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4-30-75



RELEASED

Review Of Appalachian Regional Commission's Contract With West Virginia's Rehabilitation Environmental Action Program

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

GGD-75-59

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APRIL 30, 1975

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

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The Honorable Robert H. Mollohan
House of Representatives

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Dear Mr. Mollohan:

1 This is in response to your letter of April 16, 1974,
requesting an audit of a contract awarded by the Appalachian
Regional Commission to the State of West Virginia. *WRP C.536*

2 You expressed concern that Federal funds may have been mis-
managed during the first year of the contract. You were partic-
ularly interested in the improper disposition of junk vehicles
collected under the contract.

In accordance with your request and subsequent discussions
with your office, we have reviewed the contractor's program
and financial activities. This report presents our findings
and includes information you requested on the number of contract
employees, their salaries, and their duties.

As you know, our review was delayed until an access-to-
records problem with the contractor--not the Commission--was
resolved. Therefore it did not begin until August 1974. Our
review was conducted primarily at the State capitol in Charles-
ton and at Commission headquarters in Washington, D.C. We re-
viewed the contract files, including progress reports, financial
records, and related documents. We talked with State and Com-
mission officials and representatives of two junk car dealers
which received, at no cost, a large number of junk cars col-
lected during the early stages of the project. We also observed
State personnel collecting junk cars in the vicinity of Charles-
ton for disposal.

BACKGROUND

Under the grant authority given to the Commission in sec-
tion 302(a)(2) of the Appalachian Regional Development Act of
1965, as amended (40 U.S.C. app. I), the Commission contracted
on June 29, 1972, with West Virginia's Office of Federal-State
Relations for a 3-year period ending June 30, 1975. Under this
contract the Rehabilitation Environmental Action Program was
established and funded as a demonstration program.

The major purposes of the contract were (1) to expand a State-initiated junk-removal program which began in 1970 and (2) to determine the most effective and cost-efficient methods for removing junk cars, appliances, and tires from the State and eliminating environmental problems caused by junk.

The total program costs were estimated to be \$1,001,810, of which the Commission was to provide not more than \$751,358, or 75 percent, and West Virginia was to provide \$250,452, or 25 percent. The State was to contribute \$230,452 worth of services from its departments of public safety, motor vehicles, and highways and \$20,000 in cash.

Program personnel and their duties

As of August 12, 1974, when we examined the payroll records, the program had 14 full-time and 12 part-time employees. In accordance with the contract, all program positions were approved by the Commission. The type of personnel employed and a brief description of their duties are listed below.

Program Personnel as of August 12, 1974

<u>Position</u>	<u>Number</u>	<u>Salary or wage</u>
State director	1	\$18,000 a year
Regional director	1	9,000 a year
Administrative aide	1	7,500 a year
Executive secretary	1	6,000 a year
Retrieval drivers	5	7,200 a year
Retrieval helpers	4	5,200 to 6,000 a year
Appliance retrieval helper	<u>1</u>	5,200 a year
Total full-time personnel	<u>14</u>	
Extra help	11	2.50 an hour
Photographer/public relations assistant	<u>1</u>	5.00 an hour
Total part-time personnel	<u>12</u>	

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<u>Position</u>	<u>Brief description of duties</u>
State director	Comprehensive program supervision, public relations, and overall promotion of program objectives.
Regional director	Responsible for all activities in his region, including promoting the program and arranging for marking junk to be collected and for press coverage.
Administrative aide	Keeps time and attendance reports, handles press releases, and assists State director in promoting the program.
Executive secretary	Serves as receptionist, types, maintains files, and helps maintain records.
Retrieval drivers	Operate trucks used to collect junk vehicles.
Retrieval helpers	Attach junk cars to truck retrieval equipment for the operator.
Appliance retrieval helper	Helps collect appliances.
Extra help	Various cleanup activities, such as tearing down old buildings and cleaning up areas after junk vehicles have been removed. Used primarily during summer.
Photographer/public relations assistant	Provides photographic history of program's progress.

PROGRAM ACTIVITIES

Collection of junk cars under the program began on February 12, 1973. Although commonly referred to as a junk car program, the program has also collected household appliances, such as discarded refrigerators and old tires; removed dilapidated houses; and cleaned up illegal garbage dumps.

Under the contract, the program was required to periodically dispose of junk collected at temporary storage sites to insure its entering into a scrap-processing cycle. The disposal was to be through competitive bidding to insure that (1) the disposal was at prices and on terms most advantageous to the State and the project and (2) all interested parties had a full and fair chance to do business with the State.

During our review in August 1974, collection activities were being carried out with four retrieval trucks specially equipped to pick up junk. These trucks were purchased with Commission approval through competitive bidding procedures for \$43,968. In July 1974 the Commission approved the purchase of six additional retrieval trucks for about \$85,000. These trucks are not expected to be delivered until near the end of the contract period. State officials hope to continue program operations after the contract period ends in June 1975.

Collections and disposals

In August 1974 the project director told us that over 62,000 junk cars were collected under the program. Our review showed, however, that most of these junk cars were collected by private firms and city or county governments and that only about 13,500 were actually collected by program personnel and equipment as of June 30, 1974.

The Commission said that a major purpose of the program is to elicit cooperation and active participation by citizens, local civic groups, etc., in the solid waste removal program and that the contract specifically provides for a public information and education program to stimulate such participation. Thus, according to the Commission, it is not inappropriate for the program to record numbers of junk cars collected by other agencies and to take some credit for having stimulated such collection.

The number of junk cars, appliances, and tires collected under the program from February 12, 1973, to June 30, 1974, is summarized below.

Junk cars	a/13,553
Appliances	82,832
Tires	65,159

a/ Includes 859 accumulated or donated by private parties at no cost to the program.

This information was extracted from progress reports submitted to the Commission and was not supported by auditable records at the time of our review. The program considers a junk car to be all or any part of a car retrieved, regardless of the number of parts missing. For example, a rusted auto body without an engine or transmission is considered a junk vehicle.

Program officials said that, since there is no market for old appliances and tires, these items have generally been disposed of in landfills. Based on program progress reports to the Commission and discussions with program officials, our analysis of junk car disposals as of June 30, 1974, follows.

Junk Cars Collected and Disposed of by the Program

Cars collected		13,553
Cars disposed of:		
Given away:		
To three identified junkyards	5,463	
To unidentified junkyards (note a)	<u>2,443</u>	
Total given away		7,906
Disposed of at landfills		971
Sold		<u>2,447</u>
Total disposed of		<u>11,324</u>
Total unaccounted for		<u><u>2,229</u></u>

a/ No records were maintained identifying these recipients.

The program kept no records which we could use to reconcile the differences between the reported junk car collections and disposals. The number of cars collected and disposed of by the program was estimated by the project director who kept no supporting data for these estimates.

A detailed list of junk cars sold by the program as of June 30, 1974, is included as appendix I. About 575 junk cars were sold directly to private firms without competitive bidding. The project director said these sales were made in the best interest of the program and the public. He cited an example in which the junk cars were collected by the program, hauled directly to a nearby junkyard, and sold. He said that the proceeds at least helped offset program hauling costs.

In these instances, the program should justify to the Commission the dispositions made without competitive bidding.

Program-collected junk cars given away

The project director said that no records were kept identifying the junkyards to which about 2,440 junk cars were given and that he did not know if the owner of the junkyard, in turn, sold the cars. He added that, at the outset of the program, the junk cars were given to the yard nearest the collection points for convenience and quick disposal.

About 69 percent, or 5,463, of the 7,906 junk cars were given to 3 private junkyard companies. We met with officials of two of the companies to determine the disposition of these cars. Though the officials acknowledged receiving junk cars free from the program, they could not confirm the exact number received or the amount of money realized through the subsequent sale of scrap.

However, one official told us that his firm participated in a demonstration project sponsored by the program to determine the most economical method of collecting junk cars. Under this project, 432 junk cars were given to this company, which then processed them into about 325 tons of scrap. He said that after the expense of collecting, crushing, and moving the cars--which he estimated to be about \$18 per ton--the company realized a net profit of about \$8 per ton. On the basis of this information, we estimate that this company realized a net profit of about \$2,600 (325 tons at \$8 per ton) from the sale of the junk cars.

An official from the other company estimated that his firm processed about 320 tons of scrap from the junk cars received from the program. He said that at that time scrap was selling for about \$22 per ton. Thus, we estimate that this company would have realized gross revenues of \$7,040 (320 tons at \$22 per ton) from the sale of the cars. Although the official did not provide us with estimated costs incurred in processing the junk cars into scrap, we believe that costs for collecting, crushing, and moving cars would have to be considered in arriving at the firm's net profit.

It was difficult to estimate the value of the approximately 7,900 junk cars given away in 1973 because the price of junk cars fluctuated with the price of scrap steel, which varied considerably (\$22 to \$50 per ton) during the grant period. In addition, the exact dates of the giveaways and the condition of the cars were not available from program records.

The Commission felt that the use of the terms "at no cost" or "giveaway" to characterize these transactions was somewhat misleading because, in some cases, the recipients had provided

some compensating services. During our review and in discussions with the project director, we found little evidence that the recipients provided such compensatory services.

Commission action regarding
the junk cars given away

Although the first junk cars were given away in February 1973, the Commission did not learn of this until its project coordinator made a field trip to the project in February 1974. In his report, he stated that, according to the project director, a substantial number of collected junk cars (estimated to be 9,000) were not being disposed of by competitive bidding as required by the contract.

Accordingly, the project coordinator suggested to the Commission three solutions to the problem:

1. Disregard the contract provisions on the basis that the junk cars were given away for promotional purposes.
2. Have the State make an immediate cash contribution equal to the Commission's share of lost sales.
3. Near the end of the contract period, ascertain and apply the average value of sales to the number of junk cars given away and reduce the Commission's payment by an appropriate amount. (The project coordinator believed that this would be the best solution.)

On April 12, 1974, the Federal Cochairman, General Counsel, and project coordinator met with the Governor of West Virginia about this and other matters.

At this meeting, the Commission was informed that junk cars collected under the program were given away because

--no collection sites were available;

--early efforts were intended to promote the program among interested persons, groups, and local governments; and

--no market existed at the time of collection.

It was agreed that the Governor and/or the project director would document the reasons for disposal of the junk cars without competitive bidding. As of October 1, 1974, the Commission had not received such documentation.

Commission officials told us that, before the contract period ends in June 1975, a decision will be made as to how the final settlement of accounts with the program will be adjusted for the junk cars that were given away.

Attainment of a major program
objective unlikely

As stated on page 2, a major purpose of the program-- which was funded as a demonstration program--is to determine the most effective and cost-efficient methods for removing junk from the State. Presumably this would benefit other States facing the same problem.

We found, however, only one instance in which the program conducted a demonstration project to determine the most economical method of collecting junk cars. The program compared the cost for private enterprise to remove such cars with its own cost by awarding a contract in September 1973 to Miller Metals, a private firm. Miller Metals collected 432 junk cars in Barbour County, whereas the program collected 439 cars in neighboring Taylor County. The results showed that the program removed its junk cars at a cost of \$10.14 per car, whereas Miller Metals removed its cars at a cost of \$10.50 per car.

We believe that one project cannot adequately determine the most effective and cost-efficient methods for removing junk cars. Instead it appears that the program has been carrying out rather routine operations with its personnel and equipment and using conventional methods of collection and disposal.

We also found no program activity directed at demonstrating new and improved methods of removing other junk, such as refrigerators and tires.

To meet one of its major objectives, the program should be required to demonstrate additional cost-efficient methods of removing junk during the remainder of the contract period.

ALLEGATIONS OF PROGRAM MISMANAGEMENT

The contract files showed that a citizen telephoned the Commission's Executive Director in early January 1974 and alleged that (1) the program was not being managed according to the guidelines adopted by West Virginia, (2) a scrap company official discussed a kickback scheme with him at one of the early planning meetings, (3) no bids had been solicited for collecting junk cars since those meetings, and (4) Miller Metals had been the sole recipient of the business, whereas he had received none.

On January 14, 1974, the Commission asked the Governor of West Virginia to respond to this matter. In a letter dated May 7, 1974, the Governor told the Commission that the charges were unfounded.

The individual making the allegations filed for bankruptcy at about the same time. During September 1974, we attempted to locate him but were unsuccessful. He had an unlisted telephone number, and a registered letter we sent to his last known address--requesting that he contact us--was returned unopened.

With regard to the allegation that no bids had been solicited for collecting junk cars, in at least one instance, the program did solicit bids for collecting 432 junk cars under a demonstration project with a private firm. This solicitation was advertised and the name of the person who made the allegation appeared on the list of firms to which copies of this solicitation were mailed.

The allegation that Mr. Miller has been the sole recipient of the business is not supported by program records. For example, several junk dealers and crushing firms were given the cars collected during the first months of the program. In addition, bids were solicited for the sale of junk cars in August 1973, and a firm other than Miller Metals was the successful bidder.

REVIEW OF PROGRAM FINANCIAL RECORDS

We examined program accounting records, reports, and transactions to evaluate the reliability of financial data maintained for the program as of July 31, 1974. We made our review in accordance with generally accepted auditing standards and included such tests and other auditing procedures as we considered necessary.

The financial records of cash receipts and disbursements of grant funds were adequately kept. From program records we prepared a Statement of Revenues and Expenses for the period January 1, 1973, through July 31, 1974. In our opinion this statement presents fairly the revenues received and disbursements made during that period. The statement is included as appendix II.

CONCLUSIONS

While the program may have been instrumental in helping clean up junk throughout the State, it has not complied with some of the contract provisions. Not all the junk cars collected have been disposed of through competitive bidding as required by the contract.

About 58 percent, or 7,900, of the 13,550 junk cars collected by the program as of June 30, 1974, were given away. We could not determine their value because of variations in the price of scrap and because the exact dates of the giveaways and the condition of the cars were not available from program records. However, Commission officials told us that, before the contract period ends in June 1975, the Commission will decide on how the final settlement of accounts between the Commission and the program will be adjusted for the cars that were given away.

In addition, about 575 junk cars were disposed of through direct sales to private firms. When competitive bidding is not justified, the program should notify the Commission.

There is also a need to keep better records of the number of collections and dispositions. Though program records show that collections from February 12, 1973, through June 30, 1974, amounted to about 13,550 junk cars, we were able to account for only about 84 percent, or 11,325 dispositions. The remaining 2,225 cars were unaccounted for or not supported by program records as to their disposition. The project director generally estimates the number of collections and dispositions but keeps no data supporting these estimates. All collections and dispositions of junk cars should be recorded to show the details and current status of such transactions, and these records should be kept for auditing and reconciliation purposes.

There was no evidence that Federal funds may have been misused during the first year of the contract. The financial records of the receipts and disbursements of grant funds were adequately kept.

The program needs to demonstrate additional cost-efficient methods to meet a major program objective during the remainder of the contract period. We found only one instance in which the program conducted a demonstration project--using its own personnel and equipment and that of a private firm--to determine the most economical method of collecting and disposing of junk cars.

RECOMMENDATIONS

We recommend that the Appalachian Regional Commission require the Rehabilitation Environmental Action Program to

- record all transactions involving the collection and disposition of junk cars to show the details and current status of such transactions and to maintain suitable records for auditing and reconciliation purposes;

--justify junk car sales made without competitive bidding; and

--demonstrate more methods and techniques of collecting and disposing of junk cars and other abandoned junk during the remainder of the contract period.

AGENCY COMMENTS AND
OUR EVALUATION

In commenting on this report (see app. IV), the Commission generally agreed with the three recommendations. With regard to the first, the Commission explained that it advised the project director of the importance of keeping accurate and complete records and that, in its continuing monitoring of the project, it will make periodic specific checks on the recordkeeping system.

With regard to the third recommendation, the Commission explained that its project coordinator has on a number of occasions discussed this matter with the project director.

The Commission also said that, through the remainder of the project, it will continue to stress the necessity of developing information on the cost efficiency of various administrative arrangements and techniques so as much data as possible can be developed to permit comparative analyses.

However, the Commission believed that the report inferred that the demonstration program is a failure; it contended that the program is a success because the Governor has succeeded in having the State legislature enact permanent legislation imposing a fee on automobile registrations. This fee will provide a permanent source of funding for carrying on the environmental cleanup program after Commission assistance has terminated. The Commission believes that this is the ultimate test of the demonstration and, thus, the program is already a success.

As stated on page 8, our only concern in this regard was that more methods of collecting and disposing should be demonstrated in order to meet a major program objective.

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12-5 In accordance with our agreement, copies of this report are being sent to (1) the House and Senate Committees on Government

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Operations and Appropriations, (2) the Commission, (3) the Governor of West Virginia, and (4) the Director, Office of Management and Budget.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Paets". The signature is written in dark ink and is positioned to the right of the typed name.

Comptroller General
of the United States

DETAILED LISTING OF JUNK CARS SOLDBY THE PROGRAM AS OF JUNE 30, 1974

<u>Date</u>	<u>Approximate number of vehicles sold</u>	<u>Amount received</u>
<u>Public auctions</u>		
3- 9-74	104	\$ 750.00
4-22-74	100	125.00
5- 2-74	100	100.00
5-30-74	102	900.00
6- 6-74	250	2,800.00
6-11-74	<u>105</u>	<u>50.00</u>
Total	<u>761</u>	<u>\$ 4,725.00</u>
<u>Sealed bid method</u>		
9-25-73	611	\$ 1,111.11
3-21-74	<u>500</u>	<u>9,001.00</u>
Total	<u>1,111</u>	<u>\$10,112.11</u>
<u>Direct sales</u>		
2-28-74	46	\$ 276.00
3-15-74	(a)	92.62
5-13-74	50	150.00
5-13-74	75	252.00
6-14-74	400	700.00
6-24-74	<u>4</u>	<u>80.80</u>
Total	<u>575</u>	<u>\$ 1,551.42</u>
Total sales	<u>2,447</u>	<u>\$16,388.53</u>

a/Unknown.

STATEMENT OF PROGRAM REVENUES AND EXPENSESAS OF JULY 31, 1974

Revenues:

Federal funds received	\$306,580.21	
State funds contributed	20,000.00	
Sale of junk vehicles	<u>16,563.53</u>	\$343,143.74

Expenses:

Personnel expenses:

Personal services	179,387.20	
Public employees' retirement system	14,473.69	
Workmen's compensation	1,807.71	
Public employees' insurance	4,691.42	
Employer's share of Social Security	<u>9,440.36</u>	\$209,800.38

General expenses:

General office expense	851.54	
Utilities	1,144.28	
Telephone and telegraph	6,607.99	
Postal and freight	11.79	
Rent	9,676.33	
Printing and binding	1,623.84	
Advertising	80.12	
Promotional expense	1,392.63	
Miscellaneous	<u>2,334.47</u>	23,722.99

Travel expenses		25,885.05
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Contractual and professional services		4,536.00
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Vehicle maintenance expense		6,216.40
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Vehicle purchases	<u>43,967.84</u>	<u>314,128.66</u>
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Excess of revenues over expenses		<u>\$ 29,015.08</u>
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ROBERT H. MOLLOHAN
1st DISTRICT, WEST VIRGINIA

WASHINGTON OFFICE:
ROOM 314
CANNON HOUSE OFFICE BUILDING

COMMITTEES:
ARMED SERVICES
HOUSE ADMINISTRATION

Congress of the United States
House of Representatives
Washington, D.C. 20515

April 16, 1974

DISTRICT OFFICES:
ROOMS 603-604 DEVENY BLDG.
FAIRMONT, WEST VIRGINIA

ROOMS 209-211A
POST OFFICE BUILDING
CLARKSBURG, WEST VIRGINIA

ROOMS 315-316
FEDERAL BUILDING-U.S. COURTHOUSE
WHEELING, WEST VIRGINIA

ROOMS 1115-1117
FEDERAL BUILDING
PARKERSBURG, WEST VIRGINIA

Hon. Elmer Boyd Staats
Comptroller General of the United
States
Room 7000
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

In 1972, the Appalachian Regional Commission entered into a three-year, approximately \$700,000 contract with West Virginia's Rehabilitation Environmental Action Program (REAP).

The first year of that contract agreement is nearing an end, and the program has become embroiled in controversy. A great many of my constituents and other concerned West Virginians have expressed their belief that mismanagement of Federal funds may have occurred during this initial year of operation.

It is apparent that the ARC has some reservations about the program's operation. The Commission is withholding additional payment of funds for REAP equipment purchases pending a further review. Only recently did the Commission release progress payments to meet the program's 15-man payroll after questions had been raised concerning salary expenditures by REAP.

[See
GAO
note,
p. 16.] Nearly \$300,000 in ARC funds have been released to REAP in its first year. No state funds have been involved. As you can see from the copies of several newspaper accounts I have enclosed, there appear to be a number of questions surrounding program management and the fulfillment by REAP

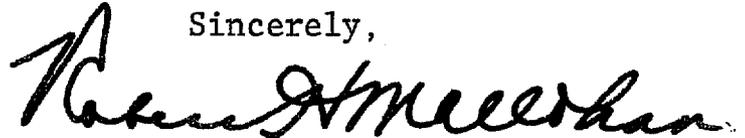
of its ARC contract agreements.

Principal among the items of dispute is the sale of junked vehicles. Under the terms of the contract, REAP was required to sell or auction off vehicles collected as a part of the program and use the money to reduce the total subsidized project cost. ARC figures reveal that 11,000 such vehicles have been collected during REAP's first year but that REAP has sold or auctioned only about 2,000.

In light of the many questions surrounding this Government contract, I am requesting that the General Accounting Office conduct a thorough audit and review of the contract to ascertain the authenticity and legality of the REAP operation.

I shall appreciate a full report on the audit conducted by your staff as soon as the information is available.

Sincerely,



Robert H. Mollohan

RHM/mph

GAO note: Refers to articles appearing in the Fairmont (W. Va.) Times, dated April 2, 1974; Morgantown (W. Va.) Dominion-Post, dated April 3, 1974; and Charleston Gazette, dated April 2, 1974.

THE APPALACHIAN REGIONAL COMMISSION

1666 CONNECTICUT AVENUE

WASHINGTON, D.C. 20235

OFFICE OF
FEDERAL COCHAIRMAN

FEB 17 1975

Mr. Victor L. Lowe, Director
General Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

We appreciate the courtesy shown in affording us the opportunity to review and comment upon the draft report on the Commission's grant to West Virginia for its Rehabilitation Environmental Action Program. We find ourselves in agreement with many of the findings and recommendations in your report. There are, however, some points with which we disagree and other areas where we are in general agreement but where we believe clarification can be made in order to more accurately and fairly present the situation.

Allegations of Misconduct Unfounded.

We are pleased to have the further assurance of your investigation which bears out the Governor's earlier investigation that certain serious and very disturbing allegations of misconduct by project personnel were unfounded. We note that facts developed in the course of your review contradicted those allegations.

Financial Records Adequate.

We also are pleased to have the benefit of your audit of the financial records which assures that the financial records of cash receipts and disbursements are being adequately maintained.

Improving Recording of Collections and Dispositions of Hulks.

As you know, we are in complete agreement on the necessity for recording collections and dispositions and maintaining records suitable for reconciliation. The Commission's grant contract specifically requires monthly reporting of the number of durable waste hulks in each stage of process (i.e. number located, number as to which releases had been obtained, marked for collection, collected at storage sites, and disposed) and, thus, necessitates the establishment of an accurate reporting and recording system. On this latter

point, ARC's Project Coordinator had been furnished a copy of a format for daily reporting of retrievals by drivers. It was assumed that the monthly reports were being compiled from daily reports. We note that it was ARC personnel who first discovered that some hulks might have been disposed of other than through the bid process and that in the pursuit of that question, ARC personnel became aware of the possibility that the daily records might not be as systematically maintained as had previously appeared from the reports. The REAP Project Director was advised by ARC of the importance of keeping accurate and complete records.

In view of our concern, now confirmed more specifically by your review, ARC will, in its continuing monitoring of this project, make periodic specific checks on the recordkeeping system.

Negotiated Sales Permissible.

We are also in general agreement with your recommendation that REAP should justify junk car sales made without "competitive bidding". We believe, however, that some further clarification of this point is required.

First, we note that it was ARC personnel who first learned that dispositions apparently had been made other than through one of the methods prescribed in the grant agreement. As you are aware, ARC has requested REAP to report fully on all dispositions and the Governor personally directed the Project Director to provide the information and rationale for all such dispositions.

Moreover, focusing on "competitive bidding" is somewhat misleading because, it should be noted, the grant agreement also permits disposition by "other negotiating and contracting procedures" so long as those procedures assure the most advantageous price and afford a full and fair chance for doing business with the State. Thus, a negotiated direct sale is a permissible disposition if, under the facts and circumstances, such sale results in the most advantageous price reasonably obtainable and reasonable efforts have been made to negotiate with other possible purchasers.

The Demonstration is a Success.

The Commission agrees that a major objective of the demonstration is to test and develop information on cost effective methods of junk car removal. We believe, however, that the tenor of the remarks on page 12 will give rise to an unwarranted

inference that the demonstration program is a failure; it definitely is not. One of the major motives for this grant was to attempt to establish an ongoing program within the State of West Virginia. Because of this demonstration program, the Governor has succeeded in having the State Legislature enact permanent legislation which imposes a fee on automobile registrations. This will provide a permanent source of funding for carrying on the environmental cleanup program after Appalachian Act assistance has been terminated. This we believe is the ultimate test of the demonstration. In this regard the REAP Program is already a success.

We do agree that it is most desirable to develop as much detailed information on the various applications of different organizational methods and arrangements used by REAP, by other public bodies, and by private groups within the State. ARC's Project Coordinator has, on a number of occasions, discussed this aspect with the REAP Project Director. The Commission will, through the remainder of the project continue to stress the necessity of developing information on the cost efficiency of various administrative arrangements and techniques so that as much data as possible can be developed to permit appropriate comparative analyses. On the other hand, we believe your report should point out that the REAP demonstration program has already produced solid and lasting benefits for the State of West Virginia and, in this sense, has been eminently successful.

Provision of Services can be Consideration for Receipt of Hulks.

In several places in the report (for example, in the fourth sentence of the fourth paragraph on page 1), it is remarked that junk dealers received substantial numbers of junk autos at "no cost". In other places there is an extensive discussion of "giveaways". We believe that the use of these phrases is somewhat misleading. The stated position of REAP was that in many of these instances the dealers provided services to the REAP program. In such cases, where services were provided and the junk cars received by the dealers in exchange, it would be inappropriate to characterize the receipt as "at no cost" or the transaction as "giveaway". We agree that it is necessary for REAP to document fully the circumstances of these disposals, as we have noted above, but we do feel that the characterization of these disposals as having been at "no cost" or "giveaway" should be qualified with some appropriate notation that, in some instances, compensating services were provided as consideration.

As your report quite adequately notes, the Commission is aware of the necessity for establishing the facts and circumstances in these cases and has asked REAP to provide explanations and, as is noted on page 17, the Commission will determine what adjustments ought to be made in the final settlement of accounts of ARC and REAP.

ARC Records were Fully Accessible and ARC Fully Cooperated with GAO. There Should be no Implication to the Contrary.

We are concerned that the opening sentence of the fourth paragraph on page 1 of your letter (referring first to a delay because of a problem of access to records of the contractor and, then, in the next sentence, to carrying out the audit work in West Virginia and at ARC) would permit the inference that there was some problem obtaining access to records of the ARC.

We think your agents will readily attest that the Commission was, from the very outset of your inquiries, fully cooperative and entirely open to GAO personnel. We believe your earliest examinations were carried out at the Commission and preceded the August 1974 date you cite as the start of the audit. We believe the record should be entirely clear on this point so that no such erroneous inferences could be drawn.

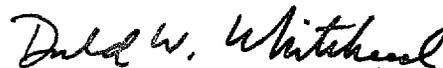
Stimulation of Cleanup Campaigns by Other Groups is Part of REAP Program and Collections by Others are Appropriately Creditable to REAP Efforts.

On page 6, the paragraph headed "Collections and Disposals" does not give appropriate recognition to the fact that a major purpose of the REAP program is to elicit the cooperation and active participation by citizens, local civic groups, etc., in the solid waste removal program. Article 2-8 of the contract specifically provides for a public information and education program designed to stimulate such active participation (See Contract, pages 9-11). Thus, it is not inappropriate for REAP to record numbers of junks collected by agencies other than REAP itself and to take some appropriate credit for having stimulated the collection of such junks. The comments on page 6 and at the top of page 6a seem to be somewhat unfair in their implication that the Project Director overstated the number of removals under the REAP program.

[See GAO note 2.]

Again, we thank you for the opportunity to comment on this report.

Sincerely,



Donald W. Whitehead
Federal Cochairman

- GAO notes:
1. Page numbers may not correspond to those of the final report.
 2. Deleted comments refer to material contained in draft report which has been clarified or not been included in the final report.