
DEFENSE NATIONAL STOCKPILE

TRANSACTION FUND

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Overview

***DEFENSE NATIONAL
STOCKPILE
TRANSACTION FUND***

OVERVIEW

Overview

Executive Summary and Highlights

The Defense National Stockpile Center (DNSC) is a unique Department of Defense activity, in that our mission is to maintain, acquire and sell raw materials (commodities) that are strategic and critical to the Defense industry if there is a national emergency. As a field activity of the Defense Logistics Agency, DNSC is responsible for oversight and maintenance of 87 commodities stored in 79 locations throughout the Continental United States. The market value of DNSC inventory as of September 30, 1997, was \$5.4 billion. DNSC operations are governed by the Strategic and Critical Stock Piling Act (50 U.S.C. 98 *et seq.*).

Overall mission success depends on special blending of:

- Marketing research for customer awareness and feedback, price determinations, and strategic planning;
- Contracting for acquisition of new commodities, purchase of operational needs, and sale of excess commodities;
- Depot operations to ensure the quality of material, the timely shipment and receipt of material, and that no loss of material occurs.

DNSC has had a long held successful tradition of serving its customers as well as obtaining the best return on investment for the government. Whether DNSC is selling, repackaging for long-term storage, or receiving commodity for storage, the work is accomplished through the variety of talents found within the core cadre of the Center.

For example, when Congress authorizes the sale of a commodity that is no longer needed for national security, there are many actions necessary to successfully offer it in the market place. Our marketing research directorate performs research into markets and prices to determine what can be effectively sold at a market value price without affecting international commodity markets. They prepare an Annual Materials Plan (AMP) and forward it for review and approval by the legislatively mandated Market Impact Committee, the Office of the Secretary of Defense, and eventually Congress. Once the AMP is approved, a sales strategy which defines operational requirements, when to offer the commodities, what amounts to offer, chemical analysis of the commodities, which contracting instrument to use, etc., is developed. Once the sales strategy is defined, the contract solicitation is prepared, reviewed and submitted to potential bidders. After the sales contract is awarded, the strategic materials management directorate orchestrates shipments and prepares the appropriate inventory documents. Our administrative staff handles inventory adjustments and invoice information.

Overview

During FY 1997, a number of significant management initiatives and program achievements were accomplished:

- Sold \$513.8 million in excess commodities.
- Transferred \$150 million to the Military Services -- \$50 million each to the Army, Navy, and Air Force operation and maintenance accounts.
- Transferred \$81 million to the U.S. Treasury in accordance with P.L. 104-201
- Collected \$514.9 million from current and prior year sales contracts.
- Delegated the use of the International Merchant Purchase Authorization Card (IMPAC) down to the depot level. Purchased \$1 million in supplies and services using the IMPAC card.

History and Profile

Although the United States has considerable mineral resources, it is far from self-sufficient, particularly in times of war. During World War II, shortages and disruptions in the supply of rubber, tin, tungsten, copper, and other essential materials dramatically brought to the attention of the U.S. government and the American public the need for a cache of materials that could be drawn upon in an emergency.

The Stock Piling Act of 1946 was enacted on July 23, 1946. It authorized the Secretary of War, Navy, and Interior “to...determine which materials are strategic and critical...and to determine, from time to time, the quality and quantities of such material which shall be stockpiled.” Responsibility for performing the functions of the Stock Piling Act was originally given to the Army-Navy Munitions Board and then to the National Security Resources Board. Later the responsibility shifted to the Treasury Department. A few years later, the functions were merged with the newly created General Services Administration (GSA). The Act contains a provision to prevent undue disruption of the commodity markets by preventing Stockpile materials from being released indiscriminately.

The next step was to determine who needed what commodities and in what quantities. To determine the estimated value of wartime supplies DNSC developed a factoring system in 1950. The system took into account the possible military accessibility to critical materials, political dependability of potential foreign suppliers, concentration of supplies of needed materials, and other miscellaneous factors, such as vulnerability to sabotage. Because the U.S.

does not produce two-third of the commodities to be stockpiled, most commodities were purchased through foreign sources.

The Korean War caused the need for expanded production of materials quickly, and lead to the passage of the Defense Production Act of 1950 (50 U.S.C. 2061, as amended). The policy, set forth in the Defense Production Act, is as follows:

In view of the present international situation and in order to provide for the national defense and national security, our mobilization effort continues to require some diversion of certain materials and facilities from civilian use to military and related purposes. It also requires the development of preparedness programs and the expansion of productive capacity and supply beyond the levels needed to meet the civilian demand, in order to reduce the time required for full mobilization in the event of an attack on the United States.

A later amendment approved June 30, 1953, allowed the President to transfer to the existing National Stockpile those materials that had been accumulated under the Defense Production Act. This Act also led to the Barter Program allowing the Commodity Credit Corporation (CCC) to barter agricultural commodities that it owned for strategic materials.

The Defense Production Act accelerated the Stockpile effort tremendously. Between 1939 and 1950, Congress had appropriated \$1.5 billion for stockpiling. Between 1950 and 1951, Congress authorized an additional \$3.5 billion for stockpiling purposes. By 1955, major appropriations for Stockpile procurement had ended; however, some Stockpile objectives remained unfilled.

During the expansion of the nuclear age, with its completely different theories and strategies of warfare, it became necessary to change the philosophy of stockpiling materials. An advisory committee was established to review Stockpile policy. Their report prompted the following changes to Stockpile policy:

- Strategic Stockpile objectives should be reduced from a five to a three-year global war scenario.
- Disposals of excesses should be made only if they do not disrupt U.S. domestic markets or U.S. international relations.

The Stockpile initiative had shifted from a time of shortage to a time of surplus. Disposal of excess commodities was problematic. In 1959, an added restriction placed on sales required a review of any proposed disposals of excess materials by concerned Federal agencies. This slowed down the sales process and/or halted it altogether.

From 1962 to 1976, many changes occurred in both stockpile policy and management. In

Overview

1976, the President issued guidance requiring a stockpile that could support U.S. defense requirements:

- * During a major war over a three-year period.
- * Assuming large-scale industrial mobilization and increased materials demand.
- * Providing for a wide range of basic civilian economic needs to ensure a healthy wartime economy.
- * Planning should include:
 1. Maintaining current data and planning factors,
 2. Developing an “Annual Materials Plan,” that will respond to changes in national security, budget considerations, domestic markets, and international events.

This new policy became effective August 23, 1976 and new goals were announced on October 1, 1976.

In 1979, President Carter signed the Strategic and Critical Materials Stockpiling Revision Act. The most significant provisions of this Act are as follows:

- * Transferred the Stockpile policy functions from GSA’s Federal Preparedness Agency to the newly created Federal Emergency Management Agency (FEMA). Management functions remained with GSA.
- * Established the National Defense Stockpile Transaction Fund (T-Fund). Proceeds from disposals of commodities are deposited into the T-Fund and used to buy commodities that were short of goal.
- * Encouraged use of barter to acquire and dispose of Stockpile material.

In March of 1981, President Reagan announced a new major purchase program for the National Defense Stockpile. He stated that, “It is now widely recognized that our nation is vulnerable to sudden shortages in basic raw materials that are necessary to our defense production base.” At that time, of the 61 family groups and individual materials, 37 were less than goal. To fill these gaps, Congress apportioned \$100 million out of Transaction Fund to buy urgently needed, high priority defense commodities. That year, the President signed the Omnibus Budget Reconciliation Act (P.L.97-35) that authorized disposal of 16 commodities to be sold over a three-year period.

P.L. 97-35 also required that the AMP be submitted each year with the President's budget. The AMP would include planned sales and acquisition of material for the next fiscal year plus assumptions for the succeeding four years. The AMP fell under the purview of the Federal Emergency Management Agency. DNSC develops the AMP in a way to avoid undue market disruption and to conform to budget limitations. Once developed, through a combined effort of Federal Agencies and Congressional Committees, the AMP was then submitted to the House and Senate Armed Services Committees.

In FY 1982, President Reagan issued a directive, over a 10-year period, upgrade stockpiled chromite and manganese ores into high-carbon ferrochromium and ferromanganese. The intent of the directive was to help sustain the processing capability necessary for national defense, reducing the time needed to convert Stockpile materials to ferroalloys in case of a national emergency.

The National Defense Authorization Act of 1987 (P.L. 99-661) allowed the Transaction Fund to pay for expenses related to the maintenance of, and other reasonable requirements for, management of the Stockpile. It also legislatively mandated the ferroalloy upgrade program mentioned above.

In FY 1988, the President issued Executive Order 12626, designating the Secretary of Defense as the National Defense Stockpile Manager and the administrative and management functions transferred from GSA to the Director, Defense Logistics Agency (DLA).

With the end of the Cold War and the fall of the Soviet Bloc, there came a need to reassess our Nation's war scenario. It became apparent that the threat of global warfare was no longer a valid assumption. The need to adjust Stockpile goals also came into question, putting the Stockpile acquisition program on hold, with only minor upgrade programs performed. The Department of Defense revised their war scenario to include two simultaneous, regional conflicts, thereby authorizing additional commodities as excess through the Defense Authorization process. Excess cash was accruing into the Transaction Fund.

To utilize the excess proceeds, it was determined that DNSC operations should be financed via the Transaction fund as opposed to an appropriation. As a result, new legislation was passed. In FY 1993, P.L. 102-484, the National Defense Authorization Act authorized use of the Transaction Fund to pay for improvement or rehabilitation of facilities needed to maintain the integrity of stockpile materials. In FY 1994, the Authorization Act (P.L. 103-160) authorized the payment of salaries and other expenditures out of the Transaction Fund. DNSC became a self-financing activity.

In addition, the National Defense Appropriations Act of 1993 (P.L. 102-396) authorized the Secretary of Defense to transfer funds up to \$400 million from the Transaction Fund. The Act made \$200 million of those funds available for use in the minor construction and repair of real property for the military services and Defense Agencies. In FY 1993, \$200 million was

Overview

transferred to the Military Services. The FY 1994 Appropriations Act (P.L. 103-106), signed November 3, 1993, authorized the transfer of not more than \$500 million from the Transaction Fund to the Military Service operations and maintenance accounts. Transfers in FY 1994 resulted in \$400 million being provided to the Military Services. In FY 1995 and FY 1996 Congress authorized the transfer of \$150 million to the Military Services' operation and maintenance accounts (\$50M each). DNSC accomplished the transfer of those amounts each year.

In June of FY 1997, the biannual requirement report were prepared by the Stockpile policy office and provided to Congress for approval and authorization. It reduced Stockpile requirements from \$3.2 billion to \$43.87 million. Due to the lateness of the report (due by January 15) and Congressional concerns, no action was taken by Congress to approve the report in its entirety. However, it did lead to new legislation that proposed that DNSC's sale proceeds be used to offset losses in other Defense-related areas. On September 27, 1996, the National Defense Authorization Act of 1997 authorized the sale of 11 commodities specifically to offset governmental losses incurred during Foreign Military Sales Research and Development. Sales of these commodities are expected to generate \$612 million in proceeds over a ten-year period. Proceeds would be deposited into the General Fund of the Treasury.

Organizational Profile

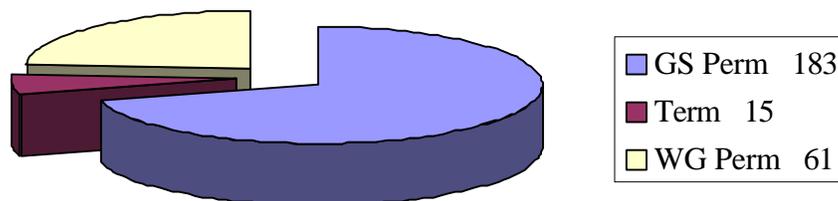
In July 1996, DNSC completed a reorganization that was intended to streamline the organization and reduce personnel strength. This action was necessary due to DoD-mandated end strength goals for 1996 and later years and because of a general thrust throughout the Department of Defense to operate more efficiently and effectively to adapt to the changes, as the strategic mission of the Department changes.

DNSC eliminated the field management level and created sufficient additional structure at the Ft. Belvoir office to continue to carry out the mission of the Center. Before the reorganization, there were three DNSC Zone offices, located in New York City, NY; Hammond, IN; and Ft. Worth, TX. At one time, these three offices contained 39 employees who managed the DNSC depots within their geographical areas. DNSC's Activity Based Costing analysis led to a flatter, leaner organization with direct management between the operating headquarters and the depots, by eliminating functions identified as unnecessary. The result was a more efficient and productive organization. DNSC determined that 19 Zone positions were mission critical and transferred their functions to Ft. Belvoir.

As of September 30, 1997, there were 259 personnel working within the following organizational structure:

- **DNSC Headquarters**--develops administrative policies and programs according to applicable laws and regulations. Performs all contracting and marketing research functions DNSC-wide. Manages, oversees, and performs operations required to maintain facilities and acquire/dispose/maintain commodities. Oversees and provides guidance to DNSC quality assurance program. Maintains DNSC Master Inventory File. Administers financial and personnel liaison, develops and executes budgets, and administers Stockpile Automated Data Processing requirements DNSC-wide.
- **DNSC Depot Operations**--located at 79 sites across the U.S., maintain and repair depot facilities and DNSC inventories. Prepare commodities for shipment. Receive commodities. Perform sampling and qualitative analysis and oversees shipment of commodities by contractor personnel. Ensure that security is adequate to protect commodities from theft. Maintain inventory records. Maintain material handling equipment. Prepare shipping records and other related reports.

D N S C Staffing
September 30, 1997
End strength 259
FTE 266



Overview

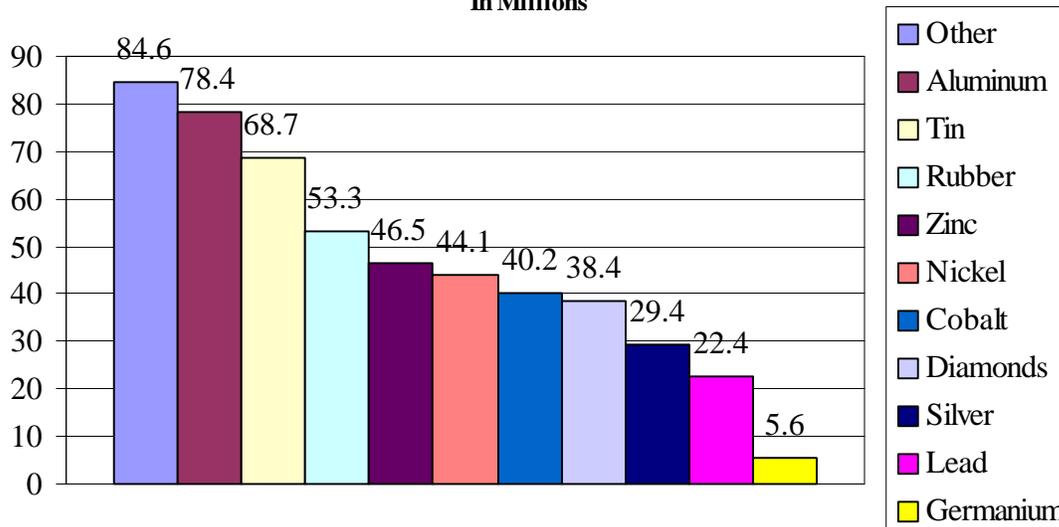
Funding

Sources of Funds

DNSC finances its operational expenditures through proceeds generated by the sale of excess commodities. The Stockpile awarded sales contracts that totaled \$511.6 million during Fiscal Year 1997. Total reimbursements earned in FY 1997 were \$514.9 million. This amount not only includes income earned through sales contracts but also includes contract modifications, refunds, and credits received.

FY 1997 Sales

In Millions



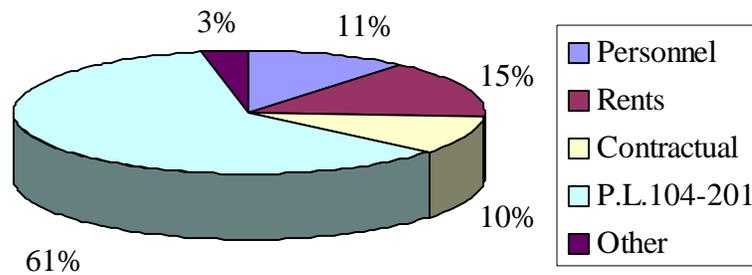
Uses of Funds

DNSC incurred obligations of \$133.5 million in FY 1997. Of that amount:

- \$15.0 million (11%) was obligated for employee salaries and benefits,
- \$19.8 million (15%) was obligated for rental space,
- \$13.4 million (10%) was obligated for contractual services (primarily real property maintenance, material handling, and environmental projects and depot operations support),
- \$81.0 million (61%) was obligated for the expenditure disbursement to the U.S. Treasury in accordance with P.L. 104-201.

- The remaining 4.3 million (3%) was obligated for day-to-day program operational costs such as travel, transportation, supplies, and equipment.

D N S C FY 1997 Operations Obligations



Annual Materials Plan

The Annual Materials Plan (AMP) includes the materials and the maximum quantity that the DoD proposes to acquire or sell during a given fiscal year. Before any material is available for sale, Congress must enact specific enabling legislation. After the Congress authorizes the sale, the DoD develops the AMP, and submits to Congress by February 15 each year. Before submission, the Market Impact Committee reviews the AMP. The Market Impact Committee is an interagency committee that advises the DoD on the projected domestic and foreign economic effects of the proposed Stockpile transactions. The AMP becomes effective on the first day of the next fiscal year. If the DoD proposes significant changes to the AMP during the fiscal year, a revised AMP is submitted to Congress, but the revisions are not implemented until 45 calendar days have elapsed.

Overview

REVISED ANNUAL MATERIALS PLAN (AMP) FISCAL YEAR 1997

| Material | Unit | Quantity |
|--|--------|------------|
| Potential Sales | | |
| Aluminum | ST | 62,881 |
| Aluminum Oxide, Abrasive Grain | ST | 6,000 |
| Aluminum Oxide, Fused Crude | ST | 30,000 |
| Analgesics (Morphine Sulfate) | AMA LB | 64128 |
| Antimony | ST | 5,000 |
| Asbestos (all types) 1/ | ST | 20,000 |
| Bauxite, Metallurgical Grade, Jamaica | LDT | 600,000 |
| Bauxite, Metallurgical Grade, Surinam | LDT | 300,000 |
| Bauxite, Refractory Grade | LCT | 80,000 |
| Beryl Ore | ST | 2,000 |
| Bismuth | LB | 300,000 |
| Cadmium | LB | 1,200,000 |
| Celestite | SDT | 3,600 |
| Chromite, Chemical Grade | SDT | 100,000 |
| Chromite, Metallurgical Grade | SDT | 250,000 |
| Chromite, Refractory Grade | SDT | 100,000 |
| Chromium, Ferro | ST | 35,000 |
| Cobalt | LB Co | 6,000,000 |
| Columbium, Ferro | LB Cb | 200,000 |
| Diamond, Industrial Crushing Boart | CT | 1,000,000 |
| Diamond Dies | PC | 25,473 |
| Diamond, Industrial Stone | CT | 2,000,000 |
| Fluorspar, Acid Grade | SDT | 180,000 |
| Fluorspar, Metallurgical Grade | SDT | 50,000 |
| Germamium | KG | 6,000 |
| Graphite, Natural, Malagasy | ST | 2,660 |
| Indium | TR OZ | 35,000 |
| Iodine | LB | 450,000 |
| Jewel Bearings | PC | 31,000,000 |
| Kyanite | SDT | 1,200 |
| Lead | ST | 60,000 |
| Manganese Dioxide Ore, Natural Battery Grade | SDT | 60,000 |
| Manganese Dioxide, Synthetic | ST | 3,011 |

**REVISED ANNUAL MATERIALS PLAN (AMP) (continued)
FISCAL YEAR 1997**

| Material | Unit | Quantity |
|-------------------------------------|-------------|-----------------|
| Manganese Ore, Chemical Grade | SDT | 40,000 |
| Manganese, Ferro | ST | 2,000 |
| Manganese, Metal, Electrolytic. | ST | 2,000 |
| Manganese Ore, Metallurgical Grade | SDT | 400,000 |
| Mercury 1/ | FL | 20,000 |
| Mica, All Types | LB | 2,260,000 |
| Nickel | ST | 10,000 |
| Palladium | TR OZ | 15,000 |
| Platinum | TR OZ | 10,000 |
| Quinidine | Av Oz | 200,000 |
| Quinine | Av Oz | 200,000 |
| Sapphire & Ruby | CT | 10,000,000 |
| Sebacic Acid | LB | 4,500,000 |
| Silicon Carbide | ST | 4,500 |
| Silver (for coinage programs) | Tr Oz | 9,000,000 |
| Talc | ST | 1,200 |
| Thorium Nitrate 1/ | LB | 1,000,000 |
| Tin | MT | 12,000 |
| Vanadium Pentoxide | ST V | 465 |
| Vegetable Tannin Extract, Chestnut | LT | 5,000 |
| Vegetable Tannin Extract, Quebracho | LT | 5,000 |
| Vegetable Tannin Extract, Wattle | LT | 5,000 |
| Zinc | ST | 50,000 |

1/ Thorium Nitrate, Mercury, and Asbestos present special environmental problems that may preclude a revenue-producing sale.

Planned Expenditures

| Obligation Expense Category | Authority |
|--|----------------------------|
| Mobilization Studies | 2,000,000 |
| Operating Costs | <u>57,000,000</u> |
| Total Planned Expenditures | <u>\$59,000,000</u> |

Inventory

Inventory market values are based on September 30, 1997, prices at which comparable materials were traded. Without current trading data, market values were estimated. The market values are not necessarily the amounts that would be realized if the materials were sold.

Stockpile Goals

The Stockpile goals reflect requirements currently in law. For materials or groups with authorized disposal authority, the goals are derived by subtracting new legislative disposal authority from the requirement in effect prior to enactment of the disposal authority.

The value of the NDS goals recommended by the DoD, as explained in the *1997 Report to the Congress on NDS Requirements*, is lower than the value of the goals currently in law.

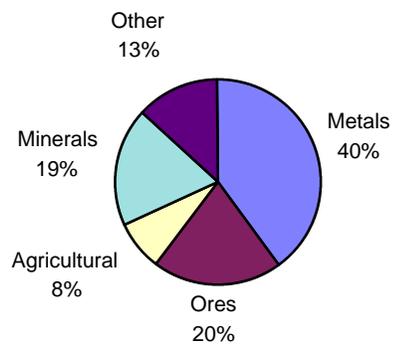
Family Groupings of Materials

For many materials, the Stockpile contains more than one form of a primary material with a goal. In these cases, the goal may be stated in pounds of the primary material, while the inventory consists of the different forms of the material. For example, the goal for tantalum is stated in pounds of tantalum, but the inventory consists of metal, metal powder, carbide powder, oxide, and minerals, none of which has a separate goal. A conversion factor is used to convert the different forms of tantalum in the inventory (the family group) into equivalent pounds of pure tantalum. Therefore, the stockpile goal for a family group of materials consists of the equivalent content of the primary material as represented by the different forms of the material.

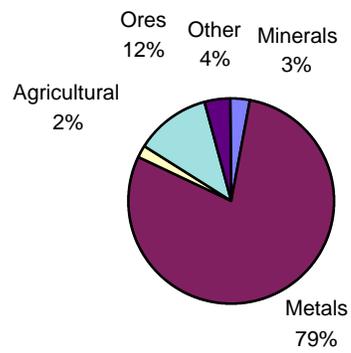
NATIONAL DEFENSE STOCKPILE INVENTORY

87 MATERIALS VALUED AT \$5.4 BILLION
as of September 30, 1997

Commodity Types



Market Value



Overview

STOCKPILE GOALS AND INVENTORY STATUS * as of September 30, 1997 (Millions of Dollars)

| Material | Unit | Goal | Inventory Level | | Inventory Status | |
|-------------------------------------|-------|-----------|-----------------|-----------|------------------|---------|
| | | | Quantity | Value | Excess | Deficit |
| 1. Aluminum Group | | | | | | |
| Aluminum Metal | ST | 0 | 9,770 | \$ 14.432 | 9,770 | |
| Bauxite, Metal Grade, Jamaica Type | LDT | 0 | 9,730,516 | 84.655 | 9,730,516 | |
| Bauxite, Metal Grade, Surinam Type | LDT | 0 | 4,185,198 | 19.302 | 4,185,198 | |
| 2. Aluminum Oxide | | | | | | |
| Aluminum Oxide, Abrasive Grain | ST | 0 | 28,424 | 11.554 | 28,424 | |
| Aluminum Oxide, Fused, Crude | ST | 0 | 156,550 | 26.486 | 156,550 | |
| 3. Antimony | ST | 0 | 23,488 | 60.870 | 23,488 | |
| 4. Asbestos | | | | | | |
| Amosite | ST | 0 | 33,505 | 0 | 33,505 | |
| Chrysotile | ST | 0 | 10,766 | 0 | 10,766 | |
| 5. Bauxite, Refractory | LCT | 69,000 | 90,171 | 6.878 | 21,171 | |
| 6. Beryllium Group | | | | | | |
| Beryl Ore (11% BeO) | ST | 0 | 12,933 | 2.587 | 12,933 | |
| Beryllium Copper Master Alloy | ST | 0 | 7,387 | 42.844 | 7,387 | |
| Beryllium Metal | ST | 400 | 400 | 104.692 | 0 | |
| 7. Bismuth | LB | 0 | 186,411 | 0.643 | 186,411 | |
| 8. Cadmium | LB | 0 | 4,124,747 | 4.661 | 4,124,747 | |
| 9. Chromite, Refractory Grade | SDT | 159,000 | 229,400 | 3.769 | 70,400 | |
| 10. Chromium Group | | | | | | |
| Chromite, Chem. & Met. Group | SDT | 34,000 | 562,753 | 13.839 | 528,753 | |
| Chromite, Chemical Grade | SDT | | 178,079 | 2.669 | 144,079 | |
| Chromite, Metallurgical Grade | SDT | | 384,674 | 11.170 | 384,674 | |
| Chromium, Ferro Group | ST | 621,204 | 1,119,427 | 1,081.009 | 498,223 | |
| Chromium, Ferro, High Carbon | ST | | 749,689 | 529.731 | 498,223 | |
| Chromium, Ferro, Low Carbon | ST | | 311,662 | 434.824 | 0 | |
| Chromium, Ferro, Silicon | ST | | 58,076 | 116.454 | 0 | |
| Chromium Metal | ST | 26,835 | 8,511 | 43.714 | | 18,324 |
| 11. Cobalt | LB Co | 0 | 38,034,227 | 899.700 | 38,034,227 | |
| 12. Columbium Group | | | | | | |
| Columbium Carbide Powder | LB Cb | 2,165,344 | 3,014,930 | 18.641 | 849,586 | |
| Columbium Concentrates | LB Cb | | 21,372 | .676 | 0 | |
| Columbium, Ferro | LB Cb | | 1,733,454 | 5.554 | 0 | |
| Columbium, Metal | LB Cb | | 1,098,981 | 7.255 | 849,586 | |
| Columbium, Metal | LB Cb | | 161,123 | 5.156 | 0 | |
| 13. Diamond, Industrial | | | | | | |
| Diamond Dies | ct | 0 | 25,473 | 0.255 | 25,473 | |
| Diamond, Industrial, Crushing Boart | ct | 0 | 62,340 | .326 | 62,340 | |
| Diamond, Industrial, Stones | ct | 3,000,000 | 3,750,930 | 99.126 | 750,930 | |
| 14. Fluorspar | | | | | | |
| Acid Grade | SDT | 0 | 280,161 | 14.649 | 280,161 | |
| Metallurgical Grade | SDT | 0 | 262,097 | 9.892 | 262,097 | |

STOCKPILE GOALS AND INVENTORY STATUS *
as of September 30, 1997

| Material | Unit | Inventory Level | | Inventory Status | | |
|--|--------|-----------------|------------|------------------|------------|------------|
| | | Quantity | Value | Excess | Deficit | |
| 15. Germanium | KG | 28,198 | 63,623 | \$ 78.184 | 35,425 | |
| 16. Graphite | | | | | | |
| Ceylon Amorphous, (Lump) | ST | 13,477 | 5,492 | 2.591 | | 7,985 |
| Malagasy (Crystalline) | ST | 0 | 14,220 | 1.990 | 14,220 | |
| Other than Ceylon & Malagasy | ST | 0 | 86 | .003 | 86 | |
| 17. Indium | Tr Oz | 14,248 | 14,248 | .145 | 0 | |
| 18. Iodine | LB | 0 | 4,681,984 | 30.583 | 4,681,984 | |
| 19. Jewel Bearings | | | | | | |
| Jewel Bearings | PC | 84,000,000 | 30,273,221 | 0 | 0 | 53,726,779 |
| Jewel Bearings - NSG | PC | | 51,778,337 | 0 | 51,778,337 | |
| 20. Lead | ST | 0 | 397,039 | 252.426 | 397,039 | |
| 21. Manganese Dioxide Battery Grade | | | | | | |
| Manganese Dioxide, Bat. Grade, Natural | SDT | 0 | 136,510 | 8.804 | 136,510 | |
| Manganese Dioxide, Bat. Grade, Synthetic | SDT | 0 | 3,011 | 5.725 | 3,011 | |
| 22. Manganese, Group | | | | | | |
| Manganese Ore, Chemical Grade | SDT | 0 | 163,194 | 7.492 | 163,194 | |
| Manganese Ore, Metallurgical Grade | SDT | 0 | 1,328,275 | 42.483 | 1,328,275 | |
| Manganese, Ferro Group | ST | 209,074 | 1,051,057 | 248.233 | 841,983 | |
| Manganese, Ferro, High Carbon | ST | | 1,036,647 | 239.341 | 841,983 | |
| Manganese, Ferro, Medium Carbon | ST | | 14,410 | 8.892 | 0 | |
| Manganese, Ferro, Silicon | ST | | 0 | 0 | 0 | |
| Manganese Metal (Electrolytic) | ST | 0 | 9,440 | 17.453 | 9,440 | |
| 23. Mercury | FL | 0 | 128,662 | 0 | 128,662 | |
| 24. Mica | | | | | | |
| Muscovite Block, Stained & Better | LB | 301,000 | 2,350,249 | 21.798 | 2,049,249 | |
| Muscovite Film, 1st & 2nd Qualities | LB | 0 | 35,164 | .008 | 35,164 | |
| Muscovite Splittings | LB | 0 | 12,440,985 | 2.326 | 12,440,985 | |
| Phlogopite Block | LB | 316,518 | 130,745 | .523 | | 185,773 |
| Phlogopite Splittings | LB | 0 | 584,633 | .307 | 584,633 | |
| 25. Morphine Sulfate (Refined) | AMA LB | 0 | 64,127 | 6.413 | 64,127 | |
| 26. Nickel | ST | 0 | 4,227 | 30.611 | 4,227 | |
| 27. Platinum Group Metals | | | | | | |
| Iridium | Tr Oz | 86,000 | 29,590 | 4.143 | | 56,410 |
| Palladium | Tr Oz | 1,247,282 | 1,247,282 | 182.710 | 0 | |
| Platinum | Tr Oz | 421,761 | 230,579 | 85.172 | 0 | |
| 28. Quartz Crystals | LB | 236,006 | 236,006 | 2.152 | | |
| 29. Quinidine | Av Oz | 0 | 2,409,379 | 1.525 | 2,409,379 | |
| 30. Quinine | Av Oz | 0 | 2,697,011 | 1.748 | 2,697,011 | |

* Note: Goals are those currently authorized in law including some goals that were affected by the sales authority in the National Defense Authorization Act for Fiscal Year 1997. DoD recommended goals in the 1995 Report to the Congress on NDS Requirements are lower.

Overview

STOCKPILE GOALS AND INVENTORY STATUS * as of September 30, 1997

| Material | Unit | Goal | Inventory Level | | Inventory Status | |
|---|-------|------------|-----------------|----------|---------------------|---------|
| | | | Quantity | Value | Excess | Deficit |
| 31. Ricinoleic/Sebacic Acid Products | LB | 0 | 3,457,500 | \$ 5.957 | 3,457,500 | |
| 32. Rubber, Natural | LT | 0 | 69,220 | 67.539 | 69,220 | |
| 34. Silicon Carbide | ST | 0 | 13,716 | 5.857 | 13,716 | |
| 35. Silver | Tr Oz | 0 | 39,152,484 | 95.689 | 39,152,484 | |
| 36. Talc, Steatite Block & Lump | ST | 0 | 1,004 | .222 | 1,004 | |
| 37. Tantalum Group | LB Ta | 2,303,992 | 3,077,355 | 128.049 | 773,363 | |
| Tantalum Carbide Powder | LB Ta | | 26,532 | 1.536 | 3,845 | |
| Tantalum Metal Powder | LB Ta | | 161,020 | 28.327 | 0 | |
| Tantalum Metal | LB Ta | | 245,228 | 23.542 | 0 | |
| Tantalum Minerals | LB Ta | | 2,501,364 | 68.414 | 750,000 | |
| Tantalum Oxide | LB Ta | | 143,211 | 6.230 | 19,518 | |
| 38. Thorium Nitrate | LB | 600,000 | 7,093,691 | 0 | 6,493,691 | |
| 39. Tin | MT | 0 | 104,302 | 651.392 | 104,302 | |
| 40. Titanium Sponge | ST | 0 | 36,549 | 248.534 | 36,549 | |
| 41. Tungsten Group | LB W | 70,900,000 | 82,313,341 | 283.040 | 11,413,341 | |
| Tungsten Carbide Powder | LB W | | 2,032,954 | 21.328 | 0 | |
| Tungsten, Ferro | LB W | | 2,024,143 | 4.431 | 0 | |
| Tungsten Metal Powder | LB W | | 1,898,009 | 18.509 | 0 | |
| Tungsten Ores & Concentrates | LB W | | 76,358,235 | 238.772 | 11,413,341 | |
| 42. Vanadium Pentoxide | ST V | 0 | 0 | 0 | 0 | |
| 43. Vegetable Tannin Extract | | | | | | |
| Chestnut | LT | 0 | 3,319 | .963 | 3,319 | |
| Quebracho | LT | 0 | 106,903 | 29.688 | 106,903 | |
| Wattle | LT | 0 | 8,160 | 2.271 | 8,160 | |
| 44. Zinc | ST | 0 | 243,567 | 256.463 | 243,567 | |
| TOTALS: STRATEGIC AND CRITICAL MATERIALS | | | | | \$ 5,380.392 | |
| NON-STRATEGIC AND CRITICAL MATERIALS ^{1/} | | | | | .074 | |
| OTHER INVENTORIES ^{1/} | | | | | .019 | |
| TOTAL INVENTORY VALUE | | | | | \$5,380.485 | |

* Note: Goals are those currently authorized in law including some goals that were affected by the sales authority in the National Defense Authorization Act for Fiscal Year 1997. DoD recommended goals in the *1995 Report to the Congress on NDS Requirements* are lower.

^{1/} In addition to the materials listed in this Table, the NDS inventory also contains asbestos (crocidolite), celestite, kyanite, mica (muscovite block, stained and lower), talc (ground), and zirconium valued at \$.074 million; these materials have not been determined to be strategic and critical and, consequently, do not have NDS goals. The NDS also holds other inventories of mercury and vanadium pentoxide, valued at \$0.019 million.

Program Discussion and Analysis

New Commodities Authorized

As DNSC enters into its sixth year of an aggressive sales program, the focus for the use of proceeds from commodity sales is starting to shift. Instead of using the funding as supplemental income to the Military Operations and Maintenance account, proceeds from the sale of excess commodities are being used to offset losses in other DoD program areas. At the end of FY 1997, the National Defense Authorization Act (P.L. 104-201, Section 3303) authorized the sale of additional quantities of certain materials in the Stockpile to offset governmental losses incurred during Foreign Military Sales Research and Development. Proceeds from the sales are deposited in the general fund of the U.S. Treasury. Further, \$81 million in sales receipts from these materials was deposited in FY 1997, and a total of \$612 million will be deposited during the ten-fiscal year period ending September 30, 2006.

The materials and the maximum quantities to be sold under this provision are:

| | | |
|--------------------------|------------|-------|
| Aluminum | 62,881 | ST |
| Cobalt | 26,000,000 | LBS |
| Columbium, Ferro | 930,911 | LB-Cb |
| Germanium | 40,000 | KG |
| Indium | 35,000 | TR OZ |
| Palladium | 15,000 | TR OZ |
| Platinum | 10,000 | TR OZ |
| Rubber, Natural | 125,138 | LT |
| Tantalum, Carbide Powder | 6,000 | LB-Ta |
| Tantalum, Minerals | 750,000 | LB-Ta |
| Tantalum, Oxide | 40,000 | LB-Ta |

Titanium Transfer to the U.S. Army

In accordance with section 3305 of P.L. 104-106, 250 tons of titanium sponge valued at \$900,828 were transferred to the Army's Tank and Automotive Command for use in the weight reduction portion of the main battle tank upgrade program. These transfers of up to 250 tons annually will continue through FY 2003. This material is being provided from the Stockpile to the Army without reimbursement except for transportation and handling costs.

Overview

Additionally, there is language in P.L. 104-208, Section 524 of the FY 1997 Treasury and Postal Appropriations bill that proposes that the U.S. Mint be allowed to use approximately 400 thousand troy ounces of DNSC platinum as working inventory. Approximately 188,000 Tr oz of platinum is currently on loan to the U.S. Mint.

Marketing Initiatives

As Congress and DoD move toward authorizing additional material for sale, we have a growing number of markets into which we will enter for the first time. We are making an effort to better understand the specific business needs of our customers. For example, after trying some “negotiated bid” sales and finding that they boost revenue and provide greater satisfaction for customers, we have begun to make large-scale moves toward the process and away from the traditional “sealed bid” approach. We have begun taking Visa and Master Card and will soon also accept Discover as a payment mechanism. We are investigating innovative and non-traditional markets in which to advertise the use of our materials. These are just a few of our efforts to achieve acceptance in a wide variety of highly volatile markets with industries that are accustomed to highly specialized services.

DNSC’s intention is to be open and responsive to the concerns of industry. When we make administrative policy changes, we issue press releases and otherwise publish our intentions. We specifically invite comment on the proposed change and are willing to alter our course should the need arise in the future. We discuss our intended sales plan and procedures with an industry advisory committee and use their comments to ensure that our policies are in line with industry expectations.

Audit of Stockpile Financial Controls and Statements

The Department of Defense Inspector General (DoD IG) Project No. 6FH-2028 found that the DNSC’s internal controls regarding Transaction Fund financial statements are effective in accounting for and managing resources, ensuring compliance with laws and regulations, and providing reasonable assurance that the financial statements are free of material misstatements. However, the IG found internal control weaknesses in “Interest Due to the U.S. Treasury,” financial statement disclosures. A Qualified Audit Opinion was issued.

Financial Performance

The National Defense Stockpile Transaction Fund (T-Fund) is a revolving fund that accounts for resources necessary to procure and dispose of strategic commodities. These financial statements have been prepared to report on the financial position and the results of operations of the DNSC T-Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990. The financial statements have been prepared from the books and records of the T-Fund in accordance with the formats prescribed by the OMB, these statements are different from the financial reports and statements used to monitor and control budgetary resources.

The following definitions of the financial performance measures stem from DoD guidance. We have provided them here to clarify the graphs on the following page.

Definitions:

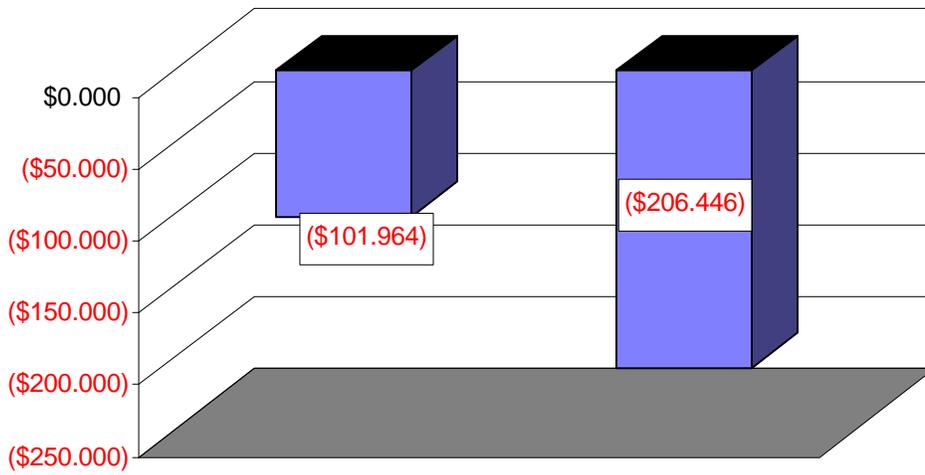
- Net Operating Costs - The total expenses minus the total revenue.
- Current Ratio - An indicator of financial condition, it is calculated by dividing current assets by current liabilities.
- Operating Results - The total revenue minus the total expenses.
- Financial Obligations - The total of current and long-term liabilities.
- Ending Fund Balance - The Fund balance with the Treasury.

The Net Operating Cost in FY 1997 was \$(101.964) million compared to \$(206.446) million in FY 1996, indicating a 50.37% decrease in net operating costs. Likewise, the Operating Result exhibited a 50.37% decrease, from \$206.446 million in FY 1996 to \$101.964 million in FY 1997.

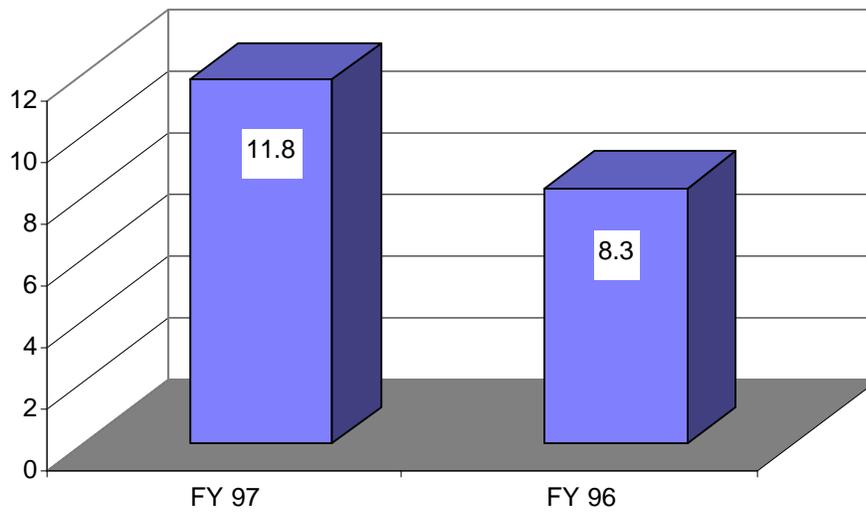
The FY 1997 current ratio was 11.8 as compared to 8.3 in FY 1996. The increase is due mainly to the 79% increase in the Ending Fund Balance, which increased from \$290.712 million in FY 1996 to \$519.768 million in FY 1997. The increase in Ending Fund Balance more than offset the 73% increase in Financial Obligations, which grew from \$69.052 million in FY 1996 to \$119.405 million in FY 1997.

Overview

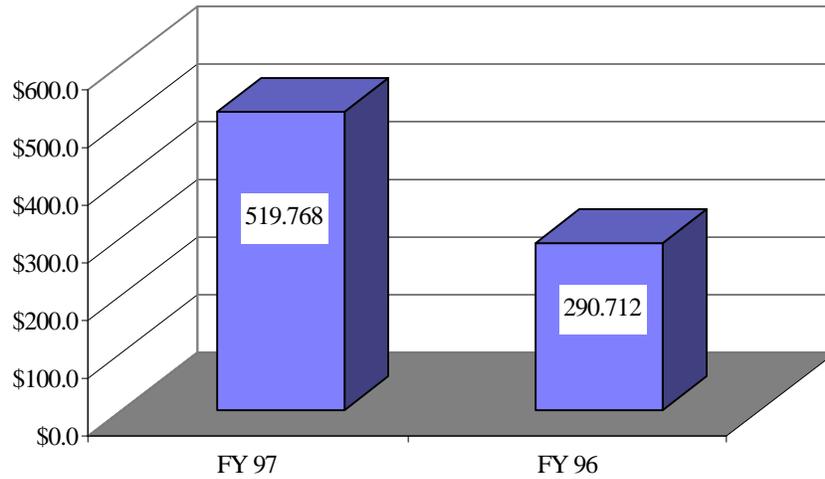
Net Operating Costs Total Expense - Total Revenue In Millions



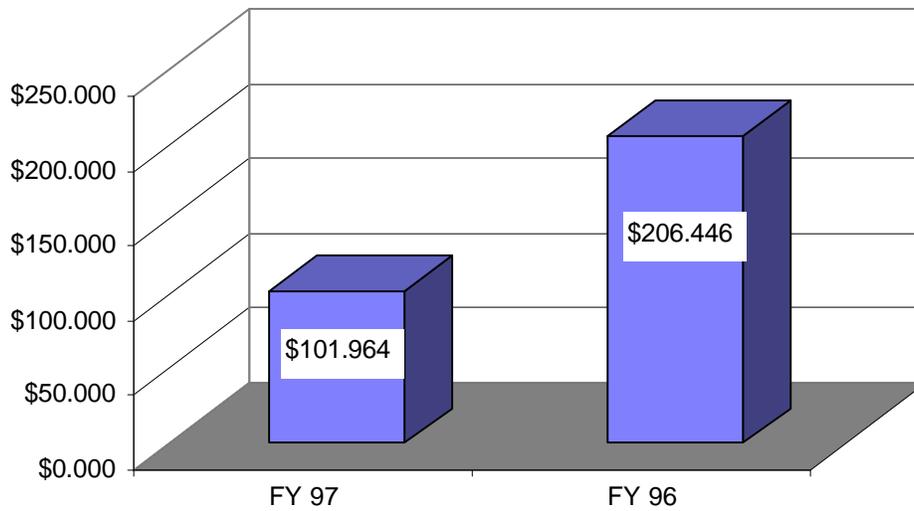
Current Ratio Current Assets/Current Liabilities



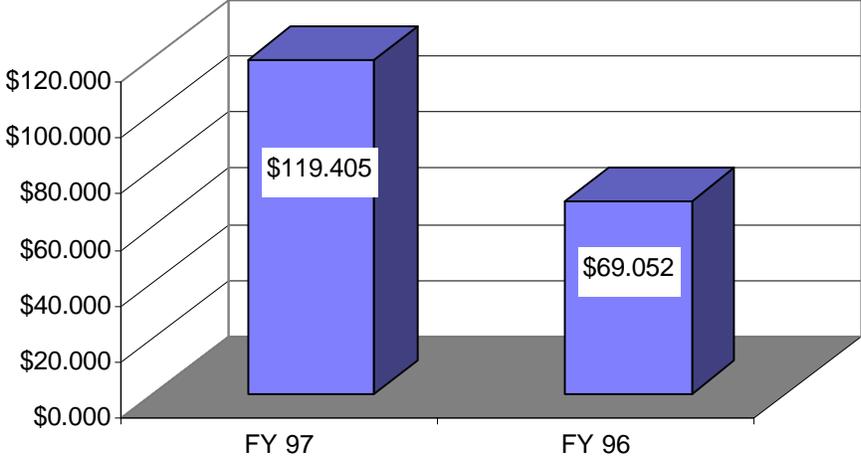
Ending Fund Balance
In Millions



Operating Results
Total Revenue - Total Expenses
In Millions



Financial Obligations
Current & Long-Term Liabilities
In Millions



***DEFENSE NATIONAL
STOCKPILE TRANSACTION
FUND***

PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Defense National Stockpile Transaction Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

| ASSETS | <u>1997</u> | <u>1996</u> |
|--|--------------------|--------------------|
| 1. Entity Assets: | | |
| a. Transactions with Federal (Intragovernmental) Entities: | | |
| (1) Fund Balance with Treasury (Note 2) | \$519,768 | \$290,712 |
| (2) Investments, Net (Note 4) | 0 | 0 |
| (3) Accounts Receivable, Net (Note 5) | 35 | 35 |
| (4) Interest Receivable | 0 | 0 |
| (5) Advances and Prepayments | 1,184 | (749) |
| (6) Other Federal (Intragovernmental) (Note 6) | 0 | 0 |
| b. Transactions with Non-Federal (Governmental) Entities: | | |
| (1) Investments (Note 4) | 0 | 0 |
| (2) Accounts Receivable, Net (Note 5) | 278,539 | 285,021 |
| (3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7) | 0 | 0 |
| (4) Interest Receivable, Net | 0 | 0 |
| (5) Advances and Prepayments | 0 | 0 |
| (6) Other Non-Federal (Governmental) (Note 6) | 0 | 0 |
| c. Cash and Other Monetary Assets (Note 3) | 0 | 0 |
| d. Inventory, Net (Note 8) | 0 | 0 |
| e. Work in Process (Note 9) | 0 | 0 |
| f. Operating Materials/Supplies, Net (Note 10) | 0 | 0 |
| g. Stockpile Materials, Net (Note 11) | 3,320,087 | 3,696,491 |
| h. Seized Property (Note 12) | 0 | 0 |
| i. Forfeited Property, Net (Note 13) | 0 | 0 |
| j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14) | 0 | 0 |
| k. Property, Plant and Equipment, Net (Note 15) | 258 | 0 |
| l. War Reserves | 0 | 0 |
| m. Other Entity Assets | 0 | 0 |
| n. Total Entity Assets | <u>\$4,119,871</u> | <u>\$4,271,510</u> |
| 2. Non-Entity Assets: | | |
| a. Transactions with Federal (Intragovernmental) Entities: | | |
| (1) Fund Balance with Treasury (Note 2) | \$0 | \$0 |
| (2) Accounts Receivable, Net (Note 5) | 0 | 0 |
| (3) Interest Receivable, Net | 0 | 0 |
| (4) Other (Note 6) | 0 | 0 |

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense National Stockpile Transaction Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

| ASSETS, Continued | <u>1997</u> | <u>1996</u> |
|---|---------------------------|---------------------------|
| 2. Non-Entity Assets: | | |
| b. Transactions with Non-Federal (Governmental) Entities: | | |
| (1) Accounts Receivable, Net (Note 5) | \$0 | \$0 |
| (2) Interest Receivable, Net | 2,642 | 0 |
| (3) Other (Note 6) | 0 | 0 |
| c. Cash and Other Monetary Assets (Note 3) | 0 | 0 |
| d. Other Non-Entity Assets | 0 | 0 |
| e. Total Non-Entity Assets | <u>\$2,642</u> | <u>\$0</u> |
| | | |
| 3. Total Assets | <u>\$4,122,513</u> | <u>\$4,271,510</u> |
| | | |
| LIABILITIES | | |
| | | |
| 4. Liabilities Covered by Budgetary Resources: | | |
| a. Transactions with Federal (Intragovernmental) Entities: | | |
| (1) Accounts Payable | \$60,632 | \$59,515 |
| (2) Interest Payable | 0 | 0 |
| (3) Debt (Note 16) | 0 | 0 |
| (4) Other Federal (Intragovernmental) Liabilities (Note 17) | 51,161 | 0 |
| b. Transactions with Non-Federal (Governmental) Entities: | | |
| (1) Accounts Payable | \$2,759 | 7,979 |
| (2) Accrued Payroll and Benefits | | |
| (a) Salaries and Wages | 53 | 0 |
| (b) Annual Accrued Leave | 0 | 0 |
| (c) Severance Pay and Separation Allowance | 0 | 0 |
| (3) Interest Payable | 0 | 0 |
| (4) Liabilities for Loan Guarantees (Note 7) | 0 | 0 |
| (5) Lease Liabilities (Note 18) | 0 | 0 |
| (6) Pensions and Other Actuarial Liabilities (Note 19) | 0 | 0 |
| (7) Other Non-Federal (Governmental) Liabilities (Note 17) | 4,800 | 1,558 |
| c. Total Liabilities Covered by Budgetary Resources: | <u>\$119,405</u> | <u>\$69,052</u> |

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense National Stockpile Transaction Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

| LIABILITIES, Continued | <u>1997</u> | <u>1996</u> |
|--|---------------------------|---------------------------|
| 5. Liabilities Not Covered by Budgetary Resources: | | |
| a. Transactions with Federal (Intragovernmental) Entities: | | |
| (1) Accounts Payable | \$0 | \$0 |
| (2) Debt (Note 16) | 0 | 0 |
| (3) Other Federal (Intragovernmental) Liabilities (Note 17) | 0 | 0 |
| b. Transactions with Non-Federal (Governmental) Entities: | | |
| (1) Accounts Payable | 0 | 0 |
| (2) Debt (Note 16) | 0 | 0 |
| (3) Lease Liabilities (Note 18) | 0 | 0 |
| (4) Pensions and Other Actuarial Liabilities (Note 19) | 0 | 0 |
| (5) Other Non-Federal (Governmental) Liabilities (Note 17) | 496 | 0 |
| c. Total Liabilities Not Covered by Budgetary Resources | <u>\$496</u> | <u>\$0</u> |
| 6. Total Liabilities | <u>\$119,901</u> | <u>\$69,052</u> |
| NET POSITION (Note 20) | | |
| 7. Balances: | | |
| a. Unexpended Appropriations | \$3,980 | \$0 |
| b. Invested Capital | 3,377,691 | 3,536,106 |
| c. Cumulative Results of Operations | 621,437 | 666,352 |
| d. Other | 0 | 0 |
| e. Future Funding Requirements | (496) | 0 |
| f. Total Net Position | <u>\$4,002,612</u> | <u>\$4,202,458</u> |
| 8. Total Liabilities and Net Position | <u><u>\$4,122,513</u></u> | <u><u>\$4,271,510</u></u> |

The accompanying notes are an integral part of these statements.

Principal Statements

Defense National Stockpile Transaction Fund
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

| | <u>1997</u> | <u>1996</u> |
|--|------------------|------------------|
| REVENUES AND FINANCING SOURCES | | |
| 1. Appropriated Capital Used | \$0 | \$0 |
| 2. Revenues from Sales of Goods and Services | | |
| a. To the Public | 499,918 | 365,982 |
| b. Intragovernmental | 29,432 | 54,267 |
| 3. Interest and Penalties, Non-Federal | 2,945 | 0 |
| 4. Interest, Federal | 0 | 0 |
| 5. Taxes (Note 21) | 0 | 0 |
| 6. Other Revenues and Financing Sources (Note 22) | 0 | 1,442 |
| 7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies | (301) | 0 |
| 8. Total Revenues and Financing Sources | <u>\$531,994</u> | <u>\$421,691</u> |
| EXPENSES | | |
| 9. Program or Operating Expenses (Note 23) | \$56,315 | \$59,360 |
| 10. Cost of Goods Sold (Note 24) | | |
| a. To the Public | 365,701 | 141,543 |
| b. Intragovernmental | 7,782 | 14,222 |
| 11. Depreciation and Amortization | 0 | 0 |
| 12. Bad Debts and Writeoffs | 232 | 120 |
| 13. Interest | | |
| a. Federal Financing Bank/Treasury Borrowing | 0 | 0 |
| b. Federal Securities | 0 | 0 |
| c. Other | 0 | 0 |
| 14. Other Expenses (Note 25) | 0 | 0 |
| 15. Total Expenses | <u>\$430,030</u> | <u>\$215,245</u> |
| 16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items | \$101,964 | \$206,446 |
| 17. Plus (Minus) Extraordinary Items (Note 26) | <u>0</u> | <u>0</u> |
| 18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | <u>\$101,964</u> | <u>\$206,446</u> |

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Defense National Stockpile Transaction Fund
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)**

| | <u>1997</u> | <u>1996</u> |
|--|---------------------------|---------------------------|
| EXPENSES, Continued | | |
| 19. Net Position, Beginning Balance, as Previously Stated | \$4,202,458 | \$4,270,691 |
| 20. Adjustments (Note 27) | <u>(18,510)</u> | <u>(123,784)</u> |
| 21. Net Position, Beginning Balance, as Restated | \$4,183,948 | \$4,146,907 |
| 22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | 101,964 | 206,446 |
| 23. Plus (Minus) Non Operating Changes (Note 28) | <u>(283,300)</u> | <u>(150,895)</u> |
| 24. Net Position, Ending Balance | <u><u>\$4,002,612</u></u> | <u><u>\$4,202,458</u></u> |

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense National Stockpile Transaction Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

| | <u>1997</u> | <u>1996</u> |
|--|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| 1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | \$101,964 | \$206,446 |
| Adjustments Affecting Cash Flow: | | |
| 2. Appropriated Capital Used | 0 | 0 |
| 3. Decrease (Increase) in Accounts Receivable | 3,840 | (56,376) |
| 4. Decrease (Increase) in Other Assets | 374,471 | 254,179 |
| 5. Increase (Decrease) in Accounts Payable | (4,103) | (9,393) |
| 6. Increase (Decrease) in Other Liabilities | 54,456 | 1,027 |
| 7. Depreciation and Amortization | 0 | 0 |
| 8. Other Unfunded Expenses | (51,161) | 0 |
| 9. Other Adjustments | (19,411) | (123,784) |
| 10. Total Adjustments | \$358,092 | \$65,653 |
| 11. Net Cash Provided (Used) by Operating Activities | \$460,056 | \$272,099 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| 12. Sale of Property, Plant and Equipment | \$0 | \$0 |
| 13. Purchase of Property, Plant and Equipment | 0 | 0 |
| 14. Sale of Securities | 0 | 0 |
| 15. Purchase of Securities | 0 | 0 |
| 16. Collection of Loans Receivable | 0 | 0 |
| 17. Creation of Loans Receivable | 0 | 0 |
| 18. Other Investing Cash Provided (Used) | 0 | 0 |
| 19. Net Cash Provided (Used) by Investing Activities | \$0 | \$0 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| 20. Appropriations (Current Warrants) | \$0 | \$0 |
| 21. Add: | | |
| a. Restorations | 0 | 0 |
| b. Transfers of Cash from Others | 0 | 0 |
| 22. Deduct: | | |
| a. Withdrawals | 0 | 0 |
| b. Transfers of Cash to Others | 231,000 | 150,000 |
| 23. Net Appropriations | (\$231,000) | (\$150,000) |

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Defense National Stockpile Transaction Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)**

| | <u>1997</u> | <u>1996</u> |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES, Continued | | |
| 24. Borrowing from the Public | \$0 | \$0 |
| 25. Repayments on Loans to the Public | 0 | 0 |
| 26. Borrowing from the Treasury and the Federal Financing Bank | 0 | 0 |
| 27. Repayments on Loans from the Treasury and the Federal Financing Bank | 0 | 0 |
| 28. Other Borrowings and Repayments | <u>0</u> | <u>0</u> |
| 29. Net Cash Provided (Used) by Financing Activities | <u>(\$231,000)</u> | <u>(\$150,000)</u> |
| 30. Net Cash Provided (Used) by Operating, Investing and Financing Activities | \$229,056 | \$122,099 |
| 31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning | <u>290,712</u> | <u>168,613</u> |
| 32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending | <u><u>\$519,768</u></u> | <u><u>\$290,712</u></u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| | <u>1997</u> | <u>1996</u> |
| 33. Total Interest Paid | \$0 | \$0 |
| Supplemental Schedule of Financing and Investing Activity: | | |
| | <u>1997</u> | <u>1996</u> |
| 34. Property and Equipment Acquired Under Capital Lease Obligations | \$0 | \$0 |
| 35. Property Acquired Under Long-Term Financing Arrangements | \$0 | \$0 |
| 36. Other Exchanges of Non-cash Assets or Liabilities | \$0 | \$0 |

The accompanying notes are an integral part of these statements.

Principal Statements

***DEFENSE NATIONAL
STOCKPILE
TRANSACTION FUND***

***FOOTNOTES
TO THE
PRINCIPAL STATEMENTS***

Footnotes

**DEFENSE NATIONAL STOCKPILE TRANSACTION FUND
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1996**

Note 1. Significant Accounting Policies

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund, (the T-Fund) as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of the T-Fund in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, the T-Fund accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the T-Fund financial reports prepared to monitor and control the use of budgetary resources.

B. Reporting Entity:

The Defense Logistics Agency (DLA) is a combat support agency responsible for worldwide logistics support throughout the Department of Defense. The primary focus of the DLA is to support the war fighter, and to provide relief efforts during times of national emergency. The DLA Defense National Stockpile Center (DNSC) administers the acquisition, storage, management, and disposal of the Nation's strategic and critical inventory of materials essential to the Military and industrial requirements of the United States. The T-Fund is a revolving fund that accounts for sources necessary to procure and dispose strategic commodities. The appropriation symbol is 97X4555.5145.

The CFO Act requires the T-Fund, as a revolving fund, to provide audited financial statements. Fiscal year 1997 represents the fifth year that the T-Fund has prepared financial statements as required by the CFO Act.

Footnotes

C. Budgets and Budgetary Accounting:

The T-Fund receives an apportionment from the Office of Management and Budget for the operation and acquisition programs.

D. Basis of Accounting:

Transactions are recorded on a accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All known intrafund balances have been eliminated.

E. Revenues and Other Financing Sources:

Revenues and financing sources for the T-Fund consist of cash proceeds from the disposal of excess commodities and related services provided to the customers.

F. Accounting for Intra-governmental Activities:

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example, DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies. Financing for the construction of DoD facilities is obtained through appropriations from the Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury Department does not allocate interest costs to the benefiting agencies.

Finally, the T-Fund's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). The following is a list of personnel benefits for FY 1997:

| | |
|-------------------------------|-----------|
| Life Insurance | \$23,286 |
| Health Benefits | 593,149 |
| CSRS & FERS | 1,021,405 |
| Social Security | 510,727 |
| Thrift Plan | 187,081 |
| Benefits for Former Personnel | 117,409 |

G. Funds with the U.S. Treasury and Cash:

The funds with the U.S. Treasury represent the balances as of 30 September 1997. Cash receipts and disbursements affect the available balances.

H. Foreign Currency:

Not applicable.

I. Accounts Receivable:

Allowances for uncollectible accounts are established. Sales and disposals are recorded as receivable at the time the sales agreement is issued and the material is removed from Inventory. Storage charges are assessed and billed if the purchaser does not pickup the material within the agreed upon time frame.

During fiscal year 1997, DNSC recognized a prior period adjustment of approximately \$17 million to correct prior year's defaulted and other incorrect revenue posted in accounts receivable.

J. Loans Receivable:

Not applicable.

K. Inventories:

The financial inventory balance for the stockpile materials is maintained on a historical cost basis, which includes acquisition cost plus any fees, such as testing, upgrading, and transportation expenses. It is reported as Stockpile materials in the Principal Statements.

When the mission of the Stockpile was transferred to the DoD from GSA in 1988, the DoDIG audited the physical inventory records and historical values of the inventory were established. The establishment of historical costs was necessary at that time because the original records of some of the purchases dated back to the 1950's and were no longer available. The market value of the material as of 30 September 1997 is estimated to be \$5.4 billion.

L. Investments in U.S. Government Securities:

Not applicable.

Footnotes

M. Property and Equipment:

After further review, the National Stockpile Transaction Fund has determined it has no equipment which meets the current DoD capitalization threshold, but does have some equipment which meets previous capitalization thresholds and meets the requirements for these statements. In Fiscal Year 1998 we anticipate the acquisition of equipment that will meet the criteria and will be reported accordingly in the FY 98 statements.

N. Prepaid and Deferred Charges:

Not applicable.

O. Leases:

The T-Fund is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

P. Contingencies:

The T-Fund may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect the T-Fund operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

Civilian annual leave is accrued as earned, and accrued hours are reduced as leave is taken. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity:

Equity consists of invested capital, appropriated capital-grants and cumulative result of operations. Invested capital, as presented in the Statement of Financial Position, represents the value of the DNSC's capital assets as reported at historical or actual costs. Increases to invested capital are recorded when capital assets are acquired. Decreases occur as capital assets are depreciated or transferred. Appropriated capital represents the remaining balance of grants authorized by Congress and administered by the DNSC.

Cumulative results of operations are the excess of revenues over expenses, less refunds to customers.

S. Aircraft/Ship Crashes:

Not applicable.

T. Treaties for Use of Foreign Bases:

Not applicable.

U. Comparative Data

The financial statements present fiscal year 1996 and 1997 amounts. For fiscal year 1996, the financial statements were audited and were found to present fairly, in all material respects, the financial position of the Fund as of September 30, 1996, and did not identify any material weaknesses relating to the Fund's activities. A qualified opinion was issued based on the lack of a complete audit performed on the fiscal year 1995 financial statements.

V. Restatement of Prior Year Principal Statements

Not applicable.

W. Unpaid Obligations and Undelivered Orders

The T-Fund is obligated for goods and services that have been ordered but not yet received. Total undelivered orders amounted to \$5,979,700.54 as of September 30, 1997.

Note 2. Fund Balances with Treasury

A. Business Operations Fund (USD(C)) and All Other Funds and Accounts:

| | Entity Assets | | | | <u>Total</u> |
|-----------------------------------|------------------------------|-------------------------------|-----------------------------------|-------------------------------|------------------|
| | <u>Trust</u> <u>Funds</u> | Revolvin g <u>Funds</u> | Appro- priated <u>Funds</u> | Other Fund <u>Types</u> | |
| Unobligated Balance Available: | | | | | |
| Available | \$0 | \$733,989 | \$0 | \$0 | \$733,989 |
| Restricted | 0 | 51,797 | 0 | 0 | 51,797 |
| Reserve For Anticipated Resources | (0) | (0) | (0) | (0) | (0) |
| Obligated (but not expensed) | 0 | (266,018) | 0 | 0 | (266,018) |
| Unfunded Contract Authority | (0) | (0) | (0) | (0) | (0) |
| Unused Borrowing Authority | (0) | (0) | (0) | (0) | (0) |
| Treasury Balance | <u>\$0</u> | <u>\$519,768</u> | <u>\$0</u> | <u>\$0</u> | <u>\$519,768</u> |

Footnotes

B. Business Operations Fund Activities Below USD(C) Level:

Not applicable.

C. All Funds and Accounts:

| | Entity Assets | |
|-------------------------------|------------------------|------------------------|
| | <u>Funds Collected</u> | <u>Funds Disbursed</u> |
| Beginning Balance | \$290,712 | \$0 |
| Transfers of Cash to Others | 0 | 231,000 |
| Transfers of Cash from Others | 0 | 0 |
| Funds Collected | 514,896 | 0 |
| Funds Disbursed | (0) | 54,840 |
| Ending Balance | <u>\$805,608</u> | <u>\$285,840</u> |

D. Other Information:

The amount reported on the General Ledger Trial Balance for Defense National Stockpile is over stated by \$45,914.60 and is no longer included in the Treasury Balance shown above. This amount represents transactions by others that have been reported to Treasury but have not reached the accounting office responsible for inclusion in the Trial Balance. Restriction of funds is the amount of monies collected but not yet transferred to the Treasury under P.L. 104-201.

Note 3. Cash Foreign Currency and Other Monetary Assets

Not applicable.

Note 4. Investments, Net

Not applicable.

Footnotes

Note 5. Accounts Receivable, Net

| | (1) Allowance Amount Due | (2) Allowance For Estimated Uncollectibles | (3) Method Used | (4) Amount Due |
|--|-----------------------------------|---|-----------------------|----------------------|
| A. Entity Receivables: | | | | |
| Intragovernmental | \$35 | 0 | | 35 |
| Governmental | 278,768 | 229 | | 278,539 |
| B. Non-Entity Receivables: | | | | |
| Intragovernmental | 0 | 0 | | 0 |
| Governmental | 0 | 0 | | 0 |
| C. Other Information: Not applicable. | | | | |

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

Not applicable.

Note 8. Inventory, Net

Not applicable.

Note 9. Work in Process

Not applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

Not applicable.

Footnotes

Note 11. Stockpile Materials Net

| | (1) Stockpile Materials Amount | (2) Allowance For Losses | (3) Stockpile Materials Net | (4) Valuation Method |
|--|---|--------------------------------|--------------------------------------|----------------------------|
| A. Stockpile Material: | | | | |
| (1) Held for Sale | \$1,404,419 | \$0 | \$1,404,419 | Historical |
| (2) Held in Reserve for Future Sale | 1,915,668 | 0 | 1,915,668 | Historical |
| Total | <u>\$3,320,087</u> | <u>\$ 0</u> | <u>\$3,320,087</u> | |

B. Restrictions on Stockpile Materials and Supplies:

There are several restrictions on the use of the materials. The quantities to be stockpiled are required to be sufficient to sustain the U. S. for a period of not less than three years during a national emergency (including a sustained conventional global war of indefinite duration). The required stockpile levels can only be changed by law through a Presidential proposal in the Annual Material Plan submitted to Congress.

Except for disposals made under the following situations, disposals cannot be made from the stockpile

- Necessary upgrading, refining or processing
- Necessary rotation to prevent deterioration
- Determination as excess and of potential financial loss if not disposed
- By order of the President and/or authorized by law

C. Other Information:

The estimated market value of the total inventory as of September 30, 1997, is \$5.380 billion. The financial statements report the recorded historical cost in accordance with the lower of cost or market principal.

Note 12. Seized Property

Not applicable.

Note 13. Forfeited Property, Net

Not applicable.

Footnotes

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not applicable.

Note 15. Property, Plant, and Equipment

| | (1) <u>Depreci- ation Method</u> | (2) <u>Service Life</u> | (3) <u>Acquisition Value</u> | (4) <u>Accumulated Depreciation</u> | (5) <u>Net Book Value</u> |
|--|---|--------------------------------|-------------------------------------|--|--------------------------------------|
| <u>Classes of Fixed Assets</u> | | | | | |
| A. Land | | | \$0 | \$0 | \$0 |
| B. Structures, Facilities, & Leasehold Improvements | | | 0 | 0 | 0 |
| C. Military Equipment | | | 0 | 0 | 0 |
| D. ADP Software | | | 0 | 0 | 0 |
| E. Equipment | SL | 1-5 | 4,806 | 4,548 | 258 |
| F. Assets Under Capital Lease | | | 0 | 0 | 0 |
| G. Other | | | 0 | 0 | 0 |
| H. Natural Resources | | | 0 | 0 | 0 |
| I. Construction-in-Progress | | | 0 | 0 | 0 |
| Total | | | <u>4,806</u> | <u>4,548</u> | <u>258</u> |

*Key:

Depreciation Methods

SL - Straight Line

DD - Double-Declining Balance

SY - Sum of the Years' Digits

IN - Interest (sinking fund)

PR - Production (activity or use
method)

OT - Other (describe)

Range of Service Life

1-5 1 to 5 years

6-10 6 to 10 years

11-20 11 to 20 years

>20 Over 20 years

Note 16. Debt

Not applicable.

Footnotes

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

| | Non-Current Liabilities | Current Liabilities | Total |
|----------------------|----------------------------|------------------------|----------|
| 1. Intragovernmental | | | |
| a. P.L. 104-201 | \$0 | \$51,161 | \$51,161 |
| b. _____ | | | |
| c. _____ | | | |
| | \$0 | \$51,161 | \$51,161 |
| 2. Governmental | | | |
| a. Bid Deposits | \$0 | \$4,800 | \$4,800 |
| b. _____ | | | |
| c. _____ | | | |
| | \$0 | \$4,800 | \$4,800 |

B. Other Information:

In FY 97 DNSC collected \$51,161 million more than the \$81.0 million that was required to be transferred by P.L. 102-201. The \$51,161 million remaining in the fund is a liability for future transfers.

C. Other Liabilities Not Covered by Budgetary Resources:

| | Non-Current Liabilities | Current Liabilities | Total |
|----------------------|----------------------------|------------------------|-------|
| 1. Intragovernmental | | | |
| a. | \$0 | \$0 | \$0 |
| b. _____ | | | |
| c. _____ | | | |
| | \$0 | \$0 | \$0 |

Footnotes

| | Non-Current Liabilities | Current Liabilities | Total |
|----------------------------------|----------------------------|------------------------|-------|
| 2. Governmental | | | |
| a. Accrued Annual Leave-Civilian | \$0 | \$496 | \$496 |
| b. _____ | | | |
| c. _____ | | | |
| | \$0 | \$496 | \$496 |

Note 18. Leases

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

Not applicable.

Note 20. Net Position

| | Revolving Funds | Trust Funds | Appropriated Funds | Total |
|--|--------------------|----------------|-----------------------|-------------|
| A. Unexpended Appropriations: | | | | |
| (1) Unobligated, | | | | |
| a. Available | \$0 | \$0 | \$0 | \$0 |
| b. Unavailable | 0 | 0 | 0 | 0 |
| (2) Undelivered Orders | 3,980 | 0 | 0 | 3,980 |
| B. Invested Capital | 3,377,691 | 0 | 0 | 3,377,691 |
| C. Cumulative Results of Operations | 621,437 | 0 | 0 | 621,437 |
| D. Other | 0 | 0 | 0 | 0 |
| E. Future Funding Requirements | (496) | (0) | (0) | (496) |
| F. Total | \$4,002,612 | \$0 | \$0 | \$4,002,612 |

G. Other Information:

The amount listed in Undelivered Orders is the amount unexpended for Congressionally appropriated grants.

Note 21. Taxes

Not applicable.

Footnotes

Note 22. Other Revenues and Financing Sources

| A. Other Revenues and Financing Sources | <u>1997</u> | <u>1996</u> |
|--|-------------|-------------|
| 1. | 0 | \$1,442 |
| 2. | 0 | 0 |
| 3. | 0 | 0 |
| Total | 0 | \$1,442 |

B. Other Information:

In FY 1996 income was reported on this line in error. This amount includes charges for services performed. In FY 1997 the corresponding amount was included as normal revenue.

Note 23. Program or Operating Expenses

| | <u>1997</u> | <u>1996</u> |
|--|-----------------|-----------------|
| A. Operating Expenses by Object Classification: | | |
| (1) Personal Services and Benefits | \$14,985 | \$15,810 |
| (2) Travel and Transportation | 1,336 | 1,259 |
| (3) Rental, Communication and Utilities | 19,799 | 18,249 |
| (4) Printing and Reproduction | 9 | 5 |
| (5) Contractual Services | 13,562 | 14,408 |
| (6) Supplies and Materials | 1,409 | 885 |
| (7) Equipment not Capitalized | 1,525 | 265 |
| (8) Grants, Subsidies and Contributions | 3,679 | 8,470 |
| (9) Insurance Claims and Indemnities | 0 | 0 |
| (10) Other (describe): | | |
| (a) County Taxes | 1 | 9 |
| (b) Interest Paid to Contractors | 10 | |
| (11) Total Expenses by Object Class | <u>\$56,315</u> | <u>\$59,360</u> |

B. Operating Expenses by Program:

Not applicable.

C. Other Information:

Operating expenses are not available by program.

Note 24. Cost of Goods Sold A, B, or C as appropriate.**C. Cost of Goods Sold from Inventory (using Historical Cost):**

| | |
|---|-----------------------|
| (1) Beginning Inventory | \$3,696,491 |
| Plus: Purchases at Cost | 0 |
| Plus: Inventory Gains | 431 |
| Minus: Inventory Losses | (518) |
| Minus: Inventory transferred at no cost | (901) |
| Minus: Silver shipped but not yet sold | (1,933) |
| (2) Less: Ending Inventory | <u>(3,320,087)</u> |
| Cost of Goods Sold | <u><u>373,483</u></u> |

D. The cost of goods sold shown above includes \$1,933 thousand for silver shipped to the U.S. Mint and unsold as of September 30, 1997.

Note 25. Other Expense

Not applicable.

Note 26. Extraordinary Items

Not applicable.

Note 27. Prior Period Adjustments**A. Prior Period Adjustments:**

| | |
|--|--------------------------|
| (1) Defaulted Contracts/Other PY Adjustments | (\$18,510) |
| (2) _____ | <u>0</u> |
| Total | <u><u>(\$18,510)</u></u> |

B. Other Information:

Not applicable.

Footnotes

Note 28. Non-Operating Changes - (Transfers and Donations)

| | <u>1997</u> | <u>1996</u> |
|--|---------------------------|---------------------------|
| B. Decreases: | | |
| (1) Transfers-Out: | | |
| (a)U.S Army | (\$50,000) | (\$50,000) |
| (b)U.S. Air Force | (50,000) | (50,000) |
| (c)U.S. Navy | (50,000) | (50,000) |
| (d)U.S. Treasury – P.L. 104-201 | (81,000) | |
| (2) Non Operating Liability – P.L. 104-201 | (51,161) | |
| (3) Other Decreases | (1,139) | (895) |
| (4) Total Decreases | <u>0</u> | <u>0</u> |
| C. Net Non-Operating Changes (Transfers): | <u><u>(\$283,300)</u></u> | <u><u>(\$150,895)</u></u> |

D. Other Information:

DNOSC transferred Titanium to the U.S. Army without reimbursement, per P.L 104-106, with an inventory value of \$901 thousand. DNOSC recorded equipment not previously recorded on the books as net of depreciation, \$258. In addition there was an unfunded annual leave accrual of \$496. These three transactions (901+496-258) make up the \$1,139 thousand in “Other Decreases” above.

Note 29. Intrafund Eliminations (in thousands)

Schedule A:

Not applicable.

Schedule B:

Not applicable.

Schedule C:

Not applicable.

Schedule D:

| Selling Activity: | Reimb. Source Code | Accounts <u>Receivable</u> | <u>Revenue</u> | Unearned <u>Revenue</u> | <u>Collections</u> |
|----------------------------|-----------------------|-------------------------------|-----------------|----------------------------|--------------------|
| Defense National Stockpile | F | \$0 | \$21,276 | | \$21,276 |
| Total | | <u>\$0</u> | <u>\$21,276</u> | | <u>\$21,276</u> |

Footnotes

| Customer Activity: | Accounts | | | |
|--|----------------|-----------------|-----------------|----------------------|
| Department of the Treasury (Bureau of the Mint) (T.I. 20) | <u>Payable</u> | <u>Expenses</u> | <u>Advances</u> | <u>Disbursements</u> |
| Total | \$21,276 | \$0 | \$0 | \$21,276 |

This represents sale of silver coins by the Bureau of the Mint for the Defense National Stockpile.

Note 30. Contingencies

Not applicable.

Note 31. Other Disclosures

Operating leases for FY 1997 were \$18.3 million. Proposed operating lease amounts through FY 2002 as proposed in the POM submitted in FY 1997 with corrections to FY 1998 and FY 1999 from the FY 1999 BES in millions are:

| | |
|---------|--------|
| FY 1998 | \$20.0 |
| FY 1999 | 19.5 |
| FY 2000 | 16.7 |
| FY 2001 | 14.1 |
| FY 2002 | 13.7 |

Footnotes

APPENDIX A

STRATEGIC AND CRITICAL MATERIALS STOCK PILING ACT (50 U.S.C. 98 *et seq.*)

As amended by:
**the National Defense Authorization Act for Fiscal Year 1996
(P.L. 104-106); and
the National Defense Authorization Act for Fiscal Year 1997
(P.L. 104-201)**

SEC. 1. This Act may be cited as the “Strategic and Critical Materials Stock Piling Act.”

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress finds that the natural resources of the United States in certain strategic and critical materials are deficient or insufficiently developed to supply the military, industrial, and essential civilian needs of the United States for national defense.

(b) It is the purpose of this Act to provide for the acquisition and retention of stocks of certain strategic and critical materials and to encourage the conservation and development of sources of such materials within the United States and thereby to decrease and to preclude, when possible, a dangerous and costly dependence by the United States upon foreign sources for supplies of such materials in times of national emergency.

(c) The purpose of the National Defense Stockpile is to serve the interest of national defense only. The National Defense Stockpile is not to be used for economic or budgetary purposes.

MATERIALS TO BE ACQUIRED: PRESIDENTIAL AUTHORITY AND GUIDELINES

SEC. 3. (a) Subject to subsection (c), the President shall determine from time to time (1) which materials are strategic and critical materials for the purposes of this Act, and (2) the quality and quantity of each such material to be acquired for the purposes of this Act and the form in which each such material shall be

acquired and stored. Such materials when acquired, together with the other materials described in section 4 of this Act, shall constitute and be collectively known as the National Defense Stockpile (hereinafter in this Act referred to as the “stockpile”).

(b) The President shall make the determinations required to be made under subsection (a) on the basis of the principles stated in section 2(c).

(c)(1) The quantity of any material to be stockpiled under this Act, as in effect on September 30, 1987, may be changed only as provided in this subsection or as otherwise provided by law enacted after December 4, 1987.

(2) The President shall notify Congress in writing of any change proposed to be made in the quantity of any material to be stockpiled. The President may make the change after the end of the 45-day period beginning on the date of the notification. The President shall include a full explanation and justification for the proposed change with the notification.

MATERIALS CONSTITUTING THE NATIONAL DEFENSE STOCKPILE

SEC. 4. (a) The stockpile consists of the following materials:

(1) Materials acquired under this Act and contained in the national stockpile on July 29, 1979.

(2) Materials acquired under this Act after July 29, 1979.

(3) Materials in the supplemental stockpile established by section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 (as in effect from September 21, 1959, through December

31, 1966) on July 29, 1979.

(4) Materials acquired by the United States under the provisions of section 303 of the Defense Production Act of 1950 (50 U.S.C. App. 2093) and transferred to the stockpile by the President pursuant to subsection (f) of such section.

(5) Materials transferred to the United States under section 663 of the Foreign Assistance Act of 1961 (22 U.S.C. 2423) that have been determined to be strategic and critical materials for the purposes of this Act and that are allocated by the President under subsection (b) of such section for stockpiling in the stockpile.

(6) Materials acquired by the Commodity Credit Corporation and transferred to the stockpile under section 4(h) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714b(h)).

(7) Materials acquired by the Commodity Credit Corporation under paragraph (2) of section 103(a) of the Act entitled "An Act to provide for greater stability in agriculture; to augment the marketing and disposal of agricultural products; and for other purposes," approved August 28, 1954 (7 U.S.C. 1743(a)), and transferred to the stockpile under the third sentence of such section.

(8) Materials transferred to the stockpile by the President under paragraph (4) of section 103(a) of such Act of August 28, 1954.

(9) Materials transferred to the stockpile under subsection (b).

(10) Materials transferred to the stockpile under subsection (c).

(b) Notwithstanding any other provision of law, any material that (1) is under the control of any department or agency of the United States, (2) is determined by the head of such department or agency to be excess to its needs and responsibilities, and (3) is required for the stockpile shall be transferred to the stockpile. Any such transfer shall be made without reimbursement to such department or agency, but all costs required to effect such transfer shall be paid or reimbursed from funds appropriated to carry out this Act.

(c)(1) The Secretary of Energy, in consultation with the Secretary of Defense, shall transfer to the stockpile for disposal in accordance with this Act uncontaminated materials that are in the Department of Energy inventory of materials for the production of defense-related items, are excess to the requirements of the Department for that purpose, and are suitable for transfer to the stockpile and

disposal through the stockpile.

(2) The Secretary of Defense shall determine whether materials are suitable for transfer to the stockpile under this subsection, are suitable for disposal through the stockpile, and are uncontaminated.

AUTHORITY FOR STOCKPILE OPERATIONS

SEC. 5. (a)(1) Except for acquisitions made under the authority of paragraph (3) or (4) of section 6(a), no funds may be obligated or appropriated for acquisition of any material under this Act unless funds for such acquisition have been authorized by law. Funds appropriated for such acquisition (and for transportation and other incidental expenses related to such acquisition) shall remain available until expended, unless otherwise provided in appropriation Acts.

(2) If for any fiscal year the President proposes certain stockpile transactions in the annual materials plan submitted to Congress for that year under section 11(b) and after that plan is submitted the President proposes (or Congress requires) a significant change in any such transaction, or a significant transaction not included in such plan, no amount may be obligated or expended for such transaction during such year until the President has submitted a full statement of the proposed transaction to the appropriate committees of Congress and a period of 45 days has passed from the date of the receipt of such statement by such committees.

(b) Except for disposals made under the authority of paragraph (3), (4) or (5) of section 6(a) or under section 7(a), no disposal may be made from the stockpile unless such disposal, including the quantity of the material to be disposed of, has been specifically authorized by law.

(c) There is authorized to be appropriated such sums as may be necessary to provide for the transportation, processing, refining, storage, security, maintenance, rotation, and disposal of materials contained in or acquired for the stockpile. Funds appropriated for such purposes shall remain available to carry out the purposes for which appropriated for a period of two fiscal years, if so provided in appropriation Acts.

STOCKPILE MANAGEMENT

SEC. 6. (a) The President shall —

(1) acquire the materials determined under section 3(a) to be strategic and critical materials;

(2) provide for the proper storage, security, and maintenance of materials in the stockpile;

(3) provide for the upgrading, refining or processing of any material in the stockpile (notwithstanding any intermediate stockpile quantity established for such material) when necessary to convert such material into a form more suitable for storage, subsequent disposition, and immediate use in a national emergency;

(4) provide for the rotation of any material in the stockpile when necessary to prevent deterioration or technological obsolescence of such material by replacement of such material with an equivalent quantity of substantially the same material or better material;

(5) subject to the notification required by subsection (d)(2), provide for the timely disposal of materials in the stockpile that (A) are excess to stockpile requirements, and (B) may cause a loss to the Government if allowed to deteriorate; and

(6) subject to the provisions of section 5(b), dispose of materials in the stockpile the disposal of which is specifically authorized by law.

(b) Except as provided in subsections (c) and (d), acquisition of strategic and critical materials under this Act shall be made in accordance with established Federal procurement practices, and, except as provided in subsections (c) and (d) and in section 7(a), disposal of materials from the stockpile shall be made by formal advertising or competitive negotiation procedures. To the maximum extent feasible —

(1) competitive procedures shall be used in the acquisition and disposal of such materials; and

(2) efforts shall be made in the acquisition and disposal of such materials to avoid undue disruption of the usual markets of producers, processors, and consumers of such materials and to protect the United States against avoidable loss.

(c)(1) The President shall encourage the use of barter in the acquisition under subsection (a)(1) of strategic and critical materials for, and the disposal under subsection (a)(5) or (a)(6) of materials from, the stockpile when acquisition or disposal by barter is authorized by law and is practical and in the best interest of the United States.

(2) Materials in the stockpile (the disposition of which is authorized by paragraph (3) to finance the upgrading, refining, or processing of a material in the stockpile, or is otherwise authorized by law) shall be available for transfer at fair market value as payment for expenses (including transportation and other incidental expenses) of acquisition of materials, or of upgrading, refining, processing, or rotating materials, under this Act.

(3) Notwithstanding section 3(c) or any other provision of law, whenever the President provides under subsection (a)(3) for the upgrading, refining, or processing of a material in the stockpile to convert that material into a form more suitable for storage, subsequent disposition, and immediate use in a national emergency, the President may barter a portion of the same material (or any other material in the stockpile that is authorized for disposal) to finance that upgrading, refining, or processing.

(4) To the extent otherwise authorized by law, property owned by the United States may be bartered for materials needed for the stockpile.

(d)(1) The President may waive the applicability of any provision of the first sentence of subsection (b) to any acquisition of material for, or disposal of material from, the stockpile. Whenever the President waives any such provision with respect to any such acquisition or disposal, or whenever the President determines that the application of paragraph (1) or (2) of such subsection to a particular acquisition or disposal is not feasible, the President shall notify the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives in writing of the proposed acquisition or disposal at least thirty days before any obligation of the United States is incurred in connection with such acquisition or disposal and shall include in such notification the reasons for not complying with any provision of such subsection.

(2) Materials in the stockpile may be disposed of under subsection (a)(5) only if such congressional committees are notified in writing of the proposed disposal at least 45 days before any obligation of the United States is incurred in connection with such disposal.

(3) The President may acquire leasehold interests in property, for periods not in excess of twenty years, for storage, security, and maintenance of materials in the stockpile.

SPECIAL DISPOSAL AUTHORITY OF THE PRESIDENT

SEC. 7. (a) Materials in the stockpile may be released for use, sale, or other disposition —

(1) on the order of the President, at any time the President determines the release of such materials is required for purposes of the national defense; and

(2) in time of war declared by the Congress or during a national emergency, on the order of any officer or employee of the United States designated by the President to have authority to issue disposal orders under this subsection, if such officer or employee determines that the release of such

materials is required for purposes of the national defense.

(b) Any order issued under subsection (a) shall be promptly reported by the President, or by the officer or employee issuing such order, in writing, to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives.

MATERIALS DEVELOPMENT AND RESEARCH

SEC. 8. (a)(1) The President shall make scientific, technologic, and economic investigations concerning the development, mining, preparation, treatment, and utilization of ores and other mineral substances that (A) are found in the United States, or in its territories or possessions, (B) are essential to the national defense, industrial, and essential civilian needs of the United States, and (C) are found in known domestic sources in inadequate quantities or grades.

(2) Such investigations shall be carried out in order to —

(A) determine and develop new domestic sources of supply of such ores and mineral substances;

(B) devise new methods for the treatment and utilization of lower grade reserves of such ores and mineral substances; and

(C) develop substitutes for such essential ores and mineral products.

(3) Investigations under paragraph (1) may be carried out on public lands and, with the consent of the owner, on privately owned lands for the purpose of exploring and determining the extent and quality of deposits of such minerals, the most suitable methods of mining and beneficiating such minerals, and the cost at which the minerals or metals may be produced.

(b) The President shall make scientific, technologic, and economic investigations of the feasibility of developing domestic sources of supplies of any agricultural material or for using agricultural commodities for the manufacture of any material determined pursuant to section 3(a) of this Act to be a strategic and critical material or substitutes therefore.

(c) The President shall make scientific, technologic, and economic investigations concerning the feasibility of —

(1) developing domestic sources of supply of materials (other than materials referred to in subsections (a) and (b)) determined pursuant to section 3(a) to be strategic and critical materials; and

(2) developing or using alternative methods for the refining or processing of a material in the

stockpile so as to convert such material into a form more suitable for use during an emergency or for storage.

(d) The President shall encourage the conservation of domestic sources of any material determined pursuant to section 3(a) to be a strategic and critical material by making grants or awarding contracts for research regarding the development of:

(1) substitutes for such material; or

(2) more efficient methods of production or use of such material.

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

SEC. 9. (a) There is established in the Treasury of the United States a separate fund to be known as the National Defense Stockpile Transaction Fund (hereinafter in this section referred to as the “fund”).

(b)(1) All moneys received from the sale of materials in the stockpile under paragraphs (5) and (6) of section 6(a) shall be covered into the fund.

(2) Subject to section 5(a)(1), moneys covered into the fund under paragraph (1) are hereby made available (subject to such limitations as may be provided in appropriations Acts) for the following purposes:

(A) The acquisition, maintenance, and disposal of strategic and critical materials under section 6(a).

(B) Transportation, storage, and other incidental expenses related to such acquisition, maintenance, and disposal.

(C) Development of current specifications of stockpile materials and the upgrading of existing stockpile materials to meet current specifications (including transportation, when economical, related to such upgrading).

(D) Testing and quality studies of stockpile materials.

(E) Studying future material and mobilization requirements for the stockpile.

(F) Activities authorized under section 15.

(G) Contracting under competitive procedures for materials development and research to —

(i) improve the quality and availability of materials stockpiled from time to time in the stockpile; and

(ii) develop new materials for the stockpile.

(H) Improvement or rehabilitation of facilities, structures, and infrastructure needed to maintain the integrity of stockpile materials.

(I) Disposal of hazardous materials that are

stored in the stockpile and authorized for disposal by law.

(J) Pay of employees of the National Defense Stockpile program.

(K) Other expenses of the National Defense Stockpile program.

(3) Moneys in the fund shall remain available until expended.

(c) All moneys received from the sale of materials being rotated under the provisions of section 6(a)(4) or disposed of under section 7(a) shall be covered into the fund and shall be available only for the acquisition of replacement materials.

(d) If, during a fiscal year, the National Defense Stockpile Manager barter materials in the stockpile for the purpose of acquiring, upgrading, refining, or processing other materials (or for services directly related to that purpose), the contract value of the materials so bartered shall —

(1) be applied toward the total value of materials that are authorized to be disposed of from the stockpile during that fiscal year;

(2) be treated as an acquisition for purposes of satisfying any requirement imposed on the National Defense Stockpile Manager to enter into obligations during that fiscal year under subsection (b)(2); and

(3) not increase or decrease the balance in the fund.

ADVISORY COMMITTEES

SEC. 10. (a) The President may appoint advisory committees composed of individuals with expertise relating to materials in the stockpile or with expertise in stockpile management to advise the President with respect to the acquisition, transportation, processing, refining, storage, security, maintenance, rotation, and disposal of such materials under this Act.

(b) Each member of an advisory committee established under subsection (a) while serving on the business of the advisory committee away from such member's home or regular place of business shall be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons intermittently employed in the Government service.

(c)(1) The President shall appoint a Market Impact Committee composed of representatives from the Department of Agriculture, the Department of Commerce, the Department of Defense, the Department of Energy, the Department of the Interior, the Department of State, the Department of the Treasury, and the Federal Emergency Management Agency, and such other persons as the President considers appropriate. The representatives from the

Department of Commerce and the Department of State shall be Cochairmen of the Committee.

(2) The Committee shall advise the National Defense Stockpile Manager on the projected domestic and foreign economic effects of all acquisitions and disposals of materials from the stockpile that are proposed to be included in the annual materials plan submitted to Congress under section 11(b), or in any revision of such plan, and shall submit to the manager the Committee's recommendations regarding those acquisitions and disposals.

(3) The annual materials plan or the revision of such plan, as the case may be, shall contain—

(A) the views of the Committee on the projected domestic and foreign economic effects of all acquisitions and disposals of materials from the stockpile;

(B) the recommendations submitted by the Committee under paragraph (2); and

(C) for each acquisition or disposal provided for in the plan or revision that is inconsistent with a recommendation of the Committee, a justification for the acquisition or disposal.

(4) In developing recommendations for the National Defense Stockpile Manager under paragraph (2), the Committee shall consult from time to time with representatives of producers, processors, and consumers of the types of materials stored in the stockpile.

REPORTS TO CONGRESS

SEC. 11. (a) Not later than January 15 of each year, the President shall submit to the Congress an annual written report detailing operations under this Act. Each such report shall include —

(1) information with respect to foreign and domestic purchases of materials during the preceding fiscal year;

(2) information with respect to the acquisition and disposal of materials under this Act by barter, as provided for in section 6(c) of this Act, during such fiscal year;

(3) information with respect to the activities by the Stockpile Manager to encourage the conservation, substitution, and development of strategic and critical materials within the United States;

(4) information with respect to the research and development activities conducted under sections 2 and 8;

(5) a statement and explanation of the financial status of the National Defense Stockpile Transaction Fund and the anticipated appropriations to be made to the fund, and obligations to be made from the fund,

during the current fiscal year; and

(6) such other pertinent information on the administration of this Act as will enable the Congress to evaluate the effectiveness of the program provided for under this Act and to determine the need for additional legislation.

(b)(1) Not later than February 15 of each year, the President shall submit to the appropriate committees of the Congress a report containing an annual materials plan for the operation of the stockpile during the next fiscal year and the succeeding four fiscal years.

(2) Each such report shall include details of all planned expenditures from the National Defense Stockpile Transaction Fund during such period (including expenditures to be made from appropriations from the general fund of the Treasury) and of anticipated receipts from proposed disposals of stockpile materials during such period. Each such report shall also contain details regarding the materials development and research projects to be conducted under section 9(b)(2)(G) during the fiscal years covered by the report. With respect to each development and research project, the report shall specify the amount planned to be expended from the fund, the material intended to be developed, the potential military or defense industrial applications for that material, and the development and research methodologies to be used.

(3) Any proposed expenditure or disposal detailed in the annual materials plan for any such fiscal year, and any expenditure or disposal proposed in connection with any transaction submitted for such fiscal year to the appropriate committees of Congress pursuant to section 5(a)(2), that is not obligated or executed in that fiscal year may not be obligated or executed until such proposed expenditure or disposal is resubmitted in a subsequent annual materials plan or is resubmitted to the appropriate committees of Congress in accordance with section 5(a)(2), as appropriate.

DEFINITIONS

SEC. 12. For the purposes of this Act:

(1) The term “strategic and critical materials” means materials that (A) would be needed to supply the military, industrial, and essential civilian needs of the United States during a national emergency, and (B) are not found or produced in the United States in sufficient quantities to meet such need.

(2) the term “national emergency” means a general declaration of emergency with respect to the national defense made by the President or by the Congress.

IMPORTATION OF STRATEGIC AND CRITICAL MATERIALS

SEC. 13. The President may not prohibit or regulate the importation into the United States of any material determined to be strategic and critical pursuant to the provisions of this Act, if such material is the product of any foreign country or area not listed in general headnote 3(d) of the Harmonized Tariff Schedule of the United States (19 U.S.C. 1202), for so long as the importation into the United States of material of that kind which is the product of a country or area listed in such general note is not prohibited by any provision of law.

BIENNIAL REPORT ON STOCKPILE REQUIREMENTS

SEC. 14. (a) Not later than January 15 of every other year, the Secretary of Defense shall submit to Congress a report on stockpile requirements. Each such report shall include —

(1) the Secretary’s recommendations with respect to stockpile requirements; and

(2) the matters required under subsection (b).

(b) Each report under this section shall set forth the national emergency planning assumptions used by the Secretary in making the Secretary's recommendations under subsection (a)(1) with respect to stockpile requirements. The Secretary shall base the national emergency planning assumptions on a military conflict scenario consistent with the scenario used by the Secretary in budgeting and defense planning purposes. The assumptions to be set forth include assumptions relating to each of the following:

(1) The length and intensity of the assumed military conflict.

(2) The military force structure to be mobilized.

(3) The losses anticipated from enemy action.

(4) The military, industrial, and essential civilian requirements to support the national emergency.

(5) The availability of supplies of strategic and critical materials from foreign sources during the mobilization period, the military

conflict, and the subsequent period of replenishment, taking into consideration possible shipping losses.

(6) The domestic production of strategic and critical materials during the mobilization period, the military conflict, and the subsequent period of replenishment, taking into consideration possible shipping losses.

(7) Civilian austerity measures required during the mobilization period and military conflict.

(c) The stockpile requirements shall be based on those strategic and critical materials necessary for the United States to replenish or replace, within three years of the end of the military conflict scenario required under subsection (b), all munitions, combat support items, and weapons systems that would be required after such a military conflict.

(d) The Secretary shall also include in each report under this section an examination of the effect that alternative mobilization periods under the military conflict scenario required under subsection (b), as well as a range of other military conflict scenarios addressing potentially more serious threats to national security, would have on the Secretary's recommendations under subsection (a)(1) with respect to stockpile requirements.

(e) The President shall submit with each report under this section a statement of the plans of the President for meeting the recommendations of the Secretary set forth in the report.

DEVELOPMENT OF DOMESTIC SOURCES

SEC. 15. (a) Subject to subsection (c) and to the extent the President determines such action is required for the national defense, the President shall encourage the development of domestic sources for materials determined pursuant to section 3(a) to be strategic and critical materials —

(1) by purchasing, or making a commitment to purchase, strategic and critical materials of domestic origin when such materials are needed for the

stockpile; and

(2) by contracting with domestic facilities, or making a commitment to contract with domestic facilities, for the processing or refining of strategic and critical materials in the stockpile when processing or refining is necessary to convert such materials into a form more suitable for storage and subsequent disposition.

(b) A contract or commitment made under subsection (a) may not exceed five years from the date of the contract or commitment. Such purchases and commitments to purchase may be made for such quantities and on such terms and conditions, including advance payments, as the President considers to be necessary.

(c)(1) Descriptions of proposed transactions under subsection (a) shall be included in the appropriate annual materials plan submitted to Congress under section 11(b). Changes to any such transaction or the addition of a transaction not included in such plan, shall be made in the manner provided by section 5(a)(2).

(2) The authority of the President to enter into obligations under this section is effective for any fiscal year only to the extent that funds in the National Defense Stockpile Transaction Fund are adequate to meet such obligations. Payments required to be as a result of obligations incurred under this section shall be made from amounts in the fund.

(d) The authority of the President under subsection (a) includes the authority to pay —

(1) the expenses of transporting materials, and

(2) other incidental expenses related to carrying out such subsection.

(e) The President shall include in the reports required under section 11(a) information with respect to activities conducted under this section.

NATIONAL DEFENSE STOCKPILE MANAGER

SEC. 16. (a) The President shall designate a single Federal office to have responsibility for performing the functions of the President under this Act, other than under sections 7 and 13. The office designated shall be one to which appointment is made by the President, by and with the advice and consent of the Senate.

(b) The individual holding the office designated by the President under subsection (a) shall be known for purposes of functions under this Act as the “National Defense Stockpile Manager.”

(c) The President may delegate functions of the President under this Act (other than under sections 7 and 13) only to the National Defense Stockpile

Manager. Any such delegation made by the President shall remain in effect until specifically revoked by law or Executive order. The President may not delegate functions of the President under sections 7

and 13.

United States Code Citations

| | | | | | |
|-----------|---|---------------|------------|---|-----------------|
| Section 2 | - | 50 U.S.C. 98a | Section 9 | - | 50 U.S.C. 98h |
| Section 3 | - | 50 U.S.C. 98b | Section 10 | - | 50 U.S.C. 98h-1 |
| Section 4 | - | 50 U.S.C. 98c | Section 11 | - | 50 U.S.C. 98h-2 |
| Section 5 | - | 50 U.S.C. 98d | Section 12 | - | 50 U.S.C. 98h-3 |
| Section 6 | - | 50 U.S.C. 98e | Section 13 | - | 50 U.S.C. 98h-4 |
| Section 7 | - | 50 U.S.C. 98f | Section 14 | - | 50 U.S.C. 98h-5 |
| Section 8 | - | 50 U.S.C. 98g | Section 15 | - | 50 U.S.C. 98h-6 |
| | | | Section 16 | - | 50 U.S.C. 98h-7 |

APPENDIX B

ABBREVIATIONS USED IN THIS REPORT

| | |
|-----------------------------------|------------------------------------|
| AMA LB | Anhydrous Morphine Alkaloid Pound |
| AMP | Annual Materials Plan |
| Av Oz | Avoirdupois Ounce (28.350 Grams) |
| DLA | Defense Logistics Agency |
| DNCS | Defense National Stockpile Center |
| FL | Flask (76 Pounds) |
| KG | Kilogram |
| ct | Carat |
| LB | Pound |
| LB Cb | Pounds of Contained Columbium |
| LB Co | Pounds of Contained Cobalt |
| LB Ta | Pounds of Contained Tantalum |
| LB Ta ₂ O ₅ | Pounds of Contained Tantalum Oxide |
| LB W | Pounds of Contained Tungsten |
| LCT | Long Calcined Ton |
| LDT | Long Dry Ton |
| LT | Long Ton |
| MT | Metric Ton |
| NDS | National Defense Stockpile |
| NSG | Non-Stockpile Grade |
| PC | Piece |
| S&CM | Strategic and Critical Materials |
| SDT | Short Dry Ton |
| ST | Short Ton |
| ST Be | Short tons of Contained Beryllium |
| ST Cr | Short tons of Contained Chromium |
| ST Mn | Short tons of Contained Manganese |
| ST V | Short tons of Contained Vanadium |
| Tr Oz | Troy Ounce |

APPENDIX C

DNSC-D

MEMORANDUM FOR DEPUTY DIRECTOR MATERIEL MANAGEMENT

SUBJECT: 1997 Annual Statement of Assurance Required under the
Federal Managers' Financial Integrity Act (FMFIA)
of 1982

As Administrator of the Defense National Stockpile Center (DNSC), I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control of the Defense National Stockpile Center has been conducted in a conscientious and thorough manner. The results indicate that the Defense National Stockpile Center's system of internal accounting and administrative controls in effect during the fiscal year that ended September 30, 1997, taken as a whole, support my conclusion that management controls are in place and operating effectively. Furthermore, that the objectives of the FMFIA were achieved within the limits described in Tab A. Tab A also provides information on how the evaluation was conducted and cites any deficiencies in the process.

RICHARD J. CONNELLY
Administrator

Attachment

cc:
Althea Norman (MMBBP)

DESCRIPTIONS OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

TAB A

The system of internal accounting and administrative control, of the Defense National Stockpile Center (DNSC) in effect during the fiscal year ending September 30, 1997, was evaluated in accordance with the guidance provided controls by Office of Management and Budget Circular No. 123 (Revised), "Management Accountability and Control," June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," August 26, 1996 and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996. The Office of Management and Budget guidelines were issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982. Included is an evaluation of whether the system of internal accounting and administrative control of DNSC is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative are to provide reasonable assurance that:

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The concept of reasonable assurance recognizes that the cost of management control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and management judgment. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding.

The evaluation was performed using:

Safety and Health Program Reviews
Workforce Development Reviews
Management Control Training
Administrative Control Procedures
FY 97 Management Control Plan Quarterly Assessments from Directorates
Hazardous and Radioactive Commodities Survey
Quality Assurance Reviews
DoDIG Audits
Financial Internal Controls
Productivity Statistics
Field Operations Internal Management Review Teams
Market Research Test and Evaluations performed by DLA Operations Research Office (DORO)

DNCS implemented the new Management Control Program changes as provided by Office of Management and Budget Circular No. A-123 (Revised), "Management Accountability and Control," June, 1995 as implemented by DoD Directive 5010.38, "Management Control Program," August 28, 1996 and Memorandum dated January 2, 1997 from DLA Materiel Management (MM) Directorate Management Control (MC) Program. Updated regulations and information on new procedures were provided to all DNCS Managers. In addition, The Administrator ensured that all employee's involved in the program continued to update their training and information on regulations related to the changes in this program, so as to ensure more thorough implementation of the management control program.

During FY 97, an evaluation was performed in accordance with the guidelines identified above and other information provided from the following sources:

The DoDIG issued Audit Report No. 97-176, "Internal Controls and Compliance with Laws and Regulations for the National Defense Stockpile Transaction Fund Financial Statements for FY 1996", on June 25, 1997. The audit was conducted to determine whether the FY 1996 financial statements were presented fairly in accordance with other comprehensive basis of accounting described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Statements," November 16, 1993. The review focused on the management control program and management's compliance with laws and regulations and followed up on corrective actions from previous audits.

On March 1, 1997 DoDIG issued a qualified opinion on the financial statements dated September 30, 1996. The reason for the qualified opinion was that they were unable to audit the prior-year financial statements and therefore had no basis for comparing current balances with unaudited prior-year balances in the Statement of Financial Position and Statement of Operations and Changes in Net Position. The internal control structure was

effective in accounting for and managing resources, ensuring compliance with laws and regulations, and providing reasonable assurance that the financial statements are free of material misstatements. Compliance issues identified during the review did not have a material impact on the financial statements at DNSC. Management generally complied with the selected provisions of laws and regulations pertaining to the accuracy of the financial statements.

The Office of Financial Management (DNSC-DF) also conducted independent reviews in areas of cash collection and financial obligations. Financial internal controls were reviewed at DNSC Field locations. Teams were sent to six (6) Depots during FY 1997 to review financial procedures and provide guidance on budgetary issues. Based on the FY 97 team visits, no material weaknesses were found in the Depot financial Operations.

Based on the February 5-16, 1996 Procurement Management Review (PMR) performed on the Directorate of Stockpile Contracts (DNSC-P), a continuing effort and implementation process has been under way during FY 1997 to follow recommendations of the PMR and update written policy and procedures for processing procurements and sales.

Actions Taken: DNSC-P realizes the importance of compliance with regard to developing and issuing written formal policies and procedures. Senior contracting officers have been assigned to complete the recommendations by the PMR and the following have been accomplished:

- Establish Standard Operating Procedures (sop) for emergency acquisition for depot managers.
- Establish Contracting Officer review board and program
- Establish SOP for Acquisition Planning
- Establish SOP for Electronic transmission of Commerce Business Daily Notice
- Establish SOP for handling protest
- Designated Competition Advocate in DNSC-P
- Designated SABDU in DNSC-P
- Conducted eight (8) IMPAC credit card audits
- Develop SOP for sales strategy plan
- Develop SOP for preparing pricing objectives memorandum
- Develop SOP for recommendation for awards
- Develop template for standard sales solicitation provisions and contract clauses.

Random Reviews of sales and acquisition files to determine if the implementation and developments of Standard Operating Procedures were adequate to substantiate contractual actions taken and determine if files were complied in accordance with standard files contents and if contract documents clearly outlined the terms and conditions of the sale or acquisition. To ensure that the above is being complied with, training sessions will be conducted to alleviate deficiencies, and templates have been developed to provide more structure in solicitation preparation. Daily Reviews were also conducted to ensure that Contract Specialists are complying with Contracting Standard Operating Procedures. Quarterly assessment findings show that corrections for any deficiencies are being addressed and specialists are in compliance with SOP's and Federal regulations.

The Office of Planning and Market Research (DNSC-R) conducted an internal review with the DLA Operations Research Office (DORO) to investigate whether statistical analyses can be used to generate price ranges for Stockpile commodities within which the commodities can be sold without violating Congressional restrictions. Prices reasonableness is derived from three legislative requirements. DNSC-R focus has been to continue to review and assess the process for monitoring the price reasonableness for amounts received from the sale of Stockpile commodities. During FY 1997, DNSC-R and DORO have been reviewing and analyzing an automated decision market forecasting support package. A draft version for software add-in is expected by the end of FY 1997. DNSC-R control objectives focus on four functional areas:

- Ministerial Functions
- Avoidance of Loss, Sale of Listed Commodities
- Avoidance of Loss, Sale of Thinly Trade Commodities
- AMP and Requirements Development.

The vulnerability relates directly to the outside influences on the Stockpile program created by unanticipated changes in the commercial commodity markets, unexpected policy changes from Congress, and from newly imposed deadlines or the raising of domestic industry and Congressional constituent issues.

The functions for the Strategic Materials Management Directorate (DNSC-M) has high risk factors which is related to the high value of commodities stored, bought, and sold for the stockpile. Reviews of internal controls were conducted in the Quality Assurance Division, Safety and Health Program, Depot Administrative Control Procedures, Productivity Statistics and all areas reviewed indicate that the checks and balances inherent in the manner by which the directorate performs its function are adequate to offset any inherent risk.

Actions Taken in FY 1997:

- Internal Management Review Teams for the Strategic Materials Management Directorate conducted reviews on-site for depot operations. Reviews included Storage Operations, Quality Assurance, Facilities Maintenance, Environmental Protection, and Security.
- Implementation of a new Respiratory Protection Program Review at each manned stockpile location.
- Three DNSC Occupational Health Guidelines were revised.
- Radiation Protection Officers and Respiratory Protection Designees had updated training in FY 97 on DLA's Supervisory Safety Course given through DCSPPO. - -
- Management Control Training was provided to all DNSC-M supervisors and depot personnel involved in the program during April 1997 to ensure compliance with the new regulations and directives.

The DoDIG August 5, 1997 issued a discussion draft of a proposal report concerning the "Management of Underground Storage Tanks at Defense Logistics Agency Centers." The report, in part, referred to DNSC operations and reported deficiency in management controls for underground storage tanks. Examination in current controls has begun with an eye towards their improvement.

The Office of Management and Systems Support (DNSC-L) reviewed administrative procedures, of the National Defense Master Inventory File (NDMIF) and workforce development during FY 1997.

On-site interpersonal Team Building training was conducted during FY 1997 for all DNSC HQ employees and managers to give greater support and improve group effectiveness, efficiency and success. Core Competency requirement reviews were initiated for FY 1997 to ensure DNSC Managers at HQ and Field Locations complete the DLA Mandatory Supervisory Core classes and that Contracting Officers and Quality Assurance Specialists achieve all mandatory training required under the Acquisition Workforce Certification Program. DNSC also has a tuition policy and training procedures in place, which is provided to all DNSC employees to ensure workforce development programs and execution of Individual Development Plans (IDP's) are accomplished.

As part of the customer improvement efforts, DNSC-L conducted a customer survey which was distributed in March 1997 to all stockpile HQ and Field location personnel. Evaluations were performed on responses returned to DNSC-L and improvements for areas such as voice mail or e-mail requests were initiated so that in most cases, business calls or responses on e-mail are returned on the same day. As a result of the success of the customer survey, future survey will be sent out to continue to update and improve customer satisfaction efforts.

Administrative Reviews were performed on the Bid Room to ensure Standard Operating Procedures are in place and being complied with in the secure handling of Financial bids and offers. Recommendations were given to DNSC-P to allow for no more than one bid on the hour to be opened and DNSC-P is implementing this change to ensure controls are in place within the bid room. As part of its internal reviews, DNSC-L took part in the Rocky Mountain Bank Card Audits. There is a total of 45 cardholders to include HQ and 13 Depots. Eight (8) audits were performed at the field locations and results indicate procedures are adequate and are in compliance with regulations. Reviews on the American Express Program, Time and Attendance, and ADP security were also conducted. Recommendations to update Standard Operating Procedures on these programs are being reviewed so as to provide better customer support.

DNSC-L is also responsible for the management of the National Defense Stockpile Master Inventory File (NDSMIF), which may be required for war time purposes or other National Preparedness issue. The DoDIG Audits conducted a thorough Audit of the MIF in September 1996 and found records to be balanced within 2 percent. Any discrepancies noted during the month are corrected in a timely and efficient manner. Reviews are performed continuously on the Stockpile's Master Inventory File (MIF) to ensure that the database records are maintained with accuracy and security. Improvement efforts for maintaining information on the MIF have been implemented. Updated Standard Operating Procedures have been accomplished to incorporate reporting procedures for Paradox for Windows and to address new procedures to verify depot balances. With regard to security, access to the MIF is controlled with the use of passwords.

The results of the aforementioned audits and reviews and the day to day administrative controls indicate that the systems in effect during the fiscal year that ended September 30, 1997,

taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. The reasonable assurance is within the limits described in the preceding paragraphs.