

GAO

Fact Sheet for the Honorable Bill Green,
House of Representatives

October 1986

MILITARY EXCHANGES

Management of Navy Exchanges and Related Issues



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-223892

October 20, 1986

The Honorable Bill Green
House of Representatives

Dear Mr. Green:

In response to your letter of May 8, 1986, we are providing you with information on the management and operation of the Navy Resale and Services Support Office (NAVRESSO). You asked us to address four specific issues:

- Why does NAVRESSO have more military personnel than the Army and Air Force Exchange System (AAFES)?
- What is the impact of the Navy's recent realignment within the Naval Supply System Command (NAVSUP), which controls NAVRESSO?
- What training is required and available to Navy Supply Corps officers, who manage exchanges?
- Has the Navy assigned inexperienced retired military personnel as Deputy Exchange Officers?

The information we developed on each of these issues is summarized below. More detailed information, as well as background information on the military exchange systems, is contained in appendixes I through V.

MILITARY EXCHANGE SYSTEMS

Military exchanges are the department stores of the armed services. The services operate three separate exchange systems throughout the world. The Army and the Air Force have a combined system (AAFES), while the Navy and the Marine Corps each manages its own. These systems are an integral part of the Department of Defense's (DOD's) Morale, Welfare and Recreation (MWR) program, and they operate with both appropriated and nonappropriated funds. A large portion of the profits of the exchange systems is used to fund other MWR activities.

B-223892

The Navy's 136 exchanges--along with its 80 commissaries (supermarkets) and hundreds of ships' stores afloat--comprise the Navy Resale System, which is managed by NAVRESSO, under the control of NAVSUP. The Navy exchanges had total worldwide annual sales of over \$1.5 billion in fiscal year 1985 and contributed over \$55 million to other Navy MWR programs.

MILITARY PERSONNEL IN NAVRESSO

NAVRESSO has a larger number of military personnel assigned to its operations than AAFES--about 1,400 versus 100. The major reason for this difference is that the number for the Navy includes personnel assigned to the operation of both exchanges and commissaries, but the number for AAFES includes only those assigned to the operation of exchanges. However, NAVRESSO still has proportionally more military personnel in its exchanges than does AAFES. In fiscal year 1985, NAVRESSO's exchanges had 189 military personnel and 23,220 civilians, or a ratio of 1 military member to every 123 civilians. In contrast, AAFES exchanges had 98 military personnel and 69,589 civilians, or a ratio of 1 military member to every 710 civilians. Navy officials say that one of the major reasons for this difference is that officer and enlisted assignments in military exchanges are necessary as a shore assignment for normal sea-to-shore rotation. (See app. II.)

IMPACT OF NAVY REALIGNMENT

Effective October 1, 1985, the Vice Chief of Naval Operations ordered a realignment within NAVSUP by (1) transferring the command responsibility for Navy exchanges from their base commands to NAVSUP, (2) replacing officer exchange managers with civilians or senior enlisted personnel, and (3) creating a new officer billet--Resale Officer-in-Charge--with overall management responsibility for both commissaries and exchanges. According to Navy officials, this realignment and a previous decision by the Chief of Naval Operations to replace officers managing commissaries with civilians will reduce the number of officers in NAVSUP by 61 positions, making more officers available to fill officer fleet requirements as the Navy grows to a 600-ship force. (See app. III.)

TRAINING REQUIRED AND AVAILABLE TO SUPPLY CORPS OFFICERS

Navy Supply Corps officers, who are considered to be the business managers of the Navy, hold the key executive level positions at NAVRESSO. Navy Supply Corps officers begin

their training with a 27-week course which provides detailed job-related technical instruction in supply management, disbursing, leadership and management, retail operations, food service, and quantitative management/computer systems. The Navy believes that professional development in the Supply Corps is achieved not only through formal training but also through job rotation and duty assignment. (See app. IV.)

RETIRED MILITARY IN NAVY EXCHANGE SYSTEM

Data which we reviewed did not indicate that inexperienced retired military personnel had been assigned as deputy exchange officers, the highest civilian-level position at exchanges. Our review of records on eight retired military personnel serving as deputy exchange officers showed that, typically, they had held several previous positions in the Navy exchange system. (See app. V.)

OBJECTIVES, SCOPE, AND METHODOLOGY

To obtain the information on the management and operation of NAVRESSO, we (1) interviewed officials from Deputy Assistant Secretary of Defense and Naval Supply Systems Command offices in Washington, D.C., and (2) examined legislation, documents, and records on management and operation of exchanges, assignment of military personnel to nonappropriated-fund programs, and training courses available to personnel in the Navy Resale System. We discussed the information obtained during our review with DOD officials and have included their comments where appropriate.

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As arranged with your office, we plan no further distribution of this fact sheet until 7 days from its issuance. At that time, we will send copies to the Chairmen of the House and Senate Committees on Appropriations and on Armed Services; the Secretary of Defense; the Secretary of the Army; the Secretary of the Air Force; the Secretary of the Navy; and the Director, Office of Management and Budget. Copies will also be available to other interested parties upon request. If you need further information, please call me at 275-8412.

Sincerely yours,



Martin M Ferber
Associate Director

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ABBREVIATIONS

AAFES	Army Air Force Exchange System
DOD	Department of Defense
MWR	Morale, Welfare, and Recreation
NAVRESSO	Navy Resale and Services Support Office
NAVSUP	Navy Supply Systems Command

MILITARY EXCHANGE SYSTEMS

The services operate three separate exchange systems on military installations throughout the world. The Army and the Air Force have combined their systems, while the Navy and the Marine Corps each manages its own. Although the exchange systems vary in their organizational structures and management practices, they perform similar operations. DOD Directive 1330.9, "Armed Services Exchange Regulations," allows the services to choose the organizational structure they consider best to meet their requirements.

EXCHANGES AS PART OF DOD'S MWR PROGRAM

DOD operates military exchanges as an integral part of its MWR program. (MWR activities also include such recreational activities as arts and crafts, bowling alleys, child care centers, golf courses, libraries, and movie theaters.) DOD policy is to fund a well-rounded MWR program to maintain a high level of esprit de corps, job proficiency, military effectiveness, educational attainment, and physical well-being. The program is also intended to aid in recruitment and retention by making a career in the military attractive.

Funding

Military exchanges are nonappropriated-fund activities which receive some appropriated funds. For example, military personnel assigned to exchanges and the transportation costs of merchandise to overseas bases are paid from appropriated funds, but most other large expenses are paid from the exchanges' revenues.

Although the primary mission of military exchanges is to provide military personnel and their dependents with articles and services necessary for their health, comfort, and convenience, their secondary mission is to provide funding for other MWR programs. Nonappropriated funds for operating MWR activities come primarily from military exchange profits.

Navy exchanges have contributed proportionally more to the MWR program than have the other two exchanges. For example, in fiscal year 1985, the Navy exchanges had total sales of \$1.5 billion with profits of \$72.5 million and contributed \$55.1 million to Navy MWR activities. Ships' stores had sales of \$1.2 billion and profits of \$19.7 million, all of which it contributed to Navy MWR activities. Consequently, the total contribution to Navy MWR was \$74.8 million. By way of comparison, AAFES had total annual sales of \$4.5 billion and profits of \$171 million and contributed \$85.5 million to Army and Air Force MWR activities. In fiscal year 1985, the Navy per capita distribution for MWR support was \$132; the Marines, \$96; and AAFES, \$64. While the Navy determines each year how much money it will contribute to MWR, AAFES currently gives half its profits to MWR.

Legislation and DOD policy on military staffing of MWR activities

Congress has set limits on the number of military personnel used in MWR activities. A provision of the fiscal year 1979 DOD Appropriations Act (Public Law 95-457, Section 858) restricted the number of military personnel that could be used in MWR activities to no more than 9,901 full-time and 2,603 part-time military personnel. Table I.1 shows the number of MWR personnel DOD has authorized for each service. Also, the conference committee on the 1978 Defense appropriation bill directed that DOD Directive 1315.10 be revised to emphasize the maximum use of nonappropriated-fund civilians instead of military personnel. Of the 9,901 authorized MWR positions, only 8,200 were filled as of 1984 (the latest data available).

Table I.1: DOD MWR Military Personnel Authorizations

	<u>Full-time</u>	<u>Part-time</u>
Army	3,648	1,100
Air Force	2,759	100
Navy ^a	2,237	500
Marine Corps	<u>1,257</u>	<u>300</u>
Total	<u>9,901</u>	<u>2,000</u> ^b

^aThese ceilings apply to military personnel assigned to all echelons of command but do not apply to ships afloat.

^bBy law, DOD is restricted to assignment or use of no more than 2,603 military personnel on a part-time basis in MWR activities. DOD has chosen not to allocate the remaining allowable part-time authorization (603) for the present time.

In accordance with the authorized ceilings, the current DOD policy on assigning military to MWR activities is set forth in DOD Directive 1015.4, dated April 26, 1983. According to this directive, military personnel may be assigned

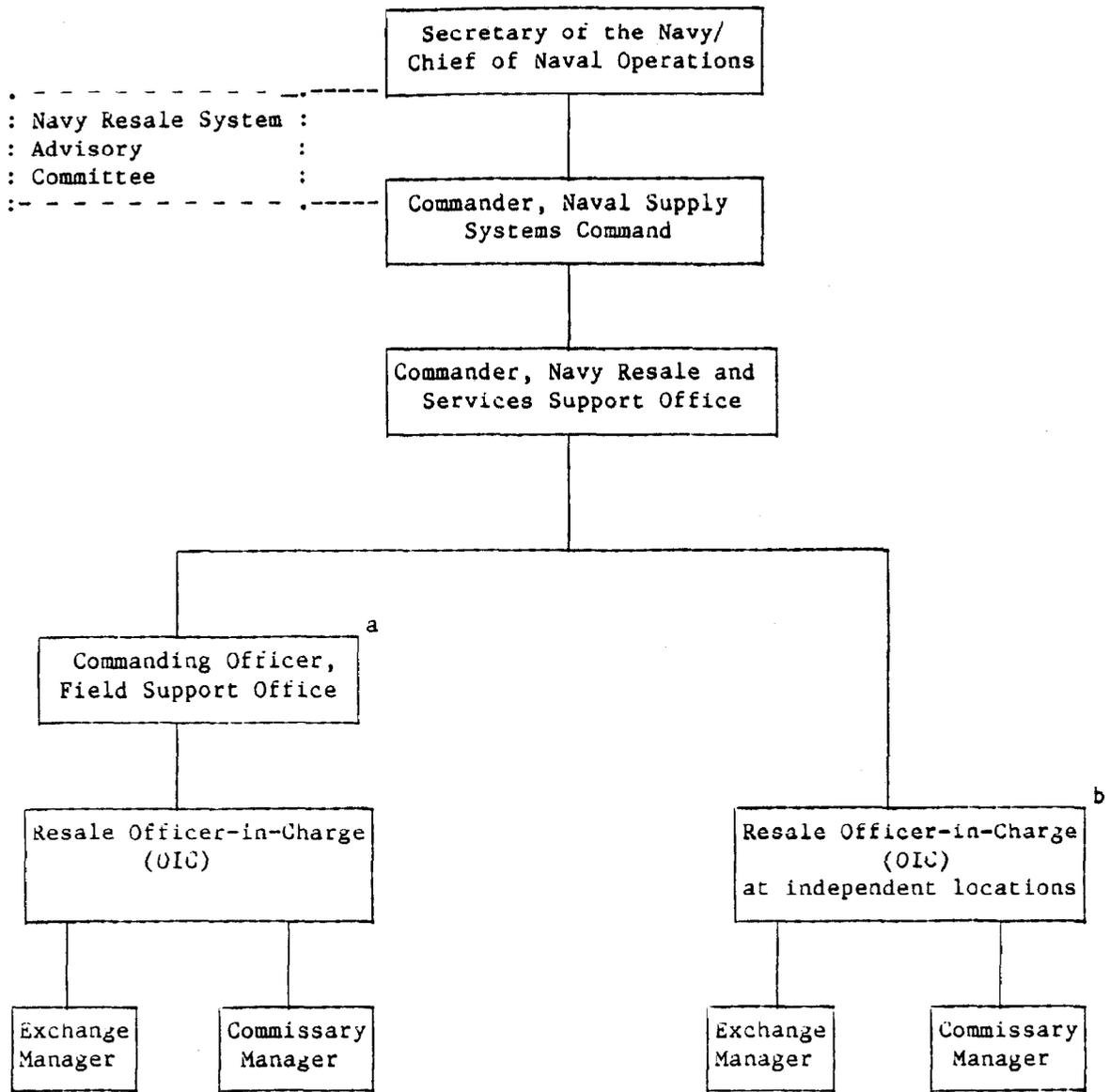
- when required for deployments or at locations where qualified civilians are unavailable,
- for purposes of rotation and training and career progression unavailable at other activities, or

-- when executive control and essential command supervision otherwise cannot be provided effectively.

NAVRESSO ORGANIZATIONAL STRUCTURE

NAVRESSO, under the control of NAVSUP, establishes policy and procedures for the operation of the Navy Resale System, the Navy food service program, and the Navy clothing and textile research program. NAVRESSO headquarters, located in New York, maintains financial control of the Navy Resale System and supports activities in the field by providing operating manuals, directives, system-wide contracts, merchandise and service listings, technical handbooks, training, and audits and inspections. NAVRESSO headquarters is staffed by approximately 820 civilian and 22 military personnel, but recent changes within NAVRESSO will reduce the number of military personnel at headquarters by 9. NAVRESSO is regularly advised by a committee of business executives in the fields of retailing, finance, management, and business education. This committee is chaired by the Commander, NAVSUP, and its members are appointed by the Secretary of the Navy. Figure I.1 shows NAVRESSO's organizational structure.

Figure I.1: NAVRESSO Organizational Structure



^a NAVRESSO has organized most exchanges and all commissaries within defined geographic areas into Field Support Offices in order to centralize support functions, including procurement. A Commanding Officer of a Field Support Office oversees the support functions for four to seven main exchanges.

^b Exchanges not associated with Field Support Offices procure merchandise on their own and are referred to as "independents." The OICs of independents report directly to NAVRESSO.

Navy Resale System

The Navy Resale System consists of three retailing programs--136 exchanges and related activities, 80 commissaries, and hundreds of ships' stores. Table I.2 lists the various Navy exchange operations. (Similar exchange operations are included in AAFES.)

Table I.2: Navy Exchange Operations

<u>Type of operation</u>	<u>Number</u>
Navy exchange retail stores (department stores)	136
Navy lodges (motels)	37
Personalized service centers	132
Auto service centers	153
Barber and beauty shops	288
Cafeterias, snack bars, fast food operations, and mobile canteens	610

The Navy Resale System has had a long and colorful history. Its history dates back to the 1700s when merchants in vessels called "bum boats" sold low-quality goods to sailors at high prices. In 1909, the Naval Appropriations Act gave ships' stores and commissaries legal status. In 1945, the Secretary of the Navy appointed a committee, headed by Captain W. H. Bingham, to study Navy resale activities. Highlights of the post-World War II history of the Navy Resale System are shown in table I.3.

Table I.3: Post-World War II History of the Navy Resale System Program

- 1946 The Secretary of the Navy creates the Navy Ships' Store Office as recommended by the Bingham Committee, thereby establishing a centralized Navy resale system. The Secretary the Navy also creates an advisory committee from the business community.
- 1947 Ships' Stores Ashore become Navy Exchanges and Commissaries.
- 1957 Construction and modernization of exchange facilities become nonappropriated-fund responsibility.
- 1960 Uniform shops are transferred to Navy exchanges.
- 1967 The Navy Ships' Store Office takes command of the commissaries.
- 1969 Headquarters is renamed Navy Resale System Office.
- 1970 Navy lodges are inaugurated.
- 1975 Field Support Offices are established.
- 1976 The retail clothing store is integrated into the exchange program.
- 1979 The central office is renamed Navy Resale and Services Support Office.
- 1984 NAVRESSO signs contract to establish fast-food outlets (McDonald's) on Navy bases.
- 1985 NAVRESSO assumes command of all Navy exchanges. The resale officer-in-charge becomes responsible for exchanges and commissaries at each base.

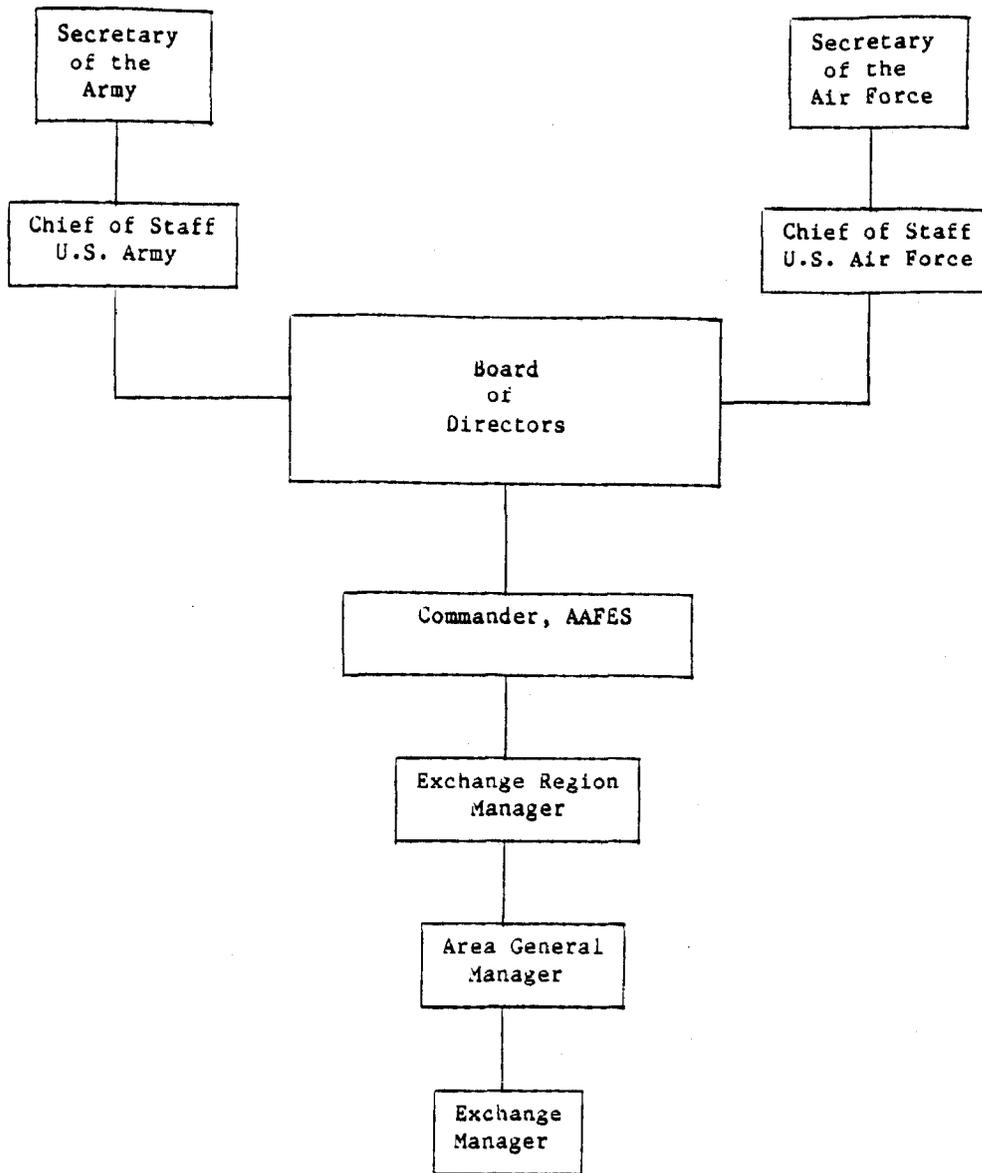
Source: Exchange and Commissary News, April 1986, p. 78.

AAFES ORGANIZATIONAL STRUCTURE

AAFES, a joint Army-Air Force command that operates from a centralized headquarters in Dallas, Texas, establishes operational, procurement, and financial policies for exchanges. Approximately 43 Army and Air Force

personnel are authorized for headquarters assignments, almost double the number authorized for NAVRESSO. AAFES has an internal board of directors which oversees the exchange operation rather than external consultants who provide advice. Figure I.2 shows the AAFES organizational structure.

Figure I.2: AAFES Organizational Structure



MILITARY PERSONNEL IN NAVRESSO

As of October 1, 1985, NAVRESSO had about 1,400 officers and enlisted personnel assigned to both exchanges and commissaries. Of those 1,400 personnel, about 1,200 were enlisted personnel assigned to commissaries. Table II.1 shows that Navy exchanges were operated by 189 military personnel and 23,220 civilians (1 military member for every 123 civilians). In contrast, AAFES exchanges had 98 military personnel and 69,589 civilians (1 military member for every 710 civilians), and the Marine Corps exchanges had 106 military members and 5,451 civilians (1 military member for every 51 civilians).

Table II.1: Comparisons of Number and Cost of Military Personnel in the Exchange Systems for Fiscal Year 1985

	<u>Exchange</u>		
	<u>AAFES</u>	<u>Navy</u>	<u>Marine Corps</u>
Number of military personnel			
Officers	73	81	19
Enlisted	<u>25</u>	<u>108</u>	<u>87</u>
Total	98	189	106
	===	===	===
Appropriated-fund cost	\$5,159,623	\$5,411,000	\$4,428,000
Number of civilian personnel (paid with nonappropriated funds)	69,589	23,220	5,451
Ratio of military to civilian personnel	1:710	1:123	1:51

Although the Navy has more military personnel in its exchanges than does AAFES, the number of these personnel has decreased since 1971. (See table II.2.)

Table II.2: Trends in Navy Military Exchange Staffing

<u>Fiscal year</u>	<u>Number of military personnel</u>
1971	657
1976	363
1982	286
1983	185
1984	207
1985	189

Navy officials have maintained that officer and enlisted assignments in military exchanges are necessary as a shore assignment for normal sea-to-shore rotation, experience in the merchandising area is necessary for Supply Corps officers, and training with related job requirements is necessary for senior enlisted personnel.

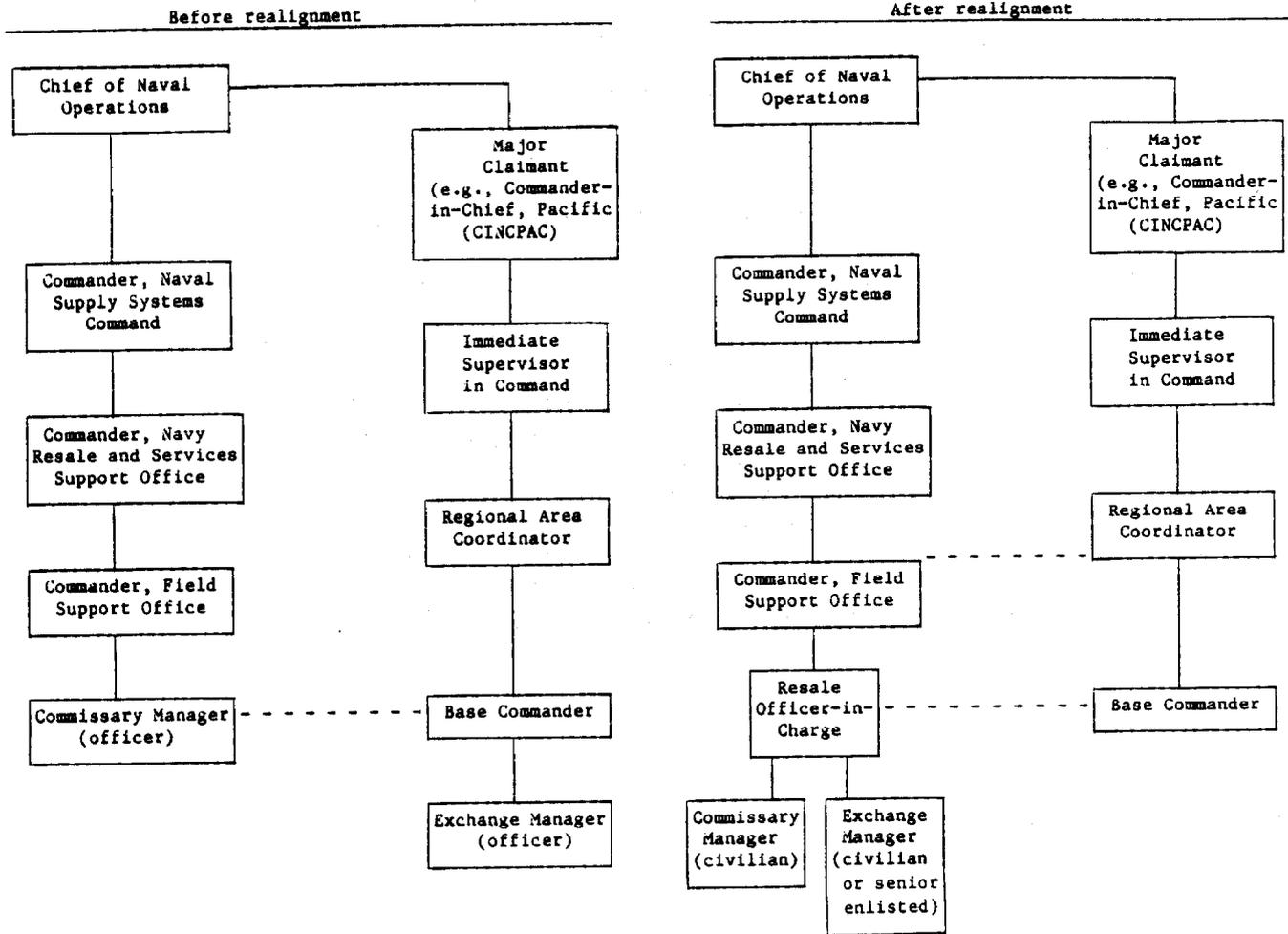
IMPACT OF THE NAVY'S RECENT
REALIGNMENT OF NAVRESSO

Effective October 1, 1985, the Vice Chief of Naval Operations ordered a realignment within NAVSUP by (1) transferring the command responsibility for Navy exchanges from base commanders to NAVSUP, (2) replacing officer exchange managers by civilians or senior enlisted personnel, and (3) creating a new officer billet--Resale Officer-In-Charge (OIC)--with overall management responsibility for both commissaries and exchanges.

The Resale OICs report to the Commander, NAVRESSO, through the Commanding Officer of the NAVRESSO Field Support Offices, or through another designated OIC. The Resale OICs also report for other duties to the base commander where the exchange or commissary is located and are responsible to that commander for providing goods and services needed at the base.

This realignment was a direct result of an earlier decision by the Chief of Naval Operations to replace all commissary officers with civilians, beginning in fiscal year 1986, in order to make more officers available to fill officer fleet requirements as the Navy grows to a 600-ship force. This decision meant that about 1,200 enlisted commissary personnel would no longer be supervised by on-base military officers but by civilians, who would report up the NAVSUP chain of command. Since the Navy believes that enlisted personnel should have military supervision, the Resale OIC positions were created to provide such supervision. (Figure III.1 contrasts the reporting relationships before and after realignment.)

Figure III.1: Command Structure of NAVRESSO Before and After the October 1985 Realignment



According to Navy officials, as a result of the realignment the numbers of military in the commissaries and exchanges will be reduced by 61 officer positions. Navy officials consider the advantages of the realignment to be that

- the NAVSUP structure is now consistent with that of large retail chain stores;
- the NAVSUP structure is less costly;
- the command line is consistent with Navy funding, program management, and logistics support; and
- the base commander has some control over the Resale OIC and NAVRESSO Field Service Office.

On the other hand, they realize that the realignment has certain disadvantages from the base commander's viewpoint in that it results in

- the further extension of regionalization (several exchanges and commissaries now having been combined in the same region which a field office oversees); and
- base commanders not having a direct financial role or inspection or management oversight.

TRAINING OF NAVY SUPPLY CORPS OFFICERS

Navy Supply Corps officers, enlisted personnel with related job skills, and civilians manage NAVRESSO's operations. However, the Navy Supply Corps officers, who are considered to be the business managers of the Navy, hold the key executive-level positions such as Resale OIC's at the installation levels, Directors at Navy exchanges and commissaries at Field Support Offices, Division Directors at NAVRESSO, and Deputy Commanders at NAVRESSO.

Professional development in the Supply Corps is achieved by experience gained through duty assignments, job rotation, and formal training. This experience must be applicable to numerous billet (job) requirements in various functional areas in order to provide for a natural career progression. Supply Corps officers may gain experience in such functional areas as merchandising management, which includes management of exchange operations and which offers experience in disciplines such as accounting, forecasting, and budgeting. Other functional areas include

- supply management (integrated logistics systems and systems inventory and material management),
- financial management,
- acquisition contract management,
- subsistence management,
- operations research/systems analysts, and
- petroleum management.

Supply Corps merchandising managers currently fill 157 positions in the Navy or about 3 percent of all Supply Corps billets. Table IV.1 shows the distribution of Supply Corps officer billets by functional area.

Table IV.1: Supply Corps Billet Distribution by Function as of September 1985

<u>Function</u>	<u>Billets</u>	<u>Percentage of total</u>
Supply management	1,492	32
Integrated logistics system	62	1
Systems inventory management	300	6
Material management	419	9
Financial management	690	15
Students/officers in transit	626	13
Acquisition contract management	322	7
Subsistence management	194	4
Merchandising management	157	3
Computer systems management	136	3
Personnel administration and training	123	3
Transportation management	102	2
Petroleum management	59	1
Operations analysis	<u>32</u>	<u>1</u>
Total	4,714 =====	100 ===

INITIAL TRAINING

Navy commissioned officers who enter the Supply Corps--whether newly commissioned ensigns or more senior officers transferring into the Supply Corps--attend the Navy Supply Corps School in Athens, Georgia, before being assigned to their first operational supply duty. This 27-week course provides detailed job-related technical instruction in supply management, disbursing, leadership and management, retail operations, food service, and quantitative management/computer systems.

ADVANCED TRAINING

In certain fields, formal training programs have been established, each of which has a Navy department sponsor and has authorized training billets assigned. Formal 2-year training programs in such areas as acquisition contracting, integrated logistics support, and business/financial management are available, as well as numerous specialized short courses. These courses range from a 6-month Physical Distribution Management School in Oakland, California, to a 2-week contract finance course at Fort Belvoir, Virginia.

Supply Corps officers are also offered fully funded postgraduate education at civilian and military schools. Table IV.2 shows these Supply Corps postgraduate programs.

Table IV.2: Supply Corps Postgraduate Programs by Functional Area

<u>Functional area</u>	<u>Course title</u>	<u>School</u>	<u>Course length (months)</u>	<u>Degree</u>
Financial management	Financial management	Naval Post Graduate School (NPGS), Monterey	18	MS
Merchandising management	Retailing	Michigan State Ohio State	21	MBA
Petroleum management	Petroleum management	University of Kansas	16	MS
Physical distribution	Material movement	NPGS, Monterey	18	MS
Acquisition contract management	Acquisition contract management	NPGS, Monterey	18	MS
	Operations analysis	NPGS, Monterey	24	MS

Cross-functional subspecialties	Computer systems management	NPGS, Monterey	18	MS
	Supply acquisition/distribution management	Harvard MIT Stanford Universities of California at Los Angeles and Berkeley Michigan Pennsylvania (Wharton School) Virginia	21	MBA MS MBA MBA MBA MBA MBA
Food service	Subsistence technology	Michigan State	21	MBA
Systems inventory management	Systems inventory management	NPGS, Monterey	15	MS
Integrated logistics support management	Material logistics support management	NPGS, Monterey Air Force Institute of Technology (AFIT, Dayton)	18 18	MS MS

RETIRED MILITARY PERSONNEL IN NAVY EXCHANGES

Data which we reviewed did not indicate that inexperienced retired military personnel had been assigned as deputy exchange officers, the highest civilian-level position at the exchange level before the current realignment. As of June 1986, 6 of the 27 deputy exchange officers were retired military personnel. We reviewed the records of 8 retired military personnel holding deputy exchange officer positions since 1984, and found that 3 of the 8 have college degrees, and all had held positions as civilians in Navy exchanges for several years at various locations before their present assignment as deputy exchange officers. (See table V.1.) As of July 1986, 4 of the 8 were still deputy exchange officers, and the other 4 have been reassigned to other positions within NAVRESSO or are retired.

Table V.1: Education and Experience of Eight Deputy Exchange Officers

<u>Person</u>	<u>Military service (years)</u>	<u>Education</u>	<u>Years experience</u>	<u>Types of experience</u>	<u>Number of NAVRESSO locations where employee worked</u>
A	Navy (23)	(Note a)	15	Merchandise Manager, Deputy Navy Exchange Officer at three locations, NAVRESSO Headquarters position	7
B	Navy (19)	(Note a)	17	Office Manager, Staff Assistant, Deputy Navy Exchange Manager at two locations	2
C	Navy (26)	B.S.	18	Activity Exchange Manager, Deputy Navy Exchange Officer, NAVRESSO Headquarters position	3
D	Marine Corps (24)	High school graduate	18	Office Manager, Retail Operations Specialist, Budget Accounting Manager, Financial Manager, Deputy Navy Exchange Officer	7

APPENDIX V

APPENDIX V

E	Navy (28)	High school graduate	13	Deputy Navy Exchange Officer at four locations	4
F	Navy (19)	B.B.A. and M.B.A. and M.B.A.	11	Activity Exchange Manager, Administration Specialist, Deputy Navy Exchange Officer at two locations	3
G	Navy (21)	High school graduate	14	Personalized Services Manager, Executive Assistant, Deputy Navy Exchange Officer at three locations, Retail Operations Manager	5
H	Navy (30)	B.A. and B.S.	17	Storage Manager, Contractor Negotiator, Deputy Navy Exchange Officer at four locations, Instructional Specialist	6

^aNo college degree was listed in records we reviewed.

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