commercial or industrial activities within the Defense Department. This directive will provide for a systematic review of all commercial activities operated by the military departments, and will also give specific guidelines to the military services for uniform evaluation of the direct and related costs so as to arrive at a decision with reference to each case which will be in the best interest of the Government.