092578

B-138162
2-26-70

Compilation of Findings and Recommendations for Improving Government Operations

Fiscal Year 1969

The

Comptroller General of the United States

092578

B-138162

FEB 26, 1970

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-138162

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

The accompanying report presents a compilation of General Accounting Office findings and recommendations for improving Government operations and relates for the most part to fiscal year 1969.

The compilation is organized so that the findings and recommendations are identified with and grouped generally on the basis of functional areas of the Government's operations, regardless of the agencies involved Because findings developed in one agency frequently have application in others, this arrangement facilitates consideration of all findings in each functional area in all agencies.

Because of the great interest in economic opportunity programs, all of our findings on these programs are grouped under "Economic Opportunity Programs," beginning on page 3 Findings of a functional nature in these programs are also referred to in the report sections concerning each function

The purpose of this report is to provide a convenient summary showing, by functional areas, the opportunities for improved operations which have been identified by our Office in carrying out its audit responsibilities These responsibilities are derived from the Budget and Accounting Act, 1921, and other laws which require us to independently examine, for the Congress, the manner in which the Government agencies are discharging their financial responsibilities.

The report summarizes the corrective actions taken by the agencies on our recommendations Certain of these actions involve changes made in policies and procedures through the issuance of revised directives and instructions The effectiveness of these actions is dependent on the manner in which the directives and instructions are implemented and on the adequacy of the supervision and internal reviews of the operations For this reason, to the extent deemed appropriate, it is our policy to review and evaluate the effectiveness of corrective actions taken by the agencies.

The financial benefits attributable to our work cannot always be fully measured. However, our records show that savings identified during fiscal year 1969, which were attributable to the work of the General Accounting Office, amounted to $187.6 million. Of this amount, $20.4 million consisted of collections and $167.2 million represented other measurable savings. Approximately $65 million of the latter amount is recurring in nature and will continue in future years. A summary of these savings appears beginning on page 178 of this report.

Additional financial savings which are not fully or readily measurable are listed beginning on page 187.

For the convenience of the committees of the Congress and of others, the back of the report contains indexes of (a) agencies to which the findings and recommendations relate and (b) the applicable Federal budget functional classifications. The table of contents also shows the Federal budget functional classification for each item reported.

Copies of this report are being sent to the Director, Bureau of the Budget, and to officials of the Government agencies for their information and consideration in connection with their operations.

Elmer B. Staats
Comptroller General
of the United States

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DISABILITY COMPENSATION BENEFITS

1 REDUCTION IN DISABILITY COMPENSATION PAYMENTS—In August 1968 we reported to the Secretary of Labor on the Department of Labor's implementation of the statutory provision permitting a reduction in disability compensation payments for claimants who have attained 70 years of age and have a probable decreased wage-earning capacity due to old age Such reductions are authorized by the Federal Employees' Compensation Act of 1916, as amended, which is administered by the Bureau of Employees' Compensation

Our examination at four of the Bureau's 10 district offices showed that the Bureau was compensating 746 claimants who were 70 years of age or older but that the cases of only 47 claimants had been reviewed pursuant to the governing statute and that compensation for eight of the 47 claimants had been adjusted downward because of a determination that their wage-earning capacity had probably decreased We found that the four district offices we visited had developed various policies and procedures of their own for implementing the age-70 provision, which resulted in inconsistent treatment to claimants We found also that claims examiners were not making sufficient reviews of age-70 cases

During our review in 1966, we proposed to the Director, Bureau of Employees' Compensation, that he issue revised instructions and appropriate policy guidelines for the implementation of the age-70 provision of the act We suggested that the cases of all claimants who had attained age 70 be reviewed to provide them with consistent treatment under the act The Bureau issued revised instructions to its district offices in December 1966 to ensure a review of age-70 cases at a specified time in order that the Bureau might exercise the discretion granted by the age-70 provision of the act

In our draft report, we suggested also that the Department strengthen its management controls over the operations of the Bureau by establishing a formal program of internal audit designed to bring to the attention of management officals matters such as those noted during our review

The Department agreed that a program of internal audit was an absolute necessity and advised us that organizational and funding changes had been made in the Bureau that would permit the staffing of an Office of Program Analysis and Evaluation that reports to the Director (B-157593, August 29, 1968)

ECONOMIC DEVELOPMENT ASSISTANCE

2 PROVISION FOR REPAYMENT OF FEDERAL FUNDS—In a report to the Assistnat Secretary for Economic Development, Department of Commerce, we commented on several technical assistance projects for which recipients had not been required to enter into repayment agreements, although the projects appeared to be similar in scope to other approved projects for which the Economic Development Administration (EDA) had entered into repayment agreements with project recipients EDA policy provides that repayment of technical assistance funds is to be considered when projects will benefit a private individual or business

We found that among the reasons considered for not obtaining repayment agreements were the unwillingness of the recipients to repay the cost of the technical assistance provided and the financial inability of the recipients to make repayment at the time of

application We believe that unwillingness to repay is not a valid reason for excluding repayment agreements Also, since repayment is to be made only from the future net profits of the firm receiving the assistance, we believe that a determination by EDA not to enter into a repayment agreement is not justifiable merely because of a lack of funds at the time of application

Subsequent to the beginning of our review, new repayment guidelines were agreed to by EDA's Office of Technical Assistance (OTA) and EDA's Office of Business Development (OBD), which required EDA to enter into repayment agreements with all recipients of Management and Operations (M&O) technical assistance, except for unusual situations to be specially handled by arrangements between OBD and OTA We were informed that these guidelines were expected to strengthen the implementation of the agency's repayment policy and ensure its uniform application

We believe that the provisions of the new guidelines, if applied on a consistent and continuing basis, will ensure that repayment of M&O technical assistance will be required on a uniform basis We noted, however, that the new guidelines provided only for repayment of the Federal costs of M&O technical assistance projects and not for other technical assistance projects We noted further that the provisions of the guidelines had not been established as agency procedures We therefore recommended that the provisions of the new guidelines be incorporated into the agency's formal written procedures and that the procedures also include provisions for repayment of the Federal costs for all applicable technical assistance projects

In December 1968 an Economic Development Order was issued in accordance with our recommendation (Report to Assistant Secretary for Economic Development, Department of Commerce, June 10, 1968)

3 SUPPLEMENTARY GRANT ASSISTANCE FOR PUBLIC WORKS AND DEVELOPMENT FACILITY PROJECTS—In February 1969 we reported to the Congress on improvements needed in procedures for determining supplementary grant assistance for public works and development facility projects approved by the Economic Development Administration (EDA), Department of Commerce Procedures established by EDA provide that the amount of a supplementary grant to an applicant for a project eligible for grant assistance be computed by reducing the estimated cost of the project by the lesser of the applicant's share of the cost of the project or 50 percent of such cost and by the amount of the direct grant The applicant's share of the cost of a project is generally considered to be the amount of a loan that could be amortized by the revenues that the project could be reasonably expected to generate over a 30-year period and cannot be less than the applicant's minimum share determined by maximum grant rates set by EDA The applicant may finance his share of project costs from his own funds or by obtaining a loan from EDA or private interests

We reviewed the records pertaining to the supplementary grants of $3 1 million, awarded by EDA to applicants of 18 projects located in EDA's western and mideastern areas We noted that, in determining the amount of the supplementary grants for the 18 projects, EDA did not consider all available revenues or the revenues were incorrectly computed, or were based on questionable data, or were reduced by excessive charges for project expenses On the basis of our review, we believe that 17 of the supplementary grants totaling over $2 6 million should not have been made and that one supplementary grant of about $400,000 should have been reduced by about $57,000

We recommended that the Secretary of Commerce require that EDA

–Establish for all projects for which supplementary grant assistance is requested specific guidelines for determining the revenues that such projects could reasonably be expected to generate

–Provide for detailed review by officials in EDA area offices and Washington headquarters of supplementary grant determinations, including an evaluation of all factors entering into such determinations

–Include a provision in all grant agreements for adjustment of the amount of the supplementary grant upon discovery of a computational error

–Determine the amount of a supplementary grant for a project on the basis of revenues which may be generated during the useful life of the project, for a 40-year period, or for a period equal to the maximum loan repayment period permitted by the applicable bond statutes, whichever is less

–Consider annual payments on existing indebtedness of a project as an expense of the project for only those periods for which such payments will be made

Also, we noted that, although EDA's authorizing legislation requires that revenues be considered in determining the amount of any supplementary grant, EDA did not require consideration of net project revenues in instances where the basis grant from one Federal agency and the supplementary grant from EDA did not exceed 50 percent of the project costs

Our report suggested that, because of the impact of the EDA policy on amounts of grant assistance provided to applicants and in the interest of providing financial assistance to as many needy projects as possible, the Congress might wish to express its views as to whether EDA should consider project revenues when an EDA grant supplementary to a basic grant by another Federal agency does not result in the total Federal grant contribution exceeding 50 percent of project costs

In July 1968 the Assistant Secretary for Economic Development informed us that generally EDA did not agree with our findings and proposals He stated, however, that EDA not only concurred with our proposals to provide more adequate supervisory review of supplementary grant determinations but had taken what it believed to be the requisite steps to ensure that the supervisory reviews are carried out We noted, however, that the Assistant Secretary had not required nor had EDA developed detailed supervisory review guidelines for evaluating supplementary grant determinations, and we therefore recommended adoption of our proposal (B-153449, February 4, 1969)

ECONOMIC OPPORTUNITY PROGRAMS

4 SPECIAL REVIEW– This item relates to a special review by the General Accounting Office that covered a number of separate economic opportunity programs The various findings for each of the programs are presented in summary form, and the recommendations are directed toward improvements in the effectiveness of the total antipoverty effort, as well as the individual programs This treatment differs from that given the other items in this report, which generally are presentations of individual findings and recommendations related to a single functional area of the Government's operations

Title II of amendments enacted on December 23, 1967, to the Economic Opportunity Act of 1964 (42 U S C 2701) authorized and directed the Comptroller General of the United States to make an investigation of programs and activities financed, in whole or in part, by funds authorized under the act to determine–

"(1) The efficiency of the administration of such programs and activities

by the Office of Economic Opportunity and by local public and private agencies carrying out such programs and activities, and

"(2) The extent to which such programs and activities achieve the objectives set forth in the relevant part or title of the Economic Opportunity Act of 1964 authorizing such programs or activities"

A report on our overall findings and recommendations was submitted to the Congress on March 18, 1969

Fifty-nine supplementary reports on our examination were submitted to the Congress as they were completed on (a) our field examinations where such work was performed, (b) our review of management functions of the administering Federal agencies, (c) our program evaluation work on a national basis, and (d) the special studies performed for us under contract

Our overall findings and recommendations, as summarized in chapter 2 of our March 18, 1969, report are set forth below Our findings were grouped under the following broad categories

1 The financial dimensions of the total Federal antipoverty effort, and the part played by the Office of Economic Opportunity (OEO)

2 The extent to which the objectives set forth in the act had been achieved

3 The efficiency with which the programs authorized by the act had been administered

4 The actions which should be taken to realize more effective and economical use of the resources available for reducing poverty

TOTAL FEDERAL ANTIPOVERTY EFFORT

In terms of the Federal budget, the Economic Opportunity Act of 1964 represented a relatively small increment to the already existing programs for aiding the poor

The aggregate of all Federal programs for assistance to the poor amounted to $22 1 billion in fiscal year 1968 and an estimated $24 4 billion in fiscal year 1969 The projection for fiscal year 1970 is $27 2 billion Increases in Federal programs in recent years have been accompanied by a reduction in the number of the poor, based upon the definition used by the Social Security Administration, from about 34 million in 1964 to 22 million in 1968 Although Federal programs for assistance to the poor undoubtedly contributed importantly to this reduction, much of the reduction can be attributed to the expansion of the national economy in recent years

In monetary terms, the funds appropriated for programs authorized by the Economic Opportunity Act ($1 8 billion in 1968 and $1 9 billion in 1969) are small in relation to the total Federal effort In other terms, the role of OEO is significant—it is the only Federal agency exclusively devoted to antipoverty, its programs are, for the most part, innovative in one or more aspects, and it shares with the Economic Opportunity Council the responsibility for coordinating antipoverty activities of other Federal agencies, at least nine of which, in addition to OEO, administer significant programs directed to assisting the poor

OVERALL PERSPECTIVE

The accomplishments achieved under the Economic Opportunity Act should be appraised in the light of the difficulties encountered by the agency (OEO) created to carry out the purposes of the act These difficulties include

—The urgency of getting programs under way as quickly as possible

—Problems in developing a new organization and in obtaining experienced personnel

—Problems in establishing new or modified organizational arrangements at the local level

—The delays and uncertainties in obtaining congressional authorizations and appropriations

—The problems of working out relationships with other agencies and with State and local governments

—Lack of consensus as to the meaning of poverty, i e , who are the poor for purposes of receiving assistance

Our review properly and inevitably focused on problems, shortcomings, and recommended improvements OEO and other participating agencies expressed agreement with many of our conclusions and recommendations and had initiated actions to deal with certain of these problems

Achievements of the programs authorized by the act can be assessed only in judgmental terms This is so for several reasons the programs are new, they deal with such intangible concepts as the economic and social levels of disadvantaged people, they impose requirements and are subject to conditions which are not amenable to reliable, and, in some cases, any quantitative, measurement More specifically

—Criteria are lacking by which to determine at what level of accomplishment a program is considered acceptably successful

—The methods for determining program accomplishments have not yet been developed to the point of assured reliability

—The large volume and variety of pertinent data necessary for ascertaining program results were, and still are, either not available or not reliable

—Program results may not be fully perceptible within a relatively short time frame

—Other programs—Federal, State, local, and private—aimed at helping the poor, as well as changes in local conditions—employment, wage scales, local attitudes—have their effect upon the same people who receive assistance under the programs authorized by the act

—Amendments to the act and revisions in agency guidelines at various times have necessitated redirection of programs and other changes which have affected the progress of programs in the short run

ACHIEVEMENT OF OBJECTIVES

The basic objective of the Economic Opportunity Act is to strengthen, supplement, and coordinate efforts to provide to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity

Toward the achievement of this objective, the act authorized a series of programs and activities designed to bring new approaches to the task of eliminating poverty and to supplement efforts authorized by other legislation The programs authorized by the act can be grouped in five broad categories—Community Action, Manpower, Health, Education, and Other

An important and basic objective is coordination of the programs authorized by the act with one another and with related programs administered by other agencies This coordinating task was assigned to the Economic Opportunity Council created by the act and to OEO, the former having the dominant role

The Council never functioned effectively and, as recast by the 1967 amendments, has not been established

OEO, preoccupied with setting up the machinery to get a new agency started and then with its responsibility for initiating and administering programs authorized by the act, was not able to devote as much effort to its coordinating function as that function demanded This coordinative task was made difficult by the necessity of OEO's influencing the actions and policies of older established agencies, OEO, a new agency of lesser status in the Federal hierarchy, was unable to bring together all programs related to attacking poverty As a consequence effective coordination has not been achieved, we believe that it cannot be so achieved under the existing organizational machinery

An important part of the overall program management process is the evaluation of performance and accomplishments Evaluations during the first years of OEO operations were too small in scope and too unrelated to one another to provide satisfactory information on the achievement of objectives, nationally OEO has more recently responded to the provisions of the 1967 amendments to the act, which directed an expansion of evaluation efforts

Community Action Program

The Community Action Program (CAP) was intended by the act to be the means of bringing a unified effort to bear on the problems of the poor in urban and rural communities through projects designed to organize community residents, to engage the poor in the planning and implementation of projects, and to be an organized advocate for the poor in effectuating changes which would expand the availability of services to the poor

The program has achieved varying success in involving local residents and poor people in approximately 1,000 communities, it has been an effective advocate for the poor in many communities and appears to have gained acceptance in most communities as a mechanism for focusing attention and action on the problems of the poor, and it has introduced new, or expanded existing, services to the poor CAP, however, has achieved these ends in lesser measure than was reasonable to expect in relation to the magnitude of the funds expended This shortfall is attributable principally to deficiencies in administiation that should be evaluated in the light of the nature of the program and the fact that it has been in operation for a relatively short time

Manpower programs

Unemployment and the lack of those capabilities that enable individuals to obtain employment are major causes of poverty To attack these causes, OEO currently invests approximately one half of its resources in manpower development, training, and employment programs, a significant portion of this effort is focused on youth The programs have provided training, work experience, and supportive services to the participants Apparent results—in terms of enhanced capabilities, subsequent employment, and greater earnings—are limited

The Concentrated Employment Program (CEP), during the short period it has been in existence, has shown some promise of contributing meaningfully to the coordination of existing manpower programs in specific target areas There is evidence, however, that there is an especial need for better coordination with the federally funded State employment security agencies and with the Job Opportunities in the Business Sector (JOBS) program sponsored by the National Alliance of Businessmen

Through the institutionalized training of the Job Corps program, corps members have had opportunity to receive certain benefits, many of which are not subject to precise measurement, however, post—Job Corps employment experience, which is measurable, has been disappointing In the light of the costly training provided by the Job Corps pro-

gram, we doubt that the resources now being applied to this program can be fully justified Our doubt is especially applicable to the conservation center component of the program

The in-school and summer components of the Neighborhood Youth Corps (NYC) program have provided enrolled youths with some work experience, some additional income, improved attitudes toward the community, and greater self-esteem If it is intended, however, that these components continue to have as a principal objective the reduction of the school dropout problem, greater flexibility should be provided in the use of funds for such things as the enlargement of existing school curriculums, more intensive and professional counseling, and tutoring for potential dropouts

We question the need for retaining the NYC out-of-school component as a separate entity The objective of this component seems to be encompassed in other existing programs, particularly the Manpower Development and Training Act (MDTA) program, with which the out-of-school component could be merged As presently operated the out-of-school component has not succeeded in providing work training in conformity with clearly expressed legislative intent

The work experience and training program, soon to be replaced by the work incentive (WIN) program, has enabled persons on the welfare rolls to obtain employment and assume more economically gainful roles in society On the other hand the program experienced deficiencies in certain functions of administration which detracted from the accomplishment of the program's mission

Our limited review of locally initiated employment and job creation programs under CAP revealed varying degrees of success

The available data showed that most of the manpower programs experienced high, early dropout rates which strongly indicated that many enrollees received little or no actual help

Health programs

The Comprehensive Health Services Program is a rather recent innovation and, partly because of delays in the program's becoming operational, has reached only a portion of its intended population Many of those that it has been able to reach have been provided, for the first time, with readily accessible medical care on a comprehensive basis Uniform plans and procedures are needed to evaluate OEO's and the Department of Health, Education, and Welfare's health projects during the development phase and on a long-range basis More appropriate and equitable standards need to be established for determining eligibility for free and reimbursable services

The family planning programs are also of recent origin, and only limited data as to results was available

Education programs

Head Start (for pre-school-age children) has been one of the most popular programs in the economic opportunity portfolio Potential long-range effects cannot yet be measured

Available evidence suggests, however, that Head Start children at the locations visited made modest gains in social, motivational, and educational characteristics and were generally better prepared for entry into regular school than were their non-Head Start counterparts The children also benefited from medical and dental services, although some did not benefit because of delays in providing these services, from well-balanced meals, and from group-instruction activities The program, however, has not succeeded in getting sufficient involvement by parents of Head Start children, which is a primary objective of the program

The Upward Bound program has provided participants with opportunities to overcome handicaps in academic achievement and in motivation, to complete high school, and to enter college National statistics show that Upward Bound students have lower high school dropout rates than is considered nor-

mal for the low-income population, have higher college admission rates in comparison with the national average for high school graduates, and have college retention rates above the national average for all college students The extent to which ineligible youths are accepted detracts from the effectiveness of the program

Other education programs have experienced some success by raising the enrollees' proficiency in basic educational skills and by culturally enriching their lives, however, the management of such programs was in need of improvement

Other programs

The Legal Services program has improved the plight of the poor by affording them legal representation and educating them as to their legal rights and responsibilities The success of this program in assisting the poor to form self-help groups, such as cooperative and business ventures, has been limited, and few Legal Services projects have engaged in efforts to bring about law reform

An overall evaluation of the performance of the Volunteers in Service to America (VISTA) program is a complex task, because VISTA volunteers are involved in a variety of functions alongside personnel of other programs

The Migrants and Seasonal Farmworkers program in Arizona has been beneficial in helping migrant adults to obtain or qualify for employment and in preparing preschool migrant children to enter elementary school Program effectiveness could be increased by more closely relating education and training courses to the specific needs of program participants and by limiting participation to the target population

The Economic Opportunity Loan Program (transferred to the Small Business Administration in 1966) would better achieve the objective for which it was established if it offered greater assistance to borrowers to aid them in improving their managerial skills and if it were carried on with greater administrative efficiency The Economic Opportunity Loan Program for low-income rural families administered by the Department of Agriculture made only a limited contribution to bettering the income of a majority of loan recipients included in our review Our evaluation, which was based on borrowers' operations for a 1-year period, did not permit an assessment of whether program objectives would be achieved in succeeding years Inadequate counseling and supervision and lack of definitive eligibility criteria tended to limit program effectiveness (For additional information on our findings and recommendations related to these two loan programs see items 5 and 12)

EFFICIENCY OF ADMINISTRATION

The effectiveness of the total antipoverty effort is dependent, in considerable measure, on the manner in which individual programs and activities are administered It was to be expected that establishment of a new OEO (in 1964) having responsibility for launching innovative (i e , unprecedented) programs and for difficult or impossible coordination would create many administrative problems in the early years of operations Also, the emphasis placed in 1964 on getting programs under way and obtaining results quickly did not leave sufficient time to plan and establish well-designed and tested administrative machinery Although progress has been made in the past 4 years, the administrative machinery is still in need of substantial improvement

Program and project managers, in most programs, have not been provided with adequate guidance and monitoring by OEO and other responsible Federal agencies There is need for improved policies and procedures to strengthen (1) the process by which program participants are selected, (2) the counseling of program participants, (3) the supervision of staff, (4) job development and placement, (5) the ways in which former program participants are followed up on and provided with further assistance, and (6) the recordkeeping and reporting necessary to permit more effective evaluations of accomplishments and more

adequate accountability for expenditures Some of these shortcomings can be attributed to insufficient and inexperienced staff, particularly at the local level

The Community Action Program, for which a substantial portion of OEO funds are expended, requires greater effort to aid the local CAAs build effective administrative machinery, more adequate program planning and evaluation, and better operational procedures and trained personnel at the neighborhood centers Also more support should be given to innovative efforts of the type currently underway at OEO to evaluate CAPs

The administrative support to the antipoverty programs will have to be substantially augmented and improved to achieve satisfactory effectiveness of antipoverty efforts with the limited resources available

For substantially all programs, particularly the manpower programs, payroll procedures need to be strengthened to afford adequate control against irregularities, procurement practices should be modified to limit purchases to what is demonstrably needed and the lowest cost, and more effective procedures are needed to ensure the utilization and safeguarding of equipment and supplies and their timely disposition when they become excess to needs Closer attention should be given to claims for non-Federal contributions so that only valid items supported by adequate documentation are allowed

Many of the administrative deficiencies identified in our examination could have been avoided or corrected sooner if requisite auditing and monitoring by responsible local and Federal agencies had been more timely and comprehensive

PRINCIPAL RECOMMENDATIONS

We believe that, to provide more effective means for achieving the objectives of the Economic Opportunity Act, revisions are needed in the programs and organization through which the effort to eliminate poverty has been outlined in the act Accordingly, we offered the following recommendations

Community Action Program

1 CAAs and OEO should institute efforts to

   a Improve the planning of local projects

   b Generate greater cooperation among local public and private agencies

   c Stimulate more active participation by the poor

   d Develop means by which the effectiveness of programs can be evaluated and require periodic evaluations to be made

   e Strengthen the capability of the neighborhood centers to carry out their functions of identifying residents in need of assistance in the target areas and of following up on referrals made to other units or agencies for rendering needed services

2 OEO should consider including income among the eligibility requirements for those component programs, such as education and manpower, which are directed to individuals or families and which involve a significant unit cost and for which income is not now an eligibility requirement

3 OEO should give greater emphasis to research and pilot projects that offer promise of alleviation of poverty in rural areas and should encourage CAAs in rural areas to broaden the range of activities that will contribute to economic development

4 The Congress should consider whether additional means are necessary and desirable to assist residents of rural areas that cannot build the economic base necessary for self-sufficiency, to meet their basic needs

Manpower programs

5 The Secretary of Labor should take further steps to ensure that

a Full use is made of the existing facilities and capabilities of the State employment security agencies in connection with CEP operations

b CEP operations are coordinated fully with the JOBS program

6 The Congress should consider, whether the Job Corps program particularly at the conservation centers, is sufficiently achieving the purposes for which it was created to justify its retention at present levels

7 The Congress should consider

a Redefining and clarifying the purposes and intended objectives of the NYC in-school and summer work and training programs authorized for students in section 123(a)(1) of the Economic Opportunity Act of 1964, as amended

b Establishing specific and realistic goals for programs authorized and relative priorities for the attainment of such established goals

8 The Congress should consider merging the NYC out-of-school program, currently authorized in section 123(a)(2) for persons 16 and over, with the MDTA program

9 The Secretary of Labor, to make the WIN program effective, should give close and continuing attention to the problem of enrollee absenteeism and ascertain the causes of early terminations and absenteeism and how these causes may be alleviated or eliminated through additional services, modification of program content, or other means

Health programs

10 The Director, OEO, through his cognizant program office, should define the circumstances under which health centers may finance costs of hospitalization, establish more appropriate and equitable criteria to be used in determining the eligibility of applicants for medical care, and, in accordance with grant conditions, require centers to claim reimbursement from third parties

11 Increased attention should be given by both the Director of OEO and the Secretary of Health, Education, and Welfare to the coordination of the agencies' health efforts and the development of uniform standards for evaluating health projects and programs including family-planning programs, both during the development phase and on a long-range basis

Education programs

12 The Director, OEO, should direct and assist local Head Start officials to make further efforts to involve more parents of Head Start children

in the program in order to enhance the opportunity for developing the close relationship between parents and their children that is so vital to the children's social and educational growth

13 The Director, OEO, should improve procedures for the recruitment and selection of participants in the Upward Bound program

14 The Director, OEO, should require, as prerequisites to funding locally initiated education programs

a Determinations as to whether the program will conflict with existing programs directed to the poor and whether it could be financed with other than OEO funds

b The identification of available resources and facilities which could be used in the program to reduce the expenditure of limited OEO funds

c The identification of complementary education programs through which further educational assistance could be afforded to OEO program graduates

Other programs

15 The Director, OEO, should

a More clearly define program objectives and major goals to the Legal Services project directors and instruct them on the methodology of engaging in activities directed toward economic development and law reform

b Make efforts to develop and implement measures of the extent to which Legal Services projects are achieving national program priorities and objectives

16 To improve procedures leading to the assignment of selected applicants to the VISTA regional training centers, the Director, OEO, should give consideration to the feasibility of requiring that applicants be interviewed and given aptitude tests before they are considered eligibility for VISTA training

17 The Director, OEO, should require, with respect to the Migrant and Seasonal Farmworkers program, that

a Systematic employability plans be prepared whereby participants' handicaps can be identified at the time of enrollment so that an appropriate curriculum may be developed to meet such needs

b Participants' progress in the program be periodically reviewed

c Data on participants' post-program experience be maintained

18 The Administrator, Farmers Home Administration, Department of Agriculture, should

a Conduct a study primarily aimed at

1 Establishing minimum standards with respect to

the amount of supervisory assistance that should be given borrowers under the Economic Opportunity Loan Program in order to ensure that they receive adequate guidance

2 Determining, consistent with the foregoing standards, the quantity and types of supervision needed and the loan activity level which can be sustained within the supervisory capabilities available

b Revise Farmers Home Administration instructions as to loan eligibility to require appropriate consideration of net assets and the recording of the circumstances considered to justify the making of loans to applicants whose incomes and/or assets exceed specified amounts

Coordination and organization

19 A new office should be established in the Executive Office of the President to take over the planning, coordination, and evaluation functions now vested by the act in the Economic Opportunity Council and OEO

20 OEO should be continued as an independent operating agency outside the Executive Office of the President, with responsibility for administering CAP and certain other closely related programs

21 Funding and administration of certain programs now funded by OEO should be transferred to agencies which administer programs that have closely related objectives

22 The proposed new office in the Executive Office of the President should have responsibility for ensuring coordination of activities of local Cities Demonstration Agencies and CAAs If this new office is not established, consideration should be given to placing this responsibility under the Secretary of Housing and Urban Development

23 The Congress should direct that a report be submitted on longer term actions required to coordinate and to maximize the use of community action and citizen participation efforts in federally assisted antipoverty programs

The evaluation function

24 The recommended new office in the Executive Office of the President should further develop the evaluation function with respect to antipoverty programs

General

25 The responsible Federal agencies should give particular attention to providing for more frequent and comprehensive audits of all antipoverty programs

(B-130515, March 18, 1969)

5 DIRECTION AND CONTROL OVER RURAL LOAN PROGRAM OPERATIONS—Our review of the economic opportunity (EO) loan program, which is administered by the Farmers Home Administration

(FHA), Department of Agriculture, and is designed to assist low-income rural families in raising and maintaining their income and living standards, showed that, although the program had helped a number of individuals to raise their income significantly, the majority of borrowers had made less or slightly more income from their loan-financed enterprises during a 1-year period than was needed to meet payments on loan principal

We stated our belief that, when viewed from the standpoint of permanently bettering the income of loan recipients, the program's contribution, with respect to the majority of loan recipients, had been very limited Our conclusions, however, were based on an evaluation of the borrowers' operations for a 1-year period, although the loans had repayment periods averaging 10 years Therefore our evaluation did not permit a positive assessment of whether in succeeding years the loans will achieve their ultimate objectives

We stated our belief also that

—the lack of adequate counseling and supervision by FHA had had a bearing on the indicated limited progress of the borrowers,

—the lack of precise loan eligibility criteria had resulted in loans' being made to individuals whose reported financial condition and background indicated that they were not in the proverty category, and

—FHA needed to strengthen its planning and management information system in order to enable it to adequately assess the results of the program and to plan its future direction

In addition, FHA was unable to reliably determine the administrative costs of carrying out the EO loan program As a result, the total administrative costs involved in carrying out the program, substantial amounts of which came from funds made available for FHA's regular program, had not been fully disclosed to the Congress

In view of the foregoing findings, we basically recommended

—That FHA (a) establish minimum standards with respect to the amount of supervisory assistance that should be given EO borrowers to ensure that they receive adequate guidance, (b) determine, consistent with the foregoing, the amount of supervisory effort needed to maintain the loan level activity within the supervisory capabilities available, and (c) establish procedures and controls to ensure that supervision is furnished to borrowers at the desired level,

—That FHA revise its instruction so that an applicant's net assets are appropriately considered and, in those cases in which an applicant's net income or net assets exceed those specified, that proper justification be shown in the records for making an EO loan under such circumstances, and

—That FHA strengthen its management system for the EO loan program by providing data which can be used by its managers to (a) define more precisely the number of rural families whose incomes are deficient and who represent potential borrowers, (b) identify the problems that exist in reaching and aiding certain groups, such as the aged and nonfarm families, (c) determine more effectively the amount of loan funds that will be needed in the future, and (d) formulate the framework by which loan performance can be readily and effectively evaluated

Although not agreeing with many of our findings and recommendations, FHA advised us in March 1969 that it recognized the need for

—improving borrower counseling and supervision,

—documenting justification for making loans to individuals whose income or asset position appeared to make him ineligible, and

—improving its system of program evaluation by refining performance data and increasing FHA's analytical capabilities in developing trends and problems in low-income rural areas

(B-130515, August 21, 1969)

6 ACCOUNTING AND INTERNAL CONTROL—In January 1969, we reported to the Chairman of the Senate Committee on Appropriations, at his request, on our review of Government funds utilized under the first two of three Department of Labor contracts with Youth Pride, Inc , Washington, D C Our review revealed numerous weaknesses in PRIDE's system of accounting and internal controls Also, enrollees interviewed by us made numerous allegations of improprieties and irregularities involving principally expenditures of payroll (Information indicating that Federal criminal laws might have been violated was referred by us to the Department of Justice) Accordingly, we could not conclude that all funds advanced to PRIDE by the Department of Labor had been properly expended and accounted for and it was not feasible to determine, with any degree of accuracy, the full extent to which funds may have been misused The weaknesses in the system of accounting and internal controls were substantially corrected during our review, but we pointed out that no system could be expected to provide complete protection against all types of fiscal irregularities

We concluded that the Department should have satisfied itself, in conjunction with awarding contracts to PRIDE, that PRIDE's accounting procedures and internal controls provided reasonable safeguards over Federal funds Also, we concluded that, if the Department had required PRIDE to adhere to conventional and accepted standards of accounting and internal control, many of the unresolved questions and doubts concerning the use of funds under the first two contracts could have been avoided

We recommended that the Department monitor PRIDE's accounting and internal control procedures and perform periodic tests of transactions and procedures to ensure satisfactory performance by PRIDE (B-164537, January 16, 1969)

7 COMPLIANCE WITH CONTRACTUAL REQUIREMENTS—In January 1969, we reported to the Chairman of the Senate Committee on Appropriations, at his request, on our review of Government funds utilized under the first two of three Department of Labor contracts with Youth Pride, Inc , Washington, D C We noted that PRIDE had not complied with certain requirements of its contracts with the Department and with certain Government regulations relative to keeping records, submitting reports, handling project funds, obtaining departmental approval for certain transactions, determining eligibility of enrollees, and adhering to limitations on travel allowances We were informed that some requirements had been waived orally by the Department

We recommended that (a) the Department monitor PRIDE's operations on a continuous basis to ensure that PRIDE is complying with applicable contract requirements and (b) the Department reduce all waivers of contract requirements to writing (B-164537, January 16, 1969)

8 CONTRACTS FOR FINANCING ON-THE-JOB TRAINING—In a report submitted to the Congress in November 1968,

we pointed out that certain contracts awarded by the Department of Labor to private firms, principally in the Los Angeles County area of California, to conduct on-the-job (OJT) training for disadvantaged and hard-core unemployed had served primarily to reimburse the employers for OJT which they would have conducted even without the Government's financial assistance These contracts were awarded even though the intent of the contracts was to induce new or additional training efforts beyond those usually carried out

We found that the Department of Labor had not developed adequate guidelines and procedures for its field personnel in implementing the "maintenance-of-effort" clause which is included in every OJT contract to ensure that the contractor's previous training efforts are maintained at no cost to the Government Prior to awarding the contracts, the Department of Labor did not ascertain either the number of employees normally trained by the employers or their training costs

Our review showed that the Department had not established standards and guidelines prescribing the length of training in the various occupations that the Government would support under OJT contracts We found that, as a result, the Department had awarded OJT contracts in which the weeks of training supported by the Government varied, even though the training provided by each of the employers was for essentially the same skills or occupations

In addition, we found a need for better coordination of the OJT program in the Los Angeles County area because contracts were being promoted, developed, and administered independently by different organizations on behalf of the Department of Labor Consequently, there sometimes were differences in costs for each employee and in weeks of training provided for the same occupation

Although the Department carried out most OJT projects through cost-reimbursement contracts, we believe that these projects could have been operated more efficiently and economically if fixed-price contracts had been used in situations where the Department had obtained cost experience and was negotiating a follow-on or similar-type contract

We recommended that the Secretary of Labor prescribe appropriate procedures for use by the contracting officials in determining levels of prior training effort and in establishing the costs to be reimbursed under OJT contracts

In addition, we suggested that the Department take steps to establish reasonably uniform standards and guidelines governing the length of training the Government should support for particular occupations under OJT contracts Moreover, we suggested that the Secretary of Labor establish appropriate procedures to properly coordinate the development and administration of OJT contracts and develop a policy to require the use of fixed-price contracts where appropriate

The Secretary of Labor agreed with most of our findings and pointed out corrective actions planned or taken The Secretary questioned, however, whether the Department should engage in a costly administrative process to determine compliance with the maintenance-of-effort clauses of the contracts in the absence of a statutory requirement therefor

In our opinion, the Department's policy of including maintenance-of-effort clauses in all OJT contracts was formulated as an interpretation of legislative intent, and we therefore questioned whether any substantive change of policy regarding the maintenance-of-effort concept was proper without first obtaining congressional approval We therefore urged that the Secretary of Labor take corrective action in accordance with our recommendation on this issue (B-146879, November 26, 1968)

9 YOUTH WORK-TRAINING PROJECTS (DETROIT)—In a report submitted to the Congress in December 1968, we pointed out the need for the Department of Labor to increase the effectiveness of the Neighborhood Youth Corps (NYC) program which was being operated by several program sponsors in Detroit, Michigan

The Economic Opportunity Act of 1964 authorized the establishment of the NYC program for the purpose of providing funds and technical assistance to organizations willing to operate work-training projects for students and unemployed young men and women from low-income families NYC activities in Detroit began in February 1965, and Federal funds authorized through June 1968 totaled about $16 million

We found a need for more careful screening of youths applying for the out-of-school component of the NYC program, to ensure that the youths whom the program is intended to benefit were enrolled A substantial number of the enrollees in the out-of-school component in Detroit did not meet the Department's criteria for enrollment or could not be identified by us as having met the criteria, because the sponsors had not recorded sufficient information in the enrollees' records to support positive determinations of eligibility

Also there was a need for reasonable follow-up procedures, to identify those youths who needed further advice and assistance and to serve as a basis for program evaluation and redirection, for improved supervisory controls of the timekeeping records for NYC enrollees in the in-school component sponsored by the Detroit Board of Education, and for more effective monitoring of sponsors' operations in Detroit by the Bureau of Work-Training Programs, Department of Labor

In addition, we found that the Detroit Board of Education had not contributed its required share for costs of an NYC project in the summer of 1965 This was caused by the Department of Labor's policy which permitted NYC sponsors to include, in the payment for their share of the project expenditures, other Federal funds which they received while administering programs for other Federal agencies We stated that, generally, where a Federal grant requires non-Federal matching funds to be provided, Federal or required non-Federal matching funds under another Federal grant may not be considered as meeting the grantee's matching requirements

We recommended various actions to be taken to screen NYC youths adequately, strengthen follow-up and payroll procedures, and intensify the Department's monitoring activities We also suggested that the Secretary of Labor should take the necessary steps to ensure, with respect to future NYC agreements, that sponsors will not claim, as part of their required 10-percent share, funds which had been advanced to them under other Federal grant programs

The Secretary of Labor advised us that the Department and the sponsors had initiated corrective actions and that every effort was being made to adjust to the requirement that a sponsor's share of the program costs not be derived from other Federal funds or funds obtained from non-Federal sources previously used to match Federal funds under other programs (B-162001, December 26, 1968)

10 YOUTH WORK-TRAINING PROJECTS (LOS ANGELES COUNTY)—In January 1969 we reported to the Congress on the need for substantial improvements by the Department of Labor and the sponsor in several aspects of the administration of the Neighborhood Youth Corps (NYC) program operated in Los Angeles County, California

NYC activities in Los Angeles County began in February 1965, and Federal funds authorized through June 1968 totaled about $34 4 million

We concluded that the NYC program in Los Angeles might not always have reached those youths in need of the program as defined by the Bureau of Work-Training Programs We found that a substantial number of youths enrolled in the NYC program in Los Angeles County did not meet the eligibility criteria established by the Department, or we could not readily verify their eligibility because the files did not show that the sponsor had elicited from the enrollees sufficient information upon which to make sound determinations of eligibility

We found also that there was a need for the sponsor to evaluate the effectiveness of the orientation programs being given by its subsponsors to new NYC enrollees, to improve the quality of work supervision and increase counseling services given to enrollees, to increase enrollment of NYC enrollees in supplemental education programs and improve class attendance by those youths enrolled in such programs, and to provide increased emphasis on job-development and follow-up services for enrollees whose participation in the NYC program had terminated

In addition, we noted the need for improvement by the sponsor in controls over wages and salaries paid to enrollees and the administrative staff, for documentation of the non-Federal contributions to the NYC program, for timeliness in auditing the activities of its subsponsors, and for communication between NYC administrators

We recommended, in general, that the Department of Labor monitor the implementation of corrective actions planned by the sponsor and its subsponsors to improve eligibility determinations and ensure that such improvements are accomplished on a timely basis

On January 16, 1969, we were advised by the Department of Labor of the corrective actions taken or to be taken by the Department, the sponsor, and the California State Employment Service on our findings and recommendations (B-165214, January 7, 1969)

11 YOUTH WORK-TRAINING PROJECTS (PHILADELPHIA AND PITTSBURGH)—In a report to the Secretary of Labor in April 1969, we pointed out a number of deficiencies in the administration of the Neighborhood Youth Corps (NYC) program in Philadelphia and Pittsburgh that warranted attention by the Department of Labor NYC activities began in Philadelphia during March 1965 and in Pittsburgh during June 1965, and Federal funds authorized through June 30, 1968, totaled about $26 5 million

We concluded that, for 40 percent of 1,123 youths enrolled in the NYC program in Philadelphia and Pittsburgh, eligibility criteria established by the Department had not been met or eligibility of the youths could not be readily ascertained because records supporting the sponsors' eligibility determinations were not complete

We found a need for the sponsoring organizations to take appropriate action to increase enrollment and improve attendance of NYC youths in supplementary education programs, to adequately support in-kind contributions claimed as the sponsors' share of project costs, to improve the controls over payroll operations, and to consider use of available Government sources of supply in acquiring office equipment and supplies

In addition, we believed that there was a need for more effective monitoring of sponsor operations by the Department to improve program effectiveness and to ensure compliance with work-training contracts

We recommended that the Department obtain the needed improvements in screening procedures of the sponsors in Philadelphia and Pittsburgh and that the Department intensify its monitoring of these procedures in these cities We recommended also that the Department assist and encourage the sponsors to improve other aspects of the administration of the NYC program

On June 19, 1969, the Assistant Secretary of Labor for Administration advised us that the sponsors were currently reviewing and carefully monitoring all enrollee records for eligibility, utilizing guidance information (school attendance and grades) and income criteria published by the Office of Economic Opportunity and by the Department of Labor He stated also that additional manpower resources which the Department of Labor had authorized in these areas would allow for more frequent and detailed monitoring of sponsors' total operations and for providing technical assistance to the sponsors

The Assistant Secretary also advised us that the Department of Labor agreed with our other findings and recommendations and outlined the corrective actions being taken by the Department and the sponsors (B-165666, April 8, 1969)

12 ADMINISTRATION OF ECONOMIC OPPORTUNITY LOAN PROGRAM—In an April 1969 report to the Congress, we expressed the opinion that the efficiency of the administration of the Economic Opportunity Loan (EOL) Program by the Small Business Administration (SBA) could be substantially improved We also stated that, in some cases, the effectiveness with which the program achieved the objectives of the Economic Opportunity Act could be increased

In our evaluation of the administration of the program we relied, to the extent we considered feasible, on the results of the review made by SBA's Audits Division Our survey also included a review of three reports on studies of the EOL Program which were issued in February 1966 and in June and December 1967 by two consulting firms

Our survey showed that

—SBA had made only limited analyses of program information for evaluating the effectiveness of the program

—The lack of specific guidelines for applying the various loan eligibility criteria appears to have resulted in questionable interpretations of the criteria In some cases, however, we concluded that inadequate consideration of existing guidelines by SBA officials was the basic cause for questionable interpretations

—The stated objective of the Economic Opportunity Act with respect to improving managerial skills employed in small business concerns had not been fulfilled

—SBA needed to improve its evaluation of the applicants' ability to repay loans

The internal auditors in their review also noted a need for improvement of various procedures in the review, approval, and administration of loans We stated that the corrective action taken by SBA concerning the need to improve certain procedures brought to management's attention by the internal auditors should, if properly implemented, improve the administration of the EOL Program

We recommended that, in order that the Congress and SBA may be in a position to better evaluate the effectiveness of the program for meeting the objectives of the act, SBA, throughout the term of the loan, obtain information regarding the number of persons employed by the borrower, that SBA make further efforts to provide more specific instructions and guidance to SBA employees

for use in their review and approval of EOLs, and that SBA intensify its efforts to obtain adequate financial data from the loan applicant and that loan specialists intensify their analysis of the data

In commenting on our findings in November 1968, the Administrator of SBA expressed general agreement with the matters pointed out but did not favor our proposals for specific corrective action He stated that, in the opinion of SBA, actions already taken would eliminate the weaknesses outlined in the report (B-130515, April 23, 1969)

13 CONSOLIDATION AND COORDINATION OF PRESCHOOL PROGRAMS AMONG FEDERAL AGENCIES—In a report submitted to the Congress in February 1969, we compared the preschool programs operated in Los Angeles County, California, during the 1966-67 school year by the Office of Economic Opportunity (OEO) and by the Office of Education and the Social and Rehabilitation Service, of the Department of Health, Education, and Welfare (HEW) We reported that differences existed in the types and degrees of services provided to the enrollees in the areas of education, health, nutrition, and social services in three federally supported preschool programs In the area of program administration, we reported that differences existed in such areas as (a) age and income enrollment criteria, (b) staff qualification requirements and salaries paid, (c) staff workload and responsibility, (d) program duration, and (e) program evaluation

On the basis of our review, we believe that, to realize maximum benefits from the preschool programs and to avoid inconsistencies and possible inequities among disadvantaged children being served, there is a need for coordinated direction of the programs among the Federal agencies and a need for consideration of the desirability of prescribing comparable criteria for enrollment, comparable guidelines for services, and a standard term of enrollment among the preschool programs Further, we believe that there is a need for evaluation of the comparative degrees of success that have been attained in the various programs, since, in our opinion, such an evaluation would form a constructive base for future programs

The need for more effective coordination of Federal programs was recognized in section 631 of the Economic Opportunity Act of 1964, as amended December 23, 1967 This section provided for reestablishing the Economic Opportunity Council, in part, to assist the President of the United States in providing for the coordination of Federal programs and activities related to the act and in resolving differences arising among Federal departments and agencies with respect to such programs and activities

The responsibilities of the Economic Opportunity Council, the Director of OEO, and participating Federal departments and agencies in combining, coordinating, and consolidating programs are further defined in sections 632, 633, and 634 of the act

In view of the inconsistencies and possible inequities in serving disadvantaged children and the need to achieve a more coordinated effort in administering the preschool programs, we proposed that the Economic Opportunity Council determine whether the various preschool programs administered by OEO and by the Social and Rehabilitation Service and the Office of Education, HEW, should be consolidated under a single Federal agency

Pending such a determination we proposed that the Secretary, HEW, together with the Director, OEO, and the Economic Opportunity Council—as authorized by part B of title VI of the Economic Opportunity Act—take such actions as might be required to strengthen the coordination among the vari-

ous preschool programs and to consider the need for comparable criteria to be applicable to the programs in the interest of providing more equal service to participating, disadvantaged children

We were informed by OEO that as of November 30, 1968, the President had not yet appointed members to the Economic Opportunity Council reestablished by the Economic Opportunity Amendments of 1967, however, both HEW and OEO advised us of actions taken by them that were responsive to our proposals

The Acting Director of OEO informed us that, pursuant to a directive from the White House dated April 10, 1968, the Secretary of HEW had established a Federal Panel on Early Childhood The OEO letter advised us that the Panel, which was composed of representatives of Federal agencies administering related programs on early childhood, had been asked to develop, among other things, plans for the most effective use of operating, research, training, and technical assistance funds available to the departments and agencies in ways which would support the objectives of all

Also, the directive provided that the plan be developed so as to ensure that program coordination, both in Washington and in the field, would be continuous and that services would be available wherever needed under common standards and priorities and in ways that would actively involve State, local, and private agencies

The Secretary of HEW, in his letter of October 4, 1968, stated that the Panel was currently engaged in a series of studies and working on a program called the Community Coordinated Child Care Program, which were addressed directly to the kind of matters discussed in this report

In addition to the above, the Congress, under section 309 of the Vocational Education Amendments of 1968, directed the President to make a special study of where the responsibility for administering the Head Start program should rest and to submit the findings of this study to the Congress not later than March 1, 1969 On February 19, 1969, the President submitted the special study to the Congress and also directed that preparation be made for the delegation of Head Start to HEW In accordance with the President's directive, responsibility for the Head Start program was delegated to HEW effective July 1, 1969 (B-157356, February 14, 1969)

14 TRANSFER OF HEAD START ENROLLEE RECORDS—We reported to the Congress in February 1969 that the Office of Economic Opportunity (OEO) policy which requires that records of children enrolled in the Head Start program be transferred to the elementary schools subsequently attended by the children was not being fully followed in the program administered by the Economic and Youth Opportunity Agency of Greater Los Angeles (EYOA) Transfer of these records, which contained important data on the children's Head Start performance and the extent of health services provided, is necessary to ensure that the children are not deprived of certain benefits of the program

During our visits to certain delegate agencies, we noted that the records of children enrolled in the Head Start program had not been transferred because their parents had not submitted to the elementary schools the postcard form which was furnished to the parents by the delegate agencies for use by the schools in requesting the records After we discussed this matter with EYOA officials, EYOA adopted a revised procedure which provided for the delegate agencies to hand-carry the Head Start enrollees' records to the appropriate schools

By letter dated July 12, 1968, the Acting Director, OEO, informed us that exact procedures for the transfer of records could be worked out only at the local level and that the 1966 guidelines directed that provision be made for the transfer of the health records of Head Start enrollees

Subsequently, OEO officials acknowledged to us that, apparently because of an oversight, the OEO Head Start guidelines issued in September 1967 did not contain a requirement for the transfer of enrollee records to the elementary schools attended by the former Head Start enrollees We therefore recommended that the Director of OEO revise the Head Start guidelines to require the transfer of enrollee records to the elementary schools attended by former Head Start enrollees (B-157356, February 14, 1969)

15 INCREASED ENROLLMENT IN THE HEAD START PROGRAM—We reported to the Congress in February 1969 that we believe that the enrollment of children in the Head Start classes in Los Angeles County could be increased if the Office of Economic Opportunity (OEO) class enrollment criteria were revised to give recognition to the average daily attendance of enrollees The Head Start class size recommended by OEO was 15 children with a maximum and minimum enrollment of 20 and 12 children, respectively We found that the enrollments in Head Start classes were limited by the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) to 15 children and that additional children could have been enrolled since the average daily attendance for the classes of selected delegate agencies was about 12 children

After we brought this matter to EYOA's attention, EYOA advised its delegate agencies in March 1967 to increase the enrollment in their classes As a result of the increased enrollment, a total of 523 additional children were being served by April 30, 1967 We estimated that these children had been accommodated during the remaining 4 months of the program year at an additional cost of about $39,000, or about $355,000 less than we estimated would have been required to establish new classes to serve a like number of children

We proposed that the Director of OEO, to increase the number of children participating in the Head Start programs and to obtain the maximum benefits from the resources provided by OEO, revise the instructions pertaining to class enrollment to provide that grantees, in setting class levels, give recognition to the average daily attendance

By letter dated July 12, 1968, the Acting Director of OEO informed us that OEO believed that grantees should be encouraged only as a last resort to enroll additional children where absenteeism becomes an acute problem He informed us also that OEO stressed that Head Start teachers and social workers should not consider absent children expendable or replaceable but rather should give them the intensive attention needed to overcome the dropout problem

The intent of our proposal was, in part, to permit a greater number of children to attain the benefits of the Head Start program Although we agree with the concept advanced by OEO, we believe that, as a practical matter, actions cannot be taken that would reduce absenteeism to a point where OEO's recommended student-to-teacher ratio would be met

We therefore recommended that the Director of OEO revise Head Start OEO guidelines to require Head Start grantees to enroll a sufficient number of children to ensure that the average class attendance is in line with OEO's desired staffing patterns, giving due consideration to prior enrollment and attendance statistics and to the need to identify, and take appropriate action or cor-

rect, the causes of absenteeism (B-157356, February 14, 1969)

16 INCOME ELIGIBILITY STANDARDS—In a report submitted to the Acting Director of the Office of Economic Opportunity (OEO) in September 1968 on our review of the Legal Services program operating in the cities of Philadelphia and Pittsburgh, Pennsylvania, we reported that, under the OEO legal services program guidelines, the delegate agencies were permitted to adopt eligibility standards that contained higher income limitations than those used in other OEO programs We also reported that the attorneys participating in the Pittsburgh program were not following the eligibility standard adopted for their program but were following standards that the attorneys individually determined to be appropriate

The director, Legal Services program, informed us that variations from OEO's general income criteria were justified because (a) regional differences existed in the cost of living, (b) the uniform poverty standard would be inappropriate because of the high cost of legal services, and (c) it was desirable to have the same income standard as that of the local legal aid society

We questioned whether these reasons justified the use of differing income eligibility standards in the legal services program We believe that regional differences in the cost of living and in the cost of the services offered would exist with respect to other programs funded by OEO Aside from this question, we believe inequalities can result when attorneys in a particular program are permitted to individually establish criteria

We recommended that OEO review the propriety of its policy of permitting the establishment of income eligibility standards in the legal services program which may vary from OEO's generally applicable guidelines We also recommended that attorneys of the Pittsburgh program be required to apply income eligibility standards on a uniform basis to all persons assisted (Report to the Acting Director, Office of Economic Opportunity, September 5, 1968)

17 ADMINISTRATION AND OPERATION OF THE HEAD START PROGRAM—In February 1969 we reported to the Congress that our review of the Office of Economic Opportunity (OEO) Head Start services provided by delegate agencies of the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) showed that

—Services were not being made available on a basis that would permit all disadvantaged children throughout the county to have an equal opportunity to participate in the program

—Children were not enrolled in classes in sites nearest to their homes, which resulted in not keeping to a minimum the bussing of children and the traveling by agency personnel to children's homes and by children's parents to classes

—Some class sites of delegate agencies were widely dispersed As a result, supervision could not be provided on the most efficient and economical basis

We reported also that the delegate agencies

—Had employed certain persons who did not meet OEO's prescribed qualifications for the positions without documenting the agencies' justification for deviating from the requirements

—Had leased certain classroom space at rates that exceeded those specified in OEO guidelines and approved budgets and had accepted certain classroom space as a non-Federal share of program costs although such action was specifically prohibited by OEO guidelines

—Were not fully documenting expenditures of Federal funds

—Were not determining the eligibility of children from military families for enrollment in the program in accordance with OEO's criteria

We proposed that, to reduce instances on noncompliance with OEO-prescribed criteria, instructions, and procedures, the Director, OEO, reevaluate the allocation of OEO's program resources so as to ensure that sufficient emphasis is being given by OEO regional office personnel to maintain a close working relationship at the local level We proposed also that the Director, OEO, reemphasize to the Western Regional Director the need for timely and effective guidance, supervision, and review of the planning and operations of EYOA's Head Start program

The Acting Director of OEO informed us that OEO had been acutely aware of the need to develop effective monitoring systems, to provide useful guidelines to Head Start programs, and to ensure that needed program information flowed smoothly from OEO through the grantee to the delegate agencies He informed us also that OEO had been working to build up the staff of the regional offices to a level sufficient to provide the needed guidance, supervision, and review (B-157356, February 14, 1969)

18 ENTERTAINMENT COSTS—We reported to the Director of Job Corps in October 1968 that, during our review of activities of the Albuquerque Job Corps Center for Women, Albuquerque, New Mexico, we noted that certain costs of questionable allowability had been inculuded in vouchers submitted to the Office of Economic Opportunity (OEO), by the contractor, Packard Bell Electronics Corporation, for reimbursement under contract OEO-2480 Included in these costs were several instances where expense reports submitted by Center personnel for reimbursement by Packard Bell included the costs of food and/or entertainment furnished to OEO employees

Although it is recognized that OEO's Standards of Conduct for Employees provide that employees may accept food and refreshment of nominal value in the ordinary course of a luncheon or dinner meeting or other meetings when the employee's attendance at the meeting is in the interest of OEO, we reported that the frequency with which certain OEO employees had accepted food and/or entertainment provided by contractor officials warranted the attention and review of OEO

As a result of our report, Job Corps changed its policy to state "***that all conference meals and/or entertainment in which Job Corps employees and contractor personnel participate, will be on a 'dutch treat' basis, without exception" (Report to Director of Job Corps, Office of Economic Opportunity, October 2, 1968)

19 JOB CORPS GRADUATION REQUIREMENTS—In a report to the Director of Job Corps, Office of Economic Opportunity, in September 1968 on our review of the operations of the Omaha Job Corps Center for Women and the Excelsior Springs Job Corps for Women we reported that the respective centers differed in their requirements for graduation and that the opinions of various staff members appeared to be the controlling factor in determining whether a corpswoman had qualified for graduation

The Excelsior Springs Center's requirements for graduation in a vocation consisted of completion of courses such as Home and Family and World of Work, completion of the

basic educational courses required to bring the achievement level of the corpswoman up to the grade equivalent level designated for the vocation selected, and completion of the vocational educational courses and on-the-job training (OJT) designated for the vocation selected

Our review of the Excelsior Springs Center records for selected corpswomen who graduated during the period of our review or had supposedly completed their training except for OJT revealed little information as to when and the manner in which they had obtained the achievement level required for graduation Although the records reviewed generally indicated the various courses taken by the corpswomen, there was little documentation in the files to show when and how the corpswomen had attained the specific skills required for that vocation According to center officials, the teachers determined whether the corpswomen had progressed to the level required for graduation

At the Omaha Center officials advised us that there were two basis prerequisites for graduation The first prerequisite consisted of a collective evaluation by teachers and staff members that the corpswoman was employable The other prerequisite was the satisfactory completion of the first three steps of a personal development program which consisted of five "Life Skills" steps Center officials stated that although the enrollees were encouraged to complete all five steps, only the first three steps were required to be completed prior to graduation Our review of Center records for 37 enrollees who were graduated in April 1967 showed that only 24 of the 37 had completed the three required steps

We reported that there was a need to develop and apply uniform standards for determining when a corpswoman was qualified for graduation to ensure that graduates had achieved acceptable standards of conduct or progress

In December 1968, OEO reported that all women's centers had established graduation criteria covering vocational, academic, and social achievement (Report to Director of Job Corps, Office of Economic Opportunity, September 19, 1968)

20 ADMINISTRATION OF HEAD START GRANTS—In May 1969 we reported to the Acting Director, Office of Economic Opportunity (OEO), that OEO needed to (a) improve controls over grantees' financial reporting to ensure prompt disposition of unobligated funds remaining with grantees at the end of the grant period and (b) strengthen accounting controls over funds returned to OEO by grantees

We evaluated OEO's policies and procedures for controlling grant funds and made an examination of fiscal and other records for selected Head Start program grants at OEO Headquaters in Washington, D C, and the OEO regional offices in San Francisco, California, New York, New York, and Austin, Texas

We found that, because OEO had not effectively administered the financial reporting requirements of the grant programs, it had no accurate knowledge of the status of Federal funds in the hands of grantees or the amounts which should have been returned to OEO For example, our review at OEO Headquarters of selected Head Start grants funded in fiscal year 1965 showed that OEO had not received the required financial reports from 81 grantees who had received Federal funds totaling about $9 million Our review at the OEO regional offices also showed that grantees were not submitting the required financial reports

To correct this situation, we recommended that OEO Headquarters issue orders and instructions to emphasize the need for strict enforcement of grant program require-

ments and to establish effective controls over the programs

In addition to the above, we found that the financial reports of 105 grantees that had received Federal funds totaling over $4 million showed a total of about $350,000 in unexpended funds We were unable to find any evidence that OEO had received or deposited any of these funds Upon subsequent examination of the funds received by OEO, we noted that $82,000 of the $350,000 had been received and deposited in the U S Treasury but that most of these funds had not been entered into OEO's accounting records at the time of receipt

We believe that it is one of management's prime responsibilities to ensure that the agency comply with the laws and regulations applicable to the receipt and disbursement of public monies We recommended that management ensure that funds received are promptly entered into the accounting records We recommended also that OEO continue its actions to recover the unexpended balances of Head Start grants (Report to the Acting Director, Office of Economic Opportunity, May 9, 1969)

21 ELIGIBILITY CRITERIA FOR THE HEAD START PROGRAM—In a report submitted to the Congress in February 1969, we reported that over 490 children who were enrolled in the Head Start classes in Los Angeles County were ineligible on the basis of the family income criterion established by the Office of Economic Opportunity (OEO) We also reported that about 200 children who were enrolled in the program—some of whom may be included in the group of over 490—did not meet the OEO age criterion Since funds were not made available to serve all the eligible children in Los Angeles County, it appeared that the enrollment of ineligible children deprived eligible, disadvantaged children of an opportunity to participate in the program

It appeared also that medical services were provided to about 100 children and that dental services were provided to about 580 children who were not entitled to the services under OEO's policy and its grant agreement with the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA) because controls had not been established to prevent the furnishing of the services to such children

We estimated that program costs allocable to services provided to the enrollees during the 1966-67 program period amounted to a minimum of about $451,000 for children who did not meet the age criterion and about $30,000 for children who were not entitled to receive medical and dental services

OEO established income and age criteria for determining eligibility of children for enrollment in the program and for determining the extent of medical and dental services to be provided, however, OEO did not establish adequate controls for ensuring full compliance with the criteria

We believe EYOA's practices in administering eligibility requirements evidenced a need for improving the effectiveness and timeliness of guidance, communication, and review by OEO and EYOA and a need for improving the cooperative planning between EYOA and its delegate agencies so that services can be provided to those children who are entitled, under program guidelines, to such services

After we brought our findings to EYOA's attention, it issued instructions to its delegate agencies requiring that immediate steps be taken to comply with OEO's income eligibility requirements Subsequently, we were advised by EYOA that 491 ineligible enrollees had been dropped from the program and that they had been promptly replaced by

eligible children We estimated that the replacement of the 491 ineligible children in the program with eligible children resulted in the redirection of funds of about $259,000 during the 3-month period ended August 31, 1967 EYOA advised us also that in the future only disadvantaged children eligible under OEO age and income criteria would be enrolled in the program

We proposed that the Director of OEO (a) reemphasize to grantees and their delegate agencies the need to comply with eligibility criteria, (b) have the Western Regional Director evaluate the effectiveness of the actions taken by EYOA to more fully comply with the eligibility criteria and of the efforts by EYOA's field representatives, and (c) encourage the full participation by the delegate agencies in the preparation of the Head Start proposals

The Acting Director of OEO, in commenting on our findings and proposals by letter dated July 12, 1968, informed us that OEO had taken the following actions toward attaining the objectives of our proposals

—Several complementary systems had been developed for evaluating the effectiveness of grantee recruiting and screening efforts and for developing guidelines which would help the grantees accomplish that task

—A specially recruited staff had made site visits to about 780 Head Start programs in 1966 and 1967 for the purpose of focusing special attention on problems of income eligibility, and, as a result, Head Start guidelines had been revised

—The Director's office had issued special instructions to Regional Directors on the importance of ensuring that income eligibility guidelines were observed

—The OEO Western Regional Office had established a special office in Los Angeles to improve communication and coordination with delegate agencies

—EYOA had initiated weekly meetings with the program directors of its delegate agencies OEO guidelines stressed the need for greater participation by the delegate agencies and by the Head Start parents in program planning, and the Head Start application was designed to make this requirement effective

(B-157356, February 14, 1969)

22 ACCOUNTING CONTROLS OVER CASH ADVANCES—In June 1969 we reported to the Congress on our review of selected aspects of payments and charges to Job Corps members by the Office of Economic Opportunity Operations, Finance Center, U S Army (OEOO-FCUSA), Indianapolis, Indiana, for the Office of Economic Opportunity (OEO), that there was a need to improve financial controls over Job Corps allowances

Under an interagency agreement, OEOO-FCUSA makes payments for the Job Corps to all corps members for various types of allowances In calendar year 1967 such payments amounted to about $105 million and OEOO-FCUSA was reimbursed by OEO in the amount of $1 6 million for the cost of this operation

From a statistical sample, we estimated that in 1967 Job Corps centers did not report cash advances of about $125,000 to OEOO-FCUSA because of inadequate accounting controls We estimated that, if the advances had been properly reported, about $115,000 could have been deducted from separation payments

We also found that unexcused absences for which corps members were not entitled to allowances were not properly reported to OEOO-FCUSA and that OEO's policy requiring recovery by the Job Corps centers of the unused portion of Government-furnished transportation or meal tickets was not being

implemented and OEOO-FCUSA was not notified so that the amount due terminated corps members could be reduced by the value of the unreturned tickets

Although about 5,600 terminated corps members reenroll annually and our tests showed that many reenrollees may have debts outstanding from prior enrollment, policies and procedures did not call for collection of such debts upon readmittance

We proposed that OEO conduct a study of all areas affecting corps members' allowances to establish a set of uniform policies and to develop adequate instructions and guidelines for use by center directors in establishing better control over advances and other amounts due or to be collected from corps members

OEO and the Department of the Army, in commenting on the draft report, expressed general agreement with our findings and proposals and advised us of a number of corrective actions taken or to be taken

We believe that, if the actions taken or being taken by OEO and OEOO-FCUSA are satisfactorily implemented, overall control over corps members' pay and allowances should be materially strengthened However, we understand that OEOO-FCUSA does not plan to reconcile amounts claimed by centers to reimburse their imprest funds with amounts advanced to corpsmen for certain needs

We therefore, recommended that the Director, OEO, make the necessary arrangements with the Department of the Army to have OEOO-FCUSA reconcile all types of advances at least on a test basis (B-130515, June 30, 1969)

FEDERAL-AID AIRPORT PROGRAM

23 AIRPORT SPONSORS USE OF FUNDS DERIVED FROM SALES OF DONATED FEDERAL LAND—We reported that airport sponsors had used proceeds derived from the sale of Government-donated land to offset (a) the sponsors' share of the cost of Federal-aid airport program (FAAP) projects and (b) the cost of airport developments not eligible for Federal participation under FAAP In some cases, funds derived from the Government (proceeds from sale of Government-donated land and FAAP funds) were sufficient to offset substantially all of a sponsor's investment in its airport The Federal Aviation Administration's (FAA's) policy permitted airport sponsors to dispose of land donated under the Surplus Property Act if, among other things, the sponsor agreed to apply the proceeds to the operation, maintenance, or improvement of a public airport We suggested that (a) FAA's procedures be revised to require airport sponsors to use the proceeds derived from the sales of donated Federal land to offset costs of airport development eligible for Federal assistance before giving additional FAAP funds to the sponsors and (b) determine the status of the unexpended proceeds and assure itself that such proceeds will be used for specific airport purposes

FAA revised its policy to eliminate the inequitable-matching aspect we objected to and to provide greater assurance that proceeds from sales of donated Federal land would be used for specific airport purposes FAA also agreed to take action to ensure that unexpended proceeds would be used for specific airport purposes (B-164497(1), September 24, 1968)

FEDERAL-AID HIGHWAY PROGRAM

24 FEDERAL EMERGENCY RELIEF FUNDS—In a letter to the Secretary of Transportation in June 1969, we questioned the propriety of using Federal emergency funds to finance 100 percent of the cost of a four-lane bridge and approaches to replace the two-lane Silver Bridge which collapsed at

Point Pleasant, West Virginia, in December 1967

The replacement bridge, estimated to cost about $16 1 million, was relocated downstream from the old bridge, and about $7 6 million of the estimated cost was directly related to the cost of constructing approaches

Federal highway legislation authorizes the use of Federal emergency funds for the repair or reconstruction of highways seriously damaged as a result of disasters or catastrophic failures The Secretary of Transportation is authorized to finance, with emergency relief funds, up to 100 percent of the replacement cost of a comparable facility if the Secretary determines it to be in the public interest

We concluded that two-lane bridge and a four-lane bridge were not comparable in size and capacity and advised the Secretary that the action taken in approving the use of Federal emergency funds to finance 100 percent of the cost of constructing a four-lane bridge and approaches, as a comparable replacement for the old bridge, was not consistent with the enabling legislation or the policies established by the Federal Highway Administration to implement such legislation

We recommended that Federal participation with emergency funds be limited to the estimated cost of a two-lane facility built to current design standards In addition, we recommended that Federal participation with emergency funds in the cost of the approaches be limited to the estimated cost of constructing or reconstructing the existing approaches to a replacement bridge at the old location to the extent that such cost resulted from the catastrophe (B-166132, June 30, 1969)

25 FEDERAL PARTICIPATION IN COSTS OF STATE HIGHWAY SAFETY PROGRAMS—Our review showed that the Federal Highway Administration (FHWA), Department of Transportation, had established a policy for participation in the cost of State highway safety activities which permitted the States to use the cost of their ongoing safety activities to match Federal funds made available for additional safety efforts undertaken pursuant to the Highway Safety Act of 1966 We noted that, as a result of this policy, some States were obtaining full reimbursement for the cost of federally approved additional highway safety activities undertaken and that other States were sharing in the cost of such activities

Because FHWA's policy did not appear to us to be consistent with the intent of Congress, as expressed in the enabling legislation and its legislative history, and because it appeared that FHWA was administering the program inequitable among the States, we recommended to the Secretary of Transportation that FHWA revise its policy to ensure that the matching of Federal and State funds be applied to the cost of additional safety efforts and that the practice of using expenditures for existing State activities for matching Federal funds be discontinued

The Department of Transportation disagreed with our interpretation of the enabling legislation and declined to accept our recommendation Basically, the Department believed that the intent of the Congress was to permit the States to match the available Federal funds with expenditures for ongoing safety activities of the States We believe that the enabling legislation or the legislative history does not support the Department's position

We suggested to the Congress that it might wish to consider providing whatever additional guidance it deemed necessary to clarify its intent with respect to the manner and extent to which Federal funds are to be used for funding State highway safety programs (B-165355, June 19, 1969)

26 IMPROVED APPRAISAL PRACTICES FOR RIGHT-OF-WAY ACQUISITIONS—We reported that, from at least 1961, surveillance by Federal Highway Administration (FHWA), Department of Transportation, right-of-way personnel in the State of Rhode Island had shown continuing weaknesses in the State's appraisal documentation During this same period, the FHWA auditors had reported similar weaknesses and had questioned the reasonableness of the appraisals that were being used as a basis for Federal participation We found that FHWA had not taken appropriate corrective action to require the State to make timely improvements

We examined 22 appraisal reports for properties costing a total of about $1 5 million and concluded that all of these appraisals were either incomplete or inadequate with respect to the documentation supporting the valuation of the land or improvements

We recommended that the Federal Highway Administrator institute an appropriate plan of action, including, if necessary, suspension of Federal participation in State right-of-way costs, to (a) obtain the improvements required in the State right-of-way acquisitions control system and (b) provide assurance that adequate support exists for the amount of Federal participation in the State's claims

The Federal Highway Administrator agreed that improvements were needed in the appraisal activities in Rhode Island and revised FHWA's appraisal policy to provide specific requirements which are consistent with generally accepted appraisal practices and which will provide FHWA, State, and fee appraisers with meaningful criteria for the preparation and evaluation of appraisal reports used as a basis for Federal reimbursement

In addition, the Federal Highway Administrator promised other corrective action, including (a) expansion of inspection-in-depth activities, (b) intensification of surveillance, and (c) requirement that States be advised, in writing, of deficiencies noted Documentation for appraisals obtained by the State in prior years are currently being reexamined (B-164497(3), November 19, 1968)

FEDERAL AID TO EDUCATION

27 ADJUSTMENT OF FEDERAL CONSTRUCTION GRANTS—The Office of Education (OE), Department of Health, Education, and Welfare (HEW), makes grants to institutions of higher education under title I of the Higher Education Facilities Act of 1963 to assist in financing the construction of academic facilities intended primarily for undergraduate use In a March 1969 report to the Congress, we expressed the belief that opportunities existed for Federal grant funds to be used in a more effective and equitable manner in accomplishing this objective

Our review showed that OE had not established adequate procedures for making timely reductions in grant amounts for such reasons as decreases in estimated construction costs or ineligibility of certain costs for Federal financial participation We found that OE, rather than reduce amounts of Federal grants as a result of reductions in the costs of facilities as originally approved, allowed many grantee institutions to retain and use such grant funds for procurement of additional items not included in project budgets approved at the time the grants were awarded For 24 projects it appeared that reductions of about $500,000 in grants could have been made except that OE had authorized the institutions to retain and use such grant funds, generally for procurement of additional equipment, although the grantee institutions had provided assurances that they would adequately equip the projects

We expressed the belief that Federal grant funds could have been made available for other eligible projects if appropriate grant

reductions had been made on a timely basis after a need for such reductions became apparent We pointed out that at July 1967 about $755,000 of title I funds had been made available for return to the U S Treasury rather than used for the title I program because required reductions of grants awarded in fiscal year 1965 were not made by OE until the time had expired within which the funds could have been legally obligated for other construction projects

We recommended that HEW require

—That grant adjustment practices be strengthened with a view toward reducing grants for decreases in estimated project costs and that such reductions be made on a timely basis

—That project files applicable to existing grants be reviewed for the purpose of reducing grants in those cases where information available indicates that eligible development costs will be less than the estimated cost on which the grants were based

HEW concurred in our recommendations and stated that actions had been taken or would be taken to strengthen grant adjustment practices followed by OE (B-164031(1), March 4, 1969)

28 USE OF FACILITIES CONSTRUCTED WITH FEDERAL FINANCIAL ASSISTANCE— In a report to the Congress in December 1968, we pointed out the need for the Office of Education (OE), Department of Health, Education, and Welfare (HEW), to strengthen its controls for determining compliance with statutory restrictions on the use of academic facilities constructed with Federal financial assistance

The Higher Education Facilities Act of 1963 authorizes Federal assistance for constructing, among other things, facilities to be used as classrooms, laboratories, libraries, and "related facilities necessary or appropriate for the instruction of students "

We found that the regulations issued by HEW were not clear as to the type of facilities considered as not being "related facilities necessary or appropriate for the instruction of students," and that, because of the absence of adequate guidelines, some OE representatives had not determined whether the facilities were being used in compliance with applicable restrictions

Although we found indications of only a few violations of the use restrictions applicable to academic facilities constructed with Federal assistance, we believed that there was a need for OE to (a) issue more definitive guidelines setting forth the criteria and methods to be used in ascertaining whether institutions were complying with applicable restrictions on the use of facilities constructed with Federal financial assistance and (b) make reviews to ascertain whether there was compliance with such restrictions

HEW informed us that OE was devoting more attention to the refinement of applicable guidelines and was developing plans for making systematic compliance reviews beginning in fiscal year 1969 (B-164031(1), December 23, 1968)

29 PROCEDURES TO DETERMINE COMPLIANCE WITH INTENDED USE OF GRANT FUNDS—In a September 1968 report to Congressman Glenard P Lipscomb and to the Federal grantor agencies involved, we presented the results of our review of the administration and use of Federal grants for an educational laboratory theater project in Los Angeles The project, which provided for the establishment of a theater group to present four selected plays to secondary school students during the school year 1967-68, was funded jointly by the U S

Office of Education, Department of Health, Education, and Welfare, and by the National Endowment for the Arts of the National Foundation on the Arts and the Humanities

We found that the accounting records and procedures used by one of the grantees involved had been adequate to account for the receipt and expenditure of Federal grant funds but that the other grantee had not established accounting procedures to provide for the identification and recording of costs in a manner that would permit a determination of whether expenditures of Federal grant funds had been for the purposes intended and were otherwise proper and whether Federal grant funds had remained and were returnable to the Government at the end of the grant period

We expressed the belief that there was a need for the Federal grantor agencies to take effective action to clarify the responsibilities of grantees and contractors under the educational laboratory theater program, particularly with regard to the fiscal aspects, and to assist such parties in resolving problems which tend to hinder efficient administration of the program

Officials of the Federal grantor agencies subsequently informed us of certain steps that were being taken to correct the deficiencies noted in our report (B-162965, September 13, 1968)

30 DISBURSING STUDENT-AID FUNDS—In March 1969 we reported to the Acting Commissioner of Education, Department of Health, Education, and Welfare, on our examination into the administration at a college in California of certain aspects of the Federal programs for financial aid to students We pointed out that, during the four academic semesters ended with the 1968 fall semester, $64,515 in loans under the National Defense Student Loan program and grants under the Educational Opportunity Grant program had been paid to 98 students who did not meet their school enrollment or attendance requirements

We found that the full amounts of loans and grants had been disbursed to the students for the entire semester about 10 days prior to formal registration and that, during the period between the receipt of a loan and/or grant and formal registration, the students were able to adjust their planned courses of study and, in some cases, fell below the minimum required number of credits or completely withdrew from school We expressed the belief that the practice of disbursing the full amount of aid for the semester before completion of registration lent itself readily to the occurrence of such a situation

College officials informed us that they were aware of the problems arising from this practice and had instituted some changes in registration and aid-disbursement procedures aimed at minimizing instances of noncompliance with the requirements of the federally assisted loan and grant programs The changes, which are planned for initiation with the 1969 fall semester, include the implementation of a procedure whereby students generally will be required to coordinate registration with receipt of aid Additionally, disbursement of aid to a student who has been authorized to receive both a loan and a grant will be made in two installments—the loan will be paid first, at the beginning of the semester, and the grant will be paid at a later date

In April 1969, in response to our suggestion, the Acting Commissioner of Education informed us that all schools participating in the student-aid program would be urged to adopt payment procedures that would prohibit the disbursement of loans and grants before registration (Report to Acting Commissioner of Education, Department of Health, Education, and Welfare, March 18, 1969)

31 REGISTRATION OF PESTICIDE OF QUESTIONABLE SAFETY—Our review showed that there was a need for the Agricultural Research Service (ARS), Department of Agriculture, to resolve questions of safety involving certain uses by the public of pesticide pellets containing the chemical lindane

We found that ARS registered lindane pellets for use in vaporizing devices on a continuous basis in certain commercial and industrial establishments—such as restaurants and other food handling establishments—even though there had been long-term opposition to this practice by the Public Health Service and Food and Drug Administration, Department of Health, Education, and Welfare, as well as other Federal, State, and private organizations We pointed out that the controversy associated with the use of the pellets stemmed from varying conclusions as to the adequacy of the scientific data that was available to prove that the continuous vaporization of lindane pellets in certain commercial and industrial establishments was safe

We noted that ARS had not resolved questions of safety raised by other Federal agencies and by State and private organizations, nor had it taken action to restrict or disapprove the use of lindane pellets in vaporizers in certain commercial and industrial establishments after the products were first registered with the agency in the early 1950's We expressed the opinion that the very existence of differences of opinion by various interested organizations emphasized the need for ARS to taken action to resolve the question of safety to human health We recommended that the Secretary of Agriculture review the ARS policy of registering the pellets with a view toward resolving the question

The Department of Agriculture's Director of Science and Education, in commenting on our recommendation, stated in November 1968 that ARS planned to meet with (a) representatives of other Federal agencies to determine steps necessary to resolve lindane problems and (b) medical experts who serve as collaborators to ARS for advice and counsel on the use of pesticides

Subsequently, in April 1969, ARS initiated action to cancel the registration of lindane products for use in vaporizing devices In its letter to registrants, ARS cited our report to the Congress and stated that, on the basis of its reevaluation of the toxicology of lindane, the results of its recent laboratory studies, and the opinion of its medical advisors, the continued registration of the products was contrary to provisions of the Federal Insecticide, Fungicide, and Rodenticide Act (B-133192, February 20, 1969)

LAND ACQUISITION

32 ACQUISITION OF LAND FOR MIGRATORY WATERFOWL REFUGES—In a report to the Congress in September 1968, we pointed out that the Bureau of Sport Fisheries and Wildlife, Department of the Interior, had acquired or scheduled for acquisition approximately 60 percent of its Federal objective, or 2 7 million acres of land, at an estimated cost of about $205 million, without, in our opinion, having established adequate goals and guidelines for determining migratory waterfowl needs

We expressed our opinion that, as a result of not having developed more specific goals and guidelines, the Bureau, in several instances, had acquired greater quantities of suitable habitat than were required to meet the needs of waterfowl in particular geographical areas, had acquired, or had scheduled for acquisition, substantial amounts of biologically unessential peripheral refuge lands to

gain control of suitable habitat, and had established refuges in areas of relatively low value to waterfowl

Bureau officials advised us that the Bureau's long-range population objective had just recently been defined and that research was expected to gradually provide more definitive measurements of habitat requirements than the observed use and empirical judgment on which the program then relied

We recommended that the Secretary of the Interior require the Director of the Bureau to establish appropriate waterfowl population goals and related land investment guidelines for future guidance of operating officials We stated that these goals should be established, by specific geographical areas within each flyway, as standards upon which acquisitions of suitable habitat could be rationally planned and coordinated, taking into consideration the matters discussed in our report

We recommended also that the Secretary consider limiting future acquisitions until such goals and guidelines are developed to help ensure that the limited funds available will be used to the best advantage We recommended further that prior acquisitions be reevaluated in light of such goals and guidelines in order that lands not needed to meet the needs of the migratory waterfowl refuge program might be scheduled for sale or exchange

At the time our report was issued, the Department informed us that it was not in a position to comment on our conclusions and recommendations because a Secretarial Advisory Board had recently conducted a study on what the national wildlife refuge system should be and its conclusions and recommendations were under detailed review

In February 1969, the Department informed us that it agreed with our recommendations for improvement but disagree with some of the information in our report and could not accept our findings and conclusions in total

The Department further advised us that numerous actions were being taken to improve the administration of this program, including (a) developing a system approach as a framework for improved planning, (b) conducting a study on the organization and goals of the refuge system, and (c) revising the Department's realty manual to require full reporting of the cost and justification for acquiring land on the periphery of waterfowl refuges and full reporting of all significant factors affecting land acquisition to the Migratory Bird Conservation Commission which is responsible for overseeing this program (B-114841, September 11, 1968)

LOAN PROGRAMS

33 ESTABLISHING AND CONSISTENTLY APPLYING PROCEDURES FOR MAKING LOANS—In August 1968, we reported to the Congress that the Bureau of Reclamation had not established adequate procedures for administering the small reclamation projects loan programs and that, where procedures had been established, the Bureau had not always required their consistent application in making loans Generally, the portion of a loan attributable to providing water for irrigation purposes is repayable without interest, the portion attributable to providing water for domestic, municipal, and industrial purposes is repayable with interest

The legislation establishing the small reclamation projects loan program indicates that projects constructed with loan funds are to be primarily for irrigation purposes We found, however, that, of the 34 loans totaling about $83 6 million made by the Bureau of Reclamation through June 1, 1967, five had been made for projects which, on the basis of information submitted by the loan applicants, would benefit primarily domestic, industrial,

or municipal water users instead of irrigation users These five loans totaled $10 million We recommended that the Secretary of the Interior require that consideration be given to the proposed project design in determining whether the loan is primarily for irrigation purposes and that loans be fully repaid when nonirrigation usage reaches 50 percent

Our review showed that three loan recipients were being allowed to repay over substantially longer periods of time than warranted, and we estimated that the delay in the return of funds to the Government would cost about $3 2 million in interest We recommended that repayment periods be based on the repayment capacity expected to result from the project and that the repayment periods be shortened when the cost of projects proves to be less than estimated

We stated that, in our opinion, an underrecovery of about $2 9 million in interest would result due to inadequate procedures for allocating project costs between interest-bearing and non-interest-bearing costs and that an underrecovery of about $220,000 in interest would result due to inappropriate criteria in allocating project construction advances to these purposes We recommended that procedures be improved for allocating costs for repayments of interest

In addition, we found that the Government was incurring additional interest costs of about $515,000 because two loan recipients had been permitted inordinate amounts of time in which to begin repayments We recommended that loan repayment begin at the time when project benefits, as originally planned, are first realized

Department of the Interior officials agreed that the small reclamation loan program could be improved with more positive and formal policies and procedures (B-114885, August 27, 1968)

34 INTEREST COMPUTATION PROCEDURES FOR PRICE-SUPPORT LOANS—Our review of repayments by agricultural producers on selected 1967-crop loans made by the Commodity Credit Corporation (CCC), Department of Agriculture, showed that the amount of interest collected by CCC under the existing method was an estimated $300,000 less than the amount that would have been collected under the previous method This difference was attributable mainly to CCC's policy of disregarding the month of repayment for interest computations

Under the grain price-support program prior to crop year 1964, a borrower was charged interest at a rate of 3 5 percent a year on the amount repaid for the actual number of days that a loan was outstanding In 1964, CCC adopted a policy which provided for a simplified method under which the borrower was charged a rate of 30 cents per $100 repaid (fractions disregarded) for each calendar month or fraction thereof that the loan was outstanding, excluding the calendar month of repayment No interest was charged if the loan was repaid in the same month as disbursed or if the amount of loan repayment was less than $100

To determine the effect of the simplified method of computing interest, we selected a random sample of 1,064 loans involving $4 4 million of repayments For this sample, we computed the effective interest rate for the interest received, as well as the amount of interest that would have been received had it been computed on the basis of 3 5 percent a year Our computations showed that the overall effective annual interest rate charged on these loans was 3 394 percent

In view of the fact that the change in policy for computing interest resulted in a loss of income to CCC, we recommended that the policy be reevaluated We suggested two

methods that appeared to be more equitable—either (a) charge interest on a daily basis or (b) retain the existing basis but include the full month of repayment in computing interest In a reply dated July 1, 1969, the Department acknowledged the need for improvements in matters of interest assessments and collections and informed us that it expected to make changes in 1970 (Report to the Executive Vice President, Commodity Credit Corporation, April 25, 1969)

35 DESIGNATING EMERGENCY AREAS FOR AGRICULTURAL CREDIT—Pursuant to the Consolidated Farmers Home Administration Act of 1961, as amended (7 U S C 1921), emergency agricultural loans may be made by the Farmers Home Administration (FHA), Department of Agriculture, to established farmers and ranchers if there is a general need for credit in an area as a result of a natural disaster and if the need cannot be met by private, cooperative, or other FHA sources

We found that the emergency area designations for three of the 14 counties included in our review were not warranted because they were based on either inadequate representations concerning the extent of crop damage and the general need for credit or the possible future effects of a disaster on crop damage and credit We found also that the designations in three other counties should not have been made on a county basis since the area affected by the occurrence of a natural disaster was confined to much smaller, well-defined parts of each county, or the actual damages were limited to relatively minor crops of a few farmers Because of the emergency designations in these three counties, loans were made to individuals who had not suffered production losses as a result of a natural disaster

Unwarranted emergency designations result in the reduction of the amount of funds available to alleviate the credit needs of others who have been affected by a natural disaster and who are unable to obtain funds from private or cooperative credit sources Also, an unwarranted designation results in emergency loans to farmers and ranchers who otherwise might be served by other credit sources, including the FHA loan programs, at higher interest rates

We proposed that FHA revise its procedures to encourage the use of emergency loans to individuals who have suffered demonstrated losses from natural disasters so that the designation of emergency areas can be postponed until such time as the general need for agricultural credit caused by a natural disaster can be accurately determined

Subsequently, FHA strengthened its procedures for recommending emergency area designations and revised its loan-making policy so that emergency loans will be provided only to those borrowers who have demonstrated substantial production losses as a result of a natural disaster

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Our review showed also that emergency loans were being made when other FHA loan funds, at a higher interest rate, were available Section 321(a) of the Consolidated Farmers Home Administration Act of 1961 requires, in part, a determination that there exists a general need for agricultural credit which cannot be met from other responsible sources, including FHA programs prior to designation of a county for emergency loan assistance No documentation was available to show that this determination had been made prior to such designation of the 14 counties included in our review

FHA contended that emergency area designations could be made before other available FHA funds were exhausted and that Congress never contemplated that a disaster designation should be withheld as long as such funds were available We found no specific criteria in the enabling legislation or pertinent

legislative history indicating the intent of the Congress in this matter We suggested that the Congress might wish to clarify the law regarding the use of funds in other loan programs before the use of emergency loans is approved

The Department of Agriculture advised the Chairman of the House Committee on Government Operations in May 1969 that (a) our report correctly showed the Department's position on designating emergency areas and making 3-percent emergency loans when other programs funds are available and (b) because this had been a long-standing practice without congressional objection, the Department did not see a need for legislation on this matter

We believe that, since the law or pertinent legislative history is not sufficiently clear regarding the use of funds from other programs before emergency loan funds are used, clarification of existing legislation is needed (B-114873, March 24, 1969)

36 INTEREST COSTS ON REPAID LOANS—In September 1967 we reported to the Congress on our review of the interest rates the Commodity Credit Corporation (CCC), Department of Agriculture, charged producers on price-support loans and on storage facility and equipment loans We expressed the opinion that CCC should provide for recovery of its cost of financing loans

We pointed out that, although CCC paid as high as 5-3/4 percent a year on its borrowings from the U S Treasury, CCC continued to charge interest at the rate of 3-1/2 percent a year on price-support loans and 4 percent a year on facility and equipment loans We estimated that CCC could incur about $7 6 million more in interest costs for financing repaid price-support loans for the 1966 crops than it would collect from producers We estimated also that CCC could incur about $154,000 more in interest costs for financing storage facility and equipment loans during 1966 than it would recover from producers

We recommended that the CCC Board of Directors revise CCC's policy on interest rates to provide that producers pay interest on future price-support loans which are repaid and on future storage facility and equipment loans at a rate not less than the rate CCC pays to finance the loans In November 1967, the Secretary of Agriculture informed us that the interest rates charged producers would not be increased at that time

In a letter dated January 24, 1969, to the new Secretary of Agriculture, we reopened this matter by pointing out that, subsequent to the issuance of our report, the interest rate paid by CCC had reached an all-time high of 6-5/8 percent on borrowings from financial institutions In a letter dated June 25, 1969, the Department advised us that, effective May 30, 1969, the annual interest rate charged producers for storage facility and equipment loans had been increased from 4 percent to 6 percent We were advised also that the CCC Board of Directors had concluded that the interest rate on price-support loans should remain unchanged at that time

On the basis of CCC's estimate of storage facility and equipment loans to be made in fiscal year 1970, we estimated that CCC would earn an additional $400,000 in interest for the first year that the loans are outstanding We estimated that the additional interest over the remaining 4 years of the loans would amount to $600,000, resulting in a total additional interest income of $1,000,000 on the loans expected to be made in fiscal year 1970 Additional interest revenues will also be earned by CCC on such 5-year loans to be made in ensuing years (B-114824, September 21, 1967)

37 ADMINISTRATION OF THE DISASTER LOAN PROGRAM—In a May 1969 report to the Congress, we expressed the

opinion that certain aspects of the Small Business Administration's (SBA's) disaster loan program relating to the 1964 earthquake in Alaska could have been administered in a more effective and efficient manner

Our review showed that the Administration waived SBA's long-established policy, formalized and published in the Code of Federal Regulations, which generally precluded assistance to borrowers having the capabilities to finance the repair or replacement of their damaged property We concluded that, as a result, loans were approved by SBA to borrowers who could have furnished the financing needed to replace or repair their destroyed or damaged property

We also concluded that

—SBA needed to improve communication of changes in established rules and regulations Regulations generally prohibiting loans for the expansion or enlargement (upgrading) of repaired or replacement property had been waived erroneously and the regulations generally prohibiting refinancing of existing loans had been waived without adequate guidelines for administering the new policy We stated that, as a result loans were approved in amounts in excess of those which should have been approved

—Some loans were approved even though SBA did not adequately review or document the information necessary for determining the eligibility of the applicant, the reasonableness of the amount requested, or the allowability of the use of certain funds

—In a number of instances, the amount of a loan had been based on the cost of replacing destroyed property in Alaska even though the borrower planned to relocate in another State where the cost of replacing the property would be substantially lower Prior to the completion of our review, however, SBA made appropriate changes in its policy

We estimated that the unnecessary or questionable disbursements, assuming that the loans will be fully disbursed, would total about $16 million and that, on the basis of the difference between the interest charged to borrowers and the higher interest rate paid to the Treasury, additional costs to SBA would be about $1 8 million

We recommended that rules and regulations published in the Code of Federal Regulations be waived or changed only through formally documented and distributed procedures and that, when waivers are made, adequate guidelines be issued for their implementation We recommended also that procedures be strengthened for determining eligibility and the amount of financial assistance that should be made to the disaster loan applicant

In commenting on our findings, the Administrator stated that SBA had been aware of the specific weaknesses noted by us and was in general agreement with the matters pointed out in the report He stated further that action had been taken to prevent recurrence of the weaknesses The Administrator stated, however, that establishing or changing agency policy was within his legal authority

Although we did not question the legality of the loans made, we expressed the belief that a waiver of a long-standing loan policy, established in accordance with congressional intent, should not have been made in the absence of clarifying legislation (B-163451, May 28, 1969)

38 REPAYMENT OF LOANS—In January 1969 we reported to the Administrator, Small Business Administration (SBA), the need to obtain reasonable assurance of applicants' ability to repay loans from earnings SBA guidelines for administering the displaced business loan (DBL) program provide that, in reviewing applications for DBLs, consideration be given to the applicant's ability to repay the loan from earnings Our

review of the Boston Regional Office files for nine DBLs which were delinquent or in the process of liquidation showed that the files pertaining to seven of these loans did not contain adequate information for SBA to conclude that the applicants had the ability to repay the loans from earnings

We discussed these loans with regional officials who stated that the SBA guidelines did not require as a condition of loan approval, a determination that the applicant had the ability to repay the loan from earnings and that the law did not require that the applicant must be able to repay the loan from earnings

We recognized that the law is silent with respect to whether DBLs should be repaid from earnings Nevertheless, we believe that it is incumbent upon SBA officials responsible for loan review and approval to determine that there is reasonable assurance that a DBL applicant has the ability to repay a loan from earnings and to document the basis for reaching such a conclusion and that the determination is necessary to adequately protect the Government's investment

We recommended, therefore, that SBA revise its guidelines to (a) specifically require regional officials to authorize DBLs only when there appeared to be a reasonable assurance that the applicants could repay the loan from earnings and (b) require regional officials to document their basis for concluding that the applicant had the ability to repay the loans On January 27, 1969, SBA guidelines were revised in accordance with our recommendations (B-162445, January 9, 1969)

LOW-RENT HOUSING PROGRAMS

39 FINANCING OF COMMUNITY FACILITIES—In a report submitted to the Congress in January 1969, we expressed the opinion that interpretation by the Housing Assistance Administration of the Department of Housing and Urban Development (HUD) of its authority for allowing local housing authorities (LHAs) to provide community facilities as part of low-rent public housing projects was not free from doubt and that, in a program involving many millions of dollars of Federal funds, any such doubt should be removed. The community facilities discussed in this report are general-purpose, onsite, indoor facilities constructed or acquired by LHAs to accommodate programs involving recreation, health, welfare, employment, and educational activities We also stated that the statutory provisions for the neighborhood facilities grant program needed clarification regarding contributions by LHAs

We noted that HUD based its interpretation of authority for allowing LHAs to provide community facilities as part of low-rent public housing projects on section 2(1) of the U S Housing Act of 1937, which defines the term "low-rent housing" as embracing "all necessary appurtenances thereto " We found that the legislative history of section 2(1) of the act shed no light on congressional intent as to what were considered to be necessary appurtenances

HUD stated that community facilities are needed for the successful development and management of public housing projects and that reasonable expenditures for these facilities are eligible for inclusions in project development costs We did not say that HUD's interpretation of its authority was contrary to law, nor did we question the benefits that could result from community facilities We stated our opinion that HUD's interpretation was not free from doubt and that, in a program involving many millions of dollars of Federal funds, any such doubt should be removed

We found also that HUD permitted LHAs to contribute funds toward the cost of neighborhood facilities to be developed under the Federal grant program authorized by sec-

tion 703 of the Housing and Urban Development Act of 1965 Federal grants for neighborhood facilities discussed herein may not exceed two thirds of the development cost of the facilities

HUD's procedure in approving applications for grants under section 703 is to allow LHAs to participate in financing the development of neighborhood facilities up to the maximum amount HUD would authorize the LHAs for the development of project community facilities under the low-rent public housing program Under this procedure, the LHA's contribution is deducted from the total cost of the neighborhood facility, a Federal grant is approved, if otherwise appropriate, for two thirds of the remaining cost, and a local source other than the LHA contributes the other one third This procedure results in local sources, other than LHAs, financing less than one third of the total cost of the facility

In a case where an LHA contributes funds applicable to federally aided housing toward the cost of neighborhood facilities, the Federal Government will ultimately be financing not only the amount of the neighborhood facilities grant under section 703 of the 1965 act but also the amount of the LHA's contribution thereby providing total Federal financing in excess of the maximum Federal grant assistance provided under the section 703 neighborhood facilities grant program

We expressed the belief that Congress might wish to consider

- —Clarifying the statutory authority of HUD with regard to authorizing and financing the development of project community facilities as part of the low-rent public housing program

- —Clarifying the provisions of section 703 of the Housing and Urban Development Act of 1965 with regard to contributions by LHAs toward the cost of developing neighborhood facilities under the Federal grant program established by the act

(B-118718, January 17, 1969)

MEDICARE PROGRAM

40 ELIGIBILITY OF HOSPITALS TO PARTICIPATE IN THE MEDICARE PROGRAM—In December 1968, we reported to the Congress that the Social Security Administration (SSA), Department of Health, Education, and Welfare, had been slow in resolving the status of 42 hospitals that the Texas State Department of Health had initially determined to be eligible for participation in the Health Insurance for the Aged (Medicare) program but had subsequently determined not to be meeting the standards and had therefore recommended that their participation in the program be terminated The deficiencies note by the State Department of Health included failure of the hospitals to provide 24-hour nursing service, inadequate equipment in operating rooms, fire hazards, unsanitary conditions for handling food, and inadequate control over drugs

By April 1968, the status of 16 of the 42 hospitals had been resolved, but action on the remaining 26 hospitals was still pending although the State's recommendations for termination of participation were initially made from 8 to 19 months earlier We concluded that the delays in resolving the status of these hospitals were partially due to the absence of specific time limits within which hospitals should have been required to eliminate significant deficiencies or lose their eligibility to participate in the Medicare program

We recommended that the Secretary of Health, Education, and Welfare direct SSA to (a) emphasize to State agencies the need for establishing such time limits and (b) initiate

prompt action to terminate participation in the Medicare program of hospitals that inexcusably fail to correct their deficiencies within the established time limits

Officials of SSA stated that instructions, issued to State agencies in August 1968, were intended to provide for time-phased plans to correct deficiencies but agreed that additional emphasis was desirable and that the guidelines would be strengthen and amplified

In June 1969, SSA issued instructions requiring State agencies to obtain a written plan for correction of any significant deficiencies disclosed during each survey of a facility, including expected completion dates These instructions also state that one of the purposes of the plan is to support future termination proceedings if, as a last resort, such action becomes necessary Also, we were advised by SSA that, as of June 24, 1969, the status of 39 of the 42 hospitals had been resolved (B-164031(4), December 27, 1968)

41 DETERMINING THE REASONABLENESS OF PHYSICIANS' CHARGES—In June 1969, we reported to the Secretary of Health, Education, and Welfare (HEW) that revised fee ceilings established, effective June 1968, by Massachusetts Medical Service (Blue Shield) operating under a contract with the Social Security Administration (SSA) to make payments of Medicare claims for physicians' services in Massachusetts had been developed by methods which, in our opinion, resulted in the establishment of fee limitations for certain surgical procedures which were 6 to 10 percent higher than such limitations would have been had Blue Shield used methods recommended by SSA We reported also that, for services furnished during 1967, Blue Shield had made numerous payments in excess of the then-existing fee limitations without the required supervisory review to determine whether the higher payments were justified, such possible overpayments which we specifically identified amounted to about $25,000

Blue Shield advised us that it had requested SSA approval of a revised method for developing reasonable charges for physicians' services We believe that the revised method should result in the development of more appropriate fee limitations Blue Shield agreed to undertake recovery of overpayments in the manner we suggested and stated that it had installed a quality control system which was designed to minimize the incidence of unjustified payments in excess of reasonable charges

We recommended that the Secretary of HEW require that a review be made by SSA of the actual data to be used by Blue Shield in developing any new reasonable charge limitations for the purpose of determining whether Blue Shield's new system, when implemented, conforms with the intent of the applicable SSA regulations We recommended also that the Secretary of HEW require appropriate follow up by SSA on the adequacy of Blue Shield's actions to recover overpayments and of the quality control measures established to reduce the incidence of possible overpayments

SSA officials advised us in February 1969 (a) that Blue Shield's proposed method for developing reasonable charges for physicians' services had not yet been approved and that SSA was in the process of issuing new instructions limiting future increases in the criteria for determining reasonable charges and (b) that SSA would follow up with Blue Shield on recovery of overpayments (B-164031(4), June 30, 1969)

MORTGAGE ASSISTANCE AND INSURANCE ACTIVITIES

42 LIABILITY FOR DAMAGE TO ACQUIRED HOME PROPERTIES—In a report to the Secretary of Housing and Urban Development in May 1968, we expressed the

belief that there was a need for the Department of Housing and Urban Development (HUD) to consider adopting a policy on waste damage—damage caused by unreasonable use and abuse of properties—which would provide an incentive to mortgagees to protect the collateral securing their investment in mortgages insured by the Federal Housing Administration (FHA) and which, at the same time, would be economical for FHA to administer FHA statistics showed that the amount of waste damage charged to mortgagees under FHA regulations had decreased to the point where it was practically nil

We expressed the belief that it did not appear to be economical for FHA to retain the waste damage regulations as they were written We stated that, in our opinion, however, the principle which FHA had followed from the inception of the mortgage insurance program—that mortgagees were responsible for waste damage—was sound Moreover, we noted no indication that the Congress had intended for FHA to absorb such expenses as waste damage in connection with FHA-insured loans We stated also that it appeared that mortgagees were assuming greater risks in their conventional lending than they were willing to accept in 1938 when FHA initially established the current waste damage regulations

We recommended that the Department (a) undertake an evaluation of FHA waste damage regulations and policies with a view toward formulating regulations which would be economical for FHA to administer and which would retain the principle of mortgagee responsibility for waste damage and (b) formulate and implement at the opportune time the necessary revisions to the regulations

We recommended also that, if it was deemed impracticable or undesirable to revise the waste damage regulations to obtain the stated objectives, the regulations be abolished to save the significant administrative and inspection costs incurred in administering the regulations

In July 1968, the Assistant Secretary-Commissioner, FHA, informed us that, on the basis of its study of the waste damage regulations, FHA concluded that it would be more economical to abolish the regulations and effect significant savings of administrative and inspection costs associated with administering the regulations The regulations were abolished in July 1968 (B-114860, May 2, 1968)

43 MAINTENANCE OF MULTIFAMILY HOUSING PROJECTS—Our review showed that seven multifamily housing projects in Alaska, with mortgages insured by the Federal Housing Administration (FHA) totaling about $12 million had seriously deteriorated over a period of years because the mortgagors had not performed necessary maintenance work on the projects

The files for the seven projects showed that inadequate maintenance had been a major factor contributing to a high vacancy rate for all the projects and to eventual mortgage default for five of the projects FHA acquired the title to four of these projects and assumed the mortgage loan for one project, at a total cost of about $7 7 million The maintenance problems on the other two projects were encountered after FHA had acquired the mortgage loans on the projects

In our report to the Secretary of Housing and Urban Development in October 1968, we expressed the belief that the deterioration of the project properties in Alaska could have been prevented or minimized if FHA had had effective means of enforcing mortgagor compliance with the maintenance provisions of the mortgage insurance agreements The Director of FHA's insuring office in Anchorage informed us that he had no means, other than persuasion, to obtain correction of maintenance deficiencies and that efforts to persuade were generally unsuccessful

We also stated in the report that the difficulty experienced by FHA in enforcing adequate maintenance of projects in Alaska might exist in other areas of the United States Our analysis of 61 FHA-insured multifamily projects acquired by FHA, nationwide, by virtue of default and sold during fiscal year 1967 showed that FHA officials had attributed inadequate maintenance as a contributing cause for the eventual mortgage default of about 25 percent of the projects sold

The project regulatory agreement, which sets forth the rights and responsibilities of FHA, the mortgagee, and the mortgagor, provides that the mortgagor satisfactorily maintain the property The agreement provides also for the establishment and maintenance of a fund for the replacement of a project's structural components and mechanical equipment The mortgagor is required to make monthly payments to the mortgagee, to be held in escrow The escrow fund can be used for replacement purposes only upon approval by FHA

In our report, we expressed the belief that the regulatory agreements should require mortgagors to establish and maintain a similar fund for maintenance of projects throughout the life of the mortgages in amounts sufficient to provide for adequate maintenance, particularly in the later years of the mortgage We stated further that when, in the judgment of FHA, the quality of project maintenance is inadequate to properly maintain the project property and the mortgagor, after due notice, has not taken action to improve the maintenance, the mortgagee or FHA should have the right to make the needed repairs using the funds held in escrow

Therefore we recommended that consideration be given to the inclusion, in the regulatory agreements for future multifamily housing projects insured by FHA, of provisions that would (a) require mortgagors to place in escrow with the project mortgagees monies which could be used for project maintenance and (b) give the mortgagees or FHA the right to use such funds, as necessary, to prevent any impairment of project property caused by mortgagors' inadequate maintenance practices (B-114860, October 29, 1968)

44 INCREASED APPLICATION FEES FOR HOME MORTGAGE INSURANCE—Our review of fees assessed applicants by the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), for processing home insurance applications showed that the fees were insufficient to recover the full cost of processing applications We estimated that, in fiscal years 1966 and 1967, costs unrecovered by fees amounted to about $33 million, or about 37 percent of the cost of processing applications for insurance in those years

All costs of the FHA home mortgage insurance programs, including the unrecovered cost of processing applications for mortgage insurance, are borne by mortgagors through payment of fees and premiums and investment earnings thereon Our review showed that about 50 percent of the applications processed by FHA did not result in mortgage insurance and that the unrecovered cost of processing these applications was therefore borne by mortgagors participating in the mortgage insurance programs

FHA cost estimates showed that the existing fees of $45 for an application pertaining to new housing and $35 for an application pertaining to existing housing would have to be increased to $70 and $56, respectively, to result in the full recovery of the processing costs

In our report to the Congress in July 1968, we expressed the belief that FHA should follow the Government's general policy regarding charges for services performed by Federal agencies and establish fees, and adjust them annually as necessary, to

recover, to the extent practicable, the full cost of processing applications for mortgage insurance on home loans from all applicants The additional net income which would result from increasing fees to recover application processing costs would serve to increase the reserves for future losses on FHA home mortgage insurance programs Such reserves were below the requirements which FHA deemed necessary to cover estimated future losses in the event of a development of adverse business conditions

The Assistant Secretary-Commissioner, HUD, FHA, in commenting on this matter, stated that an increase in application fees would discourage individuals from applying for federally insured home mortgages Application fees, however, are a one-time expense of home-ownership, and we believe that fee increases of $25 and $21 would not be any more likely to discourage those who desire to purchase homes than would the fees that had been established in the past

Accordingly, we recommended that the Secretary of HUD require FHA to establish application fees at levels which would recover the cost of processing applications for mortgage insurance We recommended also that FHA be required to ascertain, annually, application processing costs and to adjust its fees, to the extent practicable, for increases or decreases in such costs (B-114860, July 8, 1968)

45 SELECTION OF PURCHASERS OF RESIDENTIAL PROPERTIES—Our review of the sales of acquired single-family residential properties by the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), showed that FHA's selection of purchasers by a drawing, when more than one offer was received for a property, often resulted in the selection of purchase offers which were not the most favorable to the Government Generally, the mortgage loans for these sales were insured by FHA Many of the loans were financed by the Government National Mortgage Association (GNMA)

FHA statistics showed that its rate of reacquisition of previously acquired residential properties was several times as high as the rate applicable to its initial acquisition of properties

In our report to the Congress in March 1969, we stated that FHA could reduce the number of its reacquisitions of residential properties and the amount of borrowings by the Government needed to complete FHA's sales of these properties if it would select purchasers on the basis of the offers which are the most advantageous to the Government We pointed out that the Veterans Administration (VA) was using an evaluation procedure to select the purchaser when more than one offer was received for a VA-acquired property

HUD stated that selection of a purchaser by a drawing provided a fair and impartial means of offering properties to all potential home buyers HUD also said that this procedure was in line with the policy objective of providing a greater opportunity for lower income families to own their own homes, embodied by the Congress in the Housing and Urban Development Act of 1968

Although selection of purchasers by a drawing would presumably give all persons who bid on an FHA-acquired property an equal chance to be selected, it does not ensure, but leaves to chance, the selection of a lower income family In our report, we expressed the opinion that selection of purchasers through an evaluation of offers, with consideration being given to lower income families to the extent that FHA believes appropriate, would give FHA more assurance that it is contributing to the goals of helping lower income families become home owners

Moreover, we expressed the belief that the selection of purchasers on the basis of an evaluation of the purchase offer terms re-

ceived and such other considerations as FHA believes appropriate would tend to minimize FHA reacquisitions of properties and the amount of GNMA financing required to complete the sales

We recommended that, when more than one offer is received for an FHA-acquired residential property, the Secretary of HUD require FHA to select the purchaser on the basis of an evaluation of the purchase offers received and such other considerations as may be appropriate (B-114860, March 19, 1969)

46 COLLECTION OF MORTGAGE INSURANCE PREMIUMS—Our review showed that remittance of premiums by mortgagees on a monthly basis, rather than on the existing annual basis, would permit the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), to invest these funds, on the average, about 6 months earlier We estimated that additional interest income resulting from earlier investment would amount to approximately $650,000 annually for new, insured mortgages during the first full year of operation and would increase, as new mortgages were insured in subsequent years, to more than $4 million a year

The Assistant Secretary-Commissioner, HUD, FHA, advised us that it would not be appropriate to change premium payment procedures at the time because of mortgage market conditions He stated that the desirability of a change would be considered at a more favorable time

In our report to the Congress in September 1968, we expressed the belief that it would be advisable for FHA to plan in advance for the time when a change in procedures is appropriate so that the change can be made on a timely basis We recommended that the Secretary of HUD initiate a study to determine the most feasible and economical manner to implement the administrative changes required to collect the premiums on a monthly basis and revise FHA regulations, at such time as deemed appropriate, to require monthly collection of premiums (B-114860, September 26, 1968)

47 PURCHASE OF TITLE INSURANCE—In a report to the Congress in August 1968, we expressed the belief that the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), could realize substantial savings if it discontinued the practice of purchasing title insurance and furnished private lending institutions that finance the purchase of home properties with guarantees that their investments would be protected from title defects arising prior to the purchases We pointed out that similar guarantees were being made by FHA to the Government National Mortgage Association when it financed the purchase of FHA home properties

Our review showed that FHA received assurances of good title at the time it acquired properties, and, in our opinion, FHA should be aware of any actions during the period it held the properties which could affect their title at the time of sale

During our review of records relating to the sales of FHA home properties in Florida and Georgia in 1966, we noted that title examinations conducted in connection with these sales showed only a few minor title defects which generally had occurred prior to FHA's acquisition of the properties and which had been corrected virtually without cost to FHA Therefore it appeared to us that FHA's risks of guaranteeing the investment of lenders against title defects would be minimal We estimated that FHA incurred costs of about $881,000 and $687,000 in fiscal years 1965 and 1966, respectively, to provide title insurance on properties in Florida and Georgia sold to purchasers who obtained private financing

Although the number of properties sold

to purchasers who obtained private financing declined substantially in fiscal years 1967 and 1968 because of the stringency in the mortgage money market, FHA anticipated that, in general, the total volume of acquisitions and sales of home properties experienced in the preceding several years would continue Also, FHA anticipated that the increase in FHA's interest rate ceiling, together with improvements in the mortgage money market, would result in about 67 percent of the sales in fiscal year 1969 being privately financed On the basis of FHA's sales forecasts, we estimated that FHA could save about $2 7 million, nationwide, in 1969 and substantial amounts thereafter by discontinuing the purchase of title insurance in connection with sales of home properties

In commenting on our report, the Assistant Secretary-Commissioner, HUD, FHA, agreed that discontinuing the purchase of title insurance would be desirable and financially advantageous for FHA He pointed out, however, that he did not think that action should be taken in this regard until there was improvement in the availability of private financing for sales of FHA properties

Although purchase of FHA home properties with private financing totaled less than 10 percent of the sales in fiscal years 1967 and 1968, we estimated that FHA's cost of providing title insurance in these years amounted to more than $400,000 In our opinion, the realization of such savings by discontinuing the purchase of title insurance should not be delayed pending improvement in the availability of private financing for sales of FHA home properties

We therefore recommended that the Secretary of HUD require FHA to take prompt action to discontinue the practice of purchasing title insurance and to adopt a policy of furnishing private lenders, who finance purchases of home properties sold by FHA, with guarantees that their investments will be protected against title defects arising prior to the purchase of such properties

HUD subsequently issued regulations in connection with a plan that it believed would accomplish the intent of our recommendation, however, compliance with the regulations by lenders was not being required as of May 1969, because the Department continued to believe that, in view of conditions in the mortgage money market, such action would have an adverse effect upon efforts to obtain private financing In a letter to the Secretary of HUD in June 1969, we stated that, in view of the worthwhile savings that could be achieved through the use of FHA title guarantees in lieu of title insurance, we believed that every effort should be made to implement the plan (B-114860, August 26, 1968)

48 CONSTRUCTION COST CERTIFICATIONS FOR INSURED MORTGAGES—On the basis of our review, we concluded that the mortgagors' cost certifications for Rossmoor Leisure World developments did not reasonably ensure that the intent of the cost certification provision of section 227 of the National Housing Act was being carried out We found that, under circumstances where the construction contracts between the mortgagors and the builder were not the result of meaningful arm's-length negotiations, the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), did not require that the mortgagors' certifications be supported by certifications of construction costs actually incurred by the builder At the time of our review, FHA had insured, or had commitments to insure, mortgages totaling about $265 million for five Leisure World developments which were planned to eventually total more than $1 billion

Legislative history indicated to us that the general purpose of the cost certification provision was to ensure that an FHA-insured

mortgage loan would not exceed a specified percentage of actual project costs and that this provision was made applicable to the multifamily cooperative housing program conducted under section 213 of the act (the section under which Rossmoor Leisure World mortgages were insured) to ensure that the primary benefit of the program would be reduced costs to the consumers

We stated our opinion that the builder's total involvement in the developments as the originator, principal promoter, and owner of the land created a situation which was not conducive to meaningful arm's-length negotiations and that, under such circumstances, the builder's certifications of actual construction costs were needed to ensure that any economies in construction would accrue to the benefit of the cooperative consumers as contemplated under section 213 of the act

Our review showed that the amounts paid from mortgage proceeds for construction had been based primarily on FHA cost estimates which did not take into account possible economies available to the builder due to the large size of the developments and, in some cases, the relatively continuous nature of their construction Because neither we nor FHA had the authority to audit the builder's records, we were unable to ascertain the costs actually incurred or the profit, if any, realized by the builder

FHA, the sponsor of the Leisure World developments, and the builder did not agree that builder's certifications of actual construction costs were necessary Therefore we suggested in our report to the Congress in February 1969 that the Congress might wish to consider clarifying whether builders' certifications of actual construction costs in support of mortgagors' certifications are necessary, under the circumstances described in our report, for providing an effective and meaningful implementation of the cost certification requirements of section 227 of the National Housing Act

In April 1969, the Secretary of HUD informed us that action would be taken in accordance with an earlier proposal made by us that HUD, as a condition for continuing to insure mortgage loans for Rossmoor Leisure World developments, require the builder to certify to the actual cost of construction (B-158910, February 19, 1969)

PUBLIC ASSISTANCE PROGRAMS

49 PARTICIPATION IN ADMINISTRATIVE EXPENSES—Our review of the Department of Health, Education, and Welfare's (HEW's) financial participation in certain administrative expenses for public assistance programs in the State of Missouri revealed a need for certain improvements in HEW's controls over State administration of the public assistance programs to help ensure that the claims made for Federal financial participation are in accordance with the existing Federal and State regulations and requirements

We found that certain expenses applicable to nonfederally aided programs had been claimed for Federal financial participation and that Federal financial participation at a 75-percent rate had been claimed for certain expenses which appeared to have been qualified for only a 50-percent rate On the basis of our review, we estimated that Federal payments foi such claims in the State of Missouri may have amounted to as much as $1 1 million in fiscal years 1964 through 1966

Prior to September 1, 1962, the Social Security Act authorized Federal payments to States of 50 percent of the total amount expended by the States in the administration of their federally aided public assistance programs Effective September 1, 1962, the Public Welfare Amendments of 1962 authorized for such programs, among other things, 75-percent Federal financial participation in State administrative expenditures incurred for

providing those services designed to help individual recipients attain self-care and self-support or to strengthen family life (generally referred to as defined social services)

Federal requirements established by HEW specify that, for the purpose of claiming Federal funds, a State plan of public assistance programs must include a cost allocation plan that provides for (a) distinguishing the costs of administering federally aided public assistance from all other administrative costs of the agency in such a manner that no part of the costs of administering other programs is charged to the federally aided programs, (b) allocating the costs of administering the federally aided public assistance programs among the various Federal programs on a reasonable basis, and (c) determining, within each federally aided public assistance program, the amount that is subject to 75-percent Federal financial participation and the amount that is subject to 50-percent Federal financial participation

Although the methods and procedures followed by the State in arriving at the amounts claimed for Federal financial participation were, in some cases, in accordance with the existing State plan which was approved by HEW, our review indicated that such claims had resulted in the payment of Federal funds to the State in greater amounts than the costs allocable to the federally aided programs

These matters were reported to the Secretary, HEW, in June 1969 with our recommendation that the Missouri State cost allocation plan be thoroughly reviewed and that the State be required to submit formal revisions to the plan, as are deemed appropriate With respect to past payments that were made to the State of Missouri for administrative expenses, we recommended that the Administrator, Social and Rehabilitation Service, HEW, be required to review the basis of such claims--giving recognition to the matters noted during our review--and to seek equitable adjustments for any excessive payments made to the State In July 1969 HEW agreed to take actions in line with our recommendations (B-164031(3), June 12, 1969)

50 PARTICIPATION IN COSTS OF SERVICES TO HANDICAPPED INDIVIDUALS– Our review of the practices and procedures followed by the Arkansas Rehabilitation Service in claiming Federal financial participation in costs of providing services to handicapped individuals under the Federal-State vocational rehabilitation program showed that, in its claims, the Arkansas Rehabilitation Service had overstated, by about $396,000, the costs shown as being incurred by the State in support of vocational rehabilitation programs The overstatement resulted primarily from errors and misunderstandings by the Arkansas State Hospital–a third party–in computing expenses relating to food services

In a February 1969 report to the Administrator, Social and Rehabilitation Service, Department of Health, Education, and Welfare, we stated our belief that the administration of third-party participation in the Federal-State vocational rehabilitation program could be improved by requiring State vocational rehabilitation agencies to include in third-party agreements descriptions of the specific procedures to be used in arriving at the costs to be claimed for Federal financial participation In our opinion, the inclusion of such specifics in agreements between State vocational rehabilitation agencies and third parties would also aid the Department in reviewing the propriety of claims made by the States for Federal financial participation

State officials agreed that, because vocational rehabilitation expenditures had been overstated, the State's claim for Federal financial participation would require an adjustment They stated, however, that the Arkansas State Hospital had provided certain other services in support of the vocational rehabili-

tation program, such as fire protection and security services, which had not been claimed as costs related to the program and that any adjustment should recognize these factors Although consideration of these factors in making an equitable adjustment may be appropriate, we believe that the State's position further exemplifies the desirability of having an explicit written agreement on the matter of allowable costs

Officials of the national office of the Rehabilitation Services Administration, Washington, D C , advised us that new instructions to the States concerning third-party expenditures were being developed and that these instructions would require the State vocational rehabilitation agencies to establish procedures designed to ensure that claims for Federal financial participation based upon expenditures made by third parties are proper (Report to Administrator, Social and Rehabilitation Service, Department of Health, Education, and Welfare, February 20, 1969)

51 PROCEDURES FOR REPORTING INDIVIDUALS AS REHABILITATED—Because success or failure of the vocational rehabilitation program of the Social and Rehabilitation Service, Department of Health, Education, and Welfare, is gauged, to a great extent, by the number of individuals reported to have been rehabilitated, we reviewed the reporting practices being followed by the States and the Department and reported our findings to the Congress in November 1968

We reviewed the case records for 853 people selected from 12,861 cases in six States, which involved, in addition to services provided by the States, expenditures of $100 or less for purchased services, such as training and hospital care Of the 853 cases examined, we questioned the reporting of the individuals in 516, or 60 percent, of the cases as having been rehabilitated In 363 cases the case records did not contain evidence that substantial rehabilitation services were provided to the individuals, in 98 cases, eligibility of the individuals for rehabilitation services was not documented, and, in 55 cases, individuals were reported as rehabilitated more than once when only an extension of initial rehabilitation services had been provided to them

Our review also showed certain weaknesses in the internal controls established by the State rehabilitation agencies for reviewing casework activities and reporting on program accomplishments In addition, we found that, although program reviews by the Department had pointed out certain weaknesses in the States' administration and reporting of program activities, these reviews did not indicate the basic causes of the weaknesses, nor did the reviews include an evaluation of the actions taken, if any, by the States in attempting to correct the underlying causes of the weaknesses

Department and State agency officials indicated that, for the most part, the matters disclosed by our review resulted from poor case recording practices and inadequate casework procedures The Department agreed to improve Federal guidelines on casework review procedures and the standards to be followed by the States in reporting on program accomplishments The Department agreed also to review the States' casework activities and work with the States in establishing appropriate management controls (B-164031(3), November 26, 1968)

RAILROAD RETIREMENT ANNUITIES

52 IMPROVED PROCEDURES FOR IMPLEMENTING AMENDATORY LEGISLATION—In a November 1968 report to the Congress, we pointed out that at least 2,500, and possibly as many as 6,300, persons had not been paid additional or increased annuities to which they were entitled under amendatory legislation enacted in 1965 These persons included 358 spouses of rail-

road employee annuitants who had not been paid because the Railroad Retirement Board notices concerning their possible entitlement to annuities had not been understood by the persons involved The persons involved included some with language difficulties, some with limited education, and some with mental or physical disabilities Other persons had not been paid their annuity increases unless they requested them Others had not been paid their increases because of an inadequacy in the Board's automated operations

Under the amendatory legislation the Board had processed increases in annuities, or additional annuity payments, to approximately 400,000 annuitants After we brought the cases noted in our review to its attention, the Board took steps to pay appropriate persons the annuity payments due them The Board also agreed to establish procedures for evaluating the general effectiveness of Board notices and to make timely reviews of the procedures used to implement amendatory legislation

We estimated that, during the first year following the effective dates of the amendatory legislation, the additional annuity payments to the persons noted in our review would total at least $157,400, and possibly as much as $273,200 The additional payments would continue to be paid during the remainder of the individuals' periods of eligibility, and we estimated that the total payments during such periods could amount to between $700,000 and $1 2 million (B-114817, November 29, 1968)

SLUM CLEARANCE AND URBAN RENEWAL ACTIVITIES

53 ALTERNATIVE METHODS OF PERFORMING DEMOLITION ACTIVITIES—Our review of the demolition activities of various cities, to which the Department of Housing and Urban Development (HUD) provided grants amounting to two thirds of the costs of demolition, indicated that the practices followed by some cities of using their own employees instead of contractors for the demolition of unsafe buildings and of awarding demolition contracts for individual structures instead of groups of structures may not have resulted in the lowest possible costs

The Assistant Secretary for Renewal and Housing Assistance agreed that more specific guidance in HUD's procedures regarding the methods of offering contracts was needed Subsequently, HUD issued instructions which provide that demolition contracts be awarded for groups of structures contemplated for demolition within reasonable periods and located in the same neighborhoods

Regarding the cities' use of their own employees for demolition instead of contractors, the Assistant Secretary stated that HUD believed that the use of city employees to demolish structures should be permitted where it was local practice, was more expeditious, and served other desirable purposes, such as the development of employment opportunities for the jobless and unemployed

In our report to the Congress in November 1968 we expressed our agreement that the use of city employees in demolishing structures might be justified under certain situations and, in line with this view, we recommended that the Secretary of HUD revise departmental regulations to require cities to use the most economical methods of demolishing structures under the Federal demolition grant program unless other methods are justified (B-118754, November 12, 1968)

54 MANAGEMENT OF REHABILITATION PROGRAM—In an April 1969 report to the Congress, we pointed out that improved management and increased emphasis by the Department of Housing and Urban Development (HUD) was essential if HUD was to meet its planned goal of rehabilitating

about 130,000 dwelling units during the fiscal years 1969 through 1971, or an average of about 43,000 units annually

Our review showed that the completed rehabilitations for the 4 5-year period ended December 31, 1967, averaged 13,000 units a year, or about 30,000 units less than the average annual goal for fiscal years 1969-71 We also found that a large percentage of the rehabilitation accomplishments reported were questionable as they did not meet applicable standards An inspection of 150 selected properties in three projects showed that 78 percent of the properties did not meet established property rehabilitation standards for the areas and that 69 percent did not meet local housing code standards even though the properties were reported as having been rehabilitated by the local public agencies (LPAs)

We found that HUD administrative reviews at the local level were not adequately disclosing (a) the actual progress of rehabilitation work, (b) the weaknesses in LPA procedures and practices for determining when a property was rehabilitated, and (c) the failure of LPAs to carry out a required program for follow-up code inspections

We recommended that the Secretary of HUD undertake a reassessment of the rehabilitation program based on in-depth reviews at the project level to identify and resolve weaknesses, problems, or difficulties such as those noted in our review and any others which impede project completion We recommended also that the Secretary require HUD representatives to strengthen their administration of rehabilitation projects at the local level

The Assistant Secretary for Renewal and Housing Assistance advised us that HUD had increased its emphasis on rehabilitation and that instructions would be issued strengthening HUD's administration of the program He advised us further that, within the limits of available personnel, HUD's regional offices would conduct surveys of rehabilitation projects Subsequent to the issuance of our report, HUD issued instructions aimed at strengthening its administration of the program (B-118754, April 25, 1969)

55 FEDERAL SHARING IN RECOVERED DEMOLITION COSTS—In November 1968, we reported to the Congress that the Department of Housing and Urban Development (HUD) had made grants to cities to cover two thirds of the costs of demolishing unsafe or uninhabitable structures even though the cities subsequently collected some portion of the cost from the owners of the properties On the basis of the recovery experience of the cities included in our review, which received 41 percent of the demolition grants made by HUD, we expressed the opinion that such grants could have been reduced by about $400,000 if the grants had been limited to two thirds of the net demolition costs

The Assistant Secretary for Renewal and Housing Assistance agreed that there was a need for corrective action and established a policy which provides that the Federal Government be reimbursed for up to two thirds of the net amount recovered by cities prior to project completion Since it appeared that many recoveries of demolition costs were made by cities after projects were considered completed, we recommended that the Secretary extend the period of Federal participation in recoveries of costs so as to include recoveries made after the completion of demolition activities (B-118754, November 12, 1968)

56 ADMINISTRATION OF CODE ENFORCEMENT PROGRAM—At the request of members of the Congress from Illinois, we made a limited examination into the status, objectives, and expected accomplishments of a code enforcement project in Chicago and

into the Department of Housing and Urban Development (HUD) responsibilities and administrative practices relative to the project Our report on this examination issued in January 1969, showed that overall progress of the project had been slower than anticipated, that a small number of Federal loans and grants had been made to the project to assist in getting buildings into compliance with codes, and that HUD had not established nor exercised adequate controls over periodic payments by HUD against the Federal grant in the project

In view of our findings, we recommended that the Secretary of HUD (a) have a current comprehensive review made of the Chicago project to identify the problems impeding project progress, (b) establish requirements to provide for more systematic site visits by HUD for the purpose of reviewing progress, and (c) strengthen controls over HUD progress payments under the program

HUD advised us that the application for this project was adequate for approval purposes but that, since the time of approval, it had become apparent that Chicago would not be able to complete the project within the required 3-year period

HUD advised us further that it was taking action to strengthen controls over progress payments by revising its requisitioning procedure and that certain other actions were being taken to improve the financial management aspects of the code enforcement program (B-164469, January 10, 1969)

TAXES

57 PROCESSING CLAIMS FOR REFUNDS OF FEDERAL INCOME TAXES—Increased interest costs were incurred by the Internal Revenue Service (IRS), Department of the Treasury, as a result of avoidable delays in processing claims for refunds of Federal income taxes These increased interest costs were incurred because substantial periods of time had elapsed between the dates when the claims for refund were filed and the dates the refunds were paid Because we were denied access to the necessary records, we were unable to determine the specific causes for delays and the reasonableness of the time taken by IRS to process claims

In our report to the Secretary of the Treasury on the results of our review of records made available to us, our test of selected income tax refunds, and the result of internal audit reviews, we recommended that IRS (a) prescribe appropriate time standards for processing claims for income tax refunds and (b) establish an effective reporting system to permit an evaluation of the claims-processing performance in relation to the standards

In commenting on our report at appropriation hearings held in May 1969, IRS informed the House Appropriations Committee that a new system for controlling returns would provide for a monthly inventory of claims on hand by class of return and for the establishment of the age of claims in the inventory (B-137762, September 27, 1968)

58 INTEREST PAYMENTS ON CERTAIN FEDERAL INCOME TAX REFUNDS—Our review of the payment of interest by the Internal Revenue Service, Department of the Treasury, on income tax refunds attributable to corrected or amended income tax returns showed that interest costs to the Government could be reduced Also, better treatment was accorded taxpayers filing claims for income tax refunds subsequent to filing the initial tax returns than taxpayers claiming refunds on their initial tax returns

Excessive interest costs are incurred because interest accrues on refunds claimed by correction or amendment to income tax returns for the period from the prescribed due

date for filing the return until the refund is certified for payment Taxpayers may correct or amend their returns for periods up to 3 years and receive interest for the entire period For refunds claimed on initial returns, however, the Internal Revenue Code provides an interest-free period of 45 days following the prescribed due date or the date of receipt of the return, if later, for the Internal Revenue Service to process the claims

In commenting on our findings, the Assistant Secretary of the Treasury for Tax Policy advised against a change in legislation on the basis of his belief that the Congress had recognized that interest should be paid under such circumstances inasmuch as the Government had the use of the taxpayers' money He contended also that legislation might be proposed which would make it unnecessary for taxpayers to pay interest on tax deficiencies until the expiration of a reasonable period after the notice of deficiency was mailed to them

We believe that a change in the code would result in reducing interest costs to the Government and in placing taxpayers on a similar interest-allowance basis Consequently, in our September 1968 report, we suggested that the Congress might wish to consider amending section 6611 of the Internal Revenue Code to provide that interest on refunds resulting from taxpayers' furnishing information to correct or amend their income tax refunds accrue from the dates the claims are filed and that the Internal Revenue Service be authorized to establish a reasonable period after such claims are filed within which interest-free refunds may be made

Also, in commenting on our findings the Assistant Secretary for Tax Policy said that, although the suggestions proposed by us were limited to situations involving income tax refunds, there did not appear to be any reason to treat refunds of income taxes differently from refunds of exise, employment, or estate taxes

Accordingly, we suggested that the Congress might wish to also consider amending the statutory provisions applicable to such refunds (B-137762, September 19, 1968)

TIMBER APPRAISALS AND SALES

59 RECOGNITION OF TIMBER PRODUCT VALUES—We reported to the Secretary of Agriculture in February 1969 that the Forest Service could improve its controls over the valuation of national forest timber by clarifying its policy guidelines on the recognition of end-product and by-product values and by establishing procedures to ensure more complete and systematic accumulation of information needed to properly implement the guidelines We concluded that such improvements would provide more certainty that the Forest Service would receive a fair return from its sales of national forest timber and, at the same time, would provide equitable treatment to its timber purchasers

We found that Forest Service policy in respect of timber appraisals required that value of products being produced from the timber in accordance with "local marketing conditions" and "industry practices of the vicinity" be recognized The policy guidelines did not specify what was meant by "local" or "vicinity" nor specify the industry volume and/or the value of end products and by-products that would require appraisal recognition As a result, officials in the three regions where we made our examination had different interpretations of the guidelines in regard to the recognition of plywood/veneer values, which, we believe, could result in considerable variances in appraised values

In addition, the three regions had no systematic method for accumulating and documenting information on local purchasers' utilization of national forest timber We concluded that such information was pertinent if Forest Service regional officials were to objec-

tively implement the Forest Service appraisal policy on the recognition of appropriate end-product and by-product values

We recommended that the Forest Service (a) clarify its end-product and by-product appraisal recognition guidelines and (b) establish requirements for accumulating and documenting timber utilization data needed to properly implement such guidelines

In an April 1969 letter, the Under Secretary of the Department of Agriculture stated that the Forest Service had clarified its instructions for the recognition of by-product values along the lines of our recommendation and that a new method was being employed in one area and studied in another area to achieve representativeness in determining end product selling values in timber appraisals He added that the Forest Service would instruct those regions, using the method discussed in our report, to carefully examine their monitoring system to be sure that they are alert to the continuing need for recognition of new end products The recognition of end-product values, as discussed in our report, will be implemented in one region but must await the completion of recovery studies in another (B-125053, February 18, 1969)

60 DEVELOPMENT OF UNIFORM POLICIES AND PROCEDURES FOR THE SALE OF MARGINAL FEDERAL TIMBER—In a September 1968 report to the Director, Bureau of the Budget, we expressed the belief that the Forest Service, Department of Agriculture, and the Bureau of Land Management (BLM), Department of the Interior, should develop uniform and precise policies and procedures for appraising and selling marginal timber Such policies and procedures would result in a more uniform treatment to purchasers of Federal timber and, at the same time, provide the Federal Government and others with a fair return for the sale of the public timber resources

We found that in the western sections of Oregon and Washington BLM and the Forest Service did not have adequate or uniform procedures for appraising or selling marginal timber which was being harvested for the production of low-grade plywood or pulpwood We found that timber purchasers who harvested material amounts of marginal timber would generally be charged for such timber if they purchased it from the Forest Service but would not be charged if they purchased it from BLM Moreover, purchasers of the Forest Service timber were not ensured of uniform treatment by the 10 national forests in the area

We recommended that the Director, Bureau of the Budget, request BLM and the Forest Service to jointly develop uniform policies and procedures for appraising and selling marginal Federal timber

In March 1969 the Deputy Director, Bureau of the Budget, advised us that the Department of Agriculture and the Department of the Interior were jointly completing the preparation of uniform policies and procedures for appraising marginal logs included in regular timber sales (B-125053, September 30, 1968)

61 APPRAISING PULP TIMBER IN ALASKA—The Forest Service, Department of Agriculture, manages over 90 percent of the 180 billion board feet of commercial timber in the State of Alaska, the major portion of which is suitable for pulp Thus, for the majority of pulp timber offered for sale in Alaska, Forest Service appraisals establish the minimum acceptable selling price

Forest Service appraisal guidelines require that prices from the local pulp-log market be used as the starting point for appraising the national forest pulp timber The guidelines provide also that the prices be obtained from a reasonably free competitive log market We found, however, that a reasonably free competitive market, composed of an ade-

quate volume of pulp-log sales between independent buyers and sellers, did not actually exist in Alaska

We found also that, primarily because of the Secretary of Agriculture's regulation requiring that national forest timber receive primary manufacture in the State and because of the Forest Service's policies with respect to the definition of primary manufacture, the pulp-log market in Alaska was limited to sales to the two existing pulpmills A third pulpmill is planned The competition in this market was further limited because of the topography in the State, the guaranteed timber supply of the pulpmills, and the indebtedness of certain independent loggers to the pulpmills We stated our belief that the present log market in Alaska was not sufficiently competitive to constitute a proper source for obtaining the pulp-log prices used in appraising Federal timber

In a report to the Secretary of Agriculture in July 1968 we recommended that the Secretary (a) reevaluate the regulation requiring primary manufacture of national forest timber in Alaska and either modify the regulation or specify the condition justifying its retention and (b) request the Forest Service to thoroughly review all possible alternative methods for appraising pulp timber in Alaska

In October 1968, the Secretary advised us that, in accordance with our recommendation, the Department was asking the Forest Service to review alternative procedures for appraising timber in Alaska Our first recommendation was considered no longer applicable because of a new law, passed subsequent to the issuance of our report, limiting the export of unprocessed logs from Federal lands located west of the 100th meridian, which includes Alaska (B-125053, July 26, 1968)

TRAINING ACTIVITIES

62 APPROVAL AND ADMINISTRATION OF INSTITUTIONAL TRAINING PROJECTS—In July 1968 we reported to the Assistant Secretary for Manpower, Department of Labor, on our review of the procedures and practices followed by the Bureau of Employment Security, Department of Labor, and by the Office of Education, Department of Health, Education, and Welfare, in approving and administering an institutional training project to train 45 men as skipjack tuna fishermen in Hawaii under the Manpower Development and Training Act of 1962, as amended (MDTA)

On the basis of our review, it appeared to us that the training project was not adequately planned or developed in consonance with existing needs for such training in Hawaii and that costs incurred were disproportionate to the results achieved This seemed evident from the fact that direct Federal costs of $187,589 resulted in the training of only nine fishermen It appeared to us also that the project was of questionable benefit at the outset, in the light of evidence available at the time of approval that skipjack tuna fishing is a seasonal occupation in Hawaii and thus trainees would not be provided with the full-time employment that is required by MDTA

We recommended that the Manpower Administration reexamine the review and approval procedures applicable to MDTA training projects to determine what further evaluation and control procedures may be necessary to ensure that MDTA training courses are designed to provide for training in occupations leading to full-time and permanent employment

In October 1968 the Assistant Secretary for Administration advised us that, in this instance, approval of the project had been given on the basis of definite assurances from prospective employers that trainees would be employed full-time following training, however, the full-time employment promised was not provided The Assistant Secretary stated that this project was one of the early MDTA institutional training projects approved and that the guidelines and instructions in the

MDTA handbook might not have been clear and explicit regarding approval of training for seasonal-type occupations He stated that the Department believed that the revised MDTA handbook would be responsive to our suggestions with regard to seasonality and adequate evaluation and control procedures for planning and developing projects (Report to the Assistant Secretary for Manpower, Department of Labor, July 29, 1968)

UNEMPLOYMENT INSURANCE

63 APPEALS OF BENEFIT DETERMINATIONS—In April 1969 we reported to the Assistant Secretary for Manpower, Department of Labor, that there was a need for improvement in the adjudication of claimant and employer appeals in connection with benefit payments to unemployed persons under the unemployment insurance program The review was made at the regional manpower office in Boston, Massachusetts, and at the State employment security agencies in Maine, Massachusetts, and Rhode Island

We found that the States' appeals officers were not including in their written decisions the specific reason or reasons for their reversal of the benefit determinations made by local officials We found also that benefit determinations made at the local offices had been reversed upon appeal because the local offices had not made complete or effective fact-finding investigations at the time that the determinations were made and that appealed cases in the State of Maine were not being timely reviewed and adjudicated It appeared to us that the delays were contrary to the objective of the unemployment insurance program of having prompt and proper payments made to claimants determined to be eligible and that there was a need for more intensive monitoring of the State agencies' appeals and adjudication activities by the regional manpower office to improve the effectiveness of the unemployment insurance program

During the review, we discussed our findings with the regional administrator in Boston, who agreed, in general, with our views on the need for improvements in the matters discussed above and advised us that appropriate corrective action would be taken (Report to the Assistant Secretary for Manpower, Department of Labor, April 25, 1969)

VETERANS BENEFITS

64 USE OF EDUCATIONAL AND VOCATIONAL COUNSELING SERVICES PROVIDED BY SCHOOLS—In November 1968, we reported to the Congress that the Veterans Administration (VA) had been referring war orphans to contract guidance centers to receive vocational and educational counseling without first determining each individual's counseling needs We found that, of the estimated $941,000 in fees which VA paid guidance centers to counsel war orphans during fiscal year 1967, about $376,000 was for counseling beneficiaries who were attending secondary schools that had approved counseling programs under the National Defense Education Act and about $312,000 was for counseling beneficiaries who were in colleges or technical schools that provided counseling services to students

We proposed that VA obtain and consider all pertinent information relating to the beneficiaries' educational and counseling background for the purpose of determining whether referral to guidance centers for additional counseling is necessary We proposed also that VA encourage those beneficiaries attending schools which have counseling available to utilize the counseling services available to them in their schools

The Deputy Administrator of Veterans Affairs stated that VA was in general agreement with our report and had adopted new mandatory procedures to ensure that beneficiaries needing less than comprehensive counseling would not be referred to guidance

centers but would be counseled by VA counselors on the basis of greatly abbreviated interviews Although the Deputy Administrator stated that VA would encourage potential applicants attending high school to utilize the counseling services available to them in their schools, he indicated that he believed that many colleges and technical schools did not provide their students with comprehensive counseling services We found however, that a substantial number of colleges maintained professionally staffed guidance departments We recommended therefore, that VA encourage eligible persons who have been accepted for admission to, or who are enrolled in, these schools, to utilize, where appropriate, the counseling services available at the schools

In March 1969 the Administrator of Veterans Affairs advised the Chairman, Committee on Government Operations, House of Representatives, that, in response to our recommendations, VA had improved its procedures for directing beneficiaries to available counseling services outside the VA to ensure that full advantage is taken of all counseling services available and that no unnecessary duplication of effort occurs He stated also that a substantial improvement in utilization of overall resources had resulted and would continue to accrue (B-118660, November 15, 1968)

65 GOVERNMENT'S CONTRIBUTION TO THE COST OF SERVICEMEN'S GROUP LIFE INSURANCE—Public Law 89-214, authorizing the Servicemen's Group Life Insurance program, provides that members covered by the program bear the cost of normal mortality claims and that the Government bear the cost of mortalities traceable to the extra hazards of war In addition, the law prescribes a formula for the computation of the Government's costs

On the basis of our review of the legislative history of the authorizing legislation, we believe that the Congress intended that the Government bear all mortality costs traceable to the extra hazards of war We found, however, that application of the formula contained in the law to compute the Government's costs resulted in servicemen's contributing about $15 million during fiscal year 1968 for the costs of death claims traceable to the Vietnam conflict

Accordingly, in a report to the Congress in May 1969, we suggested that, in order to implement the intent of the legislation—that the Government bear all mortality costs traceable to war—the Congress might wish to consider amendatory legislation changing the formula contained in the law

The Veterans Administration advised us that it agreed, in general, with the data presented in the report and that changing the formula would require a change in the law On June 16, 1969, House bill 12157 was introduced The purpose of the bill is to ensure that the United States bear all of the cost of servicemen's group life insurance traceable to the extra hazards of war (B-114859, May 29, 1969)

WAGE RATE DETERMINATIONS

66 ESTABLISHING THE MINIMUM WAGE RATES FOR FEDERALLY FINANCED HOUSING CONSTRUCTION—In a report submitted to the Congress in September 1968, we pointed out that the minimum wage rates prescribed by the Department of Labor, under the Davis-Bacon Act, for construction of four federally financed housing projects in the Washington, D C , metropolitan area were significantly higher than the wage rates paid in the area on comparable private residential construction We pointed out that the Department had, for the most part, prescribed the negotiate wage rates applicable to commercial-type building construction in the Washington metropolitan area as the minimum wage rates payable on federally financed military family housing and low-rent public housing construction in the area We con-

cluded that the higher minimum wage rates prescribed by the Department for construction of four federally financed housing projects during the fiscal years 1965, 1966, and 1967, had resulted or would result in extra construction costs estimated at $1 4 million

We recommended that the Department (a) prescribe the prevailing wage rates for residential housing construction in the Washington metropolitan area as the minimum rates applicable for similar military family housing and for low-rent public housing projects in the area, (b) make greater use of onsite surveys to supplement and verify data obtained from interested parties, (c) undertake a general reexamination of its policies and practices for making wage determinations for military and other federally financed and subsidized housing throughout the country, and (d) show in its area wage determinations the residential construction wage rates found to be prevailing in the area of the housing construction

During our review the Department of Labor changed its policy in regard to two other military family housing projects in the area and prescribed the wage rates generally prevailing for private residential construction in the area as the minimum wage rates for the construction contracts for these housing projects The Secretary of Labor informed us that the Department would continue to prescribe separate and different wage rates, as distinguished from the rates for industrial and commercial construction, for military housing construction, wherever the separate and different rates prevail on housing work in the area

The Secretary stated that, although the Department currently lacked adequate facilities for collecting wage information in various parts of the country, four additional field representatives had been requested Since the Secretary's comments regarding its new policy appeared to be directed principally to the minimum wage rates for military family housing, we expressed the belief that the policy should be extended to other federally constructed and assisted housing, especially to low-rent public housing in the Washington metropolitan area and in other areas of the country (B-164427, September 13, 1968)

WATER RESOURCES DEVELOPMENT PROGRAM

67 IMPROVED PROCEDURES FOR NEGOTIATING CONTRACTS WITH WATER USERS– In our October 1968 report to the Congress, we noted that water had been delivered to users north of the city of Sacramento, California, through releases from Shasta Dam and Reservoir after its completion in 1944 but that it was not until 1964 that the Federal Government was able to reach agreement with the users as to the amount of "Federal water" made available by the project for which the users were required to pay $2 an acre-foot Calculations made by the Bureau of Reclamation showed that, during the 20-year period of negotiations (1944-63) the water users had used, without charge, about 6 million acre-feet of project water, valued at $12 million

We reported that at December 1967 the Bureau had concluded, or had pending, 141 contracts with water users covering about 2,300,000 acre-feet of water These contracts will, in our opinion, permit the water users to use, without charge, 950,000 more acre-feet of water annually, with a contract value of $2 an acre-foot, than was available for use in an average year prior to the operation of Shasta Dam and Reservoir

We recommended that the Secretary of the Interior, in future negotiations of this nature, establish, prior to construction of a project, definite limits as to the quantity of water that would be available without the project and the maximum period of time to negotiate acceptable agreement with the users We recommended also that, if acceptable agreements cannot be reached within these limits, the Congress be advised of the

matter, including the possibility that litigation might be required after the project is constructed to arrive at a reasonable settlement In this way the Congress can reconsider the authorization of the project

In December 1968, the Department advised the Bureau of the Budget that it agreed with the substance of our recommendations The Department stated, however, that the procedures used in preparing feasibility reports prior to authorization, preparing definite plan reports to firm up developments after authorization, and processing of annual appropriations through the executive and legislative branches were all aimed at avoiding such situations as arose with the Sacramento River diverters in the Central Valley Project (B-125045, October 18, 1968)

FEDERAL PROGRAMS–GENERAL

68 ELIGIBILITY OF WIDOWS FOR FEDERAL BENEFITS—Our comparison of information obtained from marriage records in seven States, for limited periods, with data obtained from the records of five Federal agencies–the Department of Health, Education, and Welfare, the Veterans Administration, the U S Civil Service Commission; the Railroad Retirement Board, and the Department of Labor–showed that benefit payments had been made to 47 widows who were ineligible for such benefits because they had remarried

Subsequent to our reporting of these cases, the agencies terminated benefit payments in 135 cases and, in the 12 remaining cases which had been previously terminated, took action to correct improper termination dates In addition, action was taken in an effort to collect the overpayments which amounted to about $82,000 If these benefit payments had been continued, they could have amounted to about $1 2 million

In a report to the Congress in August 1968, we stated that we believed that the five Federal agencies could strengthen their procedures for identifying widow beneficiaries who become ineligible for benefits because of their remarriage by obtaining information from State marriage records for comparison with data in the agencies' files

We recommended that the Director, Bureau of the Budget, arrange with the five agencies to make feasibility studies to determine whether the benefits to be derived from using State marriage record data for identifying widow beneficiaries' unreported or incorrectly reported remarriages would exceed the costs of such a program and to evaluate the results of the studies and, if warranted, (a) make arrangements for obtaining from the various States data on widows who have remarried and (b) assign to one of the agencies the responsibility for receiving State marriage record data and for converting such data to a form usable by each of the agencies for identifying ineligible beneficiaries and incorrect benefit payments

The Director, Bureau of the Budget, advised us that the Social Security Administration, Department of Health, Education, and Welfare, had under way a study involving the matching of its beneficiary rolls with marriage records of 15 States and that the Bureau of the Budget would arrange for interagency participation in this study The Director states also that, if, after evaluating this study, it appeared that a more extensive study was desirable, the Bureau of the Budget would take the lead in making the arrangements By Septemeber 1969, the study being made by Social Security Administration had not been completed (B-164031(4), August 22, 1968)

FOREIGN ASSISTANCE PROGRAMS

69 ADMINISTRATION AND MANAGEMENT OF FOREIGN ASSISTANCE TO COLOMBIA—At the request of the Chairman of the Senate Foreign Relations Committee, we reviewed the administration and management by the Agency for International Development (AID) of its economic assistance program for nonproject purposes in Colombia Nonproject assistance financed imports in support of Colombia's development program without tying the imports to specific projects Project assistance has been directed to individual capital projects or technical assistance

Economic assistance to Colombia from all sources from 1946 through December 1967 totaled $1 6 billion Of this amount, $430 million was provided by AID, 91 percent of which was made available during the Alliance for Progress, which was formulated in late 1961 AID's program in Colombia is its third largest in Latin America

Our report, issued in July 1968, showed that Colombia's aggregate economic and social progress during the first 5 years of the Alliance for Progress (1962-66) was less than AID and Alliance goals During the Alliance, AID has not made systematic or substantive evaluations of Colombia's progress and performance in many areas There has been a serious lack of basic data in Colombia, and no substantial progress has been made during the Alliance toward developing a system for timely gathering and assessing of basic data In Colombia, AID

—Did not develop a system for accumulating prior experience for application in developing its future strategy

—Was not explicit or definite, in many instances, in its goals and targets

—Did not tailor its level of assistance to specific levels of country performance

AID made no independent overall review of the adequacy and effectiveness of AID strategy for achieving U S and Alliance developmental objectives in Colombia

Accordingly, we proposed that the Administrator, AID, take the actions necessary to

—Ensure that substantive evaluations are made on a systematic basis of Colombia's performance and progress in each key area affecting its economic and social development

—Develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance

—Develop a method of incremental funding whereby the release of AID assistance is conditioned on, and proportionate to specific improvements in Colombian performance

—Require that the overall effectiveness of AID assistance strategy in Colombia be reviewed at appropriate intervals by knowledgeable internal or external officials who have no responsibility for management of the program

AID did not agree with our proposals that substantive evaluations be made in each key area and that AID develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance AID took the position that substantive evaluations had been carried out We do not agree that they have been carried out, and we have pointed out a great number of areas where they had not been

Furthermore, we believe that AID has not developed an annual level of assistance for Colombia tailored to specific levels of Colombian performance, as previously discussed The failure to do so, in our opinion, is contrary not only to AID's stated policy and public pronouncements but also to prudent management and thus the proposal deserves reappraisal

Because of the fundamental importance of these two matters to the effectiveness of the AID program in Colombia, we highlighted these matters for the Committee's further consideration (B-161798, July 8, 1968)

70 MANAGEMENT OF PROPERTY ACQUIRED FOR FOREIGN ASSISTANCE—In August 1968 we reported to the Congress that from fiscal year 1963 to December 31, 1967, the Agency for International Development (AID) rehabilitated and distributed excess property that originally cost $119 million AID's Excess Property Regional Office in Europe accounted for $39 million of the $119 million, and the rehabilitation was performed, for the most part, by a foreign contractor under a contract administered by AID Our review showed that there was a critical need for AID to strengthen its administration and management relating to the rehabilitation and distribution of excess property

AID had generally followed a practice of distributing excess property on a first-come-first-served basis, without considering whether the rehabilitated property would substitute for new procurement or whether it would be used by the recipient country as supplemental assistance Some countries were able to obtain early commitments for the property under AID's first-come-first-served formula Other countries reported a "preemption of desirable material" before their needs had been considered

The extent of AID surveillance over the quality of the rehabilitation work by private contractors abroad was not sufficient to ensure that the equipment was in a satisfactory operating condition before being distributed to the recipient countries

We noted deficiencies in AID's negotiation and administration of its primary contract in Europe for repair and rehabilitation of excess property These deficiencies related to

- —limited use of competition in award of the repair contract and in award of the contracts for transportation of excess property as well,
- —contract labor rate increases without adequate supporting cost data,
- —a large portion of the repair work's not being covered by contract
- —inadequate negotiation of labor hours worked and billed for by contractor, and
- —unnecessary costs incurred in the procurement of repair parts and materials from local sources

The results of our review were made available to the Special Subcommittee on Donable Property, House Committee on Government Operations, and to the Subcommittee on Foreign Aid Expenditures, Senate Committee on Government Operations, which were concurrently conducting reviews relating to aspects of AID's program for advance acquisition of excess property The reports resulting from these congressional reviews discuss the deficiencies described in this report and include recommendations to AID for improving its management of the program

Agency officials have agreed, in general, with our findings and have taken, or are taking, a number of specific corrective actions These actions will

—emphasize the use of excess property as a substitute for new procurement,

—upgrade the quality of the rehabilitation work, and

—strengthen and improve the negotiation and administration of present and future excess property rehabilitation contracts

(B-146995, August 2, 1968)

UNITED STATES BALANCE-OF-PAYMENTS POSITION

71 BALANCE OF PAYMENTS ASPECTS OF MILITARY OFFSHORE PROCUREMENT (a)—In September, 1968, we reported to the Assistant Secretary of Defense (Installations and Logistics) on the results of our review of an offshore (i e outside the United States) procurement of railroad cars in Japan to fill requirements in Vietnam

We concluded that the offshore procurement of 172 railroad cars at a cost of $1 75 million could have been avoided had regulations, designed to minimize dollar outflow, been observed in spirit as well as in letter

Our review showed that the procurement had been made offshore on the basis of urgent need and short delivery time Our examination of the data, however, showed that a combination of overstated estimates of delivery time from the United States and understated estimates of delivery time from Japan probably had been instrumental in leading to the decision to buy offshore We concluded that the railroad cars could have been delivered from U S sources as soon as from Japanese sources, and at a comparable cost, had procurement action been started within a short time after the urgent need for the cars was first identified

We made no specific recommendations with regard to this particular procurement because of the "isolated instance" nature of the transaction However, we brought the matter to the Department's attention for such action as it considered necessary (B-163389, September 10, 1968)

72 BALANCE OF PAYMENTS ASPECTS OF MILITARY OFFSHORE PROCUREMENT (b)—In December 1968 we reported to the Secretary of Defense the results of our review of selected offshore procurement, i e procurements from sources outside the United States

This particular report dealt solely with offshore procurements of prefabricated buildings which, in our opinion, could have been procurred in the United States had Department of Defense (DOD) regulations, designed to minimize dollar outflow, been followed

Our review showed that in April 1965 the U S Air Force decided to buy, through the Air Force Logistics Command and from U S suppliers, 384 air-inflatable, portable shelters to fill an urgent need in Vietnam The cost of these shelters, with modifications, was $8 9 million

The portable shelters failed to pass test conditions and were deemed unsatisfactory for use in Vietnam Most of the shelters are now in storage

The series of problems encountered in obtaining acceptable air-inflatable shelters put off consideration of suitable alternatives until late February 1966, about 10 months after the decision had been made to buy the inflatable shelters At this point in time, the Air Force Logistics Command directed the procurement of prefabricated metal buildings to meet known requirements for structures in Vietnam Consequently, two contracts were awarded to U S suppliers for 288 prefabricated metal buildings costing $1 9 million All buildings were to be delivered by December 1966

Apparently knowledge of this action did

not filter down to procurement officials in Vietnam because, between August 1966 and April 1967, the 7th Air Force in Vietnam awarded to foreign firms in Singapore seven contracts amounting to $896,937 for 65 prefabricated buildings

We concluded that the time lost in trying to develop a satisfactory air-inflatable shelter, during a period of rapid buildup in the field, intensified pressures on using activities to obtain buildings from any readily available source, irrespective of higher cost or of gold-flow considerations When the normal supply system does not respond to customer needs, as in this case, using activities are motivated to bypass it Although this is understandable, we believe that local commands should be discouraged from locally procuring costly material until they have exhausted prospects of obtaining it through regular supply channels

We suggested that it would be instructive for this case history to be brought to the attention of DOD's subordinate commands The Air Force concurred (B-163389, December 30, 1968)

73 BALANCE OF PAYMENTS ASPECTS OF SPECIAL LETTERS OF CREDIT—We examined into a special program, know as Policy Determination 31 (PD-31), mounted by the Agency for International Development (AID), to help in combating adverse balance-of-payments effects of offshore procurements (i e , purchases from sources outside the United States) financed by AID We reported the results of the review to the Administrator, AID, in November 1968

As an agency providing technical assistance and capital to developing nations, AID has had an important role to play in contributing to improvements in the U S balance-of-payments position For example, in 1959 AID terminated its policy of allowing its assistance to be used for imports from any free-world nation, and, since that time, has increasingly tied assistance to procurements from U S sources

Exceptions to procurement from U S sources have been permitted in the case of eight developing countries In these countries, commodities financed by AID can be obtained for use in third countries, provided that payment for the commodities is by special letters of credit that can be used to buy only goods of American origin

In examining into PD-31 special letter-of-credit transactions, we observed that two developing countries were using dollar credits under the program to finance agricultural products exported under the Department of Agriculture's (USDA's) Commodity Credit Corporation (CCC) barter program In our opinion, this use reduced the balance-of-payments advantages that could otherwise have been realized

During the period of our review (July 1967 through March 1968), $46 8 million was disbursed to U S suppliers for goods purchased by nations participating in the PD-31 program Our test comprised $31 million of these transactions

This test showed that transactions totaling $3 3 million were identified specifically on vouchers as representing payments on behalf of India and Taiwan to U S exporters for agricultural commodities exported under CCC barter contracts It is possible that other agricultural exports financed under the PD-31 program may have been barter transactions, although not identified as such since there was no requirement to include this information on the vouchers

Since a major objective of both programs (barter and PD-31) is to realize balance-of-payments advantages, we concluded that overall advantages had been reduced by having the funds of one Government agency (AID) used to finance exports of another Government agency (USDA)

We discussed the results of our test with AID officials during our review In September 1968, AID took steps to amend outstanding PD-31 letters of credit to prohibit their use in payment for export of agricultural commodities under the CCC barter program Appropriate notification of the amendment was made to central monetary authorities of the PD-31 source countries and to the U S banks involved in the program (B-146820, November 22, 1968)

74 IMPROPER PAYMENT OF PORT CHARGES ON FOREIGN-AID SHIPMENTS—In May 1965 we reported to the Congress that the Agency for International Development (AID) had made, and was currently making, improper payments for ocean shipments of surplus agricultural commodities donated by the United States to U S voluntary relief agencies under title III, Public Law 480 Our test showed improper payments on shipments to an aid-recipient country because ocean shipment tariff rates included port charges comprising consular, unloading, handling, warehousing, and transportation charges properly chargeable to the recipient country under the terms of agreements between the voluntary relief agencies and the country This situation resulted from the failure of AID and the voluntary relief agencies to examine adequately the makeup of the tariff rates which included these charges

As a condition for delivering donated foodstuffs to the people of the recipient country, the voluntary relief agencies had entered into special agreements Under these agreements, the country agreed to admit the donated commodities free of all import duties, taxes, and fees for consular services and to furnish the necessary funds to pay all port expenses, including charges for unloading, warehousing, handling, and transporting of commodities

We recommended that AID, in conjunction with the Department of State and the voluntary relief agencies, undertake negotiations with the recipient country to obtain agreement for a refund of such amounts as had been improperly paid for ocean transportation in the past We recommended also that AID determine the extent to which such port charges were being improperly paid in other countries and undertake to obtain appropriate refunds

We recommended further that, to provide for more effective reviews of tariffs in the future, the Federal Maritime Commission require all ocean carriers of U S -financed cargo to itemize and separately state in their tariffs the several factors constituting all port charges and nontransportation charges imposed by a foreign government or constituent agencies thereof In addition, we recommended that, to prevent improper payments in the future, AID establish a requirement that the U S voluntary relief agencies arrange with steamship companies for presentation of billing documents which show separately all charges that are for the account of the foreign governments

AID did not seek refunds and took no action until the Subcommittee on Foreign Aid Expenditures, Senate Committee on Government Operations, held hearings in March 1968 to determine what action had been taken to ensure that payments for ocean transportation on foreign-aid commodities, both economic and military, do not include port charges We assisted the Subcommittee in the accumulation of data used and testified to during the hearings

The responsible agencies agreed at the hearings that, through the use of a statistical-average approach, they would cease to finance port charges in the major aid-recipient countries The Administration estimated that, under the new procedures scheduled to go into effect no later than January 1, 1969, an annual budgetary and balance-of-payments savings of about $16 million would be achieved (B-146820, May 20, 1965)

75 PAYMENT OF CASH IN LIEU OF GOVERNMENT TRANSPORTATION REQUESTS IN EXCESS - CURRENCY COUNTRIES—In April, 1969 we reported to the Congress on the Peace Corps practice of paying U S dollars in lieu of furnishing Government Transportation Requests (GTRs), payable in U S -owned excess foreign currency, to volunteers returning from foreign posts upon completion of their tours of duty

During the 17-month period ended November 30, 1968, 492 Peace Corps volunteers returning from India were paid $181,759 in cash for return transportation to the United States in lieu of being furnished with GTRs payable in excess rupees at virtually no cost to the U S Government Similarly, in Tunisia, during fiscal years 1966 and 1967, 187 Peace Corps volunteers were paid about $64,000 in cash for return transportation to the United States in lieu of being furnished GTRs payable in excess dinars

We concluded that the use of dollar payment, rather than excess foreign currencies, for transportation costs of returning volunteers resulted in increased costs Cash payments of dollars abroad to returning volunteers in lieu of transportation home also adversely affects the U S balance of payments to the extent the dollars are spent with foreign organizations and individuals

We recommended to the Director of the Peace Corps, in a letter dated July 29, 1968, that the policy of paying dollars in lieu of furnishing GTRs payable in U S -owned excess foreign currency be terminated unless it was determined that the continuation of the practice was essential to recruitment and therefore to the Peace Corps program

The Director of the Peace Corps was not in full agreement with our findings, however, he recognized that Peace Corps policy, with respect to return transportation of volunteers, would tend to have an adverse effect on the balance-of-payments of the United States

Subsequent to the issuance of our report to the Congress, the Director of the Peace Corps undertook a review of this question and concluded that the considerations cited in our report were paramount over former Peace Corps policy and stated that all new volunteer applicants would be advised, prior to their enrollment as volunteers, that the cash-in-lieu-of-GTR privilege would not be available if, at the time of the termination of their Peace Corps service, they were stationed in a country which had been designated by the Treasury Department as an excess-currency or near-excess-currency country (B-145883, April 23, 1969)

76 GREATER UTILIZATION OF U S -FLAG VESSELS TO IMPROVE THE U S BALANCE-OF-PAYMENTS POSITION

(a)—In April 1969, we advised the Administrator, Agency for International Development (AID), that we had identified an area where we believed AID could help to improve the U S balance-of-payments position without incurring additional costs or adversely affecting the objectives of one of its programs

We had reviewed selected overseas shipments of donated agricultural commodities and other supplies exported by voluntary relief agencies to Paraguay AID finances the ocean transportation costs of these shipments

Our review showed that about $200,000 a year had been paid to foreign-flag carriers for these shipments Voluntary relief agencies have followed a policy of using foreign-flag carriers exclusively because (a) U S -flag vessels did not offer direct service and were required to transship the cargo and (b) U S -flag vessels would not accept financial responsibility beyond the point of transshipment

Our review showed, however, that the foreign-flag carrier was also transshipping the commodities on most shipments We discussed the financial responsibility aspect with representatives of the two U S lines sailing from North Atlantic and Gulf ports These

representatives agreed that, in the past, they had accepted financial responsibility only to the point of transshipment The U S lines, however, have since changed their position and have advised us that they will now accept financial responsibility to the final destination

We believe that, for the most part, the voluntary relief agencies had complied with the AID policy of using U S -flag vessels In our opinion, however, cargoes were being shipped to Paraguay on foreign-flag vessels when U S -flag vessels could have been used under then-current conditions

We suggested (a) that AID take the actions necessary to change the certification required of the voluntary relief agencies so that future requests for reimbursement of transportation costs can be supported by certifications that U S -flag vessels were not available, without reference to shipment on a direct basis, and (b) that AID notify the voluntary relief agencies of the change in the U S lines' position with regard to financial responsibility and that AID consider these vessels as being available when future requests for reimbursement of transportation costs are made

AID did not agree with our first suggestion because it believed that the use of U S -flag vessels whenever they were available via a transshipment route, as against a foreign-flag direct route, would distort normal shipping patterns and would greatly increase the risk of loss and damage to cargo and would result in unjustified higher transportation costs AID did agree with our second suggestion and has advised the voluntary relief agencies that reimbursement will no longer be made for freight on non-U S -flag vessels to Paraguay (B-163536, April 22, 1969)

77 GREATER UTILIZATION OF U S -FLAG VESSELS TO IMPROVE U S BALANCE-OF-PAYMENTS POSITION (b)—In June 1969 we reported to the Department of Agriculture (USDA) the results of a review of selected shipments of agricultural commodities exported under title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) The purpose of the review was to determine whether opportunities existed to increase the use of U S -flag vessels for the shipment of these commodities Our review was limited to shipments which moved on liner terms at conference rates and was directed toward examining into the circumstances surrounding the use of other than U S -flag vessels "Liner terms" means that all loading and unloading charges are included in the tariff rates paid "Conference rates" are fixed ocean freight tariffs established by an international conference of steamship companies

We identified an area where we felt that USDA could help to improve the U S balance-of-payments position without incurring additional costs and without adversely affecting the objectives of the title I program

Simply stated, we believe that USDA could increase the use of U S -flag vessels for cargoes which move at conference rates Our report showed that ocean transportation costs amounting to over $416,000 had been paid to foreign carriers when U S -flag vessels were available These shipments were made under sales agreements signed during fiscal year 1968 and the first 6 months of fiscal year 1969

The law requires that at least 50 percent of the gross tonnage be transported on privately owned U S -flag vessels, to the extent that such vessels are available Although the quantity shipped on U S -flag vessels exceeded the minimum 50 percent requirement, we believe that USDA could ship a greater percentage on U S -flag vessels and, by so doing, improve the U S balance-of-payments position

We concluded that USDA procedures did not properly consider our balance-of-payments position because USDA personnel

made no special effort to maximize the percentage which could be shipped on U S -flag vessels

We informed USDA that we believed that, when the ocean freight costs are the same, U S -flag vessels should be used in preference to foreign-flag vessels and that U S -flag vessels should be used to the maximum extent possible We suggest also that, during negotiations for future shipments of these commodities, consideration be given to including, in the sales agreements, provisos giving preference to U S -flag vessels over those of other countries (B-163536, June 30, 1969)

UTILIZATION OF U S OWNED OR CONTROLLED CURRENCIES

78 ADMINISTRATION OF INTEREST EARNED ON FOREIGN CURRENCY—In April 1969, we reported to the Secretary of Defense that U S -owned local currency funds generated from the sale of agricultural commodities in the Republic of the Philippines and allocated for common defense purposes had been withdrawn from a U S Treasury account far in advance of actual disbursement needs and invested in interest-bearing time deposits and short-term promissory notes by the Joint U S Military Advisory Group (JUSMAG)

The interest earned on these investments was used to finance Philippine construction projects, in accordance with project agreements Our review of applicable laws showed, however, that the interest should not have been used for construction programs but, rather, should have been deposited in the U S Treasury as miscellaneous receipts Therefore we believe that JUSMAG was without legal authority to include in the project agreement (or at least to agree to) a provision for the use of interest by the Philippine Government

We proposed that all interest earned on time deposits and paid or credited subsequent to June 30, 1968, no longer be available to finance construction projects We further proposed that, as outstanding time deposits mature, principal not required for current expenditures be returned, along with the interest, to the Treasury

We have been advised that, as a result of our review, JUSMAG has discontinued the practice of purchasing promissory notes, that, in line with our proposal, JUSMAG has deposited the equivalent of $100,600, representing interest paid from July 1, 1968, through April 30, 1969, with the Treasury, and that, as remaining time deposits mature, JUSMAG will deposit additional interest of about $111,300 In addition, the equivalent of about $255,700 representing principal currently not needed has been deposited with the Treasury, to be held until needed by JUSMAG

In view of the practices described above, we recommended that a review be made of arrangements with other countries to ascertain whether the arrangements permit the premature withdrawal of funds and permit or require, without legal authority, the use of any interest earned on these funds to augment or supplement approved programs We recommended also that Department of Defense officials review the adequacy of financial controls over U S -owned foreign currency maintained outside the accounts of the Treasury, as well as the necessity for and legality of such arrangements (B-146820, April 24, 1969)

79 MANAGEMENT OF FOREIGN CURRENCY—In June, 1969, we reported to the Secretary of Agriculture on our review of the financial management procedures of the Department of Agriculture relating to the collection of foreign currency proceeds from sales of agricultural commodities under title I of Public Law 480

Our review showed that certain countries had been late in making required foreign

currency deposits and that about 41 percent (or $36 million worth of foreign currency) of the amount due the United States had been received more than 30 days late

Inasmuch as these foreign currencies are deposited by the U S Government in interest-bearing accounts, the delinquent deposits have probably resulted in a loss of interest income to the U S Government In at least two countries, this loss of interest income can result in increased dollar outflow

We made several suggestions which, we believe, will expedite the collection of these foreign currencies We also suggested that future title I foreign currency sales agreements provide for payment of a penalty to the United States when deposits are not made within a reasonable period of time (B-146820, June 26, 1969)

80 USE OF EXCESS FOREIGN CURRENCY BY PROJECT HOPE—In February, 1968, the Agency for International Development (AID) made a $1 5 million foreign assistance dollar grant to Project Hope to finance the operating costs of the vessel SS HOPE for carrying out a medical training and teaching program in Ceylon Project Hope attempted to buy its local currency needs from the U S Government but was advised that no local currency was available for sale even though Ceylon was an excess-currency country, that is, the U.S Government had available for its use, amounts of Ceylon currency substantially in excess of its normal, expected requirements for approximately 2 years

We advised officials of the Treasury Department and AID of this situation in April 1968 and suggested that, since Ceylon was an excess-currency country it would reduce budgetary expenditures and benefit the U S balance of payments if a means could be found to make U S -owned excess Ceylon rupees available for sale to Project Hope

As a result of our suggestion, AID directed the U S Mission in Ceylon to make U S -owned rupees available from the accommodation account for sale to Project Hope During fiscal year 1969 the SS HOPE purchased approximately $243,000 worth of excess rupees from the U S Government because of this action (Letter to Secretary of Treasury and to Administrator, AID, April 3, 1968)

81 USE OF FOREIGN CURRENCIES IN LIEU OF U S DOLLARS—In December 1968, we reported to the Department of State that we had observed instances where we believed that U S -owned excess Yugoslavian dinars could have been used to pay costs being paid in dollars

Dollar payments in lieu of dinar payments were being made to certain annuitants residing in Yugoslavia even though we could find no justification in the files for granting such payments in some cases while in other cases the amount of dollars needed or the period of time the dollars were required was not shown Further, we found that there were no follow-up procedures in effect with regard to payments granted on a permanent basis This appeared to be important, since many of the payments granted on a permanent basis were granted for travel purposes

In July 1965, Social Security, Veterans Administration, Railroad Retirement, and other pension and disability payments made to annuitants residing in Yugoslavia were changed from dollars to U S -owned excess dinars As of September 1967, these payments amounted to the equivalent of approximately $407,000 a month, however, about $18,700 worth of pension payments were being made in dollars each month, mostly on a permanent basis, for various reasons In our opinion, these dollar payments were largely unnecessary

The records showed that, as of November 1967, 163 annuitants residing in Yugoslavia were receiving dollar payments on a

permanent basis directly from the United States In addition, a few recipients were converting their dinar checks to dollars at the Embassy in Belgrade Also, there were a small number of annuitants receiving dollar payments on a temporary basis Information provided to us indicated that the amount of dollar payments being made directly from the United States was increasing

We recommended that the Department amplify existing instructions pertaining to approving requests for dollar payments to annuity recipients residing in Yugoslavia to provide guidelines as to the circumstances under which requests for dollar payments may be approved, particularly in the case of U S citizens In addition, we recommended that the Department direct the Embassy to undertake a review of all then-current cases of dollar payments to annuitants with the view to terminating those which were not justified We pointed out that, although our review was limited to Yugoslavia, the Department might wish to consider amplifying its instructions to its Embassies in other excess-currency countries

On February 4, 1969, the Department informed us that it was amplifying existing instructions to provide guidelines as to circumstances under which dollar payments in lieu of local currency payments may be approved and to emphasize the necessity for immediate and periodic reviews of the need for continuing dollar payments The instructions will be furnished to the American Embassies in all countries in which it is the policy to pay resident U S Government annuitants in excess, or near excess, currency (Report to Deputy Under Secretary of State for Administration, December 9, 1968)

82. ACCOMMODATION EXCHANGE TRANSACTIONS IN EXCESS-CURRENCY COUNTRIES—In October 1968, we reported to the Department of State on our review of selected policies and practices regarding accommodation exchange transactions in six excess-currency countries India, Israel, Pakistan, Tunisia, United Arab Republic, and Yugoslavia Balances of local currency available for U S uses in these countries substantially exceeded the normal operating requirements of the U S Government for approximately 2 years, as determined by the U.S Treasury Department

Our review showed that the Department of State permitted non-American U S Government employees in excess-currency countries to receive salary payments and certain other entitlements in the currency of countries to which they were traveling or immigrating When the travel was to countries in which the United States did not hold excess currency, an expenditure of dollars was required to purchase those currencies This contributed to the current U S deficit balance-of-payments position and constituted an additional budgetary cost

We identified about $70,000 in such payments on an annual basis in the six countries covered in our review

We recommended to the Department of State that it issue instructions prohibiting this practice in excess-currency countries

In January 1969, the Department informed us that it had revised its regulations to provide for and limit the conditions under which payment to non-Americans would be made in other than local currency Exceptions anticipated are few and are based on conditions of employment as required by local custom and the prevailing situation in the country (B-146749, October 2, 1968)

INTERNATIONAL ACTIVITIES—GENERAL

83 DIFFICULTIES IN ARRANGING AIR SUPPORT SERVICES FOR U S CONTRACTORS IN VIETNAM—In November 1968, we reported to the Congress that

the Government of Vietnam (GVN) had denied certain U.S contractors working on military programs in Vietnam permission to operate, or obtain through subcontract with a U S carrier, airlift services required to fulfill their assignments

The GVN cited the Agreement of the 1944 Convention of International Civil Aviation to support its refusal The U S Government and GVN are signers of the agreement which provides that each contracting country have the right to refuse permission for the aircraft of another contracting country to take on, in its territory, passengers, mail, and cargo carried for remuneration or hire and destined for another point within its territory The agreement provides further that it is applicable only to civil aircraft and is not applicable to "state" aircraft and that aircraft used in military, customs, and police services are considered to be state aircraft

As a result, one contractor obtained airlift services from a joint venture of a U S air carrier and a Vietnamese air carrier A 15-percent premium, based on gross revenues and amounting to $1 2 million, was paid to the Vietnamese carrier primarily for clearances for the U S carrier to operate in this capacity in Vietnam

Another U S contractor, after using the services of the Vietnamese air carrier, tried to establish its own airlift capability by purchasing two aircraft Only after a delay of 1 year and at an estimated additional cost of $282,000 was the contractor able to operate in Vietnam

Because of the cost-reimbursable features of the contracts, these additional costs are ultimately borne by the U S Government We concluded that the additional expense and the unnecessary complication of the contractors' operational problems had resulted from the lack of an overall working agreement between the two Governments We concluded also that it was inappropriate for contractors to have to pay premiums for permission to fly contract aircraft into, within, or out of Vietnam when operating in support of U S military programs

We recommended that the U S Government continue its efforts to obtain an agreement or a working arrangement with GVN to permit the operation of contract commercial aircraft on an exclusive-use basis for logistic air support of U S Government programs in Vietnam We had proposed that, should these efforts fail to produce satisfactory results, the Secretary of Defense determine whether the contractors' air support requirements could be satisfactorily filled by alternative means

The Departments of Defense and State agreed, in general, with our findings and proposals Department of Defense officials advised us that a review had been made and that they had concluded that airlift support should continue to be provided by commercial support and that military airlift would be utilized whenever feasible We were advised that the U S Embassy in Saigon and the U S Military Assistance Command, Vietnam, were continuing their efforts to negotiate a satisfactory working agreement We were informed that the 15-percent premiums had been eliminated in July 1968 and that an interim arrangement had been in effect from that time, pending formulation of a final agreement (B-159451, November 14, 1968)

CONTRACT ADMINISTRATION

84 ADMINISTRATION OF PRICE ESCALATION CLAUSES—The Army awarded a fixed-price contract for ammunition items, which provided for an upward or downward adjustment of price if the contractor experienced an increase or decrease in the prices paid its suppliers of brass ammunition cups, a component of the ammunition items The contract provided further that the contractor (a) notify the contracting officer of any changes in the prices of the brass cups, (b) submit a proposal for an equitable adjustment of the contract price by reason of such changes, and (c) certify, on the final invoice submitted under the contract, that either it had not experienced a decrease in the cost of the brass cups or, if it had, it had given notice of all decreases

We found that the Chicago Region of the Defense Contract Administration Services (a Component of the Defense Supply Agency), which was responsible for administration of the contract, had not established controls to ensure that contractors complied with their reporting and certifying responsibilities under price escalation clauses Consequently it was not aware that the contractor had experienced price decreases on purchases of brass cups and should have proposed a downward adjustment of the contract price to the Army We estimated that the downward adjustment of the contract price should have been about $248,000

We discussed our findings with the Army and the contractor, and they took steps to negotiate an adjustment We discussed our findings also with officials of the Chicago Region of the Defense Contract Administration Services, and they established procedural controls for surveillance of price escalation clauses

In response to our report on these findings, issued to the Secretary of Defense in October 1968, the Army stated that the contractor had informally agreed to make settlement in the amount of $215,975 (B-156806, October 2, 1968)

85 LEASING RATHER THAN PURCHASING LAND AND BUILDINGS BY CONTRACTORS—We found that the leasing by contractors of land and buildings to be used almost exclusively in the performance of Government contracts had resulted in greater costs to the Government than would have been the case if the facilities had been purchased by the contractors Had the facilities been purchased, acquisition costs recoverable by the contractors would have been limited to the amount of depreciation

We reviewed this matter as it related to the land and buildings at 20 locations of 17 major contractors Our report on the review was issued to the Congress in October 1968 We estimated that the additional costs to the Government could have amounted to about $55 8 million by the end of the initial periods of the leases at the locations we reviewed They could amount to as much as $99 3 million if all renewal options of the leases are exercised

The decision to lease or purchase rested with the contractor However, because contractors stood to gain by leasing or, in some cases, at least avoid the risk attendant on ownership, contractors may have been swayed toward a course of action more costly to the Government since equal treatment was accorded costs associated with either course of action in negotiating profits and fees

The weighted guidelines of the Armed Services Procurement Regulation for the negotiation of contractors' profits or fees did

not make appropriate distinction between owned and leased facilities and therefore did not offer any motivation to contractors to select the method of acquisition most economical to the Government We suggested to the Department of Defense that, in negotiating profits and fees, consideration be given to the methods used by the contractor in acquiring real property for use under Government contracts

In January 1969 the Department advised us that it was considering new guidelines for negotiating profits and fees that would take into account the contractor's investment in facilities More recently, however, the Department advised us that further consideration of this matter had been deferred for about a year (B-156818, October 23, 1968)

86 CORPORATE EXPENSES CHARGED TO CONTRACTS—At the request of the Chairman, House Committee on Appropriations, we reviewed the policies of the Department of Defense (DOD), the Atomic Energy Commission (AEC), and the National Aeronautics and Space Administration (NASA) for allowing corporate general and administrative expenses to be charged to certain Government contracts at Government-owned, contractor-operated plants Our report on the review was issued to the Congress in November 1968

On the basis of our review at 17 such plants, we found differences among Government agencies in their policies governing the payment of corporate expenses under Government contracts DOD and NASA generally paid such expenses incurred in the performance of the contract or in the normal conduct of a contractor's business as a whole AEC generally paid such expenses when incurred in the performance of the contract but not when incurred in the normal conduct of a contractor's business as a whole

As a result, the costs to the various agencies of the Government for essentially the same type of work, performed in the same plant, differed by substantial amounts

DOD, AEC, and NASA agreed in general with our findings and conclusions

We made no recommendations pending completion of a pertinent study we are conducting The study, directed by Public Law 90-370 to be completed by December 31, 1969, involves the feasibility of applying uniform cost-accounting standards to all negotiated prime contract and subcontract defense procurements of $100,000 or more The study encompasses an analysis of differences in contract cost principles established by Government agencies for allowing corporate general and administrative expenses (B-124125, November 14, 1968)

87 NONCOMPETITIVE CONTRACT AWARD—Pursuant to a request from a congressional committee, we reviewed the procurement procedures employed by the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), in awarding a contract on a noncompetitive basis to an educational institution, even though seven commercial firms had responded to a published announcement requesting qualified sources to submit evidence of their competence and reliability for performing the required work

In our report to the chairman of the committee, we pointed out that, although we had found no legal basis for questioning the validity of the contract, the handling of the procurement transaction by NIH had been deficient because (a) adequate consideration had not been given to the resumes submitted by the seven prospective contractors which responded to the published solicitation for qualifications and (b) responsible officials in the sponsoring NIH institute and in the research contracts section had not adequately

coordinated their actions leading to the contract award

We suggested that the Director, NIH, improve the surveillance exercised over the contracting practices of the institutes and divisions at NIH and the coordination among responsible officials We suggested also that periodic reviews of the contracting activities of NIH be conducted by the reponsible audit group to ensure that such activities are carried out effectively and economically and in accordance with Federal laws and regulations and prescribed policies and procedures governing the award of contracts

The chairman released our report in July 1968 and requested the Secretary of HEW to comment on the report and inform him of the steps that would be taken to remedy the problems discussed therein In his reply of October 1968, the Secretary stated that (a) HEW would initiate a review of its procurement policies, practices, and procedures to develop methods for preventing the recurrence of actions similar to those found by us, (b) NIH had held a series of training sessions on the negotiation and administration of research contracts, and (c) NIH contracting activities would be included as part of the HEW Audit Agency's regularly scheduled audit activity (B-163367, March 22, 1968)

88 ADMINISTRATION OF COMPUTER PROGRAMMING CONTRACTS—In June 1969 we reported to the Maritime Administrator that Maritime Administration entered into two contracts in 1966 with an outside programming firm for the preparation of computer programs to process certain cargo statistics gathered by the Division of Trade Studies, Office of Government Aid The contracts were initially scheduled for completion within 6-1/2 months of the contract dates At the time of our review, however, the computer programs were not complete, although the contractor had been working on them for over 29 months

As a result of the delay in providing workable computer programs, unprocessed source data had been accumulating over the 29-month period in the Division of Trade Studies, reports which, according to Maritime officials, were needed in connection with certain Maritime activities were not available, and the computer system was not being fully utilized for the trade statistics program used as the justification for its acquisition

We believe that Maritime's administration of these contracts was ineffective because of

—a lack of written documentation to support oral agreements between the contractor and the Office of Data Systems to modify contract requirements,

—the absence of contract provisions requiring the submission of periodic status reports,

—the practice of the Office of Data Systems of approving progress payments with no assurance that work had been performed,

—inadequate documentation to support extensions of time for completion of the contracts and increase in contract costs, and

inadequate monitoring of activities of the contractor during the contract period

We recommended that Maritime, to receive maximum benefits from its automatic data processing equipment and to improve the administration of contracts, (a) require the operating unit responsible for administration of contractors' activities to monitor contractors' work at all times and, when applicable, ascertain the reasons for contractors' failure to meet completion dates, (b) include in future contracts of this type a requirement for submission of progress reports on a regularly scheduled basis, (c) require that all agree-

ments and proceedings at meetings concerning changes in the scope of the contract work be documented and included in the permanent contract files, and (d) require contractors to submit adequate justification for any requests to extend or amend a contract (Report to Maritime Administrator, Department of Commerce, June 24, 1969)

Note For additional items related to "Contract Administration," see section on "Economic Opportunity Programs," items 7 and 8

CONTRACTING POLICIES AND PRACTICES

89 EVALUATION OF COMPETITIVE PROPOSALS—We reviewed the procedures of the Air Force for evaluating competitive proposals in the award of negotiated contracts for the operation and maintenance of the Ballistic Missile Early Warning System (BMEWS), the Distant Early Warning Line (DEW Line), and the White Alice Communication System Our report on the review was issued to the Congress in April 1969

At the time of award of contracts for the operation and maintenance of the three systems, the Department of Defense (DOD) was prohibited by law from awarding such contracts for more than 1-year periods A yearly award to a different contractor, selected through competitive negotiation, involves change-over costs (hiring and training of new personnel and obtaining required security clearances) each year To reduce such costs, the Air Force was retaining competitively selected contractors for 3-year periods The competitive selection of contractors was based on the price proposals for only the first year of the 3-year period—in line with DOD policy that contractors' proposals for subsequent years not be considered in awarding contracts for the first year

This method gave the incumbent contractors a significant advantage over competitors For example, had the Air Force been permitted to consider each offeror's first-year proposal combined with option prices proposed for the second and third years, it would have been found that the proposal of a competitor for the BMEWS contract, rather than that of the incumbent contractor, was the more favorable About $8 8 million might have been saved by award of the contract to the competitor

We suggested that, where there was reasonable certainty that (a) the options for the second and third years will be exercised and (b) failure to consider the option prices for the second and third years would result in substantially increased costs, DOD explore the means to amend, or deviate from, its policy DOD advised us that revisions to its policy were being considered

On July 5, 1968, the President signed legislation (Public Law 90-378) that authorized certain contracts for services and incidental supplies to extend beyond 1 year (multiyear contracts) The legislation is applicable to contracts awarded for services or incidental supplies outside the United States that are funded by 1-year appropriations and therefore is applicable to the operation and maintenance contracts of the type discussed in our report This legislation should help alleviate some of the problems in the negotiation and award of such contracts (B-162839, April 25, 1969)

90 PROCUREMENT OF JEWEL BEARINGS—The William Langer Jewel Bearing Plant, Rolla, North Dakota, was established by the Government in 1952 as a Government-owned, contractor-operated domestic source of jewel bearings used in defense items to eliminate dependency upon foreign sources of supply which could be cut off in the event of war The Langer plant was a mandatory source for jewel bearings contained in items purchased by the Government

and for jewel bearings purchased for the national stockpile Because available information indicated that the plant was not being fully used, we made a survey of the purchasing and stockpiling of jewel bearings with the objective of examining into compliance with the mandatory-source requirements and the adequacy of the existing stockpile to meet its objectives Our report on the survey was issued to the Congress in April 1969

We found that there was a need for

—Better enforcement of the mandatory requirement for the purchase and use of the bearings produced in the plant

—Greater compliance with the requirement for the use of military-standard-size bearings

—Review of the adequacy of the jewel bearing stockpile

We proposed

—That the mandatory-source requirement included in contracts for purchases over $2,500 be entended to purchases under $2,500 when the item being purchased was a jewel bearing or a mounted jewel bearing

—That instructions be issued explaining the bases for granting waivers of the mandatory-source requirement

—That current military standards for jewel bearings be studied and updated where appropriate and that the Armed Services Procurement Regulation (ASPR) be revised to point out the need to use military-standard bearings

—That the jewel bearings in the stockpile be analyzed to determine whether they were applicable to military end items currently in use and could be used in the event of mobilization

The agencies involved expressed agreement with certain of our proposals The Department of Defense, however, did not agree with our proposal that ASPR be revised to point out the need to use military-standard bearings We recommended that the Department reconsider its position on this matter (B-159463, April 17, 1969)

91 PROCUREMENT OF TECHNICAL MANUALS—We made a review of the Army's procurement of technical manuals used by maintenance personnel in overhauling uninstalled aircraft engines A report on this review was issued to the Secretary of the Army in October 1968 The Army followed the practice of procuring these manuals from the engine contractors in manuscript form and furnishing the manuscripts to air-frame contractors for inclusion in the overall aircraft maintenance manual

We found that the processing of the engine maintenance manuscripts by the airframe contractors had not resulted in any substantive changes in the supplied technical data We believed that the Army could improve the delivery time of the engine maintenance instructions to its using activities and also could effect cost reductions of about $100,000 annually by having engine manufacturers prepare their manuscripts in reproducible form Such action would avoid the need for processing of the material by the airframe contractors It would also conform with the practices followed by the Air Force and the Navy which procure similar data from their engine contractors

Following our discussion of these findings with officials of the Army, they agreed to adopt procedures similar to those followed by the Air Force and the Navy (B-161671, October 3, 1968)

92 PAYMENT FOR SERVICES ON LUMP-SUM OR ANNUAL INSTALLMENT BASIS— In January 1969, we stated in a report to the Secretary of the Interior that our review of a contract executed in June 1965 with a private power company for the transmission of Federal power disclosed that

the Government would incur additional costs of about $525,000 This additional cost would be incurred because the Bureau of Reclamation elected to make a $2 6 million lump-sum payment to the company for the use of the company's transmission facilities for 50 years when it would have been more economical to have made 50 annual payments of $100,000 The company had given the Bureau the opinion of using either method

The Bureau elected to make a lump-sum payment based upon a comparative cost analysis of the two alternatives, using present-value techniques by applying interest rates prescribed in Senate Document 97, Eighty-seventh Congress, second session Senate Document 97 established the procedures to be used in discounting future benefits and costs in determining the feasibility of water resources projects The discount-rate determination, as prescribed in Senate Document 97, required the use of the average rate of interest payable on Treasury obligations which, upon original issue, had terms of maturity of 15 years or more

Although the Bureau is required to follow the interest-rate criteria set forth in Senate Document 97 for determining the feasibility of a water resources project, such a requirement does not exist for deciding whether it would be in the Government's interest to contract for a service on a lump-sum-payment basis or by making periodic payments over a specified number of years Because the average-yield interest rate which is the average yield of long-term Treasury bonds neither due nor callable before a given number of years, in our opinion, more accurately reflects the real interest cost to the Government, we believe that rate should have been used in considering the two methods of contracting for facilities and services This rate, based on current market prices, appears in the monthly Treasury bulletin Had the Bureau used the average-yield rate, the present worth of the annual payments would have been about $525,000 less than the $2 6 million lump-sum payment We believe that an analysis on this basis would have caused Bureau officials to select the annual-payments option offered by the private power company

We recommended that the Department issue instructions requiring that any future evaluation involving an option of making a lump-sum or long-term payment include the use of a discount rate which more accurately reflects the interest cost to the Government We recommended also that the specific types of obligations to be used in establishing an appropriate discount rate be obtained from the Secretary of the Treasury (B-135805, January 31, 1969)

93 DISCOUNTS GRANTED GENERATING AND TRANSMISSION COOPERATIVES—In our August 1968 report to the Congress, we reported that the Department of the Interior had stated that the rate structure of the Eastern Division of the Missouri River Basin Project, for the sale of electrical power by the Bureau of Reclamation had not been set up to cover (a) the cost of constructing Government-owned transmission facilities or (b) the cost of using the lines of third parties (wheeling) for delivery of power to customers located within short distances of a Bureau of Reclamation substation Nevertheless, the Department has followed a policy of allowing generating and transmission cooperatives (G&Ts) in the market area discounts in lieu of wheeling of all firm power deliveries, although, in certain instances, some deliveries are for G&T members located within short distances from a Bureau substation

Bureau customers other than members of a G&T located near a Bureau substation are required to build their own transmission facilities or make their own wheeling arrangements This inconsistency in policies provides certain G&Ts and their members with price advantages not available to other Bureau

customers located within short distances from a Bureau substation

We examined into the discounts granted to two G&Ts and noted that about $300,000 of the discounts had been granted on power deliveries to member customers whose distribution systems were in close proximity to the Bureau's substations

We suggested that the Secretary of the Interior direct the Bureau to reexamine, in connection with future contracts or contract amendments with G&Ts, discounts granted in lieu of wheeling power short distances We suggested also that such discounts be limited to those deliveries which conform to the wheeling policy on which the power rates were established

The Department did not agree with our suggestions The Department stated, however, that it would have no objection to making a cost finding to determine whether the amount of discounts allowed the G&Ts was in conformance with the contract provision that, if average wheeling costs are less than 1 mill a kilowatt-hour, the lower cost apply

We continued to believe that our suggestions had merit and therefore recommended that they be adopted We recommended also that the Department's cost finding study on the relationship of wheeling costs to the discounts being granted to G&Ts be based on the wheeling policy on which the rates were established and that consideration be given to all alternatives, including estimates of the Bureau's cost of constructing and operating its own transmission lines, to provide direct service to members of G&Ts that are eligible for such service at Bureau expense (B-125042, August 6, 1968)

94 RENEWAL OF CONTRACTS FOR TRANSPORTATION OF MAIL—In a report issued to the Postmaster General in August 1968, we pointed out that some star route contracts for intercity highway transportation of mail by private carriers that had been initially awarded for 4-year periods after advertising for competitive bids had been renewed by the Post Office Department without readvertising and without documenting the justification for not readvertising Our examination into selected contracts in the Seattle Postal Region showed that the service costs on many of these contracts had increased substantially after the award of the initial contracts We found that the costs had increased from 25 percent to 600 percent of the last advertised contract amount It was our opinion that the Department's instructions did not provide the specific guidelines necessary to enable regional personnel to determine when the scope of changes in service warranted readvertising

The Deputy Postmaster General, in commenting on our report, advised us that the Department concurred in our finding and that, accordingly, instructions had been issued May 21, 1969, establishing some definite guidelines by which regional officials can make determinations as to whether star route contracts should be renewed or readvertised (B-114874, August 2, 1968)

95 USE OF GOVERNMENT PERSONNEL RATHER THAN CONTRACTOR-FURNISHED EMPLOYEES—We found that the Federal Aviation Administration (FAA), by revising its present arrangements for periodically required maintenance inspections on certain of its Europe-based aircraft, could realize a substantial reduction in costs of maintenance services The maintenance inspections, comprising safety, service, and numbered inspections (routine inspections performed every 300 flying hours), are performed under a contract with a foreign airline

We found that the types of inspections made by the U S Air Force on its aircraft based in Germany were very similar to the inspections required for FAA aircraft and proposed that FAA consider arranging with the

Air Force for the maintenance inspection of FAA's aircraft FAA accepted our proposal and contacted the Air Force in Europe The Air Force, however, concluded that the initially estimated savings could not be achieved because the estimate of additional manpower required to service FAA aircraft had been understated

FAA therefore initiated a study to ascertain a more economical arrangement for inspection of its aircraft, the results of which showed that the safety and service inspections, which would otherwise cost about $84,300 under contract, could be performed at Air Force installations by FAA personnel for about $40,700, a saving of about $43,600 annually The study showed also that it would be more economical to have the contractor continue making the numbered inspections

Accordingly, we suggested that the FAA Administrator approve the proposed plan to revise the arrangements for obtaining safety and service inspections of FAA-owned aircraft in Europe The FAA Administrator stated that, to the extent permissible under the President's directive of January 18, 1968, which requires a reduction of American presence overseas, FAA would expand its in-house maintenance capabilities

We were advised by FAA officials that, as of June 1969, FAA had been unable to assume the inspection functions mainly because the Department of State and the Bureau of the Budget had declined to authorize an increase in the number of FAA positions overseas FAA plans to utilize impending position reductions in the Pacific Region (Tokyo) to provide the additional positions needed in Europe (B-164497(1), September 18, 1968)

96 USE OF THE FORMAL ADVERTISING METHOD OF CONTRACTING—We reported to the Congress in January 1969 on savings available through the General Services Administration's (GSA's) use of the formal advertising method of contracting rather than through the contracting method known as second-phase negotiation

Under the second-phase method, GSA requests suppliers of similar items to submit prices at which they are willing to sell their products to the Government GSA then affords those suppliers which have submitted higher price offers an opportunity to meet the lowest price offered The suppliers which agree to meet the lowest price are awarded a contract and are listed in a GSA Federal Supply Schedule as available suppliers for the item Federal agencies then may purchase their requirements at the same cost from any listed supplier for that item

We had previously issued three reports to the Congress which showed that the use of formal advertising rather than the second-phase method of contracting was practical and that the Government could realize substantial savings through its effective use These reports concerned contracts for the procurement of light bulbs, automotive tires and tubes, and aircraft tires We therefore undertook a review to determine whether GSA was using the second-phase negotiation method to establish contracts for other commodities

We found that GSA used the second-phase method in its contracting for three additional groups of commodities —sound-recording and instrumentation tapes, heavy-duty electrical batteries, and lithographic printing plates Each of these commodities is purchased in amounts of about $4 million a year Our review indicated that (a) formal advertising was practical for many of the items in the groups because Federal specifications had been established and a sufficient number of suppliers existed to permit effective competition for the Government's requirements and (b) GSA could enhance its opportunity to obtain fair and reasonable prices for the remaining items through independent negotiations with individual suppliers

We stated our belief that the second-phase method did not encourage maximum price competition because, by affording suppliers the opportunity to match lower offered prices, GSA provided no incentive for the suppliers to initially submit the lowest prices at which they are willing to sell This method resulted in additional suppliers rather than in more favorable offered prices

We recommended to the Administrator of General Services that GSA (a) discontinue its use of the second-phase method of contracting, (b) take the necessary steps to use formal advertising in establishing Schedule contracts where practical, and (c) use independent negotiations in establishing Schedule contracts for items that are not susceptible to formal advertising

In August 1968 the Administrator advised us that GSA agreed that formal advertising should be used in establishing Schedule contracts whenever practical and feasible and that due consideration should be given to the total cost of supply He further advised us that the existing Federal specifications for sound-recording and instrumentation tapes, heavy-duty electrical batteries, and lithographing plates were not adequate for competitive procurements and that, until the specifications could be appropriately revised, GSA planned to award future Schedule contracts through independent negotiations GSA subsequently advised us that progress was being made in the development of specifications adequate for formal advertising (B-163379, January 10, 1969)

97 USE OF FORMAL ADVERTISING FOR PURCHASING PROPANE—In August 1968 we reported to the Congress that during the period August 1965 to July 1966, the General Services Administration (GSA) awarded four negotiated contracts, amounting to about $818,000, to the same supplier of propane for Kincheloe Air Force Base in Michigan under noncompetitive conditions We noted that GSA had not taken effective action to foster competition for the base's propane requirements The review indicated further that, despite the existence of tight market conditions, propane suppliers might be influenced to enter into competition

We proposed to GSA officials several specific steps that we believed would tend to encourage competition among propane suppliers These steps involved primarily the tailoring of GSA's contract terms to conform more closely with the propane industry's practices and with the needs of the using activity

GSA revamped its contract terms in line with our proposals and the solicited suggestions of selected propane suppliers and formally advertised for the base's fiscal year 1968 propane requirements Nine responsive bids were received The price obtained was 27 percent lower than the previous year's negotiated price even though the average producers' prices had increased 20 percent The price obtained represented a reduction of about $144,000 in the cost of the estimated quantities compared with the previous contract price

In May 1968, GSA informed us that the combined efforts of General Accounting Office and GSA representatives resulted in a more advantageous fiscal year 1968 contract and that GSA's preliminary evaluation indicated that the fiscal year 1969 contract would be even more advantageous

The history of GSA's propane procurement constitutes a useful case study for procurement instructional purposes because of the specific illustrations it provides of practical steps that may be taken to obtain competition and, for that matter, to increase competition where formal advertising is used (B-164531, August 26, 1968)

98 COMPETITIVE NEGOTIATIONS—We reviewed the selection, negotiation, and award of certain contracts at the National Aeronautics and Space Administration's (NASA's) Manned Spacecraft Center (MSC) for the purpose of determining whether the practices followed were in accordance with the requirements set forth in the United States Code (10 U S C 2304(g))

Briefly, 10 U S C 2304(g) provides that, in all negotiated procurements in excess of $2,500 "*** written or oral discussions shall be conducted with all responsible offerors who submit proposals within a competitive range, price and other factors considered" The statute does not provide definitive guidance with respect to what is to be included in the written or oral discussions and leaves to the contracting agency the responsiblity for determining the competitive range

Our review of the NASA procurement instructions, issued to implement the statutory requirements, also indicated a need for further clarification concerning the written or oral discussions and the determination of competitive range Because of this lack of definitive guidance in the statute and in NASA's implementing procurement instructions, varying interpretations have been applied by different source selection and contracting officers

We reviewed the selection of proposals for negotiations in 47 awards made by MSC during the period January 1, 1965, through June 30, 1967 In 17 of the 47 awards, the selection officers had limited negotiations to a single offeror, even though the records showed that other offerors had submitted proposals that appeared to us to be competitive in price and other factors The justifications for negotiations with only one offeror raised questions concerning the determinations of competitive range and compliance with the requirement for oral or written discussions with all offerors within that range However, the absence of more explicit guidance in the statute and in NASA procurement regulations and instructions gave source selection officials considerable leeway in satisfying the statutory requirements

At the completion of our fieldwork, we discussed these matters extensively with NASA officials, who generally concurred in our conclusion that there was a need for more definitive guidance to source selection officials As a result of these discussions, Procurement Regulation Directive No 69-5 was issued March 10, 1969 This directive provides additional guidance concerning (a) the determination of the offerors within the competitive range and (b) what is to be included in the oral or written discussions We expressed the belief that issuance of this directive should result in more consistent and improved procurement practices (Report to the Acting Administrator, National Aeronautics and Space Administration, March 18, 1969)

99 CONVERSION OF AN ADVERTISED, FIXED-PRICE CONTRACT—We reported that in September 1964 the National Aeronautics and Space Administration's (NASA's) Kennedy Space Center (KSC) awarded a fixed-price contract for the manufacture of certain launch support equipment for the Apollo program In December 1965 the contract was converted to a cost-plus-a-fixed-fee contract with an effective date retroactive to the date of the original contract Conversions of this nature are unusual The original amount of the contract was about $11 5 million, upon its essential completion, the contract amounted to about $30 7 million

We expressed the opinion that sufficient information was available prior to the award of the contract to indicate that an advertised, fixed-price-type contract was not suitable Although drawings and specifications for the equipment were available for bidding purposes, changes in design were being processed

both before and after the bids were received Moreover additional design changes of an unknown magnitude, related to the then ongoing space vehicle design effort, were being contemplated

In such circumstances, where it is not known with a reasonable degree of certainty that the contract requirements can be defined sufficiently to permit the appropriate use of a fixed-price contract, we expressed the belief that the option of using a cost-type contract should be held open as long as practicable We also expressed the belief that the problems discussed in the report were caused by an unnecessary adherence to a decision which, while well motivated, was not entirely realistic at the time it was made and became less so as time went on

NASA officials stated that a significant number of design changes outside the control of KSC indicated, in retrospect, that a cost-reimbursable-type contract would have been more suitable In this regard, we were advised that NASA's procurement regulations would be revised to provide additional guidance dealing with the appropriate use of fixed-price contracts where there are design uncertainties and significant potential research and development effort To assist NASA procurement officials in dealing with similar problems, our report was the subject of an article in NASA's "Procurement Countdown," an internal publication which is circulated to all NASA procurement activities (Report to the Acting Administrator, National Aeronautics and Space Administration, B-162547, November 29, 1968)

100 CONTRACTING FOR SECURITY GUARD AND FIRE PROTECTION SERVICES—We reported that our review of the relative costs of contracting directly for security guard and fire protection services rather than contracting indirectly through a prime contractor showed that annual savings estimated at more than $200,000 could be achieved if the Kennedy Space Center (KSC), National Aeronautics and Space Administration (NASA), contracted directly for these services These savings could be obtained through the elimination of allowances to the prime contractor for direct costs, corporate general and administrative costs, and profit We noted that the responsible KSC organizational units maintained operational control over the subcontracted functions and thereby rendered questionable, in our opinion, the need for management of these services by the prime contractor

We suggested that NASA reevaluate the method of contracting for the services involved—giving consideration to comparative costs and management responsibilities-before any new contracts for these services are awarded NASA advised us that our suggestions would be considered as a part of a larger study by NASA of support services costs at KSC and that an attempt was being made to reduce costs and profit under the present contractual arrangement As of June 1969 no change had been made in the method of acquiring the security guard and fire protection services, however, we received information which indicated that the prime contractor's profit and general and administrative expenses applicable to these services had been reduced (B-133394, July 15, 1968)

101 PROCUREMENTS UNDER A CATALOG- OR MARKET-PRICE EXCEPTION TO PUBLIC LAW 87-653—Our review of selected negotiated, sole-source, fixed-price contracts awarded by the National Aeronautics and Space Administration's (NASA's) Marshall Space Flight Center (MSFC) on the basis of the established catalog- or market-price exception to the cost or pricing data requirements of Public Law 87-653 indicated that MSFC contracting officers had not obtained and verified sufficient information on which to determine that the selected procurements qualified for the catalog- or market-price exception

We expressed the belief that, for effective implementation of the established catalog- or market-price exception, contracting officers should be required to obtain and verify, to the extent deemed appropriate, evidence showing that substantial sales of an item have been made to other than Government customers at the catalog price

Because we believed that a lack of specific guidance in the NASA Procurement Regulation was the primary reason for the MSFC contracting officer's not obtaining and verifying sufficient information in determining whether the proposed catalog prices qualified for exception to the cost or pricing data requirements of Public Law 87-653, we proposed to NASA officials that the NASA Procurement Regulation be amended to require

—The contractor to submit and certify to the accuracy, completeness, and currency of sales data supporting the propriety of his claim that the items offered are exempt from the cost or pricing data requirements of Public Law 87-653

—The contracting officer to independently verify the contractor's claim of sales of the items to the general public

On March 10, 1969, NASA issued a procurement directive which, if effectively implemented, should substantially achieve the objectives of our proposals We had proposed also that certain other changes in the NASA Procurement Regulation would be desirable We agreed, in general, during subsequent discussions with NASA officials, that further modifications of the procurement regulations should be considered on a broader governmental base since other agencies and departments of the Federal Government, more specifically the Department of Defense, have a common interest (Report to the Administrator, National Aeronautics and Space Administration, B-162009, April 10, 1969)

FACILITIES, CONSTRUCTION, AND LEASING

102 DETERMINING REQUIREMENTS FOR FACILITIES—In July 1968 we issued to the Congress a report on our review of the acquisition by the Air Force of certain test, launch, and tracking facilities for the TITAN III booster program and a classified satellite program We found that these facilities had been acquired in accordance with the original plans which had not been reevaluated and updated despite indications that requirements, because of changing circumstances, were substantially less than originally estimated Had the plans been reevaluated and updated, we believe that a substantial portion of the estimated costs of about $26 3 million, incurred for the following facilities, could have been saved

—Rapid-launch, mobile features of the TITAN III launch complex, Cape Kennedy, Florida—estimated construction cost of about $23 8 million

—Basic data recording instrumentation and four storage buildings, Edwards Air Force Base, California—estimated procurement and construction cost of about $820,000

—Tracking and readout equipment installed prematurely in Alaska—estimated cost of about $1 7 million to maintain equipment in a caretaker status until needed

In response to our findings and proposals for strengthening the planning procedures for facilities acquisition, the Air Force advised us that it recognized the problem and was developing criteria specifications for application within its existing review system The Director of Defense Research and Engineering advised us that the Army and Navy had reviewed their regulations and that the Navy would modify its existing procedures to provide additional safeguards

We recommended that the Secretary of Defense take action to ensure that the procedures of the military departments limit the acquisition of facilities to those actually needed to fulfill firm program requirements On September 4, 1968, the Director of Defense Research and Engineering replied to this recommendation on behalf of the Secretary of Defense The Director stated that the Department of Defense believed that existing procedures of the Army, Navy, and Air Force were adequate if fully adhered to He stated also that the Air Force and the Navy were taking steps to strengthen their existing procedures (B-164027, July 3, 1968)

103 DETERMINING REQUIREMENTS FOR MILITARY HOUSING- We made a survey of the policies, procedures, and practices of the Department of Defense in determining requirements for family housing and bachelor officers' and enlisted quarters The survey was directed toward arriving at an informed opinion as to the general reliability of the studies, conducted by military installations, which formed the basis for the fiscal year 1968 request to the Congress for authorization and funds to build additional accommodations at specific locations Our report on the survey was issued to the Congress in February 1969

We found that, although the family housing studies of the installations included in our survey were complex and, in our opinion unnecessarily costly, the results of the studies were of questionable validity, principally because proper evaluations had not been made of existing available housing in nearby communities For example, we identified about 950 vacant rental units that met Department of Defense criteria in the vicinity of the Naval Air Station, Alameda, California, and of the Naval Supply Center and the Naval Hospital, Oakland, California This was about 600 more units than the 332 units identified in the studies of the three installations Furthermore, according to the Federal Housing Administration, there were about 15,800 vacant rental units at that time in the counties in which the three installations are located

We also found lesser shortcomings in the studies which added to the unreliability of the results of the family housing studies

Our survey also showed a need for improvement in the determination of requirements for bachelor officers' quarters We found instances where the need for construction of additional quarters had been determined (a) without adequate consideration of the quarters available at a nearby installation or of the housing facilities available in the community, (b) on the basis of questionable classification of existing quarters as being unsuitable—including permanent-type structures completed in recent years, and (c) on the basis of overstated projections of future personnel strength

The military audit agencies and the installation internal review groups were generally not conducting independent audits and checks of the requirements for family housing and bachelor officers' quarters at the installations included in our survey

We recommended to the Secretary of Defense that

—Procedures be revised to provide more comprehensive studies of the availability both current and prospective, of private housing in the community

—The military departments be required to establish a program for training key personnel in the policies, procedures, and practices to be followed in family housing surveys

—The family housing surveys be simplified

—The requirements computations made by installations for family housing and

bachelor officers' quarters be given appropriate attention by the military audit agencies

The Assistant Secretary of Defense (Installations and Logistics) agreed, in general, with our conclusion that the determinations of requirements were in need of improvement and outlined corrective actions along the lines we recommended He did not agree, however, with our conclusion that the studies which formed the basis for the fiscal year 1968 program were of questionable validity (B-133316, February 18, 1969)

104 MILITARY BUILDING PROGRAM IN THAILAND—Appropriations for military construction in Thailand amounted to about $395 million from fiscal year 1965 through fiscal year 1969 In a report issued to the Congress in June 1969, we presented our findings that the organizational structure established to administer the program in Thailand was not adequate to enforce Department of Defense (DOD) policies regarding austere construction and to coordinate the siting of proposed construction projects As a result

—The types and costs of personnel housing differed substantially from DOD-prescribed austerity standards Some of the housing projects cost an estimated $3 3 million more than they would have cost had DOD standards been adhered to

—The lack of coordination among the various organizations responsible for base development in Thailand resulted in mistakes in the selection of project sites and in wasted design costs

We suggested that, in future military construction programs of the nature of the Thailand program, the Secretary of Defense establish a single authority, sufficiently staffed, to ensure that all facets of the programs are adequately coordinated and controlled

The Deputy Assistant Secretary of Defense advised us that, as a result of lessons learned in Southeast Asia, a central organization and control such as that employed in Vietnam is advocated in the DOD published guidance He advised us further that, in consonance with this policy, the Commander, U S Forces, Korea, had been provided with authority to exercise strong, centralized management and direction of the current construction program in Korea (B-159451, June 12, 1969)

105 LEASING OF COMMUNICATIONS FACILITIES IN EUROPE—Our report to the Congress on an earlier review (B-161992, September 22, 1967) presented our findings that savings could be obtained if the military commands in Europe effectively used spare Government-owned communications circuits in place of leased lines A follow-on review was undertaken to ascertain what actions the Department of Defense had taken or planned to take to obtain better use of these spare circuits Our report on the follow-on review was issued to the Congress in April 1969

We found that actions taken by the Defense Communications Agency, Europe (DCA-E), and other military agencies in implementing our earlier recommendations had reduced lease costs by about $1 1 million as of October 1968 with a corresponding beneficial effect on the balance-of-payments problem

We found also that the military services and other Government agencies were individually contracting for leased lines In the opinion of DCA-E, additional savings could be realized and better service could be obtained through the establishment of a centralized leasing agency in Europe

We suggested that the Secretary of Defense consider establishing a central leasing agency in Europe to achieve further savings

The Department of Defense concurred with this suggestion and on July 8, 1969, advised us that such an agency had been determined to be feasible and that a field office of the Defense Commercial Communications Office would be established in Europe in fiscal year 1970 (B161992, April 29, 1969)

106 NEED FOR IMPROVED COORDINATION OF TRANSMISSION LINE DESIGN AND CONSTRUCTION PRACTICES—In our August 1968 report to the Congress, we stated that, although there has been some improvement in coordination of transmission line construction practices since our prior report to the Congress (B-114858, April 29, 1966), we found that the Bureau of Reclamation and the Bonneville Power Administration (BPA) had independently designed their respective sections of a 500-kilovolt (KV) alternating-current line The two agencies also specified a number of construction practices which differed significantly in terms of cost and, in some cases, reliability and safety standards We estimated that there was a difference of about $3 7 million between the estimated cost for designing and constructing the Bureau's 94 3-mile section of the 500-KV line and the estimated cost for designing and constructing the adjoining 94 3-mile BPA section

During our review we noted that the Bureau and BPA were to participate in the construction of a 750-KV direct-current line and that the two agencies were planning to follow many of the differing practices for the design and construction of their respective sections of the 750-KV line In view of the opportunity for the Government's achieving economies through increased coordination, we discussed our findings with Bureau and BPA officials in April 1967 and formally advised the agencies and the Department of the Interior of our findings by letters dated June 6, 1967

Upon completion of our review, we formally submitted our findings and proposals to the Department of the Interior for comment In March 1968, the Director of Survey and Review, Department of the Interior, informed us that the Department did not take issue with the general thesis of the report—that improvements should be possible from more uniformity in the practices of the large power agencies In response to our proposal, he informed us that the Assistant Secretary, Water and Power Development, had appointed a task force, chaired by a member of his immediate staff and including representatives of the Bureau, BPA, and the Southwestern Power Administration, to study agency practices and inconsistencies and to recommend affirmative improvement policies

The action taken by the Department was consistent with our proposal and should result in improved coordination We plan to follow the progress of the study and, when the study is completed, to review and evaluate the results as well as any action subsequently taken (B-114858, August 5, 1968)

107 STRENGTHENED POLICIES AND PROCEDURES TO REDUCE COST OF RAILROAD RELOCATIONS—In our December 1968 report to the Congress, we reported that the Bureau of Reclamation, Department of the Interior, had provided four railroad companies with replacement facilities which were better than the facilities being replaced because Bureau instructions did not clearly define the Government's obligation for equivalent replacement In those instances where sufficient information was available to estimate the costs involved, we believe that the Bureau could have saved about $436,000 by providing only those replacement facilities needed to meet the Government's obligation for equivalent replacement

We suggested that the Bureau revise its instructions to (a) require a more formal description of existing facilities and detailed comparisons between existing and proposed

replacement facilities, (b) require that proposed relocation agreements be reviewed for policy compliance by the Chief Engineer and significant concessions deemed necessary in the agreements be approved by the Commissioner of Reclamation, (c) assure Bureau negotiators that condemnation is an available recourse action when it is believed that the railroads are requesting more than should be provided, and (d) require that nominal or salvage value be considered as the basis for payment for facilities that will not be relocated

In response, the Department agreed, with one exception, to implement our suggestions In March 1969, however, the Department advised the Bureau of the Budget that the Department agreed with all of our suggestions (B-114885, December 30, 1968)

108 CHANGES IN PLANS DURING DEVELOPMENT OF FACILITIES—In a report issued to the Congress in August 1968, we pointed out that the Post Office Department had incurred additional costs at the completed, major mechanized mail-handling facilities at Buffalo, Cincinnati, Omaha, and Toledo totaling about $4 8 million for additional construction work, for changes in mechanized mail-handling systems, and for rental of space in the completed buildings that had not been used pending completion of the mechanization Also, as a result of changes, the Department experienced delays ranging from 13 to 34 months in obtaining full use of the facilities

We believed that many of the changes in plans for the facilities would have been unnecessary and that most of the additional costs and delays might have been avoided if the Department had had adequate procedures for planning and contracting for the buildings and mechanized mail-processing systems We believed also that, with adequate procedures, the Department would have had available information on which it could have made firm and sound decisions regarding building and mechanization needs

The Department had recognized the need for adequate planning and had taken, or was in the process of taking, actions to improve the procedures used for planning major mechanized facilities These actions included

—Revising contract provisions to provide for terminating mechanization contracts at the convenience of the Government

—Revising agreements-to-lease to require payment of liquidated damages by lessors in cases where buildings are not completed in time to avoid delays in the installation of mechanized systems by other contractors

—Strengthening the Department's research and engineering capabilities and upgrading the prior Office of Research and Engineering to bureau status

—Establishing a Major Facilities Review Committee to improve coordination of the efforts of the various groups involved in planning and constructing facilities

—Establishing a program for standardizing the mechanization to be installed in future facilities and for developing detailed criteria for certain of these systems

—Improving long-range planning through the development and annual up-dating of a 5-year program for equating major facility plans with manpower and fiscal resources

—Shortening the time required for developing new facilities through concurrent planning by different organizational groups

In commenting on our draft report, the Deputy Postmaster General advised us of certain other actions which the Department was taking to improve the planning for major facilities In our opinion, the actions that the Department had taken and planned to take would, if properly implemented, result in im-

proving the planning for major facilities (B-114874, August 23, 1968)

109 COORDINATION OF PLANS FOR JOINT PROJECTS—Our review of selected aspects of the Post Office Department's program for extension and modernization of Government-owned post office buildings indicated that the Department needed to coordinate its plans for joint projects with the General Services Administration (GSA) earlier than was required by its procedures in order to avoid delays in commencing work on the projects A joint project is one on which the Department provides funds for work on the portions of the building used for postal operations and GSA provides funds for work on the portions of the building used by other Federal agencies

We found that extension and modernization projects in the Boston Postal Region generally had taken from 6 to 8 years of planning time and that the completion of such projects had been delayed because the Department had not timely coordinated project plans with GSA As a result sufficient funds had not been requested to permit the work to commence promptly

We recommended that the appropriate Post Office Department officials be instructed to revise the Department's procedures to require that (a) GSA be informed, at the earliest practicable date, of the Department's plan for extending and modernizing postal space in a Government-owned building and (b) the Department's planning for each joint extension and modernization project be coordinated with GSA to the extent that the two agencies will be in a position to timely request appropriations for financing the project in the same fiscal year

In commenting on our report, the Deputy Postmaster General agreed that early coordination between GSA and the Department is necessary to effectively plan, develop, and complete extension and modernization of Federal buildings on a timely basis He stated further that, as a result of a meeting with top management of GSA, a joint working committee was established to review, on a quarterly basis, all major facility projects proposed either by GSA or by the Department (B-162585, July 31, 1968)

110 ESTABLISHING SPACE AND MECHANIZATION REQUIREMENTS—On the basis of our review of the Post Office Department's planning for four completed facilities and four facilities under development, we believed that, in estimating future mail volumes, the Department had not given adequate and timely consideration to the probable changes in mail volumes and distribution responsibilities that would result from full implementation of previously approved nationwide mail distribution plans As a result, the mail-processing capacities of the eight facilities may vary substantially from the capacities that will be needed in the future to process the mail under the Department's long-range mail distribution plans

The two principal nationwide mail distribution plans that we believed the Department had inadequately considered were (a) the Nationwide Integrated Postal Service (NIPS) plan which was initiated in January 1960 and which provided for establishing sectional centers in metropolitan areas, with the centers having responsibility for processing mail originating in, or destined for, the post offices in assigned geographical areas and (b) the zone improvement plan, commonly referred to as the ZIP code plan, which was announced in November 1962 and which provided a method for simplifying the routing of mail by using five-digit numerical codes to identify destinations by the 551 sectional centers These two plans have had and will continue to have, substantial effects on mail volumes at specific facilities throughout the nation These mail distribution plans are being implemented by the Department as rapidly as facil-

ities, equipment, and other resources become available

With respect to the facilities covered by our review, we found that the effects of full implementation of the NIPS and ZIP code plans on the volumes of mail to be processed and the related space and mechanization needs had not been evaluated by the Department until long after the plans for the facilities had been established Further, when such evaluations were made, the effects of changes in mail distribution plans were not considered for some categories of mail

For example, the mail-handling facilities at Buffalo, Cincinnati, Omaha, and Toledo were planned on the basis of mail-volume data obtained between 1957 and 1959, which was prior to the establishment of the NIPS plan in January 1960 Although construction of these facilities was not started until June 1961 or later, we found no evidence that the data initially used in planning the buildings and mechanized mail-handling systems had been adjusted to give full consideration to the effect that implementation of the NIPS plan would have on the volumes of mail to be processed

As the planning for these four facilities was in the preliminary stages and the contracts for the construction of the buildings and the installation of mechanized equipment had not been awarded, we believed that the Department had had adequate time to evaluate the impact that the NIPS plan would have on mechanization and building needs

So that the Department could give full and timely consideration, in planning facilities, to the changes in mail volumes that would result from implementation of approved nationwide mail distribution plans, we believed that the distribution and operations concept for each facility should specifically set out a description of existing and proposed operations, the changes expected to result from implementation of all approved mail distribution plans, and the proposed time schedule for implementing these plans

The Deputy Postmaster General, in commenting on our draft report, stated that the formal distribution and operations concept for each proposed new postal facility already spelled out the functions of the new building as related to the Department's nationwide long-range planning, including the existing operations which were to be continued

We recommended that the Postmaster General require that the Department's planning personnel establish, for each proposed new facility, a clearly defined distribution and operations concept containing, among other things, (a) the changes in mail distribution responsibilities that will result from full implementation of all approved national mail distribution plans, (b) the proposed time schedules for implementing these plans, and (c) any special instructions that may be needed to ensure that space and mechanization requirements are determined on the basis of the types and quantities of mail that reasonably may be expected (B-114874, August 23, 1968)

111 DEVELOPMENT OF DRAWINGS AND SPECIFICATIONS FOR HOSPITAL CONSTRUCTION—In September 1968, we reported to the Congress that the Veterans Administration (VA) needed to improve its reviews of drawings and specifications prepared by architect-engineers (A-Es) before solicitation of hospital construction bids We found that 181 change orders costing about $655,800 had been issued under two construction contracts because VA had not detected, in its review of the drawings and specifications prepared by A-Es, numerous errors and omissions in the documents and because officials of one of the hospitals had recommended changes after the construction work had been started

We found also that the amount of time devoted to the review of the construction

documents by VA often had been less than that authorized, because of conflicting submissions of such documents by other A-Es designing hospital projects VA did not have written procedures and/or requirements for scheduling the submission and review of drawings and specifications prepared by A-Es, and its practices did not provide for reviews of the construction documents by local hospital officials during the design stage of a new hospital project

VA concurred, in general, with our proposals and established standard operating procedures for scheduling and reviewing the work of A-Es (B-133044, September 9, 1968)

112 DEVELOPMENT OF WORKING DRAWINGS AND SPECIFICATIONS FOR HOSPITALS—In June 1969, we reported to the Congress that the Veterans Administration (VA) could improve its hospital construction program and avoid unnecessary costs through more effective administration of that program We found that, for seven VA hospital projects under design or construction during fiscal years 1961 through 1968, VA had authorized architect-engineers to start the development of working drawings and specifications before it acquired the selected hospital sites even though such documents were fully useful only for the construction of the building on the site for which the design was prepared For two of these projects, the working drawings and specifications, which were developed at a cost of about $1 6 million, will have limited use, or possibly no use, in the construction of these projects principally because VA was unable to acquire the selected hospital sites

We expressed the belief that VA should first acquire the land and then develop the working drawings and specifications because (a) unforeseen changes may occur which could affect land negotiations and (b) the working drawings and specifications could have limited use or no use if the selected hospital site cannot be acquired soon after completion of such documents

We therefore recommended that the Administrator of Veterans Affairs (a) establish a firm policy requiring that hospital sites be acquired before starting the development of working drawings and specifications and (b) in implementing this policy, emphasize to responsible agency officials that every reasonable effort be made to acquire the selected hospital sites by the time scheduled for starting the development of working drawings and specifications The Deputy Administrator of Veterans Affairs advised us that VA did not agree that hospital sites must always be acquired before starting the design of hospital buildings (B-133044, June 6, 1969)

113 RENEGOTIATION OF LEASE AGREEMENT—On March 1, 1968, in a letter to the Director, National Bureau of Standards (NBS), Department of Commerce, concerning our review of NBS's lease agreement with a university, for NBS occupied space in the university's institute for laboratory astrophysics building, we estimated that NBS's annual rental rate of $137,400 would, over the useful life of the facilities, result in the university's receiving about $81,000 in excess of the cost of constructing and financing the portion of the facilities being used by NBS

We suggested that it would be reasonable for NBS to renegotiate the lease agreement consistent with NBS's commitment to the university concerning its participation in the institute and in recognition of the estimated useful life of the facility and the Government's contribution to the cost of the facilities The Director, NBS, by letter dated April 25, 1968, agreed in general with our findings and suggestions He stated that NBS had reconsidered the basis for arriving at a rental rate and concluded that a reduced rental would be appropriate

As a result of our suggestions, officials of the NBS Boulder Laboratories met in May

1968 with representatives of the university in regard to renewal of the lease for fiscal year 1969 In July 1968 the university informed NBS that the annual rental rate would be reduced by $8,000 to $129,400 and that the rental rate was contingent upon costs actually incurred and the rate would be determined on a year-to-year basis (Report to Director, National Bureau of Standards, Department of Commerce, March 1, 1968)

PROCUREMENT PROCEDURES AND PRACTICES

114 REQUIREMENTS CONTRACTING FOR SMALL PURCHASES—About 70 percent of the Department of Defense (DOD) procurement efforts were being spent on a large number of transactions for small purchases—supplies and related needs in amounts which did not exceed $2,500 Although small purchases accounted for more than two thirds of all DOD procurement transactions in fiscal years 1966 and 1967, they amounted to only 4 percent of the total DOD procurement dollars Procurement regulations provide several methods for making small purchases We undertook a review to consider whether one such method—requirements contracting—would be more economical than frequent small purchase transactions and to evaluate the performance of certain other small-purchase operations Our report on the review was issued to the Congress in February 1969

A requirements contract provides for filling all purchase requirements for specific supplies during a specified contract period, with deliveries to be scheduled by timely placement of orders upon the contractor The advantages of requirements contracting are twofold It permits supplies in storage depots to be maintained at lower stock levels, and it provides a means of obtaining lower unit prices through purchases in larger quantities

The military departments generally were not accumulating sufficient information concerning small purchases (volume of purchases by Federal Stock Class and by vendors) to serve as a basis for determining the most economical and appropriate procurement methods We found that, at those purchasing activities where such information was being accumulated and was being used to contract for estimated annual requirements, favorable prices were being obtained and administrative costs were being reduced We expressed the opinion that substantial savings could be realized if this practice were more commonly used

We recommended that the Department of Defense

- Accumulate information on the volume of purchases at selected installations for selected commodities as a basis for ascertaining the most beneficial procurement method
- Provide further guidelines to installations for determining when a requirements contract or some other method would be appropriate for procurement of a particular commodity or class of items

In response, the Department stated that a test was being conducted which might provide a basis for anticipating the needs for requirements-type contracts and that our recommendations would be considered further at the conclusion of the test

The Department is pursuing 32 objectives for more effective and efficient small-purchase operations and has furnished us with periodic reports on the status of these efforts We plan to review, at a later date, the implementation of actions taken by the Department (B-162394, February 5, 1969)

115 APPLICATION OF THE ECONOMIC ORDER QUANTITY PRINCIPLE IN PROCUREMENT—The economic order quantity (EOQ) is that quantity which strikes a balance between (a) the higher procurement

costs but lower storage costs of frequent purchases in small quantities and (b) the lower procurement costs but higher storage costs of less frequent purchases in larger quantities In a report issued to the Congress in June 1969, we presented our findings that applicable Department of Defense (DOD) instructions for the use of the EOQ principle were sound but were in need of revision with respect to what types of items should be covered and when cost factors should be revised

We found that current and accurate cost data were not available or were not being used by the military services in computing requirements under the EOQ principle On the basis of the best cost data available, we estimated that, if the cost factors were updated and used

—The Air Force, by initiating a one-time additional investment of $50 million in inventory, could reduce its annual operating costs between $12 million and $17 million

—The Navy could reduce its investment in inventory by about $4 million and its annual operating costs by about $500,000

—The Army could reduce its investment in inventory by about $200 000 and its annual operating costs by about $400,000

In response to our suggestions for improving the application of the EOQ principle, DOD stated that current instructions were being revised and that they would provide firm criteria relating to deviations from the EOQ concept DOD stated also that the cost factors would be revised and updated periodically (B-133396, June 30, 1969)

116 PROCUREMENT OF EQUIPMENT FOR ACADEMIC FACILITIES—In an April 1969 report to the Acting Commissioner of Education, Department of Health, Education, and Welfare, we discussed certain situations pertaining to the equipping of academic facilities constructed with Federal financial assistance, which, we believed, should have been considered by the Office of Education (OE) in its efforts to efficiently administer activities under the academic facilities construction program

We found that, in procuring movable equipment for academic facilities, grantees had not always followed the instructions contained in the OE procurement guide and had not always developed meaningful equipment specifications designed to ensure adequate competition We expressed the belief that the maximum benefits available from competitive procurement practices are not realized when a grantee institution does not provide prospective suppliers with equipment specifications that clearly show the quality and quantity of equipment desired or when only one supplier is solicited for each item of equipment

Our review also showed a need for OE to disseminate information to grantee institutions as to the maximum allowable prices for certain items of equipment Although the maximum prices which would be approved for some items of furniture were listed in an operations manual prepared by OE, we were advised that the manual had not been made available to institutions which purchased equipment with Federal financial assistance We pointed out that two federally assisted construction projects had been equipped with certain furniture that had cost more than the maximum allowable prices established by OE for such equipment and that a third project had acquired equipment more elaborate than appeared to be required and for which OE had not established a maximum price

We recommended that OE reemphasize to grantees the importance of preparing meaningful equipment specifications and of soliciting more than one supplier, whenever feasible, as an aid to achieving maximum economies in the use of Federal grant funds

for equipping academic facilities We recommended also that OE expand the list of equipment items for which maximum eligible prices had been established to include additional items of equipment which, on the basis of OE experience, had been purchased in more elaborate form than required for the project purposes and provide such list to all institutions receiving Federal financial assistance in the construction of academic facilities

We were informed in June 1969 that OE planned to take action along the lines of our recommendations (Report to the Acting Commissioner of Education, Department of Health, Education, and Welfare, April 17, 1969)

117 POTENTIAL ECONOMIES IN DRUG PROCUREMENT—We reported to the Secretary of Health, Education, and Welfare in September 1968 on opportunities for economies in drug procurement by the Indian Health Service (formerly Division of Indian Health), Health Services and Mental Health Administration

We pointed out that savings could be realized if greater emphasis were placed on the benefits of centralized and competitive buying through the Public Health Service supply center or through Veterans Administration supply depots and if the volume of drug products purchased by field installations directly from manufacturers and local wholesale establishments, totaling about $1 million a year, were reduced We believed that there was a need for considering the benefits to be derived from the establishment of a program-wide drug formulary which, together with better information on drug usage by field installations, would help in determining the drugs that would be procured centrally on a competitive basis and generally at lower prices than drugs procured locally

We pointed out also that drug-pricing methods in some contracts with private pharmacies which furnish prescriptions to Indian beneficiaries were based on cost-plus-percentage-of-cost features that were not conducive to economical drug purchasing as they might encourage the dispensing of higher cost drug products than might be needed We recommended that reimbursement to the pharmacies be based on actual acquisition cost plus a fixed professional fee

We pointed out further that, in some locations, recurring or repetitive-type prescriptions for Indians treated in non-Government facilities had been filled by private pharmacies, with the result that the benefits of lower cost drugs obtainable from Indian Health Service pharmacies had not been obtained

In response to our recommendations for strengthening the controls over drug procurements and realizing the possible economies indicated by our review, the Assistant Secretary, Comptroller, informed us in December 1968 of a number of actions that would be initiated He stated, however, that the Indian Health Service did not consider it desirable to require the filling of recurring or repetitive-type prescriptions from Indian Health Service pharmacies because this procedure would preclude the pharmacies which are not located in the vicinity of the Indian beneficiaries from providing direct oral instructions on the proper use of the drugs (B-164031(2), September 30, 1968)

118 BETTER PRICES AND PURCHASE DISCOUNTS THROUGH VOLUME PROCUREMENTS—In a March 1969 report to the Joint Committee on Atomic Energy, we reported that, although the Atomic Energy Commission (AEC) generally provided for a system of managing equipment in an effective and efficient manner, certain economies would be available through more effective use of volume procurements

We reported that, when the procure-

ments by AEC contractors were considered in total, there were a number of items purchased in large quantities Although in some instances contractors, by consolidating their requirements, had realized savings through receiving volume discounts, we found that certain items of equipment had been purchased individually or in small quantities We suggested that better exchange of procurement information and earlier forecasting of requirements should permit the procurement of like items in large quantities, which would provide opportunities for obtaining better prices We suggested also that additional opportunities for economies in procurement were available through more extensive use of such special arrangements as the offer-of-sale agreement which was innovated by AEC and which is being used, to some extent, at certain installations This agreement provides for a purchase discount based on the volume of procurements within a specified period of time

We discussed our findings with AEC officials, who were receptive to our suggestions They pointed out that they had been giving continuing attention to these areas and advised us that they would continue to emphasize their efforts (B-160731, March 14, 1969)

119 COMMERCIAL PROCUREMENT VERSUS IN-HOUSE FABRICATION—In a report submitted to the Congress in October 1968, we pointed out that, in two cases in which the Atomic Energy Commission (AEC) had procured products for its own use from private industry, the products might have been manufactured in AEC-owned, contractor-operated plants at lower costs The estimated costs of about $8 8 million to procure the products commercially were about $1 8 million more than it might have cost to manufacture them in AEC's contractor-operated plants

We found that AEC had authorized continued commercial procurement of fuel assemblies for the High Flux Isotope Reactor at Oak Ridge, Tennessee, at an estimated cost of $7 2 million to further its long-range efforts to establish an efficient, stable, competitive industry for supplying test and research reactor fuel Information available to AEC at the time the procurement was authorized indicated that the assemblies might have been fabricated in-house at savings of about $1 million

We found also that AEC had directed that the manufacture of certain beryllium metal parts at its contractor-operated plant at Golden, Colorado, be discontinued in favor of commercial procurement of the parts AEC considered reasonable the prices offered by industry and believed that commercial procurement would assist in maintaining industry capacity to meet possible future needs We believe that about $800,000 could have been saved on about $1 6 million worth of commercial procurements if production at the AEC plant had been allowed to continue

We questioned whether the considerations cited by AEC justified incurring the additional costs We recommended that, for products involving significant costs, which are solely or primarily for AEC's needs and which are capable of being produced in available AEC-owned, contractor-operated facilities, AEC advise the Joint Committee on Atomic Energy of its plan to purchase such products from commercial sources when incremental-cost comparisons show that substantial savings might be achieved through in-house production AEC believed that the decisions made in the two cases cited by us were justified under the circumstances AEC, however, agreed to accept our recommendation (B-164105, October 22, 1968)

120 ACQUISITION OF LAND FOR RESERVOIR PROJECTS—In February 1969, we reported to the Congress that the Corps of Engineers, (Civil Functions), Department of

the Army was acquiring fee title to thousands of acres of reservoir project land when less costly flowage easements would have sufficed or when no interest in the land was required for water control purposes We estimated that the additional cost of acquiring fee title to 388 selected tracts at seven reservoir projects amounted to about $2 7 million

We recognized that fee acquisition may have been desirable to satisfy purposes other than water control We found, however, that the Corps had not identified the additional cost incurred for other project purposes, mainly recreation and fish and wildlife, even though the Fish and Wildlife Coordination Act indicates that the Congress desires cost information relating to land acquired for fish and wildlife purposes We found also that the total cost of the land acquired for recreation purposes had been paid for by the Federal Government even though some of these costs may have been properly financed by non-Federal interests under the cost-sharing provisions of the Federal Water Project Recreation Act

In response to our proposals, the Department of the Army stated that information on acreages and approximate costs to be incurred for such purposes as recreation and fish and wildlife could be furnished to the Congress, if it was desired With respect to the additional financing which may have been available from non-Federal sources, the Department stated that this would tend to decrease recreational development by local interests and, at some future date, could cause substantial administrative problems

We expressed the belief that the Congress, in prescribing the nature and extent of reservoir project purposes, might wish to require that the Corps identify, for congressional consideration, the cost incurred in acquiring greater interests in land than are needed for water control purposes, the purposes for which such interests are acquired, the related acreages, and the benefits to be derived from such interests We stated that the Congress might also wish to express its intent as to whether the additional costs incurred for recreation and fish and wildlife purposes shall be treated as separable costs and be subject to cost sharing under the provisions of the Federal Water Project Recreation Act (B-118634, February 3, 1969)

121 UTILIZATION OF EXCESS FEDERAL PERSONAL PROPERTY BY STATE EMPLOYMENT SECURITY AGENCIES—In a report submitted to the Congress in September 1968, we stated that the Bureau of Employment Security, Department of Labor, could have realized savings if the Bureau had established and implemented a policy which would have enabled the State employment security agencies to acquire excess Federal personal property for use in their State and local offices The Bureau procedures permitted State agencies to use Federal funds to purchase personal property rather than acquire such property through the excess Federal property program of the General Services Administration (GSA)

On the basis of our review of employment security offices in the State of California, we estimated that about $68,000 could have been saved if excess Federal personal property had been made available to furnish these offices To the extent that excess Federal personal property is available, additional substantial savings to the Federal Government could be possible through reduced expenditures for replacement and purchase of additional equipment in the more than 2,000 State and local employment security offices, nationwide

In response to our inquiry, the Department of Labor advised us that the Bureau did have the authority to make excess Federal personal property available to the State agencies and that it was implementing our suggested policy to enable the State employment security agencies to acquire excess Federal

personal property for use in their State and local offices A departmental official also advised us that, as a result of our proposal, the Department had made arrangements with GSA for State agencies to procure supplies, equipment, and services through GSA supply sources

In March 1969, the Department issued instructions urging all State agencies to use GSA supply sources to the maximum extent possible and urging those State agencies that are precluded from making such procurements to seek appropriate amendments of their State laws or regulations The Department's instructions to the States stated that its recent comparison of commercial and GSA prices for 13 selected items purchased by State agencies revealed that GSA prices were usually lower than commercial prices The Department advised the States that the appropriation request for fiscal year 1970 for grants and for supplies and equipment had been reduced by $2 million in anticipation of the savings to be realized by State agency procurements through GSA supply sources (B-133182, September 25, 1968)

122 MICROFILM PROCUREMENT AND USE—Our review of the procurement and use of microfilm at the Internal Revenue Service (IRS), Department of the Treasury, showed that substantial savings were possible if IRS service centers procured needed microfilm in shorter lengths that more nearly corresponded with those received for copying purposes from the National Computer Center and if procurements were made in sufficient quantities to qualify for maximum volume discounts offered by the supplier We found that, during the microfilm reproduction process at one service center, substantial quantities of film on each roll purchased were not being used and were eventually destroyed The unused film resulted because the lengths of films procured by the service center averaged 100 feet more than the length of the master roll furnished by the Computer Center for reproduction purposes We found also that the supplier of microfilm offered a discount as high as 15 percent if orders for film were for at least 1,764 rolls

In commenting on our findings, IRS agreed that substantial savings were possible and instructed all field offices to purchase shorter rolls of film Also, IRS has asked the supplier of the film for the maximum discount on each order, regardless of size, in view of IRS's overall requirement (Letter to Assistant Commissioner (Administration), Internal Revenue Service, January 22, 1969)

123 OFFICE FURNITURE PROCUREMENTS—Our review of procurement and disposal of office furniture at field offices of the Internal Revenue Service (IRS), Department of the Treasury, showed that, by changing its office furniture standards to conform with Federal Property Management Regulations (FPMR) requirements, IRS could effect cost reductions on future furniture procurements, particularly at its seven service centers where operating space will be increased by about 500,000 square feet by 1971

Excessive costs are incurred because the IRS office furniture standards do not recognize requirements that the least expensive line be purchased and that the use of executive-type furniture be limited to employees in the appropriate GS grades The requirement to purchase the least expensive line was established by the General Services Administration at the President's January 1965 request to reduce substantially the then-current rate of spending for new furniture and typewriters

In commenting on our findings, we were advised that the office furniture standards had been developed for IRS's furniture replacement program 3-1/2 years before the President's request and that it did not seem to be good management to discontinue the replacement program which was 90-percent complete

The President's request to reduce the rate of spending for new furniture did not exempt ongoing programs Also, in view of the anticipated future expansion of IRS activities, particularly at service centers, and the resultant opportunities for effecting economies during future furniture procurements, we recommended that IRS revise its office furniture standards to conform with FPMR requirements to purchase the least expensive line and restrict the use of executive-type furniture to employees in the appropriate GS grades

Subsequent to the issuance of our report to the Secretary of Treasury in May 1969, the Acting Commissioner of Internal Revenue advised us that IRS had revised its office furniture standards to make them consistent with FPMR requirements which would ensure that executive furniture will be procured only for officials who qualify under the regulations The Acting Commissioner advised us also that IRS did not agree that it had not complied with FPMR's requirement relating to the purchase of the least expensive line He said, however, that IRS would continue to work closely with GSA in all procurement actions to be sure that IRS obtains the least expensive equipment determined to meet the requirements (B-133327, May 29, 1969)

124 STANDARDIZATION OF DRUGS AND PHARMACEUTICAL SERVICES—In a June 1969 report to the Congress on our review of certain aspects of pharmacy operations at hospitals and clinics, we commented that there were opportunities for reducing the cost of drugs used by the Veterans Administration (VA) installations in metropolitan areas through increased standardization of commonly used items and their dosages

We commented that centralized bulk compounding and purchasing facilities would contribute to improved patient care by providing medications that are not commercially available, more assurance of the quality of drugs compounded, and better assistance to research and training activities

Also, we expressed the belief that the increased standardization and resultant decrease in drug costs could be achieved through the use of area interstation therapeutic agent and pharmacy committees, acting in concert with centralized bulk compounding purchasing facilities

We therefore recommended that (a) the Administrator of Veterans Affairs provide for the formation of interstation therapeutic agent and pharmacy committees in geographical areas containing several VA medical facilities and (b) the committees, when established, and with the encouragement and assistance of the VA Central Office, study the feasibility of establishing centralized bulk compounding and purchasing operations within their respective geographical areas

VA concurred in our recommendations and stated that it would establish interstation committees with responsibilities as proposed (B-133044, June 30, 1969)

125 COST FACTORS USED IN ECONOMIC ORDER QUANTITY FORMULA—In April 1969 we reported to the Director, National Bureau of Standards, Department of Commerce, that the General Services Administration's Federal Property Management Regulations (FPMR 101-27 102) required the use of the economic order quantity (EOQ) principle of stock replenishment by civilian agencies and recognized the need for periodic review of the cost factors used to formulate EOQ tables This method of replenishment utilized a mathematical formula to determine the order size which would minimize total procurement and inventory-carrying costs The reliability of the formula was dependent on the accuracy of the procurement and inventory cost factors used in the calculations

The Boulder Supply Section of the

Boulder Laboratories located at Boulder, Colorado, used an EOQ table in the replenishment of storeroom stock However, the table in use had been developed over 3 years before and the procurement and inventory cost factors used in the formula had not been subsequently reviewed or updated

Since the reliability and effectiveness of the EOQ principle of stock replenishment was dependent on the accuracy of the cost factors used in developing the EOQ table, we concluded that the Boulder Supply Section should review the cost factors to determine whether they were still appropriate

We therefore recommended that the Boulder Supply Section review, and revise if necessary, the procurement and inventory-carrying cost factors used in the EOQ formula We recommended also that action be taken to provide for the periodic review of these cost factors In July 1969 the Director of the Bureau advised us that the cost factors would be reviewed (Report to Director, National Bureau of Standards, Department of Commerce, April 29, 1969)

126 LEASING COPYING MACHINES—We made a review of copying machines leased by the Department of Commerce to determine the availability of machines which could provide services at a more economical cost We informed the Assistant Secretary for Administration by letter that, in our opinion, more economical machines were available and that cost had not been considered in approving the leasing of copying machines We suggested that the Department establish detailed procedures to provide guidance in identifying the most economical machine that could meet requirements

The Assistant Secretary replied that he did not believe that it would be efficient for each agency to engage in the expensive research and testing that would be required to develop and update criteria for the selection of copying machines He stated that this task should be performed by the General Services Administration (GSA) for the use and benefit of all Federal agencies He also advised us that the Department was in the process of conducting a study of copying equipment and services in the Commerce Building in Washington, D C , to develop an optimum plan relating to fast copy technology

By letter report to the Assistant Secretary in April 1969, we restated our position pointing out that correspondence between GSA and the Assistant Secretary indicated that GSA was of the opinion that the imposition and exercise of control on the use of copying machine equipment could best be administered by each agency involved We also suggested that the copying machine market be kept under constant review by the Department in order to take advantage of savings generated by technological advances (Report to Assistant Secretary for Administration, Department of Commerce, April 1, 1969)

127 OUTFITTING VESSELS ACTIVATED FOR USE IN SOUTHEAST ASIA—In November 1969 we reported to the Congress that the Maritime Administration, Department of Commerce, had not established adequate procurement procedures to guide three coast district offices in purchasing equipment and supply items for outfitting vessels withdrawn from the National Defense Reserve Fleet for service in Southeast Asia Each district developed its own methods and procedures for accomplishing the procurement function, and, as a result, Maritime did not, in our opinion, take advantage of opportunities for realizing significant economies in the procurement of outfitting items for the vessels

We found that separate and uncoordinated purchases by the individual districts of 12 items selected for review resulted in sig-

nificant differences in the prices paid for the items On the basis of these differences, we believe that program expenditures might have been reduced by about $195,000 through improved procurement procedures Also, Maritime had not taken full advantage of the economies available by using Government sources of supply Many small supply items, such as handtools, paints, and cleaning supplies, were available but generally were not purchased from Government sources of supply

We recommended that the Acting Maritime Administrator establish uniform procurement procedures to be followed by the coast district offices for outfitting vessels from the reserve fleet Such procedures should include provision for (a) standardizing outfitting items and establishing uniform specifications for standard items, (b) making maximum use of consolidated purchases through central procurement and obtaining formal competition, and (c) utilizing Government sources of supply whenever possible

In June 1968 the Acting Maritime Administrator advised us that a study group had been appointed to study the complete logistic support system of the operation He stated that the study group had defined high volume, high cost, logistical support materials which were susceptible to purchasing through central procurement, as well as from Government supply sources Also, the district coast directors had engaged in negotiations with their respective General Services Administration supply outlets to arrange for optimum use of these supply sources in providing for the logistic needs of the Government-owned ships Finally, standard requisitions for stores' equipment and subsistence items had been developed by the study group and implemented by the Coast Districts to ensure more positive control over material usage and to minimize over ordering

We believe that the actions taken by Maritime were responsive to our recommendations and, if properly implemented, would benefit not only the present operation of the ships in support of the activities in Southeast Asia but should also greatly benefit the Government should Maritime be requested to activate the reserve fleet ships in the future (B-118779, November 4, 1968)

128 USE OF BLANKET PURCHASE AGREEMENTS—In April 1969 we reported to the Director, National Bureau of Standards, Department of Commerce, that during our survey at the Boulder Laboratories located at Boulder, Colorado, we noted that established dollar limitations may have restricted the use of blanket purchase agreements (BPAs) and that by lifting such restrictions possible savings could be effected

We observed that, of $4 8 million worth of supplies and equipment procurement at Boulder in fiscal year 1968, BPAs or reservations were utilized for only about $858,500 We did not determine the relative administrative cost to the Boulder Supply Section for purchasing items by using BPAs compared to individual purchase orders However, a 1964 General Services Administration (GSA) report on a study of purchasing and contracting operations at Bureau headquarters showed that the cost to purchase each line item was 25 cents under BPAs and $2 47 on informal (open market) purchases On the basis of the GSA study, it appears that savings could be effected if greater use were made of BPAs for replenishing storeroom items

Procurement officials at Bureau headquarters in Gaithersburg, Maryland, informed us that the dollar limitations were established to ensure that individual purchase orders will be prepared for all purchases of nonexpendable capital items in excess of the limitations According to a Bureau official, the preparation of individual purchase orders assured that the items purchased would be capitalized and recorded on the property management records, and thus the Bureau would be provided with a means of internal control over such purchases Our survey showed, however,

that the same internal control could be accomplished under the BPA system Procurement officials at Bureau headquarters agreed with our view and on February 24, 1969, the Chief, Procurement Section, removed the Bureau's dollar limitations on the use of BPAs for all Bureau procurement

However, in discussing the possible increased usage of BPAs, we were advised by a Boulder procurement official that all purchases must be identified with an individual project number for fiscal purposes and that use of a single BPA for numerous projects was unsatisfactory for this purpose We recognized the need to associate all purchases with the individual project number for fiscal purposes, however, this need did not preclude the use of BPAs for storeroom replenishment since each storeroom had a separate project number and a separate BPA could be established for each vendor supplying a particular storeroom We therefore recommended that the Boulder Laboratories make greater use of BPAs where practical and feasible in the procurement of supplies, including storeroom replenishment items

In July 1969 the Director of the Bureau advised us that the use of BPAs for storeroom replenishment purchases was feasible and that appropriate BPAs were being negotiated (Report to Director, National Bureau of Standards, Department of Commerce, April 29, 1969)

129 ACQUISITION OF TELETYPEWRITERS—In September 1968 we reported to the Congress that the General Services Administration (GSA) did not evaluate adequately the relative financial advantages of acquiring teletypewriters and related maintenance by means other than leasing because GSA believed that the results of a cost comparison would not have sufficiently overcome policy and other noncost considerations

We estimated that, after the present contract expires, the acquisition of the teletypewriters by an alternative method or the negotiation of a new leasing arrangement more in line with the cost of an alternative method could result in cost reductions ranging from $2 4 million to $5 million over the remaining useful life of the teletypewriters

We also reported that GSA's ability to pursue the most economical alternative at the expiration of the present leasing arrangement would be limited because the tariff filed by the contractor for the Advanced Record System service contained a provision which restricted GSA to using a leasing arrangement in acquiring teletypewriters for use by civil agencies

We recommended that, prior to the expiration of the present contract, the Administrator of General Services initiate action to eliminate the tariff provision that prohibits the use of Government-furnished teletypewriters by GSA and other civil agencies We recommended further that the Administrator, in future communications procurements, give consideration to alternative means of obtaining the services and to the relative costs thereof so that the means most favorable to the Government may be determined (B-162104, September 12, 1968)

RESEARCH AND DEVELOPMENT—GENERAL

130 CONTRACTING FOR RESEARCH WITH GOVERNMENT-SPONSORED, NONPROFIT ORGANIZATIONS—On April 30, 1962, the President transmitted to the Congress a report entitled "Government Contracting for Research and Development" Extensive hearings were subsequently held by the House Committee on Government Operations, and the subject has continued to be highly important Government expenditures for research and development have increased from about $10 3 billion in 1962 to about $17 3 billion in 1969 About 80 percent of the expenditures are administered under contracts

We reviewed one of the more controversial elements in the 1962 report the purpose, amount, and use of the fee or management allowance—to the extent of about $9 million annually—provided in contracts with Government-sponsored, nonprofit organizations Our report on the review was issued to the Congress in February 1969

The guidelines in the 1962 report advocated the payment of fees to nonprofit organizations for the following reasons (a) to provide some degree of operational stability and flexibility to organizations otherwise bound to the limitations of cost financing of specific tasks and (b) to conduct some independent, self-initiated research in order to obtain and hold highly competent scientists and engineers

We concluded that the purpose established for the fee in 1962 had not been accomplished satisfactorily and that the fee had not been administered in accordance with the 1962 guidelines In some instances the nonprofit organizations were accumulating the fees to permit diversification into new fields and were not using them to any appreciable extent to conduct independent research Also, the fees paid to the organizations and the bases used for determining the amounts varied significantly among Government agencies

We noted also that no action had been taken with respect to an important recommendation in the 1962 report that consideration be given to the establishment of Government "institutes" The recommendation envisioned that such institutes would be separate corporate entities, subject to the supervision of a Cabinet officer or agency head, and would provide a means for conducting in-house research and development programs

With respect to fees for sponsored nonprofit organizations, many Government agencies agreed that there was a need for Government-wide guidelines With respect to the establishment of Government institutes, the agencies felt, in general, that the subject warranted consideration

We expressed the belief that, in view of the changes in the 7 years after the policies on contracting for research and development were established, the subject of the proper role of Government-sponsored nonprofit organizations was of sufficient importance to warrant a Presidential-directed interagency or commission study As an alternative we recommended

—That the Bureau of the Budget prescribe Government-wide guidance to agencies in establishing and contracting with sponsored nonprofit organizations

—That the Bureau of the Budget and the Civil Service Commission conduct a follow-on study to consider what types of organizations could best assist the Government in fulfilling its research and development missions, including con-

sideration as to the desirability and feasibility of establishing Government institutes

(B-146810, February 10, 1969)

131 FUNDING OF RESEARCH AND DEVELOPMENT EFFORTS—During a review in a contractor's plant, we noted that a substantial amount of research and development effort was being financed with procurement funds rather than research and development funds We therefore extended our review to the contracting agency, the Air Force Space and Missile Systems Organization (SAMSO) Our report was issued to the Congress in May 1969

We found that, during the period 1964 to 1967, SAMSO had awarded supplemental agreements totaling $22 5 million to three MINUTEMAN missile motor contractors for a product improvement program These agreements were financed with missile procurement funds Most of the work performed, however, involved, in our opinion, research and development effort rather than product improvement and should have been financed with research and development funds

SAMSO officials cited an Air Force procurement instruction as their authority for the financing We found, however, that the disclosure and approval procedures of the instruction had not been followed As a result, no higher level of authority had had the opportunity to consider the matter

We proposed that (a) full disclosure be made in program budget submissions to allow for ready detection and critical evaluation of significant provisions for product improvements by officers having budget approval responsibility and (b) research and development effort be procured with research, development, test, and evaluation funds rather than funds appropriated for the procurement of approved equipment We suggested also that the Air Force clarify the provisions of its instructions and that the Secretary of Defense examine into the matters discussed in our report to determine if similar situations existed in other Air Force programs or in other organizations within the Department of Defense

The Department of Defense advised us that it had revised its instruction and that the Air Force was revising and updating its instruction The Department advised us also that the Army and Navy had stated that they had no knowledge of any funding deviations of the type discussed in our report and that a review by the Air Force Logistics Command had not disclosed similar instances

We believe that the actions taken or being taken should preclude recurrence of circumstances such as those discussed in our report (B-146876, May 7, 1969)

132 CONTROL OVER AMMUNITION DEVELOPMENT—The Army Materiel Command is responsible for developing conventional ammunition required by the Army, Air Force, and Marine Corps We made a review of the management controls over these operations Our report on the review was issued to the Congress in September 1968

The Army had established procedures reasonably adequate for enabling management to identify and to correct deficiencies in ammunition prior to completion of development The procedures included five distinct in-process reviews, or periodic evaluations, at specified points in the development process

In our opinion, Headquarters, Army Materiel Command, was not adequately monitoring the development programs or requiring project managers to perform the necessary reviews Insufficient management control had been, in large part, responsible for the development and production of unacceptable ammunition in the past

In our review of 11 items of conven-

tional ammunition that were in the developmental stage, we found that the following two items had been approved for production although none of the required in-process reviews and evaluations had been performed during the course of their development

—73,000 rounds of howitzer cartridges at a cost of $21 million

—115,000 rounds of recoilless rifle cartridges at a cost of $31 million

For the remaining nine items we reviewed, we found that, on the basis of their respective stages of development, a total of 30 reviews and evaluations should have been made, however, only six had been made

Although reviews had been made by the Army Audit Agency of certain operations in ammunition, they had not covered the management of in-process reviews

In bringing our findings to the attention of the Department of Defense we proposed that

—The Army clarify existing reporting instructions to ensure that proposed and completed actions in development programs are recorded and reported through command channels

—The Army maintain closer supervision over research and development activities to ensure that in-process reviews actually are made

—The Army Audit Agency include in-process reviews in its audit programs

The Army, in its reply on behalf of the Department of Defense, stated its agreement with these proposals and cited corrective measures that had been taken (B-157535, September 27, 1968)

133 ARSENAL MANAGEMENT OF AMMUNITION RESEARCH AND DEVELOPMENT—The Picatinny Arsenal, operated by Department of the Army, is the principal agency in the Department of Defense for the research and development of conventional ammunition for the Armed Forces As stated in our report issued to the Congress in November 1968, we found that the Arsenal needed to improve its management of research and development to prevent the possible premature mass production of ammunition

There was a need for improvement in the accuracy and completeness of information relied upon to determine when an item of ammunition was ready for mass production, in the investigation and correction of deficiencies disclosed by development tests, and in the scheduling and performing of production engineering reviews There was also a need for improvement in testing ammunition performance under various climatic conditions prior to production, in the performance of reviews at critical points in the research and development process, and in the scope of internal audit reviews of management

We found that (a) the Arsenal and other Army organizations involved in the research and development process were not complying with the existing policies and procedures and (b) there was a need to strengthen management controls to ensure compliance with these policies and procedures

The Assistant Secretary of the Army (Research and Development) stated that corrective actions had been taken or planned on these findings (B-157535, November 27, 1968)

134 INDIRECT COST OF FEDERALLY SPONSORED RESEARCH—In accordance with a request by the Chairman, House Committee on Appropriations, and a similar requirement in the House Conference Report on the Department of Defense Appropriation Act for 1969, we made a study of indirect cost of federally sponsored research,

performed primarily by educational institutions The purpose was to assist the legislative and appropriation committees in achieving a realistic and uniform formula for ascertaining indirect costs on research grants

In fiscal year 1968, about $1 4 billion in Federal funds were obligated to colleges and universities for basic and applied research The principal sources of the funds were the Department of Health, Education, and Welfare, $655 million, the Department of Defense, $226 million, the National Science Foundation, $211 million, the Atomic Energy Commission, $90 million, and the National Aeronautics and Space Administration, $89 million

In June 1969, we reported to the Congress on the results of the study The report contained the following conclusions

—A uniform formula, in the sense of a uniform percentage rate to be applied to direct cost or some element thereof, will not result in a realistic or equitable determination of indirect cost based on sound accounting principles

—It is not feasible to determine indirect cost by a fixed method or procedure applied uniformly under all conditions There is not enough standardization among research institutions and projects to permit use of a uniform formula or a fixed method of determining indirect cost

—Uniform principles and guidelines can be used, however, for determining indirect cost, provided that they have sufficient flexibility to be applicable to differing circumstances in an equitable manner Such principles and guidelines are provided in Bureau of the Budget (BOB) Circular No A-21 Revisions to A-21 have been made from time to time with the assistance of the Government agencies administering research programs and after discussions with representatives of the educational institutions A need exists, however, for further changes in the provisions and administration of A-21

—To the extent that cost sharing—a sharing in the cost by the research institution—is to be required, relating cost sharing to the total cost of the research is more appropriate than imposing a limit on the rate of indirect cost Such a limit does not adequately provide for variations in the levels of indirect costs

—It appears highly desirable that some flexibility in requiring cost sharing be provided because of the diverse circumstances and considerations involved Cost sharing could be handled by negotiation between the responsible Government agency and the awardee within such restrictions as the Congress may impose

—Participants would have to consider those policy or program aspects as may be pertinent to the research involved, such as (a) the degree of interest in the research, (b) the nature of costs to be incurred, (c) the effect of the work on the academic programs and the financial condition of the institution, and (d) the desirability of using a particular institution for a specific project

The report contained the recommendation that BOB and the administrative agencies concerned consider providing more specific guidance in A-21 in certain areas and more uniformity in implementing its provisions

It also contained the observations that

—Even with the most specific guidance practicable, variations are to be expected in the levels and rates of indirect cost These variations occur because of the different kinds of research, the methods of operation, the nature of facilities, and the organization of research activities

—If cost sharing is to continue as a requirement for grants, a need will exist, on a

Government-wide basis, for well-defined, uniform standards governing the use of contracts or grants for research Such guidance will be necessary for consistent application of cost sharing GAO considers such criteria and guidance to be both feasible and desirable

BOB informed us that, in connection with the next revision of A-21, it would strive toward the objective of providing more specific guidance in the areas identified as needing improvement BOB also stated that an interagency study had been initiated to give consideration to reducing inconsistencies among agencies in terms and conditions of contracts and grants

As part of this study, BOB is also exploring the possibility of establishing guidelines as to when a grant or a contract should be used, as well as whether a new type of instrument, such as a research agreement, should be developed to replace some of the current grants and contracts

For the consideration of the Congress, the report contained the observation that there were divergent views on the question as to whether the institutions engaged in research should or should not share in the cost These differing views cause recurring problems If a consistent policy is to be followed by the various agencies concerned, there will be a need for guidance from the Congress or the executive branch

We suggested that the Congress might wish to consider accomplishing this guidance through one of the interested congressional committees The committee so charged could obtain the views, recommendations, and supporting argumentation from the major executive agencies concerned and from representatives of institutions engaged in research work It could recommend legislation to establish a uniform Government-wide policy as to whether the recipients of research grants would be required to share in the cost of research and, if so, the circumstances in which cost sharing shall be required, the degree of sharing, and the flexibility to be allowed in its implementation

This approach seems to provide an effective means of presenting pertinent information and views of representatives of the Congress A uniform policy could be formulated and proposed and a final decision could be made by the Congress for resolution of this recurring problem

We also expressed the belief that, if mandatory cost sharing is to be required, as an alternative, the necessary control over cost-sharing policies of the individual agencies could be obtained through the normal congressional legislative and appropriation hearings On the basis of such congressional review, the agencies could be required to make any necessary revisions in their policies (B-117219, June 12, 1969)

135 USEFULNESS OF GOVERNMENT-SPONSORED RESEARCH—We pointed out in an August 1968 report to the Congress that, in our review of research projects in medicinal chemistry sponsored by the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), we had found that many research investigators being supported with NIH grants were unable to obtain the screening and testing services considered necessary to determine the usefulness of compounds prepared during their research toward the development of new drugs for the prevention and treatment of human diseases and disabilities

Investigators stated that after 1962, when HEW revised its patent procedures, they were no longer able to obtain the cooperation of the pharmaceutical industry and that no adequate substitute services were available We noted that, because of the difficulties they were encountering, some investigators were

redirecting their research efforts away from drug development We noted also certain difficulties in the administration of HEW regulations concerning invention rights that needed resolution to facilitate the discovery of potential new drugs

In response to our proposal that HEW effect more timely determinations of invention rights and clarify the circumstances under which such determinations may be made, we were informed that certain measures had been or would be taken to encourage screening and testing of new compounds We recommended that the Secretary of HEW develop and put into effect such policies and procedures, in addition to these measures, as are necessary to provide adequate screening and testing of compounds to facilitate the development of potential drugs

In October 1968 the Assistant Secretary, Comptroller, informed us that HEW was utilizing a new basic institutional patent agreement with all qualified grantee institutions and that wider use of this patent agreement would alleviate part of the difficulties grantee investigators had encountered in obtaining screening services He further informed us that the Department would continue to make such changes in its patent policies as are necessary to foster the fullest utilization of compounds prepared during research sponsored by NIH (B-164031(2), August 12, 1968)

136 DETERMINATION OF ALLOWABLE COSTS AND RECOVERY OF OVERPAYMENTS– Our review of grants awarded by the National Institutes of Health (NIH), Department of Health, Education, and Welfare (HEW), to six selected grantee institutions for the establishment and operation of general clinical research centers showed that five grantees had received grant funds in excess of allowable costs We identified overpayments estimated to total about $678,000, out of total reimbursements of $2 3 million to the six grantees, for costs of hospitalization of center patients and for indirect costs of center operations

The overpayments for hospitalization costs occurred because NIH (a) in the initial years of the program had reimbursed the institutions on the basis of a cost formula which resulted in allowing costs in excess of those based on actual patient-days, (b) had not adequately reviewed the patient per diem rates proposed by the institutions, and (c) had not examined into the propriety of the institutions' reimbursement claims The overpayments for indirect costs occurred because NIH (a) accepted claims for indirect costs based on certain direct costs for which related indirect costs were also being claimed through hospitalization reimbursement and (b) allowed the legal maximum rate rather than applying lower overhead rates that had already been negotiated or negotiating appropriate rates with the institutions

We found that NIH had taken certain actions toward recovering overpayments and precluding future overpayments In particular, NIH had discontinued use of the cost reimbursement formula for hospitalization costs and had recognized the need for reviewing hospitalization charges by 59 general clinical research centers and making adjustments in those cases where overpayments had been made because of the use of the formula

Since extended delays had occurred in the determination and settlement of the cases, however, we recommended that the Secretary of HEW direct that (a) the HEW Audit Agency make audits of grantees' records wherever they had not been made and (b) NIH, on the basis of such audits, make timely settlements of all grants which involved overpayments resulting from excessive allowances for hospitalization and indirect costs

In March 1969, the Assistant Secretary, Comptroller, of HEW informed us that NIH (a) had requested priority audits on 16 gen-

eral clinical research center grants, (b) had collected $91,000 of excessive allowances for hospitalization costs classified as accounts receivable at the time of our report, and (c) was reviewing indirect cost information to determine the appropriateness of indirect cost charges to center grants and would proceed with settlements where overpayments were found (B-164031(2), December 26, 1968)

137 ANALYSIS OF ESTIMATED AND ACTUAL COSTS OF CERTAIN MAJOR RESEARCH FACILITIES—In a report to the Congress dated February 20, 1969, we pointed out that, through fiscal year 1968, the costs of the capital facilities and equipment comprising the Atomic Energy Commission's (AEC's) zero gradient synchrotron (ZGS) accelerator and experimental complex at the Argonne National Laboratory totaled about $108 5 million Of this amount, about $51 4 million represented the cost of constructing its basic facilities and about $57 1 million represented the cost of additions, modifications, improvements, and equipment acquisition

We stated that, in our opinion, the significant difference between the amount authorized for the basic ZGS facilities—about $42 million—and the costs of about $108 5 million for the facilities and equipment that constituted the ZGS complex illustrated a fundamental problem with large accelerator projects, namely, that requests for authorization of a basic accelerator do not provide the Congress with complete information regarding the total estimated costs of associated facilities and equipment or the related future funding requirements

With respect to the 200 billion electron volt accelerator under construction at Weston, Illinois, we noted that AEC expected to incur costs of about $153 million for facilities and equipment through June 30, 1977—the fifth year following the date estimated for obtaining the initial particle beam from the accelerator—in addition to the $250 million estimated cost of the basic project

We suggested that AEC establish a procedure requiring that future requests for authorization of accelerator projects and other research devices—such as reactors—include, as information, estimated cost data concerning all capital costs expected to be incurred during the construction of the project and for a specific time after completion of construction—perhaps 5 years We suggested also that AEC furnish the Joint Committee on Atomic Energy with periodic information showing the total costs incurred for the capital facilities and equipment constituting the entire experimental complex AEC agreed to accept our suggestions (B-159687, February 20, 1969)

138 BUDGETING, FINANCIAL CONTROL, AND ESTABLISHMENT OF RESEARCH PRIORITIES—During our review of the biology and medicine research program of the Atomic Energy Commission (AEC), which was performed at the request of the Joint Committee on Atomic Energy (JCAE), we noted that the procedures for establishing research priorities, both at the laboratories covered in our review and within AEC's Division of Biology and Medicine (DBM), were informal and not generally documented

In our report to JCAE in April 1969, we proposed that a more systematic method of selecting new research areas for the program be established through the use of separate budget submissions by the laboratories, covering the requested funding (a) for projects already under way and (b) for proposed new projects in the order of priority determined by the laboratories DBM agreed to consider our proposal and subsequently advised JCAE that it intended to take steps to improve procedures for identifying and selecting new research projects, including the identification by the laboratories of the order of priority for new projects

We noted also that DBM obtained data

annually from its contractor-operated laboratories providing detailed justifications of each proposed research area and prepared estimates of the costs to be allocated to each such area It was not DBM's general practice, however, to inform the laboratories of the amounts which it believed should be allocated to each research area or to require the laboratories to report actual costs at the research area level DBM relied on analyses of costs obtained from AEC's monthly cost-budget reports which compared estimated and actual costs by budget category and sub-category and on continuing informal contacts with laboratories to determine whether costs of individual research areas were substantially different from those that were anticipated

We suggested that, in addition to the current practice of providing the laboratories with financial plans showing the amounts allocated at the budget category and subcategory level, DBM separately advise the laboratories of estimated amounts allocated to each research area We suggested also that, in order to capitalize on information readily available that should further strengthen DBM's administration of its research program, DBM arrange for periodic reporting by the laboratories of actual costs at the research area level DBM advised us that it had adopted a procedure for providing the laboratories with data on estimated amounts allocated to each research area and that it planned to give further consideration to requesting periodic reports of actual costs at that level

We found also that the scope of work included under research areas identified in laboratory budget documents submitted to AEC Headquarters varied considerably among the various laboratories covered in our review Substantial differences were noted in the number of projects covered by individual research areas In some cases, one research area covered many related projects, in others, several research areas covered only one project

We suggested that DBM limit the scope of research work included under each research area to assist in placing responsibility for the progress of specific research projects and to facilitate the identification of requested funding for new and existing projects DBM agreed that some instances probably existed in which the scope of research work included under individual research areas could be reduced DBM subsequently advised us that it was reviewing this matter with the laboratories (B-165117, April 16, 1969)

139 EFFORTS TO RESOLVE LABORATORY MANAGEMENT PROBLEMS—In our review of the policies and procedures for managing the biology and medicine research program of the Atomic Energy Commission (AEC), we noted that, at two of AEC's contractor-operated laboratories, significant management problems had continued unresolved over long periods of time

In an April 1969 report to the Joint Committee on Atomic Energy, we stated that, in our opinion, when problems arise at AEC contractor-operated laboratories that could adversely affect research activities and prompt and satisfactory resolution is not made by contractor or laboratory officials, the problems should become a matter of immediate concern to AEC and forceful action should be taken to the extent necessary to resolve the problems

AEC maintains a policy of generally not intervening in laboratory internal management problems, and its Division of Biology and Medicine (DBM) did not agree that more forceful action had been needed to resolve the problems at the two laboratories We stated in the report, however, that, in our opinion, the extended period of time during which the management problems existed warranted further action on the part of DBM (B-165117, April 16, 1969)

140 EVALUATION OF RESEARCH PROJECTS—In a report submitted to the

Joint Committee on Atomic Energy (JCAE) in April 1969 on our examination into the policies and procedures used by the Atomic Energy Commission (AEC) and six of its contractor-operated laboratories in managing the biology and medicine research program, we pointed out that the various formal committees which had been established by AEC and its contractors to periodically review the research program did not appear to provide laboratory officials with sufficient in-depth program evaluations to assist them significantly in the management of the program These reviews appeared to be directed primarily to the overall performance and direction of the research program, and recommendations, for the most part, were made in broad general terms

One laboratory, however, had implemented a review procedure involving the periodic rating of individual research projects, which appeared to be an excellent mechanism for providing management assistance to laboratory officials

We suggested that AEC's Division of Biology and Medicine (DBM) encourage its other laboratories to adopt similar project rating systems to provide laboratory management with a systematic means of periodically evaluating the quality of individual project research efforts DBM agreed that some sort of formal rating system would be useful for review purposes and stated that it intended to discuss the matter with the laboratories (B-165117, April 16, 1969)

141 PROGRAM FOR SCREWWORM ERADICATION—Our review showed that, although we considered the screwworm eradication program of the Agricultural Research Service (ARS), Department of Agriculture generally successful, certain operations of the program could be improved and economies could be achieved

The technique used to eradicate screwworms, a parasite destructive to livestock, involves mass production of screwworm flies, their sterilization by application of gamma rays emitted by Cobalt 60, and their systematic release from aircraft over infested areas Native female flies that mate with the sterile factory-reared males lay infertile eggs, incapable of hatching

We found that ARS might not have been releasing the minimum quantities of flies needed to achieve the objectives of the program because information on all factors relevant to such determinations was not available to decisionmaking personnel We expressed the opinion that the use by ARS of all relevant information would ensure the accomplishment of program objectives with the least number of flies and the lowest resultant program costs

We found also that economies could be achieved and more satisfactory meat products needed for the production of flies could be obtained by ARS if contract provisions governing the quality of meat were enforced We pointed out that personnel at the operating plant trimmed fat from the meat purchased for the program, without ARS's obtaining price adjustments, even though contract specifications required the removal of the fat by the suppliers of the meat in order that it might be placed directly into the production process without trimming by ARS personnel Moreover, we found that inventory records of meat were not current, complete, or accurate, which precluded the effective use by program personnel of inventory data

We proposed that ARS establish specific guidelines and procedures for documenting all relevant information used by management in making decisions that regard the quantities of flies to be released We proposed also that ARS direct program officials to enforce contract provisions and establish and implement an adequate system of inventory records and internal controls

ARS, in commenting on our proposals,

informed us that it planned to add expert epidemiologists to the screwworm eradication program staff in order to more effectively plan fly drops and document the reasons for each release and to develop methods for recall of essential information to be applied in future fly-release decisions ARS also advised us that its meat contract specifications had been revised and that its eradication program staff had been instructed to adhere closely to specifications and to insist on full compliance with specifications by meat suppliers Also, ARS stated that it had changed its method for conducting and reporting inventories to a method that would provide the controls suggested by us (B-133192, March 20, 1969)

142 NEGOTIATING MANAGEMENT FEES—Under the terms of its cost reimbursement contract for the operation of Kitt Peak National Observatory, the National Science Foundation agreed to pay the contractor, a private nonprofit corporation, an annual management fee which was intended to provide for the normal operating expenses of the contractor not reimbursable under the contract and to enable the contractor to accumulate capital equivalent to about 2 years' corporate expenses In a report submitted to the Congress in December 1967, we pointed out that the fees negotiated between fiscal years 1958 and 1966 had enabled the contractor to accumulate a corporate reserve of more than four times the corporate expenses incurred during fiscal year 1966

We recommended that the Foundation, in negotiating the management fee for the next contract period, give appropriate consideration to the reserve accumulated by the contractor before determining the level of funding The Director agreed with our views and, during negotiations of the 2-year contract effective October 1, 1968, in recognition of the contractor's accumulated corporate reserve and related corporate assets, negotiated a reduction in the annual fee from $130,000 to $70,000 a year

Similarly, the Foundation negotiated reduced management fees under 2-year contracts, effective in fiscal year 1969, for the operation of two other Foundation-supported national research centers—the Cerro Tololo Inter-American Observatory in Chile, South America, and the National Radio Astronomy Observatory in Green Bank, West Virginia—because of the accumulation of corporate reserves by the operating contractors For one of the centers, the annual fee was reduced from $50,000 to $30,000 and for the other center from $125,000 to $100,000 annually Thus, the total aggregate annual fee reduction for the three centers was $105,000, or $210,000 for the 2-year contract periods (B-133338, December 14, 1967)

ACCOUNTING AND FISCAL MATTERS

143 FUNDING PRACTICES FOR PROCUREMENT OF SPARE PARTS—In a prior review of the ability of the military supply systems to respond to increased demands, we observed that some supply-support problems were apparently the result of the practice of releasing procurement funds on a piecemeal basis Therefore we undertook a limited examination into the effects of such funding practices on the procurement of aeronautical spare parts by the Air Force Our report on the examination was issued to the Congress in August 1968

We found that in fiscal years 1966 and 1967 the Department of Defense released funds to the military departments on a piecemeal basis The Air Force, in turn, released funds to its procurement centers on a piecemeal basis and without advance notice as to the amounts that would be made available or when they would be made available

The funds made available to the procurement centers were less than the funds needed to cover computed requirements The incremental funding created additional difficulties for the procurement centers in their management of the limited funds in that

—Spare parts could not be purchased in larger, more economical quantities

—Prices were increased by contractors because of delays by the procurement centers in placing orders

—Administrative costs of procurement were increased because of additional paper work

—Procurement on a piecemeal basis increased the likelihood of shortages of spare parts which could adversely affect the operational readiness of the aircraft

The Assistant Secretary of Defense (Comptroller) stated that the numerous fund releases in fiscal years 1966 and 1967 were neither desirable nor economical but were necessary under the then-existing circumstances Further, we were informed that the Air Force attempted, in fiscal year 1968, to reduce the number of separate fund allocations to the Air Materiel Areas We were informed also that the other military departments pursued the same objective and that the Office of the Secretary of Defense was cooperating in every way possible

We pointed out that similar conditions could recur and could again necessitate close fund control and incremental releases of funds We recommended that, in that event, consideration be given by the Department of Defense and the military departments to the additional costs and other adverse effects of incremental fund releases and that efforts be made to reduce the practice to a minimum We recommended also that as much information as possible be furnished to inventory management activities as to amounts of funds that would be available and the probable release dates, to facilitate the planning of their procurement programs The Department of Defense agreed (B-164301, August 27, 1968)

144 ADMINISTRATION OF THE FOREIGN MILITARY SALES FUND—The Department of Defense administers a revolving fund known as the Foreign Military Sales Fund which has been utilized for extending credit to foreign military sales customers under provisions of the Foreign Assistance Act of 1961, as amended (FAA) FAA requires that an integral set of accounts be maintained for the loans and sales made under the act

The Military Assistance Comptroller

recognized the need for an integral accounting system on a commercial basis and established accounting records for this purpose as of July 1, 1965, the date the requirement was effective These accounts were designated "proprietary accounts " The proprietary accounts are intended to provide the basis for preparation of financial statements and to provide an appropriate basis for auditing "in accordance with principles and procedures applicable to commercial corporate transactions "

In April 1969 we reported to the Secretary of Defense that improvements were needed if accounting records and related financial statements of the fund were to adequately disclose the fund's financial condition We found that the fund's accounting records were not in proper condition for auditing in accordance with principles and procedures applicable to commercial transactions, because these records were not maintained on the accrual basis or in a current condition and because accounting practices being followed posed difficulties in attempting verification of the records We noted that financial statements for the fund had not been prepared on the accrual basis and that, consequently, substantial balances had been omitted We also questioned the accuracy of stated balances for loans receivable and questioned certain other aspects of accounting and reporting

In view of recent legislation initiating an estimated 10-year period of fund liquidation, which began June 30, 1968, and directing that assets of the fund be available for discharge of its liabilities and for transfer, from time to time, to the general fund of the Treasury during the liquidation period, we believe that it is of particular importance to get the fund's accounting records on a sound basis

We suggested that the Secretary of Defense direct that the accounting records of the fund be placed on the accrual basis as quickly as possible and that prompt action be taken to analyze and adjust the accounts to reflect the correct and proper balances

The Deputy Director of Military Assistance responded that steps were being taken to put the fund's accounting system on the accrual basis but that full implementation was not considered feasible prior to the extension of the accrual basis to all Department of Defense accounting systems He advised us that special efforts were being made to improve the accounting records and that, by arrangement with the Treasury Department, the Military Assistance Comptroller would continue to maintain the accounts during the liquidation period (B-165731, April 16, 1969)

145 ACCOUNTING SYSTEMS IMPROVEMENT EFFORTS—In a letter to the Director, United States Information Agency in February 1969, we stated that, on the basis of observations made during our work with Agency representatives in the development of an improved financial management system, we concluded that the present direction and level of the effort being made and those planned might not be appropriate to accomplish, on a timely basis, the sizable and complex tasks of designing, developing, and installing an adequate accounting system

We urged the establishment of an accounting system development plan and the application of an adequate number of technically qualified personnel to accomplish the work called for by the plan An appendix to our letter listed specific accounting system problem areas which, we believed, required attention by the Agency

We suggested, that, if it were found impracticable to provide the needed capability in-house, consideration be given to engaging a recognized national public accounting firm for portions or all the design and installation phases of the process and to provide competent in-house staff to work with the con-

tractor and to operate and maintain the system after its installation

In March 1969 we were informed by the Director that a working group of responsible officials within the Agency had been established and, on the basis of that group's recommendation, Agency funds had been budgeted to engage a qualified national public accounting firm to aid in the design and development of the system He stated also that competent in-house staff would be available to work with the public accounting firm and that the steering group would be continually available to guide this effort Subsequent to the Director's letter, we were informed by Agency officials that a contract had been awarded on June 16, 1969, to a nationally recognized firm for assistance in designing an improved accounting system (B-115365, February 10, 1969)

146 DEVELOPMENT OF ACCOUNTING SYSTEM—In August 1969 we reported to the Director of the Peace Corps on the extent of progress being made and the deficiencies requiring correction in order to achieve an adequate accounting system We urged the Peace Corps to strongly support the current effort to design and install an improved accounting system We also recommended that the Corps provide adequate resources to maintain the improved accounting system after its installation and to review it in operation under an adequate internal audit program to ensure that the system will operate effectively as a tool of management (B-165743, August 15, 1969)

147 ACCOUNTING SYSTEM IMPROVEMENTS (a)—As a result of our review of the Agency for International Development (AID) accounting system for the advance acquisition of excess property, we pointed out to AID officials the need to incorporate certain revisions before the system design could be fully approved by the Comptroller General These revisions related to

—Recognizing rehabilitation costs applicable to future periods as inventory rather than as expense in order to achieve a more appropriate matching of costs and revenue in a given accounting period

—Recording in the accounts and disclosing in financial reports the cost and related liability for accrued annual leave

—Allocating, as part of the cost of the advance acquisition of excess property program, a portion of the applicable expenses paid from the administrative expenses appropriation

—Establishing appropriate budgetary accounts and procedures to provide for adequate fund control in each of the branch offices

We informed the Administrator, AID, by letter dated December 31, 1968, of our approval of the design of the proposed accounting system, subject to incorporation of the above revisions Currently, through the cooperative efforts of the respective staffs, AID is in the process of making the necessary changes to incorporate in the accounting system the revisions cited in our letter (B-158381, December 31, 1968)

148 ACCOUNTING SYSTEM IMPROVEMENTS (b)—We reviewed the design aspects of the Agency for International Development (AID) foreign currency accounting system, which was submitted to the Comptroller General for approval in June 1968 We pointed out to AID officials the need to (a) provide consistency in the recognition of accrued expenditures in both proprietary and budgetary accounts, (b) make necessary technical refinements and language clarification applicable to accounting controls and procedures and account titles contained in the foreign currency accounting manual, and (c) provide information concerning all foreign currency funds to which the system is applicable

By letter dated January 16, 1969, we

informed the Administrator, AID, of our approval of the design of the proposed system, subject to incorporation of the above revisions

In May 1969, AID submitted a revised foreign currency accounting manual which gave effect to and incorporated the changes agreed upon by our respective staffs as a basis for full approval of the design of the accounting system (B-158381, January 16, 1969)

149 FINANCING AND ACCOUNTING POLICIES—In our report to the Congress in May 1969, we estimated that the additional cost to the Government of obtaining funds in fiscal year 1968 through the Export-Import Bank of the United States (Bank) issuance of participation certificates rather than direct Treasury borrowing might total $11 9 million over the next 4 years In commenting on this aspect in our prior report on the Bank, the Fiscal Assistant Secretary of the Treasury pointed out that the benefits derived through the sale of participation certificates outweighed the difference in interest costs

We noted further that sales of certificates of beneficial interest, beginning in fiscal year 1969, were not sufficiently different from sales of participation certificates to warrant a different accounting treatment in the budget or in the Bank's financial statements We believe that, unless the buyer takes possession of the loan instrument executed by the original borrower and is free to dispose of this instrument without restriction by the U S Government, certificates of beneficial interest are a method of financing, not sales of assets We understand that the executive branch plans to reflect the sales of certificates of beneficial interest of the Bank as borrowings, beginning with fiscal year 1971

We noted also that the Bank had not found a technique for monitoring the effectiveness of the discount loan program and that the Bank did not consider several legal restrictions to be applicable either to the supporting loans used by commercial banks to obtain the discount loan or to the use of the proceeds

We discussed a Bureau of the Budget limitation on the Bank's direct loans for export sales of commercial aircraft and the need for ensuring that the Bank's financing of such transactions does not displace financing available in foreign markets and thus result in a less favorable immediate effect on the U S balance of payments

Regarding the discount loan program, we recommended that the Bank's management seek methods to refine and improve upon the monitoring of this program, to enable determination of the program's impact on financing exports The Bank, however, does not believe that the impact of the discount loan program is completely measurable

We recommended that the Bank document the nonavailability of commercial bank credit as part of the approval process for direct loans, including aircraft credits The Bank does not believe that documentation of nonavailability of commercial bank credit would further ensure noncompetition with commercial banks

We believe that definitive criteria need to be established in approving credit through the export expansion program, under which $500 million of the Bank's loan, guarantee, and insurance authority was set aside to extend credit on the basis of more liberal criteria for determining the likelihood of repayment The Bank believes that, as experience is gained in the export expansion program, overall program guidance will be developed

We proposed that the Congress might wish to consider whether legal restrictions applicable to other Bank programs should be made applicable to the discount loan program (B-114823, May 29, 1969)

150 IMPROVEMENTS IN EMBASSY AND CONSULATE ADMINISTRATIVE ACTIVITIES (a)—In December 1968, we

reported to the Department of State a number of areas where, we believed, improvements should be made in the Embassy and consulate administrative operations in Thailand Among the findings reported were

—Premature year-end procurements of household furnishings and equipment

- Need for adequate property-receiving practices, adequate warehousing facilities, and improved management of warehouses and expendable supplies

—Need for improvements in records of motor pool operations and in vehicle disposal procedures

—Need for improvements in cash control procedures, including periodic unannounced counts, more timely deposits of receipts, greater internal controls over collections, and reduction of on-hand cash balances

—Need for improvements in timekeeping and payroll records and greater control over overtime work

Embassy and consulate officials generally agreed with our suggestions, and corrective actions had been taken or were planned

We were informed by an Embassy official that, except for an inspection made by the Foreign Service Inspector in March 1967, no inspections or audits had been made of the Embassy and consulate activities in Thailand in recent years We recommended that a program of periodic internal audits would provide timely detection of inadequate administrative activities The need for internal audit coverage of posts overseas had been recognized by the Department, and steps were being taken to expand its program of audits, to increase the number of personnel assigned to the program, and to include reviews of Embassy activities (Report to the Deputy Under Secretary of State for Administration, December 12, 1968)

151 IMPROVEMENTS IN EMBASSY AND CONSULATE ADMINISTRATIVE ACTIVITIES (b)—In a report to the Department of State in July 1968, we stated that internal audits of administrative activities had not been performed at the Embassy and consulates in the Federal Republic of Germany since 1961 We stated further that a large number of the following matters, which needed correction, would probably not have arisen if periodic internal audits had been made

—Embassy and consulate cleaning service could have been acquired at less cost by direct hire rather than by contract

—Apartments were leased in excess of needs

—Costs of apartments operated as transient quarters were not being fully recovered

—Motor pools were not being economically operated or adequately managed

—Equipment on hand was in excess of needs

—Charges levied for personal services rendered were inadequate to recover costs

—Inadequate controls existed over cashier funds, invoices, distribution of certain expenses, and repair and maintenance of office equipment and machines

—Regulations were not being followed in computing overtime, recording receivables, reporting assets, documenting sources of supply and prices, obligating funds, making year-end purchases, taking annual inventories, preparing time and attendance reports, and distributing paychecks

With respect to each of our findings, we made specific suggestions for corrective actions Department officials agreed, in general,

with our suggestions, and corrective actions have been taken or are planned We plan, as part of our review of Department of State activities, to examine actions taken on our recommendations (B-133017, July 19, 1968)

152 ACCOUNTING PROCEDURES AND CONTROLS APPLICABLE TO AUTOMATED CENTRAL PAYROLL SYSTEM—Our review of the Department of Health, Education, and Welfare (HEW) automated central payroll system revealed numerous errors in employees earnings, leave, and payroll deductions, errors in the issuance of savings bonds, delays in forwarding payroll deduction checks, and cash and checks left in an unlocked file drawer Our review revealed also that, although HEW internal auditors or special study groups had previously commented on the inadequacies of the central payroll system, effective corrective action had not been taken

In a report issued to the Congress in January 1969, we expressed the opinion that HEW's payroll system needed substantial improvements to fulfill the requirements for an effective payroll system Among the improvements that we believed to be needed were (a) the establishment of effective controls over checks, cash, documents, and magnetic tapes, (b) the development and use of predetermined control totals, programmed controls, and system documentation, (c) the issuance of revised instructions for applying pertinent payroll laws and regulations, and (d) the provision of more effective supervision of payroll activities

In response to our suggestions, HEW initiated a number of actions to improve its payroll system, including a complete redesign of the system Also, HEW took steps to strengthen its staff responsible for administering the payroll system and to correct errors in the data in the system In our report, we recommended, among other things, that the Secretary of HEW assign a high priority to redesign of the payroll system and that he keep these efforts under close surveillance until the redesign is successfully completed (B–164031, January 17, 1969)

153 USE OF OPERATING FUNDS FOR BUILDING RENOVATION—In February 1969, we reported to the Secretary of Health, Education, and Welfare that about $535,000 of National Cancer Institute (NCI) funds had been used without statutory authority for the renovation of an existing Atomic Energy Commission (AEC) production building to provide facilities for a research laboratory at the Oak Ridge National Laboratory, Oak Ridge, Tennessee The new laboratory was financed jointly by AEC and NCI

NCI funds had been used for stripping and decontaminating the building and for relocating its equipment In our opinion, the conversion of this building constituted a public improvement within the meaning of that term as used in 41 U S C 12, which provides that no contract be entered into for any public improvement which shall bind the Government to pay a larger sum of money than the amount appropriated for the specific purpose

It was our view that, since the appropriation involved was not specifically made available for the repairs and improvements, the expenditures made for such purposes were improper Because more than 3 years had elapsed since the expenditures had been made, we were precluded from taking any action against the accountable officer We suggested, however, that copies of our report be furnished to cognizant officials so that they would be made aware of this matter and could take steps to preclude future improper expenditures of this nature (B-164031, February 18, 1969)

154 MAXIMIZING THE INVESTMENT OF EXCESS CASH FUNDS—At the request of the Chairman, Natural Resources

and Power Subcommittee, House Committee on Government Operations, we recommended in October 1968 on (a) whether the uninvested cash balance of about $3,612,420 of moneys held in trust for Indians by the Bureau of Indian Affairs, Department of the Interior, on June 30, 1967, was excessive and (b) how well the changes made by the Department of the Interior in its auditing of Indian Service Special Disbursing Agent activities were working out in practice In a March 1966 report to the Congress, we stated that trust funds substantially in excess of then-current disbursement needs had not been invested by the Bureau, which had resulted in significant losses of interest income to Indian peoples We also expressed the opinion in our 1966 report that the Bureau's Office of Audit should direct special attention to its audits of Indian Service Special Disbursing Agent activities

In our March 1966 report we also pointed out that the Department had advised us that, in accordance with our proposal, an investment program would be established during the centralization of the Bureau's accounting system We also stated that the Department, in its Septermber 21, 1967, letter to the Chairman, had stated that a centralized program for the investment of excess trust funds was then fully operational In our review, however, we found that, although the investment activities had been centralized at that time, the Bureau had not developed an adequate program for maximizing the investment of unneeded cash funds

We stated also that, in our opinion, to maximize the investment of excess funds, the Bureau should develop a formal program for investment planning which would provide (a) for determining the funds available for investment on the basis of monthly estimates of receipts—revenues and maturing investments—and of disbursement requirements, and (b) for investment liquidity so that funds would be available to meet unanticipated fluctuations in disbursement requirements

We concluded that, if the Bureau had established such a program, about $3 million of the $3 6 million of the uninvested funds deposited with the Treasury at June 30, 1967, could have been invested to produce additional income

In commenting on our finding in August 1968, the Department advised us that the Bureau had adopted a new policy with respect to investing money held in trust for Indians According to the Department, the new policy provides for maintaining, as nearly as possible, a fully invested position as well as for retaining the ability to meet unpredictable cash demands by placing a portion of the funds in liquid investments

In Septemeber 1968, we discussed the Bureau's new policy with the Deputy Assistant Commissioner for Administration We were advised that, effective July 1, 1968, the Bureau had adopted an investment program in which monthly estimates of net disbursement (excess of disbursements over receipts) needs are prepared and all funds in excess of these estimates are invested in interest-bearing time deposits with commercial banks We were further informed that the disbursing agent was attempting to arrange the maturity dates on all new investments so that time deposits would mature near the beginning and ending of each month and had negotiated agreements with various banks that permitted the redemption of time deposits prior to their maturity dates without penalty or loss of interest earned to the date of redemption If properly implemented, the investment program adopted by the Bureau should, in our opinion, substantially contribute toward maximizing the investment of excess cash balances

Regarding the Chairman's question as to the effectiveness of the internal audit effort as it relates to the activities of the Indian Service Special Disbursing Agent, we stated that the Department's Director of Audit Operations

had informed us that audits of this activity had not been made after the internal audit activity was consolidated at the Department level but that an audit was then in process This internal audit work has been completed and an evaluation is planned (B-114868, October 10, 1968)

155 LUMP-SUM INSTEAD OF ANNUAL PAYMENT IN LIEU OF TAXES—Our audit of the Virgin Islands Corporation, currently in liquidation, showed that a payment of about $1 million in lieu of taxes was made by the Corporation to the Virgin Islands Government in fiscal year 1968 Applicable law provided that an annual payment in lieu of taxes be made by the Corporation to the Virgin Islands Government Such payments had not been made, however, for the period covering, in general, from fiscal years 1953 to 1966

We pointed out in a report dated May 23, 1969, that, in our opinion, although the Corporation had acted within its legal authority in acknowledging the liability, the statutory requirement for making the payment in lieu of taxes initially had been established to afford the Government of the Virgin Islands year-to-year financing and was not intended to provide financing in the form of a lump-sum payment upon liquidation Further, we suggested that the Congress might wish to consider whether it was appropriate for the Corporation, during liquidation, to make to the Virgin Islands Government the lump-sum payment of about $1 million in lieu of taxes (B-114822, May 23, 1969)

156 USE OF IMPREST FUND—We reported to the Commissioner, Immigration and Naturalization Service (INS), Department of Justice, that our review of selected operations of its Frankfurt, Germany, district office showed that the imprest fund had been used for payment of compensation to typists employed on an hourly basis Such payments were not in accord with the established INS policy for use of the imprest fund

In our opinion, the utilization of the imprest fund to pay compensation to typists was not conducive to adequate review and control of staffing by the INS Central Office in Washington, D C Further, this means of paying additional persons did not disclose the true staffing posture and permitted local management to avoid its responsibility to comply with Executive orders to reduce overseas employment We believe that, if additional employees could have been fully justified, they should have been employed under the then-existing INS policy and fully disclosed in management reports

In February 1969 we were informed by the Commissioner, INS, that the Frankfurt office had been instructed to discontinue payment for typing services, other than for emergency or special need, from the imprest fund (B-125051, August 30, 1968)

157 ADJUSTMENTS AFFECTING PRIOR YEARS' TRANSACTIONS—Our examination of the fiscal year 1968 financial statements of Federal Prison Industries, Inc (FPI), Department of Justice, showed that accounts were not maintained for recording adjustments effecting prior years' transactions This resulted in overstating or understating current fiscal year transactions

For example, during fiscal year 1969, an adjustment of about $84,000 was made to current sales for a reduction in the price of shoes sold to the Defense Supply Agency during fiscal year 1968 As a result profits for fiscal year 1969 will be understated

We recommend that, to ensure that only current fiscal year transactions are shown in FPI financial statements, an account be established for recording adjustments affecting prior years' transactions

The Assistant Attorney General for Administration informed us that necessary corrective action would be taken to provide for adjusting prior years' transactions in the

retained earnings account maintained by the Washington Office (B-114826, April 14, 1969)

158 LIMITATION ON FUNDS AVAILABLE FOR VOCATIONAL TRAINING OF PRISONERS—Our examination of the financial statements of Federal Prison Industries, Inc, Department of Justice, for fiscal year 1968 showed that, during fiscal year 1968, the corporation's expenses for vocational training of prisoners, after deducting revenues, were in excess of the limitation set by the Congress and the apportionments made by the Bureau of the Budget on the amount of funds available for that purpose The excess expenditure of funds constituted a violation of the Anti-Deficiency Act, as amended

We recommended that the Attorney General, in accordance with the requirements of 31 U S C 665(i)(2), report to the President, through the Director of the Bureau of the Budget, and to the Congress all pertinent facts and furnish a statement of the action taken concerning the violation of the Anti-Deficiency Act

On January 8, 1969, the Attorney General reported on this matter to the President, through the Director of the Bureau of the Budget, and to the Speaker of the House of Representatives and the President of the Senate The Attorney General stated that the overexpenditure had resulted from an accounting judgment and was not a willful and knowing act intended to circumvent the will of the Congress

We believe that the legislative histories of the appropriation acts which established the expenditure limitations for the vocational training program do not clearly show whether the Congress intended such annual limitations as being inclusive or exclusive of revenues Accordingly, we suggested to the Congress that it might wish to consider clarifying the legislative intent as to whether revenues derived from vocational training activities may serve to reduce the expenses subject to the congressional limitations placed on the vocational training program (B-114826, February 11, 1969)

159 STATEMENT OF PRINCIPLES AND STANDARDS FOR ACCOUNTING SYSTEM—We reviewed the statement of the Department-wide accounting principles and standards of the Department of Justice submitted on April 14, 1969, to the Comptroller General for approval Both during the development of the statement of accounting principles and standards and after its formal submission, representatives of the General Accounting Office worked closely with the accounting officials of the Deparment and made numerous suggestions, most of which were accepted For example, we made suggestions resulting in changes with respect to (a) measurement of the amounts of accruals, (b) recording of disbursements, (c) acquisition of property, (d) leave liabilities, and (e) review of financial reports (and reporting procedures)

The Department-wide accounting principles and standards were approved by the Comptroller General in May 1969 (B-157162, May 29, 1969)

160 STATEMENT OF PRINCIPLES AND STANDARDS FOR ACCOUNTING SYSTEM—We reviewed the "Precepts, Principles, and Procedures" proposed for adoption by the U S Civil Service Commission as guidelines for revising and modernizing its administrative accounting system submitted in November 1967 As a result of cooperative efforts between Commission and General Accounting Office representatives, several improvements were made to the proposed guidelines to bring them into conformity with the principles and standards prescribed by the Comptroller General

In November 1968 we informed the Chairman of the Commission that, on the

basis of our review, the statement of precepts, principles, and procedures of the administrative accounting system of the Commission were deemed to be adequate and in conformity with the principles and standards prescribed by the Comptroller General and that the statement was approved (B-115338, November 18, 1968)

161 ACCOUNTING SYSTEMS IMPROVEMENTS—We reviewed and tested in operation four accounting systems which the U S Civil Service Commission had submitted in June 1967 for approval of the Comptroller General These systems related to the Federal employees' retirement and disability, health benefits, group life insurance, and retired employees' health benefits programs

As a result of cooperative efforts between Commission and General Accounting Office representatives, several improvements designed to clarify organizational responsibilities and to further illustrate procedural steps were incorporated in the accounting manual Also, the Commission agreed to make further refinements to its accounting manual which will be reviewed by us when fully implemented

In November 1968 we informed the Chairman of the Commission that, on the basis of our review and tests, we deemed these accounting systems to be adequate and in conformity with the principles, standards, and related requirements prescribed by the Comptroller General and that the four accounting systems were therefore approved (B-115338, November 25, 1968)

162 DISBURSEMENTS FROM HIGHWAY TRUST FUND—We found that the reimbursement policy established by the Federal Highway Administration (FHWA), Department of Transportation, provided for reimbursements to the States for certain amounts withheld from progress payments to the contractors even though these amounts had not been paid by the States Reimbursements to the States for the costs of highway construction are made from revenues in the Highway Trust Fund Revenues not required for immediate reimbursement are invested in special issues of the Treasury, and interest earned from these investments accrues to the Highway Trust Fund

In a report to the Congress in September 1968, we pointed out that, during fiscal years 1965 and 1966, the Highway Trust Fund could have realized additional investment income in excess of $1 2 million on funds held by four selected States if reimbursements had not been made to the States until such time as payments had been made by the States to the contractors

We reported that the policy had not resulted in the most economical method of reimbursing States for certain elements of highway construction costs and recommended that the policy be revised to provide that reimbursements to the States for amounts withheld from progress payments to the contractors not be made until such time as the payments are made by the States (B-162919, September 17, 1968)

163 ACCOUNTING SYSTEMS IMPROVEMENTS—In July 1968, we reported to the Commissioner of the District of Columbia that the District Government's statement of basic accounting concepts, principles, and standards did not meet the standards which would permit the Comptroller General to approve it The central problem with the statement related to how the financial management and accounting systems development work was to be organized and responsibility established

In a letter to the Comptroller General in August 1968, the Commissioner of the District of Columbia stated that policies related to the statement must be discussed thoroughly before certain decisions can be made which are, at least in part, related to some far-reaching changes in District organization and practices (B-140997, July 17, 1968)

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Note *For additional items related to "Accounting and Fiscal Matters," see section on "Economic Opportunity Programs," items 6 and 22*

AUDITING

164 INTERNAL AUDIT OF CIVILIAN PAYROLL OPERATIONS—In response to the Comptroller General's request of September 3, 1963, the armed services initiated a program to review and strengthen their procedures for internal audit of civilian pay and allowances As stated in our report issued to the Congress in June 1969, we reviewed the revised audit programs and the work performed by internal audit staffs at 132 military installations and found that, despite significant progress made over the past 5 years, many improvements still were needed in the internal audit of civilian payroll operations in the Department of Defense We proposed that the Secretary of Defense, to bring these improvements about

—Revise internal audit programs to incorporate the specific items we had identified as omitted from coverage in the current internal audit programs

—Expand internal audit coverage in the areas of salary rates and accuracy of leave records

—Make internal audits at least biennially at each military installation and increase the extent of detailed review of transactions when significant deficiencies are encountered

The Department of Defense agreed with these proposals and stated that it proposed

—To instruct the military services to consider developing biennial audit schedules for the civilian payroll function

—To ensure that audit coverage would be given to the matter of proper salary rates and that detailed document examination would be made to the extent necessary

On July 29, 1969, the Assistant Secretary of Defense (Comptroller) advised us that appropriate instructions had been issued and that his office would provide surveillance over the progress in implementing them (B-152073, June 5, 1969)

165 ORGANIZATIONAL PLACEMENT AND PERFORMANCE OF INTERNAL AUDIT FUNCTION—In January 1969 we reported to the Congress that, on the basis of our review, we believed that the Agency for International Development (AID) could make the AID/Washington internal audit function more effective by improving its stature through a better recognition of the importance of internal audit as a tool of top management in controlling operations, by placing it higher in the AID organization, and by coordinating it with other review functions

We found also that (a) the scope of AID's internal audit coverage had not been broad enough to provide systematic coverage of significant aspects of all AID-financed activities and operations in Washington and in the field, (b) AID needed to improve the timeliness of its audit reviews and reports on contractor performance under AID contracts and to require contracting officers to take more positive corrective actions on its audit recommendations, and (c) deficiencies in AID's internal audit plans for 1967 had been only partially corrected in its plans for 1968

The Assistant Administrator for Administration agreed, in general, with our findings and suggestions, with the exception of relocating the internal audit function to a higher level As an alternative, AID expanded the duties and responsibilities of its Deputy As-

sistant Administrator for Administration to include overall compliance review in the broadest sense and coordination of the audit, review, and inspection functions We believed that the necessary independence and objectivity would be obtained only if the internal auditor were made directly responsible to the highest practicable level, preferably the Administrator but at least an official who reports directly to the Administrator

We recommended to the Administrator that reconsideration be given to relocating the internal audit function from its present subordinate position to the highest practicable level In May 1969, the President advised the Congress of the creation of a new position of Auditor-General in AID who would report directly to the AID Administrator The position was filled by the Administrator on June 16, 1969 (B-160759, January 17, 1969)

166 ORGANIZATIONAL AND OPERATIONAL FEATURES OF INTERNAL AUDIT—In a report issued to the Congress in April 1969 on the results of our review of the internal audit function at the United States Information Agency (USIA), we reported that the internal audit had been applied mainly to housekeeping-type activities and to levels of coverage and reporting below those that would be of maximum benefit to top management and that there was need to improve the quality of internal audit work by identifying and reporting on the causes of deficiencies and documenting more fully the audit work performed

We concluded that the internal audit could be made more effective through recognition of the importance of internal audit as a tool of top managment in controlling operations and through the improvement of the stature and independence of the function by relocating it to the highest practicable level, preferably where it would report to the Director, Deputy Director, or at least to an official who reports directly to the Director

We recommended that USIA raise the organizational standing of the internal audit activities and coordinate them with the other management review activities, broaden and refine the internal audit programming approach, performance, and reporting requirements, adjust the use of the auditing effort, as required, to ensure balanced coverage of essential internal audit areas, and continue its recruitment efforts to fill authorized positions and vacancies

In May 1969, in reply to our report, the Director indicated that, on the basis of our recommendation, USIA had initiated the following actions to make internal audit a more effective management tool

—The audit function, together with the inspection function, would be relocated in a new organizational unit headed by an Associate Director reporting directly to the Director and the Deputy Director

—Audit reports would be made directly to the Director and Deputy Director

—Internal audit and field program appraisal would be conducted jointly by teams comprising inspectors and auditors

—Auditors and inspectors would be charged with broadened responsibilities for assessing program execution and related management activities without forgetting the financial and accounting audit requirements

—Efforts would be made to clarify the underlying causes of deficiencies found and to address recommendations to the correction of those causes as well as the deficiencies

The Director's reply indicated that USIA did not plan to implement our recommendations relating to the need for adequate descriptions in working papers of the audit work performed and for supervisory reviews of audit work performance (B-160759, April 8, 1969)

167 ORGANIZATIONAL PLACEMENT AND COVERAGE OF INTERNAL AUDIT—The Department of Health, Education, and Welfare (HEW) had made significant improvements in the organizational structure and operation of its audit function These improvements included (a) vesting responsibility for the entire audit function in a single organization, (b) establishing an aggressive recruitment and staff development and training program, (c) broadening the scope of its audits, and (d) adopting plans for improving audit service to top management

Because the head of the HEW Audit Agency was under the general supervision of the Assistant Secretary, Comptroller, who was responsible for many of the activities subject to internal audit, we recommended, in a report issued to the Congress in May 1969, that, to safeguard the existence of an adequate degree of independence, the Secretary (a) satisfy himself that the official to whom the internal auditors report not only permits but also encourages the exercise of latitude in setting the scope of work and in reporting on results of internal audits, (b) concern himself with the scope, effectiveness, and staffing of the internal audit function and with the adequacy of attention paid to audit findings and recommendations, and (c) provide the internal auditor with direct access to the Secretary when the internal auditor deems this necessary to fulfillment of his responsibilities

We had some reservations as to whether, under the HEW Audit Agency's existing arrangement of organization and staffing, adequate independent internal review coverage could be given to the external audits of grantees and contractors We recommended that the Secretary, from time to time, satisfy himself as to the adequacy of the internal review coverage being afforded by the HEW Audit Agency to the manner in which its external audit responsibilities were being discharged (B-160759, May 9, 1969)

168 IDENTIFICATION OF BASIC MANAGEMENT WEAKNESSES UNDERLYING ADVERSE CONDITIONS—On the basis of our examination of the activities of the Office of the Government Comptroller of the Virgin Islands for fiscal years 1966 and 1967, we expressed the belief, in a June 1969 report to the Congress, that the effectiveness of the Comptroller's audits of the insular government would be enhanced if greater emphasis were placed on (a) identifying basic management weaknesses which permitted the occurrence of adverse conditions found during his audits and (b) developing recommendations directed not only to any action required as to the specific matters reported but, more importantly, also to the needed improvement in the management system

We noted in many cases the reports issued by the Comptroller did not disclose the basic weaknesses in the insular government's management system even though such weaknesses appear to have existed because (a) numerous instances of adverse conditions were found in the activities audited and (b) subsequent follow-up audits of the activities disclosed that similar deficiencies continued to occur

Instead, we found that the reports directed attention primarily to the need for action to correct the specific adverse conditions and, as a result, the identification of the basic management weaknesses and the determination of the necessary actions to correct such weaknesses rested with the insular government On the basis of follow-up audits made by the Comptroller, which disclosed that in many instances prior reported deficiencies in the government operations continued to exist, it appears that the responsible officials of the insular government may not always have identified and corrected the basic management problems

The insular government, rather than the Comptroller, is responsible for developing and installing methods, systems, or procedures On the basis of the knowledge he has obtained from his review work, however, the

Comptroller should be as specific as possible as to the action which he thinks should be taken This approach, in our opinion, would be more time-consuming than merely developing and reporting on individual instances of waste or inefficiency We believe, however, that such a practice would provide for effective utilization of the Comptroller's audit staff in that it would provide greater assurance that long-range improvements are made to minimize recurrence of deficiencies in the insular government's operations

Accordingly, we recommended that the Secretary of the Interior direct the Comptroller to place greater emphasis on inquiring into the basic causes of adverse conditions disclosed in his audits of activities of the Government of the Virgin Islands and to formulate recommendations for preventing similar occurrences in the future

In April 1969, the Director of Survey and Review, in commenting for the Department, advised us that, as a matter of audit policy, the Department and the Comptroller concurred with the underlying principle upon which our proposal was based and that the Comptroller would devote additional effort to identifying weaknesses in the management system of the insular government In this regard, the Director of Survey and Review advised the Comptroller, also in April 1969, that the Director's office would be working further with the Comptroller in developing audit criteria to improve the effectiveness of the Comptroller's audit activities, including the additional emphasis needed to identify weaknesses in the management system causing the adverse conditions identified in his reports (B-114808, June 30, 1969)

169 IMPROVEMENT IN INTERNAL AUDITING—We reported that the Federal Aviation Administration (FAA) could substantially improve the utilization of its internal audit resources by (a) administratively centralizing the field and headquarters internal audit function into a single internal audit organization whose director would report to the highest practicable level in the agency, (b) separating the advisory function from the internal audit staff, (c) ensuring that all significant areas of FAA's operations are audited on a systematic basis, and (d) providing more frequent audits of payroll operations and related expenditures

The FAA Administrator agreed to (a) consolidate the internal audit staffs into a centralized internal audit organization, (b) separate the advisory services function from internal audit staffs, and (c) take action to ensure that all significant areas of the Administration's operations are audited on a systematic basis

Subsequently, the Secretary of Transportation decided that the various Department of Transportation internal audit functions, including those of FAA, would be consolidated at the Department level (B-160759, July 2, 1968)

170 AUDIT POLICIES AND PRACTICES—In our report of June 1969 to the Director, National Science Foundation (NSF), we expressed our opinion that, for the most part, the internal and external reviews of NSF's Internal Audit Office were somewhat too limited in scope and that there was room for certain improvements to strengthen the effectiveness of the audit work and increase its usefulness to management

We found that the audit reviews were generally limited to financial-type audits of NSF's internal operations and of individual grants and contracts at grantee institutions and contractor locations Generally, these reviews were not directed toward an evaluation of the manner in which NSF's program responsibilities for the support of research and education in the sciences had been carried out We stated our belief that comprehensive management-type reviews of selected major support programs were needed for a proper evaluation of program management and the

accomplishment of desired objectives and that the initiation of such reviews should be given high priority in NSF's audit plans

The Director agreed that the effectiveness of the Internal Audit Office's work and its usefulness to management would be increased by broadening the scope of audit He informed us that NSF planned to increase the scope of audit reviews to the extent that its limited manpower resources would permit

In addition, we proposed certain other improvements in NSF's audit activities, such as the establishment of formal follow-up procedures regarding the implementation of internal audit recommendations and of procedures for formal coordination between the Internal Audit Office and the Management Analysis Office to avoid possible duplication of work and to provide for maximum cooperation The Foundation informed us of its agreement with these proposals and of action that had or would be taken to carry them out (B-160759, June 17, 1969)

MANAGEMENT INFORMATION SYSTEMS

171 AIR FORCE MILITARY PERSONNEL DATA SYSTEM—The Air Force maintains a computerized personnel data system to provide the information needed for management of its military personnel The information provided by the system is used as the basis for management decisions affecting overall planning and budgeting and for decisions affecting individual officers and enlisted men in such personnel actions as assignments, promotions, separations, and retirements We examined into the operation of the system for the period April through October 1967 The examination was directed primarily toward evaluation of the data recorded in the system and did not include an overall evaluation of the operation Our report on the examination was issued to the Congress in July 1968

We found that the data in the system was not sufficiently reliable to serve management purposes effectively Our examination of the recorded personnel data for 378 officers—an average of 85 items of information for each officer—showed that 366 of the 378 data printouts had one or more errors The errors averaged five for the record of each officer A similar examination of the recorded personnel data for 480 enlisted men—an average of 52 items of information for each enlisted man—showed that 457 of the 480 data printouts had one or more errors The errors averaged three for the record of each enlisted man

In our opinion the errors stemmed from

—Lack of adequate review procedures to ensure the accuracy of personnel information

—Absence of standards for evaluating the reliability of the data in the system

—Ineffective guidance and instruction to personnel at base level by higher levels of command

—Inadequate staffing and training of personnel at base level

The Air Force agreed, in general, with our findings and proposals for corrective action and informed us of steps taken to strengthen its management of the personnel data system These actions, if properly implemented and monitored, should improve the reliability of the data in the system (B—164471, July 25, 1968)

172 SUPPLY MANAGEMENT DATA SYSTEM FOR TANK AND AUTOMOTIVE VEHICLES AND REPAIR PARTS—The Army Tank-Automotive Command (TACOM) has the mission of providing tank and automotive vehicles and repair parts for all the military services in the United

States and overseas As a part of our continuing program of review of management activities at TACOM, we examined into supply management, giving particular attention to problems in its computerized supply management data system

For several years, TACOM had been unable to achieve the desired levels of supply support During the period February 1965 to November 1967, for example, stock requisitions filled on time ranged between 33 and 78 percent compared with the objective of 85 percent established by the Army Materiel Command In November 1967, only 46 percent of the requisitions were filled on time

In our report issued to the Congress in September 1968, we stated that the situation stemmed primarily from the presence of inaccurate data in the computerized supply management records Although TACOM and higher command officials had recognized the seriousness of this problem and had taken action to improve the accuracy of the data, these efforts generally had been unsuccessful A 1967 study showed, for example, that about $94 million worth of material recorded as due-in had in fact been received and that about $83 million worth of material had been received but had never been recorded as due-in These conditions can cause inventory managers to either procure unneeded supplies or fail to procure needed supplies

In our opinion, the prime factor retarding improvement of supply support effectiveness was the lack of coordination, evaluation, and follow-up efforts to clear up the computerized supply management records Other factors—imposition of additional work loads, major reorganizations, and saturation of computer capacity—also had adverse effects

We proposed that the Secretary of Defense establish a coordinated supply management program at TACOM to

—Improve supply records

—Prevent additional invalid data from entering the records

—Review additional work loads or special programs to be imposed on TACOM, to prevent unnecessary interference with the current management improvement program

—Establish measures to maintain organizational stability at TACOM and to prevent the constant movement of experienced supply personnel

—Review the use being made of the existing automatic data processing equipment with the objective of eliminating or reducing lower priority projects so that the equipment can be used for matters vitally in need of correction

The Army, in its reply on behalf of the Secretary of Defense, agreed with these proposals and stated that actions in keeping with the proposals either had been taken or were planned (B-146772, September 23, 1968)

MANAGEMENT PRACTICES—GENERAL

173 ADMINISTRATION OF U S PARTICIPATION IN THE WORLD HEALTH ORGANIZATION—In a report to the Congress in January 1969 on our review of the U S Government's financial participation in the World Health Organization (WHO), we stated that executive agencies had not obtained the specific analytical information relative to proposed and continuing WHO projects and programs needed to identify programs whose justification might be questionable or which could be accomplished with greater economy and efficiency Budget and operational data furnished to members of WHO by its secretariat has been too sketchy and incomplete to make firm assessments regarding implementation of WHO projects and programs

The United States has no systematic pro-

cedure for evaluating WHO projects and programs Those attempts which have been made by the United States and by United Nations agencies have fallen far short of what is required by U S officials to make independent judgments relative to the efficiency and effectiveness of WHO operations In three of the last four years, the United States voted against adoption of the budgets proposed by the WHO secretariat on the basis that the budgets were higher than the United States considered appropriate The proposed budgets were adopted, however, on the votes of other members, and the United States thus contributed to budgets greater than it wished to support

Although U S interests appear to have been reflected in certain WHO programs—notably malaria and smallpox eradication—it was difficult to determine to what extent U S objectives had been met over the years because the executive branch had not decided on the relative order of magnitude which it believed appropriate for the various WHO programs

We recommended that the Departments of State and Health, Education, and Welfare take actions directed toward obtaining the pertinent factual data necessary to make sufficient analysis of WHO programs and budgets in order to exert meaningful influence on the programs and budgets

The Departments of State and Health, Education, and Welfare agreed, in principle, with most of the recommendations The Department of State pointed to actions being taken on a United Nations-wide basis to seek improvements in fiscal and administrative practices of international organizations The executive agencies, however, did not indicate any intention to actually implement the recommendations

Although the executive agencies indicated a willingness to work for improvements in the fiscal and administrative practices of international organizations, we believe that more aggressive action was needed by the executive agencies in order to solve the specific and basic problems discussed in the report (B-164031(2), January 9, 1969)

174 OBSERVATIONS ON THE VIETNAM PACIFICATION PROGRAM HAMLET EVALUATION SYSTEM—At the request of the Chairman, House Foreign Affairs Committee, we reviewed selected aspects of the Hamlet Evaluation System (HES) used by the Military Assistance Command in Vietnam (MACV) to assist in the measurement and reporting on the status of the pacification program of the Government of Vietnam (GVN) The results of our review, which involved the Department of State as well as the Department of Defense, were reported to the Committee in January 1969

Pacification is the term given to the process of establishing or reestablishing GVN local government at any level—from the individual hamlet to the national level—to meet the needs of the people of the Republic of Vietnam

These processes include establishment and maintenance of territorial security, elimination of the Viet Cong underground government or infrastructure, building or rebuilding of a political system that includes participation of the people, and initiation of progressive economic and social activities

We were requested to include in our review the statistical-gathering process, the data consolidation process, and the dissemination of the resulting information We were requested also to include in our report observations on the reliability and usefulness of the information being developed

It is our understanding that the system, based largely on subjective judgments of U S evaluators, was established to provide trends

indicating pacification progress and was not expected to result in precise measurements

As an indicator of trends and as a device for identification of problem areas requiring additional pacification effort the data generated by HES appears to serves a beneficial purpose

We believe, however, that the value of HES as a management tool could be enhanced We found that there was a need for improving the reliability of the system because certain U S evaluators

- need more training in the techniques and procedures of the system,
- are unfamiliar with the Vietnamese culture and luggage,
- have too many hamlets to evaluate each month,
- are unable to become adequately familiar with their areas because their assignments as evaluators are of such short duration, and
- do not always have the benefit of the experience of their predecessors

We believe that the system would be more meaningful if

- hamlet security and hamlet social, economic, and political indicators were reported separately,
- a separate reporting category were established for certain marginally rated, relatively secure hamlets,
- certain of the evaluation questions asked were modified to elicit more objective responses, and
- assessments were made of the impact of refugee flow and other variables which may tend to diminish the reliability of the results released to the Congress and to the public

HES statistics and reports on the status of the pacification program are distributed to the Congress, to U S Government agencies, and to the public The reports are issued without the qualifications necessary to alert recipients that the material was based on subjective judgments of the evaluators or that the information, in some cases, was not based on the personal knowledge of the evaluators

The need to improve HES has been of continuing concern to U S officials, and measures have been and are being taken to deal with the problems found in the system Such effort should continue Moreover, information based on HES, disseminated to the Congress and to the public, should be carefully qualified

Subsequent to the issuance of our report, the Deputy, Civil Operations and Revolutionary Development Support, MACV, forwarded to us, by letter dated May 13, 1969, a set of specific actions initiated by his staff to deal with the major points raised in our report (B-164785, January 16, 1969)

175 ACTIVITIES OF THE CENTER FOR CULTURAL AND TECHNICAL INTERCHANGE BETWEEN EAST AND WEST—In a May 1969 report to the Congress, we stated that there was a need for a more systematic method of making objectively based evaluations of the effectiveness of the East-West Center's various activities Center officials were aware of this need and were taking steps to establish evaluation procedures The purpose of the Center, which was established by a grant-in-aid agreement between the Department of State and the University of Hawaii pursuant to the Mutual Security Act of 1960, is to promote better relations and understanding between the United States and the nations of Asia and the Pacific through cooperative study, training, and research

We found that there was no master plan which indicated the location of proposed

future facilities and prospective sites of additional land that would be made available to the Center Because of an increasing scarcity of land resulting from the expansion of the university, a need existed to identify the long-range land requirements of the Center

Under the grant agreement, the university is primarily responsible for the operation of the Center It does not, in practice, however, play a role in the formulation of Center policy nor in the decision making process at the Center commensurate with that responsibility This situation did not appear to affect the ability of the Center to achieve its objective in a satisfactory manner

We recommended that the Secretary of State

- —take the necessary steps to ensure that goals are defined and that evaluations are made of the effectiveness of Center activities in order that the Department and the Congress may have a sound basis for assessing the extent to which the statutory purposes are being attained,

- —work with the various organizations concerned to develop a tentative, long-range land-use plan for the Center, acceptable to both the Department and the university, with emphasis on establishing the location of prospective facilities on land provided under the existing agreement and on identifying the possible future needs for additional land, and

- —consider revising the grant-in-aid agreement to reflect the actual responsibility and consequent authority of the university over Center operations

The university. agreed that there was a need for the development of a long-range plan for the future expansion of the Center and that additional land should be made available as needed The Department pointed to the provision for land in the grant agreement and to the commitment of the university to make additional land available as needed

The Department felt that it was unnecessary to revise the grant agreement in view of the close working relationship that existed between the East-West Center and the university This position was supported by the university which believed that the agreement should not be revised until the nature of the relationship, which is still changing, becomes clearer (B-154135, May 20, 1969)

176 MAINTENANCE OF DUPLICATIVE RECORDS—At three of the Foreign Service posts serviced by the Department of State's Regional Finance and Data Processing Center (RFDPC) Paris, France, we found that duplicative and unnecessary records were being maintained Maintaining such records reduces the potential tangible benefits intended to be realized from the centralized system at RFDPC

Accordingly, in a report to the Department in January 1968 we recommended that steps be taken to eliminate certain duplicative and unnecessary records at Foreign Service posts serviced by RFDPC In October 1968 the Department informed us that the continued use of certain records was desired but that the use of transmittal logs of documents sent by the posts to RFDPC would be eliminated (B-146703, January 31, 1968)

177 UPDATING OPERATIONS MANUALS—We found that manuals relating to operations of the Department of State's Regional Finance and Data Processing Center (RFDPC) Paris, France, had not been updated for several years and, because of their obsolescence, did not provide adequate written guidance to operating personnel or meaningful reliable information to audit and other review groups Officials at RFDPC concurred with the need to update the manuals

In a report to the Department in January

1968, we recommended that steps be taken to ensure appropriate updating and current maintenance of the RFDPC manuals and their integration and/or coordination with the Department's system of manuals and circular instructions

The Department's reply of October 1968 stated that the RFDPC manual of operations covering accounting and disbursing operations had been updated as we recommended On June 30, 1969, however, the Department informed us that it would not implement our recommendation that the manuals be integrated and/or coordinated with the Department's system of manuals and circular instructions because it considered the material in RFDPC manuals to be merely supplementary instructions to the Department's Foreign Affairs Manuals (B-146703, January 31, 1968)

178 STORAGE PRACTICES AT EXHIBITS WAREHOUSE—In October 1968 we reported to the Assistant Secretary for Administration, Department of Health, Education, and Welfare (HEW), that our review at HEW's exhibits warehouse had revealed conditions which indicated inadequate housekeeping operations and inefficient space utilization

Collections of trash and rubbish existed in large quantities, thousands of envelopes were scattered over the floors, many crates containing exhibits were open or broken, damaged parts from the exhibits were scattered on the warehouse floor, and exhibits appeared to be stored in a haphazard manner rather than according to an orderly plan Also, the aisles of the warehouse were either crowded or completely blocked, and fire extinguishing equipment could be reached only by walking over the top of exhibit crates Further, the roof of the exhibits warehouse leaked

We recommended that HEW take appropriate actions to (a) inspect the fire-fighting equipment to determine its usefulness, (b) inspect the exhibits warehouse to determine its adequacy and make a thorough cleanup, and (c) improve the inspection and enforcement procedures in a manner designed to obtain more efficient and proper utilization of space

The Department advised us in November 1968 that the conditions reported by us at the warehouse had been corrected and that, to ensure proper housekeeping in the exhibits warehouse, a specific designation of responsibility had been made for inspection and maintenance, as well as for follow-up inspection of the facility (Report to the Assistant Secretary for Administration, Department of Health, Education, and Welfare, October 2, 1968)

179 MANAGEMENT OF COST REDUCTION PROGRAM—We reviewed the Agency for International Development (AID) Cost Reduction and Management Improvement Program, to determine the status of implementation of the program and to identify areas where the program might be improved

We found that (a) AID had adopted a low-keyed approach to the program devoting a minimum of manpower and other resources to it, (b) the programs in fiscal years 1967 and 1968 had been geared primarily to compiling material suitable for inclusion in the required semiannual reports to the President and only incidentally to fostering a sense of cost consciousness throughout the organization, (c) support for the program by top management was lacking, some officials expressed a negative attitude toward it, and (d) the program was not promoted actively and therefore resulted in limited participation by AID personnel It was our view that programs such as the cost reduction program must have the full support of top management and the broad participation of AID personnel in order to be successful

Accordingly, in our April 1969 report to

the Administrator, AID, we recommended that

—the program be redirected so that it serves not only as a reporting medium for cost reduction actions but, more importantly, also as a means to stimulate and encourage a sense of cost consciousness within AID,

—top management demonstrate full support for the program and be more actively involved in it, possibly through the establishment of a cost reduction committee at the assistant administrator level,

—the program be actively promoted and publicized throughout the year, and

—certain internal guidelines governing the program be revised and others be more closely adhered to These guidelines concern the criteria for cost reductions, reporting requirements, review and validation of savings, and dissemination of cost reduction information

(B-163762, April 21, 1969)

180 COST REDUCTION AND MANAGEMENT IMPROVEMENT PROGRAM—In a report to the Secretary of the Interior issued in May 1969, we pointed out that, on the basis of our review of selected cost reduction projects or subprojects which accounted for about $13 6 million of the approximate $22 million reported by the Department of the Interior in fiscal year 1968, we believed that many did not qualify as valid cost reductions under the criteria established by the Bureau of the Budget (BOB) in its Circular No A-44 We pointed out also that the reported costs savings were not being effectively validated and that, generally, cost reduction ideas were not being disseminated for possible wider application

We believe that many projects reported as cost reductions did not result from new, improved, or intensified management actions or from elimination or curtailment of low-priority activities under the qualifying circumstances established by BOB We also noted that, in some instances, cost savings had been significantly understated or had not been verified In addition, as a result of not disseminating the cost reduction ideas within the Department and not indicating to BOB the possible application of these ideas to other agencies, the potential for wider application had not been realized

We recommended that the Department of the Interior issue guidelines to the bureaus reemphasizing the requirements of BOB Circular No A-44 We recommended also that procedures be established to require that cost reduction projects be presented in sufficient detail so as to allow a determination of their possible wider application and that they be reviewed for propriety and reasonableness as well as for possible wider application by individuals having overall knowledge of the operations of the Department and other executive agencies before submission to BOB We recommended further that directives be issued to all employees concerning the importance of the cost reduction program (B-163762, May 20, 1969)

181 MANNER OF CARRYING OUT COST REDUCTION PROGRAM—Bureau of the Budget (BOB) Circular No A-44, Revised, provided for establishment of a formal Government-wide cost reduction program and established criteria for carrying out the program with various Federal agencies The Department of Agriculture initiated its program in June 1965 For fiscal year 1968, the Department claimed savings of about $343 million under the program

Our review indicated that the Department had taken aggressive action to encourage employee participation in the program and to disseminate results of the program throughout the Department—features which, in our opin-

ion, are essential to the proper operation of a cost reduction program

We found instances, however, where the Department instructions and constituent-agency guidelines did not agree with requirements established for the program by BOB As a result, agencies were claiming savings for management practices which had been in effect for several years, were not reporting nonquantifiable savings, and were not explaining the use to be made of savings

Also, on the basis of our review of a random sample of 24 cost reduction reports for fiscal year 1968 involving claimed savings of about $119 million, we believed that the savings claimed in many of the reports were questionable The situation occurred primarily, in our opinion, because procedures for validating claimed savings were not adequate We found that personnel responsible for such validations rarely validated reported actions against program criteria and that, in some instances, such personnel were not independent of the unit claiming the savings

We recommended that the instructions of the Department and its constituent agencies be revised

--to confine the reporting of savings resulting from a cost reduction action to those that occur within the 12-month period following initiation of the action,

--where necessary, to provide that, in accordance with BOB instructions, nonquantifiable savings are to be reported, and

--where necessary, to conform to BOB's instructions requiring explanations of the use of savings and descriptions of the specific benefits to be derived when savings are reprogrammed

We recommended also that the Department ensure that validating personnel are truly independent of the unit claiming the savings and are aware of program criteria for claimed savings and that the Department issue more detailed validation procedures (B-163762, July 31, 1969)

182 CRITERIA FOR DELIVERY OF MAIL IN RURAL AREAS--We noted inconsistencies within and between regions in the standard of mail delivery service provided by the Post Office Department to rural patrons who were served by box delivery star routes Star route contracts generally provide for intercity highway transportation of mail and may provide also for delivery and collection service to individual patrons' boxes along the route Postal regional officers were not applying uniform criteria in determining when box delivery service on other than a daily basis could be provided

We found that the existing instructions had resulted in inconsistent interpretation and application of departmental policy by the various regional offices Although there is no mention in these instructions concerning the frequency of service on other than a daily or triweekly basis, two of the regions covered in our review--San Francisco and Seattle--had box delivery star routes with delivery frequencies of 1, 2, 3, 4, 5, and 6 days a week An official of the San Francisco Region advised us that the region varied the frequency of delivery on the basis of family density

The Seattle criteria would allow establishment of box delivery star route service with a density as low as one quarter of a family a mile, although the Department instructions did not appear to authorize establishing service for less than 1½ families a mile

Of the 272 box delivery star routes in the Seattle Region at the time of our review, 195 had fewer than 1-1/2 families a mile We noted that 92 of these routes did not meet the Seattle Region's family density criteria for the level of service provided

We believed that the inconsistency in the criteria applied by various regional offices with regard to the establishment and frequency of service by box delivery star routes indicated the need for clarification of departmental instructions, to obtain a reasonable degree of uniformity in the standard of postal service provided to rural patrons in different parts of the country under similar circumstances

In commenting on our report, the Deputy Postmaster General stated that, discretionary authority, as allowed the Postmaster General under existing statutes, was necessary because of an extreme number of variables encountered in conditions affecting delivery He agreed, however, to take action to provide additional guidelines for establishing frequencies at which deliveries would be performed on box delivery star routes (B-114874, August 2, 1968)

183 ADMINISTRATION OF CONSTRUCTION PROJECTS—We reviewed selected projects for the construction of shore unit and aviation facilities included in the Coast Guard's acquisition, construction, and improvement (AC&I) program for fiscal years 1965 through 1968, with emphasis on the effectiveness of the Coast Guard's programs for managing its construction projects and keeping the Congress informed of significant changes in the scope and/or funding of construction projects

In our letter report to the Commandant, we pointed out that there was a need for the Coast Guard to develop a more definitive program for keeping the Congress informed of significant changes in the scope and/or funding of its construction projects Furthermore, we stated that such a program should provide for full disclosure of facts relating to specific projects which are of interest to members of the Congress and to congressional committees

We recommended that the Coast Guard's program for keeping the Congress informed be expanded to include specific guidelines for office chiefs and program managers to follow in evaluating the significance of changes in the scope and/or funding of construction projects We recommended also that guidelines be developed regarding the type of information that should be furnished to the Congress for those projects in which significant changes are made

In May 1969, the Commandant of the Coast Guard stated that the Coast Guard agreed with the evaluations set forth in our report and informed us of the specific actions being taken to remedy the situation He stated also that the appropriate instruction would be revised to incorporate these changes (Report to Commandant, Coast Guard, Department of Transportation, February 25, 1969)

184 CONTROLS OVER DOCUMENTATION—In December 1968 we reported to the Area Director of the Economic Development Administration's Western Area Office on the results of our review of the business loan program in that area We reviewed selected loan files of the Department of Commerce in Washington, D C , and in the area office to evaluate procedures followed in processing, approving, and administering project loans Our review showed that complete documentation was lacking in several of the project files in the area office, although some of the information was available in Washington

We believed that the documentation of significant facts would assist both field and Washington management in evaluating and approving loan applications and that complete documentation of information obtained subsequent to approval would aid loan servicing officials in recognizing adverse conditions We therefore suggested to the Area Director that he institute procedures which would ensure that all significant information pertaining to each loan project was documented and that area office files contained all pertinent infor-

mation, including that developed at other locations In January 1969 the Deputy Assistant Secretary for Economic Development advised us that procedures had been instituted to ensure that the pertinent documents were in the Western Area Office files (Report to Area Director, Western Area Office, Economic Development Administration, Department of Commerce, December 6, 1968)

185 CONTROLS OVER DISTRIBUTION OF PUBLICATIONS—In a report to the Director, Office of Field Services (OFS), Department of Commerce, we commented that, although controls over Government Printing Office publications sent to field offices appeared generally satisfactory, controls over Department of Commerce publications sent to field offices were not adequate because records were not maintained to show quantities received and quantities sold or otherwise distributed As a result, we were unable to ascertain whether all receipts applicable to the sale of publications were collected and accounted for

Subsequent to our report, the Director, OFS, advised us that his office and the Office of Administration for Domestic and International Business instituted a review of OFS's procedures concerning the sale of publications and agreed that the procedures needed strengthening

As a result of our report, OFS, in November 1968, issued procedures for the receipt, sale, and distribution of processed publications (Report to Director, Office of Field Services, Department of Commerce, September 29, 1967)

186 QUALITY ASSURANCE CONTROLS (a)—Although the Apollo reliability and quality assurance plan, issued by the National Aeronautics and Space Administration (NASA) in August 1965, prescribes certain requirements for the preparation and approval of quality assurance plans with respect to each management level, and for the performance of periodic quality audits, we found that certain of these requirements had not been fully implemented by the responsible management levels

We found that the Headquarters Apollo reliability and quality assurance office had not fully carried out its responsibilities for seeing that the NASA centers had prepared and issued adequate quality assurance plans covering their Apollo quality assurance activities and that that office had not made periodic audits of the quality assurance activities of the centers

We found that, in addition to the lack of adequate center plans, the quality assurance plans of some prime contractors at two of the centers either had not been approved or had not been approved on a timely basis and that, at the time of our review, only one of the centers was continuing to make the required periodic audits of contractors

We expressed the opinion that the objectives and benefits that were expected by NASA management with the issuance of the Apollo reliability and quality assurance plan were not being fully realized because many of the requirements applicable to the two areas of the plan (a) were not being implemented or (b) were not being implemented in the manner called for by the plan

Although we acknowledged that improvements had been made during our review in both plan preparation and the undertaking of audits, we proposed to the NASA Administrator that a special study be made of the Apollo quality assurance program with particular emphasis on

—Assessing the adequacy of recent actions by Apollo program management to obtain more complete implementation of the program requirements for plans and audits and, where necessary, recommending any further actions required to ensure the necessary compliance

—Reviewing and evaluating the extent of compliance with other important requirements of the Apollo reliability and quality assurance plan

NASA advised us that, although the Apollo reliability and quality assurance plan had not been fully implemented, the function, as performed, coupled with other management controls, had been responsive to Apollo needs and had provided acceptable visibility for Apollo program management NASA further advised us that a special study team had been established in accordance with our proposal The study was subsequently completed and a number of recommendations were made to improve quality assurance in the Apollo program (B-156556, March 11, 1969)

187 QUALITY ASSURANCE CONTROLS (b)—During testing, the S—IVB—503 stage of the Saturn launch vehicle was accidently destroyed The National Aeronautics and Space Administration (NASA) and the McDonnell Douglas Corporation (MDC)—manufacturer of the stage—attributed the cause of the accident to the use of nonspecification weld wire in the fabrication by an MDC subcontractor of a high pressure titanium sphere used to store helium in the stage, commercially pure titanium wire was used instead of the specified titanium alloy wire

Under NASA policy, contractors are to institute quality assurance programs which will provide for early and prompt detection of actual or potential errors, system incompatibility, marginal quality, and trends or conditions which could result in unsatisfactory quality products We expressed the belief that, if established quality assurance procedures had been effectively carried out by MDC and the subcontractor, the accident probably would not have occurred

We found that, in some cases, MDC and the subcontractor had not effectively performed certain quality assurance procedures In other cases, anomalies disclosed by tests called for by these procedures were not given appropriate attention As a result the receipt and use of the nonspecification weld wire remained undetected until after the accident The deficiencies noted by us related to a breakdown in the subcontractor's inspection of materials received, an apparent inattention to the adverse results of certain weld tests, and an apparent lack of adequate inspection by MDC at the subcontractor's facility

NASA relies on its own quality assurance organization and those of other Government agencies and contractors to ensure the receipt of an acceptable product, and each organization has certain responsibilities and functions which must be carried out We expressed the belief that each of the organizations did not effectively carry out its quality assurance functions in this situation and that each must be held accountable in varying degrees when a defective product gets through the system

We suggested that (a) provision be made in NASA procedures for greater dissemination by NASA of information on significant quality assurance deficiencies (procedural or otherwise) noted at subcontractors' facilities to NASA quality assurance organizations and its prime contractors, (b) NASA balance its surveillance efforts by providing more emphasis on comprehensive surveys of subcontractor's compliance with quality assurance provisions, and (c) recommendations by the NASA accident investigation board to improve quality assurance procedures with respect to the manufacture of titanium pressure vessels be adopted and applied to other contractors NASA indicated substantial compliance with each of our suggestions (B-156556, April 15, 1969)

COORDINATION

188 CIVILIAN PERSONNEL AT MILITARY INSTALLATIONS—Our findings in an investigation, made at the request of a Congressman, of the practices at an Air Force base in detailing (assigning) civilian employees to work on other than their regular jobs led us to an expanded review of the practices followed at 10 industrial-type military installations in the Department of Defense Our report on the review was issued to the Congress in November 1968

The head of an executive department or a military department is permitted by law to detail employees among the bureaus and offices of his department except those employees required by law to be exclusively engaged on some specific work Details in excess of 30 days are required to be recorded as personnel actions and the records maintained permanently in the agency's official personnel folders

We found many instances where large numbers of employees were being "loaned" or "borrowed" between shops for extended periods in excess of 30 days without appropriate personnel action to credit the individuals for the time involved, and we found instances where details either had not been recorded or had been improperly recorded

Details in excess of 6 months (now 120 days), because they conflict with the principles of proper job evaluation, are required to be approved by the local office of the Civil Service Commission We found many instances where the required approvals had not been obtained We also found instances of employees' being detailed to higher and lower grade positions and employees' being given temporary promotions to fill vacancies

Little evidence was found that internal audit and review staffs of the military departments or the Civil Service Commission inspection teams had found these types of deficiencies or, if they had, that they had identified the causes and made appropriate recommendations

The Secretary of Defense and the Chairman, Civil Service Commission, agreed, in general, with our suggestions for corrective measures The Department outlined to us the actions that had been taken in each of the military departments and in the Defense Supply Agency These actions should protect the interests of both the employee and the Government The Civil Service Commission advised us that it would issue further guidelines to its inspectors to ensure more specific coverage of detailing in their inspections (B-160879, November 15, 1968)

189 SHORTAGE CATEGORIES OF CIVILIAN MANPOWER SKILLS—We found a lack of consistency, precision, and depth of coverage in the definition and identification of critical shortages of civilian manpower skills and in the procedures for dealing with them Management of shortage categories of skills was largely decentralized even at the installation level As a result, problems of civilian staff imbalances were considered over too narrow a range of circumstances and priorities

We expressed the belief that better criteria are needed for identifying and reporting shortages in skills to ensure that the best direction is given to current recruitment and placement efforts and to long-range personnel programs, such as training and career development

In our report issued to the Secretary of Defense in June 1969, we recommended that uniform Defense-wide criteria and guidelines for the identification of shortage-category

skills be established on the basis of their impact upon assigned missions We recommended further that the military departments establish reporting procedures to ensure that periodic centralized attention is given to shortage-category skills (B-146824, June 26, 1969)

190 MILITARY PERSONNEL AT AIR BASES IN THAILAND—In a report issued to the Congress in May 1969, we presented our findings that Air Force units participating in Southeast Asia operations and stationed in Thailand had not received on a timely basis the personnel needed for support of their programs The principal cause of the shortage of personnel was the limitation on the number of U S military personnel permitted in Thailand under existing country-to-country agreements

Had there been no such limitation, however, there still would have been a shortage of personnel because there were not adequate data and criteria to develop base level manpower requirements and management engineering teams were not being use effectively to determine and review manpower needs at base level The situation could have been alleviated somewhat if properly trained and experienced personnel had been assigned to these bases and if local nationals had been utilized to a greater extent

We suggested that the Air Force could improve its management of manpower resources by

—Reporting all known manpower requirements

—Studying the advisibility of improving management engineering teams

—Increasing the use of local nationals

—Studying the means by which the manpower authorization system could be improved to provide the capability to adjust manpower authorizations in support activities concurrently with major changes in work load

The Air Force concurred, in general, in our findings and outlined the actions taken as a result of our review The Air Force did not believe, however, that there was a need for the suggested study of the manpower authorization system

We suggested also that the Congress may wish to consider the level of existing country ceilings on U S personnel, the process by which such ceilings are adjusted, and their effect on the conduct of operations in Southeast Asia (B-165863, May 23, 1969)

191 TEMPORARY DUTY ASSIGNMENTS—We examined about 1,000 travel vouchers showing payments of per diem to military personnel of the Air Force assigned to temporary duty (TDY) to attend courses of instruction We found that, of 190 of the personnel who had reported to their assigned TDY locations earlier than necessary, 148 had reported 1 day early and 42 had reported from 2 to 10 days early Payments of per diem were made to 146 of these individuals at rates ranging from $1 to $16 a day, depending on the availability of Government quarters and messing facilities

Of greater significance than the unnecessary per diem payments by reason of early reporting is the ineffective utilization of the personnel involved We were informed that those individuals who arrive 1 or 2 days early are not normally assigned duties for such days Those who arrive more than 2 days early either are encouraged to take leave until processing time or are assigned to general or squadron duties

In a report issued to the Secretary of the Air Force in April 1969, we expressed our opinion that the major cause of the early reporting was the failure to comply with the prescribed requirement of the Air Force that the travel orders include the statement "indi-

vidual will report to TDY station no earlier than–(hour and date)" We found that the hour and date had been omitted from 422 of the orders included in our test, the class starting date had been omitted from 197 orders, and the starting hour and date of the class had been omitted from 131 orders

In response to our report, the Air Force outlined certain actions taken to ensure that all trainees arrive at training centers on the established reporting dates (B-166508, April 2, 1969)

PLANNING

192 COMPUTATION OF REQUIREMENTS FOR TRAINING OF ENLISTED PERSONNEL IN SPECIALTY SKILLS–Our examination of 3,042 records of enlisted personnel at 19 military installations showed numerous errors These errors indicated that the training requirements, computed on the basis of the erroneous records, had been understated by about 86,000 individuals for other skills

We presented these findings in a report issued to the Secretary of Defense in June 1969 Since we had made a number of suggestions for improvement in our prior reports on military personnel data systems and records of this type, we made no new proposals for corrective action (B-164471, June 4, 1969)

MANPOWER UTILIZATION–GENERAL

193 USE OF CIVILIANS IN LIEU OF MILITARY PERSONNEL–In a report to the Congress, dated May 1969, we concluded that, although the Coast Guard had converted many of the military billets cited in a previous GAO report to civilian positions, this action was not a part of a continuing program directed toward making full use of civilian personnel We therefore proposed that the Commandant of the Coast Guard implement a program that would convert military billets essentially civilian in character to positions that would be filled by civilian personnel We also suggested that formal guidelines, goals, reports, and follow-up procedures be established so that management could maintain vigilance over the program and measure its achievements

The Commandant informed us that the Coast Guard was in general agreement with the recommendation that "full responsibility for the implementation of the (conversion) program be centered in Headquarters, and that formal guidelines, goals, reports, and follow-up procedures (should) be established " The Commandant stated, however, that Public Law 90-364, which limits the number of civilian employees in executive agencies, would have an impact on the program He stated that, as long as these restrictions on civilian employment remained in effect, little or no progress on the conversion program could be expected

Because of the substantial savings attainable by civilianization–using civilian rather than military personnel for civilian-type duties–and because of the adverse effect of Public Law 90-364 on civilianization programs of the Coast Guard and the Department of Defense, this matter was brought to the attention of the Congress (B-114851, May 8, 1969)

194 CONSOLIDATION OF FLIGHT INSPECTION ACTIVITIES AT FRANKFURT–In September 1968, we reported to the Congress on our review of selected activities of Federal Aviation Administration's (FAA's) European Region Our review showed that, by consolidating the activities of the Beirut flight inspection group with the flight inspection group at Frankfurt, oper-

ating costs could be reduced without impairing operational effectiveness

In our examination into the feasibility of consolidating the flight inspection activities of the Beirut and Frankfurt groups, we evaluated the fiscal year 1967 work load of the two groups and considered the effect that the transfer of the Beirut functions to Frankfurt would have on both the logistics and the costs of flight-checking the navigational aids in areas which were being served by Beirut On the basis of our analysis of the work loads of both groups, we concluded that consolidation could result in savings of about $215,000 annually Such consolidation could provide additional benefits by making feasible the permanent replacement of the four-engine DC-4 aircraft used by the Beirut group with the more economically operated two-engine T-29 aircraft which was assigned, on a loan basis, to the Frankfurt group This would also eliminate the need to incur costs for maintaining about $350,000 worth of aircraft spare parts, avionics equipment and spares, and shop equipment used to service the DC-4

FAA agreed with our proposals and stated that action had been initiated to consolidate the Beirut and Frankfurt flight inspection groups The consolidation was completed on June 30, 1968 (B-164497(1), September 18, 1968)

FEDERAL EMPLOYEES' HEALTH AND INSURANCE PROGRAMS

195 MEDICAL BENEFITS FURNISHED TO EMPLOYEES OVERSEAS—In a report to the Congress in May 1968 we recommended that the Department of State and the Civil Service Commission (CSC) cooperatively initiate action to minimize the costly effects of the Government's form of participation in the two Federal health programs available to Foreign Service employees

We were advised by letter dated November 13, 1968, from the Deputy Assistant Secretary for Budget, Department of State, that the American Foreign Service Protective Association (AFSPA) had approved changes in its Foreign Service Benefit Plan, effective January 1, 1970, whereby the plan would provide benefits for covered services overseas on the same basis as for services in the United States, which would eliminate the difference in deductible items This would include extension to benefits and services now covered by the Department's Medical Program AFPSA agreed to include this commitment in its 1969 contract with CSC

CSC and the Bureau of the Budget concurred that this action by AFSPA achieved the objective of our report (B-162639, May 23, 1968)

196 AMOUNTS CHARGED FOR EXPENSES OF MAINTENANCE AND OPERATION AND RISK CHARGE—The Civil Service Commission's group insurance policy with the Shenandoah Life Insurance Company provided that Shenandoah be reimbursed for all expenses of maintenance and operation under the group policy but not in excess of 2 percent of gross premiums The policy provided for an allowance for indirect costs equal to 66-2/3 percent of total direct costs In addition, the insurer was to be allowed a risk charge equal to 1 5 percent of gross premiums

We found that Shenandoah's method of allocating certain direct expenses to the group policy on the basis of the ratio of the number of group insurance certificates under the policy to the total number of all Shenandoah group insurance certificates in force had been inequitable because less time had been expended on a per-certificate basis in the maintenance and operation under the Commission's group insurance policy than had been expended under other group insurance policies issued by Shenandoah

We found also that the risk-charge rate had remained unchanged since 1956, although in 1961 the Commission had authorized Shenandoah to retain a contingency reserve fund—currently $6 million, or about 1-year's premiums—to provide for possible adverse fluctuations in future charges under the policy

In a February 1968 report to the Executive Director of the Commission, we recommended that the Commission (a) request Shenandoah to revise its method of distributing expenses under the group policy with the view of providing a more equitable basis for allocating direct expenses and eliminating the method of reimbursing Shenandoah for indirect expenses through a fixed percentage of direct expenses and (b) look into the possibility of obtaining an appropriate reduction in the risk charge in view of the availability of the contingency reserve, which was not in existence at the time the risk charge was established

The Executive Director advised us in October 1968, that the Commission had entered into an agreement with Shenandoah, effective January 1, 1968, to combine the risk

charge of 1 5 percent of gross premiums with the provision for allocation of both direct and indirect expenses, which amounted to about 1 7 percent of gross premiums for calendar year 1967, into one retention rate of 2 25 percent of gross premiums, which would reduce Shenandoah's retention for these items by about 30 percent We estimated that this action would result in savings to the program of about $57,000 annually (Report to Executive Director, U S Civil Service Commission, February 19, 1968)

197 METHOD OF COMPUTING INTEREST EARNINGS ON CONTINGENCY RESERVE FUND—In February 1968 we reported to the Executive Director of the Civil Service Commission that certain insurance premium funds paid by the Commission to the Shenandoah Life Insurance Company, under a group insurance policy covering former members of certain Federal employees' beneficial associations, had not been considered for the appropriate period of time in the computation of interest earned on contingency reserve funds As a result, premium funds equivalent to one quarterly insurance premium, which averaged about $1 5 million in 1967, did not earn interest for a period of about 6 months during each policy year

We recommended that the Commission request Shenandoah to revise its method of computing interest earned on the contingency reserve funds to give appropriate effect to the full time during which insurance premiums under the group policy were available to Shenandoah We recommended also that Shenandoah be requested to recompute the interest earnings for applicable prior years in accordance with such revised method and make appropriate refunds to the Commission

The Commission's Executive Director advised us in October 1968 that Shenandoah had agreed to make appropriate revision in the method used for computing interest on the contingency reserve funds and that adjustments would be made retroactively to 1961 when the contingency reserve fund was initially authorized by the Commission

Shenandoah subsequently paid $243,840 to the Commission representing additional interest on contingency reserve funds for policy years 1961 through 1967 We estimated that the revised method for computing interest would result in potential additional interest earnings to the Commission of about $39,000 annually (Report to Executive Director, U S Civil Service Commission, February 19, 1968)

198 INVESTMENT OF FUNDS IN EXCESS OF CURRENT NEEDS—Under the Government-wide Service Benefit Plan of the Federal Employees' Health Benefits Program (FEP), the Civil Service Commission remits subscription charges twice a month to the contractor who uses the funds primarily for reimbursing local Blue Cross and Blue Shield plans for benefits paid, making advances to local plans, and paying other allowable charges The contractor is required to invest all funds on hand that are in excess of those needed to discharge promptly the obligations incurred

We found that funds in excess of the amounts needed to meet current obligations had not been invested by the contractor Our analysis of the contractor's four non-interest-bearing checking accounts maintained for FEP activities showed that the combined cash balances averaged $10 million a day during the period covered by our review Because of the substantial balances maintained in these non-interest-bearing checking accounts, we suggested that the contractor adopt a policy that funds in excess of those needed to meet current obligations be invested either with local banks or in short-term securities

The contractor subsequently took action whereby the balances in the four checking accounts were reduced so as not to exceed a combined total of $280,000 and the excess

funds were invested We estimated that the change in policy should produce additional interest income for FEP of about $400,000 annually

199 APPROVAL OF PHYSICIANS' FEES—Our review showed that the Bureau of Employees' Compensation, Department of Labor, had not adopted an official medical fee schedule for use by its district offices' voucher examiners in evaluating the reasonableness of bills submitted by private physicians for their services performed for Federal employees In certain States, where State industrial commission fee schedules were required to be considered by the Bureau voucher examiners, we found that, in many instances, fees ranging up to $375 more than the maximum amounts shown in the schedules had been paid without written justifications or explanations to support such payments In May 1969 we reported to the Congress that, on the basis of our review, it appeared that the Bureau routinely had paid all bills submitted and that each voucher examiner had relied on his own personal judgment and past experience in approving such bills and did not have an official standard for guidance

We proposed to the Secretary of Labor that the Bureau develop appropriate geographical area fee schedules for use by Bureau voucher examiners in determining the reasonableness of the fees claimed for medical services and insert in each case file an adequate justification for the payment of a physician's fee that is higher than the fee prescribed in the fee schedule

In January 1969, the Bureau issued instructions reminding personnel of their responsibilities to determine whether medical fees are reasonable and to enter written justifications in the case records when significantly higher fees are approved We were advised by the Acting Assistant Secretary of Labor for Administration that local fee schedules, generally based on Blue Cross and Blue Shield rates, would be used by the Bureau for determining the reasonableness of medical fees (B-157593, May 29, 1969)

200 INCREASED USE OF FEDERAL MEDICAL FACILITIES—In a report submitted to the Congress in May 1969, we point out that the Bureau of Employees' Compensation, Department of Labor, was making no substantial effort to use less costly available Federal medical facilities for the treatment of disabled Federal employees We found that the Bureau routinely referred disabled Federal employees to more expensive private physicians and hospitals without giving consideration to using Federal hospitals and medical facilities operated by the Veterans Administration (VA) and the Department of Defense that were located in the same area

We estimated that the Bureau could have achieved annual savings of about $120,000 at just one of its 10 district offices, if one common type of disablement requiring hospitalization had been treated in Federal instead of private hospitals We concluded that, nationwide, substantial savings were attainable by the Bureau through increased utilization of less costly, available Federal medical facilities

We recommended that the Department revise its procedures to require, where practicable, the maximum utilization of available Federal medical facilities for treatment of disabled Federal employees In January 1969, the Bureau issued instructions to remind its personnel to make every effort to use VA and military medical facilities in appropriate cases We recommended further that the Secretary direct the Bureau to make selective reviews of its field activities, on a periodic basis, to determine whether the January 1969 instructions are being properly implemented (B-157593, May 29, 1969)

201 REIMBURSEMENT OF DRUG COSTS—Our review showed that Department of Labor voucher examiners were approving disabled Federal employees' claims for reimbursement of drug costs without requiring sufficient information for properly evaluating the reasonableness of the claims Regulations by the Bureau of Employees' Compensation, Department of Labor, state that vouchers must contain sufficient itemization so that the charges may be properly evaluated by the medical voucher examiners to determine, with

reasonable certainty, whether the charges are appropriate The regulations state also that bills should be itemized to clearly show dates of treatment, character of services or supplies, and the amount charged for each

In a May 1969 report to the Congress, we pointed out that, at four Bureau district offices, we reviewed 142 payments for drugs totaling about $13,255 For 49 of the payments, the vouchers contained the necessary information, but, for the remaining 93 payments totaling $6,915, the vouchers did not show either the descriptions or the quantities of the drugs, thus the voucher provided no basis for determining the propriety of the claims

We recommended that the Secretary of Labor direct the Bureau to require that claims submitted by disabled Federal employees for reimbursement of drug costs be supported by descriptions and quantities of the drugs purchased so as to provide the necessary data for determining the propriety of the claims and the reasonableness of the drug prices We recommended further that the Secretary explore with the Veterans Administration (VA) the feasibility of having the Bureau authorize disabled Federal employees to purchase prescription drugs at contract prices from pharmacies which have pricing agreements with VA

The Department of Labor disagreed with our proposal regarding the need to obtain information necessary to determine the reasonableness of prescription drug costs The cost, such as salaries of Bureau personnel, of obtaining such information was considered by the Bureau to far outweigh the advantages of the proposal We recommended that the Bureau, within its present staffing capabilities, consider the use of statistical-sampling techniques to strengthen control over amounts paid for prescription drugs Such sampling, in our opinion, would not require additional staff (B-157593, May 29, 1969)

GOVERNMENT-FURNISHED HOUSING, LODGING, AND MEALS

202 PHASEOUT OF EMPLOYEE HOUSING UNITS—In a report to the Administrator of Veterans Affairs in July 1968, we concluded that it was not economically feasible to continue the operation of housing quarters for nonkey personnel at the Perry Point, Maryland, hospital We estimated that, on the basis of the hospital's forecast of operations for the 10-year period ending June 30, 1975, operating, maintenance, and renovation costs for these units would exceed rental revenues by about $863,000 Our review also showed that sufficient private housing was available in the area of the hospital to accommodate the nonkey employees who are not required by Veterans Administration (VA) policy to reside on the hospital grounds

We recommended that the Administrator of Veterans Affairs (a) determine and justify, on an individual basis, the number of houses needed at the Perry Point hospital for employees who, under current agency policy and regulations, are not designated key personnel but whose residence on the station is essential for effective operation of the hospital and (b) plan for the closing of unneeded houses within a specified time period We recommended further that similar action be taken for other VA hospitals operating housing in excess of that required under VA policy

In response to our report, the Administrator stated that, although VA would not close the housing units at the Perry Point hospital immediately, and force the employees to leave, VA intended to phase out the housing units as it becomes uneconomical to continue operating them in the future He stated also that VA would continue to review its requirements for operating quarters at other VA stations and would phase out such quarters when they are not required or cannot be maintained on an economical basis

In June 1969, VA advised us that certain vacant quarters at Perry Point had been closed and earmarked for demolition and that it was developing a revised policy on retention of housing quarters encompassing the entire VA system and including such factors as justification for continued maintenance expenditures

and the determination of rental rates (B-133044, July 3, 1968)

TRAVEL ADVANCES AND ALLOWANCES

203 JUSTIFICATION OF EXPENDITURES ON TRAVEL VOUCHERS—We reported to the Chairman of the National Mediation Board (NMB) in January 1969 that travelers had not furnished adequate justification for certain types of expenditures, which precluded agency officials and the certifying officers from making an effective review of the travel vouchers On a number of vouchers that we examined, we noted the following expenditures which did not contain the required justification or explanation (a) use of first-class air and rail transportation instead of coach, (b) use of taxicabs without showing that such use was advantageous to the Government, (c) renting of hotel rooms for conferences instead of utilizing Government facilities, (d) tips for baggage handling with no indication that the baggage contained Government material, and (e) use of commercially rented automobiles instead of utilizing General Services Administration vehicles

In the examples noted during our review, the certifying officers had approved the vouchers even though they did not contain adequate justification for the expenditures claimed Officials of NMB informed us that they agreed that additional justification for questionable expenditures should be required on the travel orders and that a general travel directive would be issued to correct existing weaknesses They stated also that NMB had taken action to obtain Government drivers' licenses for its employees to reduce the need for car rentals (Report to Chairman, National Mediation Board, January 29, 1969)

204 MOVING EXPENSES—In a report to the Assistant Secretary for Administration in June 1969, we concluded that more effective action was required by the Department of Labor to correct its administrative control over reimbursements for moving expenses incurred by employees in connection with permanent changes of official station

During our review, we examined into 351 items involving $187,304 paid for moving expenses during fiscal year 1968 and we questioned 48 items totaling $14,105 The Department advised us that a number of recoveries were being effected as a result of our questioning the items

On the basis of our review, we believed there was a need for more adequate understanding of the law and regulations by responsible administrative, supervisory, and voucher audit personnel We recommended that claims for reimbursement for moving expenses be thoroughly scrutinized for compliance with appropriate regulations of the Bureau of the Budget prior to submission for payment and that more emphasis be placed on securing adequate documentation (Report to the Assistant Secretary for Administration, Department of Labor, June 12, 1969)

205 DESIGNATION OF OFFICIAL DUTY STATION—In our January 1969 report to the Chairman of the National Mediation Board (NMB), we stated that NMB had incurred $21,317 in additional costs for travel and per diem in lieu of subsistence because the official duty stations of six mediators of NMB had been designated as their places of residence rather than as the places where they performed the greater part of their duties

NMB officials informed us that the mediators' residences were considered to be their official duty stations because NMB had no regional offices to which these mediators could be assigned We recognized that it would not be economical to establish regional offices In accordance with related Comptroller General decisions, however, we concluded that NMB should have redesignated the official duty stations of these employees to duty stations where the mediators performed the greater part of their duties The mediators would then have the choice of relocating their places of residence or commuting to their places of employment at their own expense

We recommended that the official duty

stations for the six mediators be the principal cities where the mediators performed the greater part of their duties

In April 1969, the Executive Secretary, NMB, advised us that the present system of establishing the home of the mediator as his duty station had proven the most satisfactory method and that he did not believe that the changes we suggested would be in the best interests of NMB He cited the dependency of the case load upon actions of others and the irregular work hours of the mediators as factors supporting the present procedure

In July 1969, we advised the Chairman, NMB, that we could not perceive how the dependency of NMB's case load upon the actions of others and the irregularity of the mediators' work hours could have any significant bearing on where official duty stations should be designated We stated that we could find no legal basis which would permit the designation of a mediator's home as his official duty station where the predominant amount of his official business is performed at a different location Accordingly, we suggested that as long as the six mediators continue to perform the predominant portion of their work at certain locations, their official duty stations be redesignated to those locations We stated that such redesignations should be made within a reasonable period of time or we would have to take exception to future payments for the mediators' transportation between their homes and their principal places of duty and for per diem while at their principal places of duty (Report to Chairman, National Mediation Board, January 29, 1969)

206 USE OF PERSONALLY OWNED AUTOMOBILES—In our January 1969 report to the Chairman of the National Mediation Board (NMB), we noted that overpayments of $1,441 had resulted primarily from allowing reimbursement for the use of personally owned automobiles on official business as opposed to common carriers and from reimbursements for travel expenses incurred for personal reasons We also noted man-hours valued at $1,795 that should properly have been charged to employees' leave because the hours represented excess travel time incurred in travel status for personal reasons We discussed the deficiencies with officials of the NMB who issued appropriate instructions to correct the deficiencies noted (Report to Chairman, National Mediation Board, January 29, 1969)

PAY, ALLOWANCES, AND BENEFITS–GENERAL

207 PER DIEM PAYMENTS TO MILITARY PERSONNEL ON EXTENDED TEMPORARY DUTY ASSIGNMENTS—We previously reported to the Congress (B-153839, October 16, 1964) that the Navy was incurring substantial unnecessary costs because prospective crew members assigned to ships under construction at commercial shipyards were not being required to use available Government quarters and messing facilities and were being paid per diem allowances instead

As a result of that report, the Navy discontinued the practice in the New Orleans, Louisiana, area and required the prospective crew members to use the facilities at a nearby naval installation During a recent survey we noted that these facilities had been closed and that the practice of paying per diem had been reinstated in September 1965 We undertook a review to determine whether consideration had been given to the alternative of providing Government quarters and messing facilities Our report on the review was issued to the Congress in March 1969

We found that, although local officials were aware that the 1964 decision to close the facilities would result in the payment of a substantial amount in per diem, no studies had been made to determine the cost effect of retaining a small portion of the existing facilities for use by the prospective crew members On the basis of studies initiated

during the course of our review, the Navy concluded that savings of about $2 7 million could be realized over a 46-month period by rehabilitating the quarters and messing facilities previously closed at the nearby naval installation A contract was awarded in November 1968 for the renovation of the facilities needed to support prospective crew members

The actions that the Navy had taken following our 1964 report did not include establishment of effective controls, including appropriate internal reviews, for maintaining continued surveillance over payments of per diem to prospective crew members assigned in the New Orleans area It was not until April 1967 that the Navy issued instructions which provided, in part, for increased control and surveillance over payments of per diem to Navy personnel on temporary duty assignments (B-153839, March 24, 1969)

208 CIVILIAN EMPLOYEES' LEAVES OF ABSENCE—We reviewed the maintenance of leave of absence records for civilian employees at 28 military organizations of the Department of Defense Our report on the review was issued to the Congress in February 1969

At most of the organizations included in our review, we found that the administrative controls over the records were not adequate for ensuring clerical accuracy or compliance with applicable laws On the basis of our tests, we estimated that these organizations averaged about 14,800 errors annually with a monetary value of about $493,000 These errors included instances in which the civilian employees had been given more leave than they were entitled to and instances in which the errors had deprived the employees of leave that they had earned

The 28 organizations included in our review constituted a small but representative part of the more than 400 Department of Defense organizations in the United States that maintain such records Thus it seems probable that the total errors on a Department-wide basis would be many times that disclosed by our review

The errors could be attributed primarily to failure of management to establish and operate an effective system for identifying and correcting clerical inaccuracies A contributory cause in some instances was the failure to maintain a complete file of the applicable administrative regulations and instructions We found also a need for more emphasis on reviews of leave administration by the Army Audit Agency and the Navy Area Audit Service, as well as by the local administrative review groups in the Army and Navy

We proposed to the Secretary of Defense that

—A method be established for identification of clerical errors

—Payroll offices be provided with the instructions needed to properly administer laws and regulations applicable to employees' leave

—Internal audit of leave be intensified

The Assistant Secretary of Defense (Comptroller) stated that each military department would ensure establishment and maintenance of adequate controls to identify clerical errors and would ensure also the availability of administrative regulations and instructions He stated further that his office would maintain close surveillance over the progress attained by the military departments in improving clerical accuracy in leave accounting (B-152073, February 7, 1969)

209 NIGHT DIFFERENTIAL PREMIUM PAY—Subsequent to our issuance of a report to the Congress in February 1964, the Post Office Department amended its regulations to provide that city delivery carriers be scheduled to report for duty prior to 6 a m

only when absolutely necessary and achieved annual savings of about $108,000 in night differential costs by adjusting the starting times for many such carriers

We reported to the Postmaster General in May 1968 that, on the basis of our follow-up review at nine post offices in the Chicago Postal Region and our limited work at 14 large post offices in other postal regions, it appeared to us that the actions taken by the Department subsequent to the issuance of our prior report had not been fully effective We pointed out that, at the nine post offices in the Chicago Postal Region covered by our review, 1,162 (about 26 percent) of the 4,436 city delivery carriers serving residential routes had been scheduled to commence work prior to 6 a m We estimated that potential savings in night differential costs of about $39,000 annually could be achieved if these carriers started their workday at 6 a m or later

After we brought this matter to their attention, officials of the Chicago Postal Region took action to reduce the night differential costs being incurred in that region At five of the 14 post offices where we had performed only limited work, however, some city delivery carriers still were scheduled to report for duty prior to 6 a m

We recommended that the Postmaster General amend existing regulations to provide more specific criteria for determining under what circumstances it is absolutely essential for city delivery carriers serving residential routes to report for duty prior to 6 a m We recommended also that postmasters be required to justify, in writing, to the regional offices the instances in which they determine that it is absolutely necessary for such carriers to report for duty prior to 6 a m

The responsible Deputy Assistant Postmaster General informed us that, in most instances, it was unnecessary for city delivery carriers serving residential areas to report for duty prior to 6 a m He stated that his staff would look into the apparent need for improved management controls and that our recommendations would be considered

In July 1968 the Deputy Postmaster General advised us that action had been taken to reduce the cost of night differential pay for city delivery carriers serving residential routes On the basis of information furnished by Department officials, we estimate that the action taken will result in annual savings of about $128,000 in night differential costs We were advised also that action had been taken to improve the controls over the use of night differential pay on residential routes (B-114874, May 2, 1968)

210 PAYMENT OF PER DIEM—In a letter report to the Commandant on our review of the per diem payments made by the Coast Guard to advance crew members of high-endurance vessels constructed or under construction at Avondale Shipyards, Inc, New Orleans, Louisiana, we pointed out the need to establish procedures requiring responsible officials to consider alternative methods of providing quarters and messing facilities for personnel on extended temporary duty prior to authorizing the payment of per diem

We noted that the advance crew members for six vessels, while assigned to Avondale, were authorized the payment of per diem in accordance with the provisions of the Joint Travel Regulations We found that, prior to authorizing these payments, the responsible Coast Guard officials had not adequately considered, nor were they required to consider, alternative and less costly means of providing quarters and messing services We noted, however, that the Department of the Navy required that consideration be given to alternative means of providing quarters and messing services for its advance crews on temporary duty prior to authorizing the payment of per diem We noted also that a Navy crew assigned to a ship under repair at Avondale had recently used available commercial quarters and messing facilities in relatively close proximity to the contractor's yard

We believed that, if the responsible Coast Guard officials had been required to use alternative means of providing quarters and messing services to these crews, such as available commercial facilities, substantial savings could have been realized For example, on the basis of costs recently experienced by the Navy, we estimated that, if the Coast Guard had used available commercial facilities in relatively close proximity to Avondale for housing and messing the advance crews, the costs would have been reduced by about 58 percent, or about $152,000 Moreover, with respect to the assignment of the advance crews for the remaining three vessels, we estimated that savings of about $52,000 could be realized if available commercial facilities were used in lieu of the payment of per diem

We recommended to the Commandant that appropriate instructions be issued to require responsible officials to consider alternative methods of providing quarters and messing facilities for personnel assigned to temporary duty at stations for extended periods of time and that justifications be submitted to Headquarters in all instances where per diem is authorized to be paid to such personnel The Acting Commandant agreed that savings were possible and stated that definitive instructions were being developed to provide that responsible Coast Guard officials give full consideration to alternative methods of providing quarters and subsistence for personnel assigned to extended periods of temporary duty (B-146898, November 6, 1968)

211 MAINTENANCE OF ATTENDANCE AND LEAVE RECORDS—Our report to the Commissioner of the District of Columbia in January 1969 on pay, time, and leave operations in the District showed that there was a continuation of previously reported weaknesses

In the Recreation Department, errors were found in 75 percent of the time-and-attendance records for 92 employees There were also numerous discrepancies in the annual and sick leave balances in the time--and-attendance records of the Department of Buildings and Grounds The time-and-attendance records of certain employees in the Recreation Department and the Board of Education showed that, at various times, the employees were on duty at two different locations for the same period of time Since fiscal year 1965, District internal auditors have reported similar discrepancies and have concluded that no significant improvements in the accuracy of time, pay, and leave records have been accomplished

We suggested that the District of Columbia Government intensify its efforts to improve the administration and supervision of employee time, pay, and leave operations Our suggestion was concurred in, and on May 23, 1968, a memorandum was issued to the heads of departments and agencies emphasizing the need to strengthen time, pay, and leave administration by increased supervision and training where needed and by improved internal controls to ensure more accurate records (B-118638, January 3, 1969)

ACQUISITION OF AUTOMATIC DATA PROCESSING SYSTEMS

212 INTERCHANGEABILITY OF COMPUTER COMPONENTS—In June 1969 we reported to the Congress on the results of our study of the acquisition by Federal agencies of peripheral equipment for use with Automatic Data Processing (ADP) systems The report pointed out that it was common practice for Government ADP managers to obtain all required ADP equipment from computer systems manufacturers even though certain items of equipment could be procured more economically from the original manufacturers or from alternate sources of supply

We identified selected computer components that were directly interchangeable (plug-to-plug compatible) with certain other systems manufacturers' components and were available at substantial savings We found that a number of private organizations had installed available equipment of this type and had achieved substantial savings Yet we found only a few instances where Federal agencies had availed themselves of this economical means of acquiring computer components We expressed the belief that central agency leadership could provide impetus which would achieve similar savings in the Federal Government

We estimated that, if plug-to-plug compatible components were used to replace similar components rented by the Government, annual savings would be at least $5 million If such components were to be purchased, savings would exceed $23 million

We expressed the belief also that, in addition to the estimated savings in acquiring plug-to-plug compatible components, savings are also available in the acquisition of non-plug-to-plug components from sources other than the systems manufacturers We estimated that the purchase cost of such components, then being leased for about $50 million, from the systems manufacturers would be about $250 million, whereas the acquisition price for similar components from an alternative source of supply probably would be about $150 million, a difference of about $100 million However, the potential savings must be evaluated in light of costs associated with combining the components into a total computer system

The report contained the recommendations that

—The head of each Federal agency take action to implement steps requiring replacement of leased components that can be replaced with more economical plug-to-plug compatible units

—The Bureau of the Budget, and the General Services Administration provide more specific guidelines for the evaluation and selection of plug-to-plug compatible equipment and for other components

—Pending the issuance of specific policies, the factors described in the report be used by Federal agencies to evaluate alternate sources of ADP equipment, and

—Inasmuch as third-party leasing arrangements generally result in savings in comparison with rental arrangements available from equipment manufacturers, the head of each Federal agency consider this method of procurement when purchase of the equipment is determined not to be advantageous

The use of plug-to-plug compatible components for Federal ADP equipment is currently being studied by the General Services Administration Present plans call for GSA to study also the acquisition of other components and peripheral equipment from alter-

nate sources at a later date We expressed the belief that the GSA study is important and that it should be accelerated to provide a basis for promulgating more specific policies for the guidance of Federal agencies in obtaining ADP components from the most economical source of supply

In September 1969 our report was given specific consideration by top Federal ADP managers at a conference on the selection and procurement of computer systems by the Federal Government The conference was conducted at the Federal Executive Institute by the Bureau of Budget and was attended by officials of agencies which were major users of ADP systems in the Federal Government The report of the conference, which summarized the consensus of the participants, contained the following statement

> —Leased peripheral equipment components in systems now installed should be replaced by components available from independent peripheral manufacturers or other sources if it is determined that such components are comparable compatible, reliable, less expensive, and can be adequately maintained Similar consideration should be given when adding to or modifying existing systems These determinations should be made on a case-by-case basis in consideration of the particular circumstances that exist

(B-115369, June 24, 1969)

213 FEASIBILITY STUDIES PRIOR TO EXPANSION OF AUTOMATIC DATA PROCESSING OPERATIONS—In our report to the Attorney General, Department of Justice, in April 1969, we commented on (a) the increased use and expansion of automatic data processing (ADP) operations and facilities within the Department without the benefit of feasibility studies and (b) the possible acquisition of separate ADP facilities by two constituent organizations

We recommended that the Department establish a central ADP management group responsible for directing and coordinating the development and operation of ADP facilities on a Department-wide basis

The Department informed us, in April 1969, that central ADP authority had been assigned to its Office of Management Support for the acquisition and operation of ADP facilities for the Department, excepting only the Federal Bureau of Investigation (B-166549, April 16, 1969)

UTILIZATION OF AUTOMATIC DATA PROCESSING SYSTEMS

214 SHARING OF AUTOMATIC DATA PROCESSING EQUIPMENT—The General Services Administration (GSA) is responsible for Government-wide administration of the computer-sharing program and has established sharing exchanges to serve as clearinghouses for information on available computer time and on needs for such time As a part of this program, the Bureau of the Budget (BOB) requires that utilization reports be submitted to GSA of computers in the hands of Government agencies and in the hands of those contractors whose full computer costs are borne directly by the Government under cost-reimbursement-type contracts

The Department of Defense (DOD) instructions for utilization reporting are consistent with the BOB requirement Thus the instructions exclude from the utilization reporting system those computer facilities of contractors whose computer costs are charged (a) indirectly to Government cost-type contracts, (b) directly or indirectly to Government fixed-price contracts, or (c) to commercial sales

We believe that the Government may be able to obtain needed computer services from those contractors who have cost-type contracts but whose computers facilities are not

included in the computer utilization reporting system and that such action would result in savings to the Government Accordingly, in a report issued to the Secretary of Defense in March 1969, we expressed the view that the Government-wide sharing system now applicable to Government agencies and to contractors who charge total computer operating costs to Government cost-reimbursable-type contracts could be extended to provide a clearinghouse through which contractors having computer facilities available could be contacted by agencies needing such facilities The contractors, as well as the Government, should gain by the increased utilization Copies of the report were furnished to GSA and BOB with a request for their views

BOB agreed with the central thought expressed in our report and stated that the GSA was looking into the matter in its entirety DOD stated that it would cooperate with GSA in its study (B-115369, March 31, 1969)

215 CONTROLS OVER USE OF COMPUTER AND ADP MATERIALS—During our review of the State Department's automatic data processing (ADP) function in the Regional Finance and Data Processing Center (RFDPC) Paris, France, we found internal management control system weaknesses which enhanced the risk of unwarranted or unauthorized use of ADP equipment and endangered the security and integrity of ADP programs and related documentation

We found that unsupervised console operators had access to ADP equipment and all documentation and materials needed to operate the computer for unauthorized purposes, administrative reviews were not being performed to ensure that employees were following prescribed procedures for modifying programs and related documentation, and essential documentation was in French and therefore an impediment to effective management control and review efforts

The details of our findings and specific recommendations for strengthening general management control and communication processes were presented to the Deputy Under Secretary of State for Administration in a report issued in January 1968 In a letter in October 1968 the Department informed us that actions had been taken on some of our recommendations, namely (a) documentation not essential for the operation of the equipment had been removed from the console operators' possession, (b) software tapes were being stored in the tape library, (c) procedures had been instituted to prohibit unauthorized personnel access to the computer room during nonworking hours, and (e) essential documentation was being written in both English and French

In a letter in June 1969, the Department informed us that, contrary to specific recommendations made in our report, it would not institute, for all work shifts, a procedure whereby programs, documentation, and tapes would be available to authorized personnel only for the period of time required for the execution of a computer routine and that action to fireproof the tape library and the computer room, as our report also recommended, had been deferred (B-146703, January 31, 1968)

216 IMPROVEMENTS IN CONTROLS OVER USE OF COMPUTER—In March 1969, we reported to the Commissioner of Social Security, Department of Health, Education, and Welfare (HEW) that, during our review of the Travelers Insurance Company's activities as a carrier under the supplementary medical insurance portion of the Medicare program, we had observed the following weaknesses in internal controls over the automatic data processing system for processing supplementary medical insurance claims that conceivably could result in unauthorized use of the system for personal gain

—Computer program changes were made

without written authorization or documentation for the changes and their effect on the system

–Program source decks, which are punched cards containing computer instructions in computer language, were not secured but were readily available to unauthorized personnel

We discussed these matters with Travelers officials who advised us that instructions to improve the internal controls in these two areas had been issued in September 1968

We recommended that the Social Security Administration (SSA) request the HEW Audit Agency or the SSA Contract Performance Review Branch to include this area in their next audit at Travelers and in their regular reviews at other carriers We recommended also that SSA emphasize to all carriers the importance of, and necessity for, adequate controls over Medicare payments

SSA officials advised us in June 1969 that implementation of the instructions issued by Travelers in connection with our recommendation for strengthening internal controls over the automatic data processing system would be verified by SSA regional office representatives during their next trip to Travelers headquarters The officials advised us also that the adequacy and effectiveness of fiscal intermediaries' internal controls over Medicare payments would continue to be evaluated in the future by the HEW Audit Agency and the SSA Contract Performance Review Branch and that the SSA Bureau of Health Insurance was preparing an instruction to all fiscal intermediaries emphasizing the importance of proper controls over Medicare payments (Report to the Commissioner of Social Security, March 12, 1969)

217 ADMINISTRATION AND CONTROL OF AUTOMATIC DATA PROCESSING ACTIVITIES–In June 1969 we reported to the Maritime Administrator, Department of Commerce, that during our review, we noted several areas needing improvement in the administration and control of the Maritime Administration's Automatic Data Processing activities These areas include (a) control and use of magnetic tapes, (b) procedures and controls over classified data, tapes, and reports, (c) reimbursements for other Government agencies' use of Maritime's computer system, and (d) recording and reporting of computer utilization

During our observations of Maritime's computer room operations, we noted that adequate written procedures for the control and use of magnetic tapes had not been developed and implemented We recommended that Maritime develop and implement written procedures to (a) improve the controls over tape use and storage including the establishment of retention dates for all records which are stored on magnetic tapes, (b) limit access to the tape library, and (c) provide for prompt return of tapes to their storage locations after each use In implementing this recommendation, we suggested that consideration be given to the feasibility of installing a tape vault to improve physical control over magnetic tapes

We noted several weaknesses in the storage of magnetic tapes, punched cards, and program documentation containing security classified information We also noted that one of the computer operators, who operated the computer during processing of the classified data, did not have a security clearance

We believed that Maritime had not received full reimbursement from other Government agencies for the use of its computer system and that Maritime's computer costs had been overstated and the using agencies' appropriations augmented to the extent that reimbursements had not been received We therefore recommended that the Office of Data Systems strengthen its control over reimbursable use of its computer system

We found that Maritime's utilization

records did not show all of the computer room activities which should be reviewed by management as part of its evaluation of computer operations We therefore recommended that Maritime, to improve the efficiency of its computer room operations, (a) provide a detailed schedule for the operators and tape librarian sufficiently in advance of the scheduled starting times, (b) prepare daily schedules and utilization runs on a compatible basis, and (c) identify all delays, idle periods, and reruns on the utilization run We recommended also that the time clock be used to record all beginning and ending times for computer jobs and that management review the time cards occasionally for handwritten or altered times and require an explanation for such changes (Report to Maritime Administrator, Department of Commerce, June 24, 1969)

218 CENTRALIZATION AND SHARING OF COMPUTER FACILITIES –Certain departments and agencies of the District of Columbia Government were acquiring their own computers or were contracting for data processing services rather than using existing District computer facilities to the extent that time was available on those facilities Additional unused time would have been available on the existing facilities had they been operated at higher rates of efficiency Also there is a need for improvement in certain computer operations which have a bearing on the efficiency of operations and which have resulted in some duplication of data processing

The Management Office of the District has responsibility for planning, developing, directing, and coordinating a program for the effective use of data processing systems and equipment in the several agencies Although certain improvements in equipment sharing have been achieved, it has been difficult for the Management Office to fully discharge its responsibilities for a coordinated data processing program because funds for the program are largely budgeted and approved for the use of the individual agencies

We suggested to District officials that there was a need for more participation and sharing of computer facilities among District agencies and that the budgeting for the facilities should be on a District-wide basis rather than an individual agency basis We also suggested a need to improve the efficiency of certain computer systems

District officials agreed in general with our findings, and corrective actions were being taken, or planned, for expanded coordination of data processing and sharing of computer systems (B-166723, July 31, 1969)

CONTROL OVER PROPERTY

219 ARMY AND AIR FORCE SUPPLIES IN EUROPE—In August 1968 we issued a summary report on the movement of American Forces from France (Operation FRELOC) in 1966-67 (B-161507, August 7, 1968) In that report we pointed out that, during the operation, control had been lost over large quantities of supplies and equipment

In a report issued to the Congress in June 1969, we presented details of the problems connected with controls over inventories in Europe as summarized in the August 1968 report

We found that control over assets moved from France by the Army and the Air Force had been insufficient to ensure that shipments were received at the correct destinations in the quantities and in the condition specified The loss of control was, in our opinion, symptomatic of a long-standing problem the high incidence of error in the stock records The need to move most of the supplies and equipment stored in France on short notice highlighted the magnitude of the stock-record inaccuracies

The problem was further complicated by the lack of advance information on shipments at the new receiving stations, the loss of documents needed for inspection and accounting purposes, the late inspection of receipts, the delayed recording of receipts, and the short period of time available to physically move the stocks

At the conclusion of our examination, months after the move, it appeared that the Army still did not know, with any degree of certainty, the quantities, locations, or conditions of its inventories in Europe The Air Force, on the other hand, had been able to correct most of its stock records because of the significantly smaller volume of assets moved and the prompt action of the Air Force to physically inventory the assets at the new locations

In response to these findings, the Department of Defense informed us of the actions taken after the conclusion of our fieldwork The Department stated that the Army had taken steps to overcome its inventory control problems and that the Air Force, for the most part, had accounted for its inventories (B-161507, June 30, 1969)

220 ARMY SUPPLIES IN KOREA—Our prior reviews of supply operations in the Eighth U S Army in Korea had shown that substantial management improvements were needed to ensure that using units timely obtained necessary supplies In June 1969 we issued to the Congress our report on a follow-up review

Our follow-up review showed that needed supplies were still not being obtained and stocked in Korea in the proper quantities Because of inaccurate and incomplete financial and supply records, the Army found it difficult to forecast, with a reasonable degree of accuracy, the amount of funds needed to purchase proper quantities and types of supplies to support the military units in Korea

Available funds were used, to a great extent, to obtain supplies in small quantities to meet individual requests of Army units in Korea instead of used to obtain larger quantities for depot stocks

We made certain suggestions for improvement in the stock records and in the budgeting and funding procedures concerning the Army in Korea We suggested that the Army Audit Agency increase the scope of its

reviews in Korea In reply the Army advised us of actions taken or planned which, if effectively carried out, will provide better control over supply and financial management matters (B-166312, June 30, 1969)

221 CONTROLS OVER ECONOMICALLY REPAIRABLE EQUIPMENT—Air Force regulations provided for the return of certain unserviceable items to designated depots for repair if they could not be repaired at the Air Force base level The regulations however, permitted the bases to condemn the items as scrap if (a) they were beyond repair, (b) repair costs exceeded 65 percent of replacement costs, or (c) their condemnation was specified by applicable technical orders During 6 months of 1967, Air Force bases condemned about $6 7 million worth of the type of items designated for repair at the depots managed by the three Air Materiel Areas included in our review The condemnation of a substantial portion of these items was based on determinations that repair costs were excessive in relation to replacement costs

We tested 78 items that had been condemned at five bases and found that 51 of them could have been repaired for amounts significantly less than repacement costs Many of the condemned items were in short supply and, in some cases, action had been taken to procure additional items Our report on these findings was issued to the Congress in October 1968

The primary reason for improper condemnation was that maintenance personnel at the bases had made their determinations without adequate knowledge of depot repair costs, procedures, and capabilities We proposed that the Air Force regulations be revised to require the bases to return the items to the depots unless the bases were advised that the items are (a) not needed in Air Force stocks, (b) obviously beyond repair, or (c) authorized for disposition under Air Force technical orders

The Air Force advised us that its analyses indicated that the magnitude of improper condemnations did not warrant instructing the bases to return such items to the depots The Air Force stated, however, that certain revisions were being made in existing regulations to require (a) the reporting of cost data to, and approval of the cost data by, the item managers prior to condemnation of items by the bases and (b) establishment of a review board at each base to maintain surveillance over condemnations based on cost criteria

We were of the opinion that the specialized repair activities at the depots were the only organizations qualified to estimate the costs to repair items for which they were responsible and, for that reason, the action taken by the Air Force would serve only to reduce but would not prevent improper condemnation of repairable items We therefore recommended that Air Force reconsider our proposal In response, the Air Force revised its instructions to prohibit condemnation at field level of all items which are designated as being repairable and which have a unit cost of $300 or more (B-146874, October 23, 1968)

222 MANAGEMENT OF MAGNETIC COMPUTER TAPE—At June 30, 1967, the Federal Government was operating about 3,700 computers at various locations throughout the world and had accumulated over 10 million reels of magnetic tape, valued at about $200 million, to serve these computers The magnetic tape inventory of the Department of Defense—about 6 million reels valued at about $125 million—is about 60 percent of the Government-wide total

Our review of the practices of the Department of Defense in the procurement, use, and disposition of its magnetic computer tape showed a need for centralized management of these operations Although the Department has generally established centralized controls over its automatic data processing operations, it has, in our opinion, given inadequate attention to similar controls over its magnetic tape

At the time of our review, the Air Force was the only service that had centralized its management of magnetic tape Our report on the review was issued to the Congress in September 1968

We found that, in the absence of centralized management, local military commands had

—Computed tape requirements without adequate knowledge of the quantity or condition of the tape on hand

—Procured tape without adequate regard to quantity discounts and other advantages of centralized procurement

—Accumulated large quantities of used tape without testing it or attempting to rehabilitate it for further use

We found also that, in some cases, no specific instructions had been established for determining when tape was unserviceable, for disposing of unserviceable tape, or for reporting and screening serviceable excess tape for possible use by others

The Department of Defense was in general agreement with our proposals for corrective action The Department advised us that

—Action had been taken to screen tape for reuse

—Consideration would be given to consolidating tape procurements throughout the Department

—Studies would be made on the need for a uniform method of computing requirements for tape and the need for guidance in the control and use of tape

(B-164392, September 18, 1968)

223 MANAGEMENT OF NONEXPENDABLE PERSONAL PROPERTY OVERSEAS—In March 1969, we reported to the Congress that there was a need for the Department of State to improve its management and control over nonexpendable personal property located at foreign posts The specific areas in which we noted that improvements were needed were

—Financial controls

—Physical inventory taking

—Property recordkeeping

—Physical security arrangement

—Identification and disposition of excess property

— Procurement

In addition, we noted a need for greater internal audit surveillance over this activity by the Department We recommended that

—The Department develop and implement a satisfactory property accounting system that would meet the principles and standards of the Comptroller General for property accounting, as set forth in 2 GAO 12 5 (c), including the basis for control over property

—The Department bring our report to the attention of the appropriate foreign post officials and instruct them to review their controls and procedures applicable to property management and to report to the Department whether such controls and procedures comply with Department regulations

—Appropriate follow-up procedures be established to determine whether corrective action promised by the foreign posts was actually implemented

—Detailed and timely site audits be made of all aspects of property management at foreign posts

—Either the funds advanced to foreign post empoyee associations for procure-

ment of personal property be reimbursed or the property purchased be identified as Government-owned property and included in the foreign posts' property inventory

Department of State officials agreed, in general, with our findings and recommendations, and corrective actions have been taken or are planned

By airgram dated March 25, 1969, the Department informed all diplomatic and consular posts of our findings and recommendations and instructed all posts to review existing controls and procedures for nonexpendable personal property and to take necessary action to ensure that prescribed Department regulations are followed The airgram also stated that Department internal auditors and Foreign Service Inspectors would give special attention to control and management of nonexpendable personal property (B-165867, March 12, 1969)

224 MANAGEMENT CONTROLS OVER SALVAGEABLE MAGNETIC TAPE—Pursuant to our continuing audit of the operations of the United States Information Agency (USIA), we reviewed selected operations of the International Broadcasting Service (IBS) at its offices in Washington, D C Our review was directed primarily toward ascertaining whether the IBS was adequately managing its magnetic tape inventory and disposal records

Our report to the Director, USIA, in October 1968, showed that generally the Technical Services Division of IBS was performing an effective tape salvage operation We noted, however, that using activities discarded used tape by placing it in trash bins rather than in designated salvage bins, which reduced the effectiveness of the salvage operations Conversely, we found that clearly nonreclaimable tape items had been shipped from the relay station in Greece to the United States at an expense that could have been avoided if proper screening had taken place In addition, this shipment crowded storage areas and further reduced the effectiveness of the salvage operation

We believe that these questionable practices occurred, in part at least, from a lack of formal policies and instructions concerning the screening and salvage of tape and related items When we brought these matters to the attention of IBS officials, they agreed to examine into the preparation of informative salvage instruction that would stress economy through more effective screening and salvage of tape and tape-related items

In addition to the matters discussed above, our review indicated a need for the development of formal criteria to be used by technicians performing tape reclamation and for improvement in housekeeping and firesafe conditions in the salvage technicians' workroom and in the IBS storage area

When we brought these matters to the attention of IBS officials, they took corrective action by having fire hazards removed, by having the storage area reorganized, and by commencing research into proper tape salvage criteria

Subsequent to the issuance of our report, the Deputy Director of USIA informed us that the used tape which had been placed in trash bins had been inadvertantly placed there in the course of moving the Technical Services Division from one floor to another Since further inspections of the trash bins did not reveal any other incident of this kind, he concluded that this had been an isolated incident In regard to the shipment of nonreclaimable tape from Greece to the United States, he concluded that this had been a case of bad judgment and he stated that steps had been taken to ensure that such an incident would not be repeated (Report to Director, USIA, October 25, 1968)

225 MANAGEMENT OF EQUIPMENT– In a June 1969 report to the Secretary, Department of Health, Education, and Welfare (HEW), we presented the results of our review of an Indian agency's administration of certain aspects of educational projects which had been funded under title I of the Elementary and Secondary Education Act of 1965

We found that certain equipment purchased with title I funds either had been used for non-title I purposes or had not been used at all We expressed the opinion that such equipment was in excess of the needs of approved title I activities at the agency

We found also that, although cognizant officials of the Indian agency were aware that equipment purchased with title I funds was being used for non-title I purposes, they did not consider this to be contrary to the title I program requirements We stated that, in view of the situations found during our limited review and the apparent misunderstanding on the part of the Indian agency officials concerning the requirements of the title I program, we believed that there was need for action by the Office of Education to effect adherence to program requirements with respect to title I equipment purchases at the agency

We recommended that the Commissioner of Education take action to assure himself that appropriate officials of the Bureau of Indian Affairs and the Indian agency are aware of and are complying with the requirement that title I funds be used only for approved title I activities We recommended also that the Commissioner request the HEW Audit Agency to schedule, at an early date, a review of title I activities at the Indian agency, particularly with respect to the propriety of equipment purchases and uses

The Commissioner subsequently advised us that prompt action would be taken to overcome the weaknesses in administration revealed in our report and that the HEW Audit Agency had been notified of our recommendation relating to review of title I activities at the Indian agency (B-164980, June 5, 1969)

226 IMPROVEMENTS ACHIEVED IN THE MANAGEMENT OF SUPPLIES–In July 1968, we submitted a report to the Congress on our review of improvements achieved in the management of supplies by the Bureau of Indian Affairs, Department of the Interior Our review at the Bureau's Navajo and Aberdeen Area Offices showed that procedures for maintaining proper stock levels of school supplies had been deficient Navajo Area schools were generally ordering supplies without reference to stocks on hand, and nine schools had purchased supplies valued at about $125,000 in excess of needs Each of these schools had accumulated substantial quantities of supplies sufficient to meet needs ranging from 5 4 years to 38 years In addition, at six of the nine schools, about 21,000 books were in storage and the purchase of about 1,400 books had been approved while books similar in type and number were on hand and in excess

We concluded that there was a need for (a) improved instructions for determining the type and quantity of supplies to be purchased to meet future requirements, (b) more critical reviews by area office officials of purchase order justifications for determining whether those items planned for procurement are warranted both as to type and quantity, (c) improved procedures for identifying excess stocks and for distributing them to other schools in need of such stocks, and (d) vigilant surveillance by central office officials over the procurement functions delegated to the field office level, to ensure such functions are, in fact, carried out economically and efficiently

In response to our findings and proposals, the Bureau took action to improve supply operations at its field locations Specif-

ically, the Commissioner of Indian Affairs issued instructions to all Area Directors to (a) take specific action to reveal excess stocks, (b) provide for elimination of excess stocks by redistribution, and (c) provide for consideration of stocks on hand in conjunction with new procurement Also, all Division Heads and Branch Chiefs in the central office were informed that the supply operation was a total Bureau problem requiring all officials to be alert to any weakness in this area In addition, the Bureau informed us that an inventory of supplies had been taken at all locations and that excess supplies had been redistributed

We believe the corrective actions taken should significantly improve the system of control to prevent unnecessary or premature procurement (B-114868, July 31, 1968)

227 MANAGEMENT CONTROL AND UTILIZATION OF COPYING MACHINES—In May 1969, we reported to the Attorney General, Department of Justice, on the need to improve management control and utilization of the Department's copying machines We believe that, had adequate feasibility studies been made before acquisition, the production capacities of the copying machines would have been more commensurate with reproduction requirements

We concluded that annual savings of about $67,000 could be realized by changes in the use and location of certain copying machines and operators

We recommended that, to provide maximum efficiency and economy in the acquisition and use of copying machines, the Attorney General (a) centralize the management of copying machines, (b) have adequate feasibility studies made prior to the future acquisition of copying machines, and (c) have periodic reports prepared to provide management with the data necessary to evaluate copying machine costs and usage (Report to the Attorney General, Department of Justice, May 26, 1969)

228 PHYSICAL AND ACCOUNTING CONTROLS OVER EQUIPMENT—In our March 1969 report to the Joint Committee on Atomic Energy on our review of the Atomic Energy Commission's (AEC) policies, procedures, and practices relating to the management of equipment, we pointed out that AEC's policies with respect to Headquarters and field office surveillance and with respect to funding and capitalization provided for sound management of equipment We noted certain deficiencies in practices at some facilities, however, which indicated a need for AEC Headquarters, field office, and contractor property management personnel to expand and improve their equipment surveillance activities

We reported that AEC operating contractors under the jurisdiction of two AEC operations offices had acquired some items of equipment which were not classified in the accounting records and reports as capital equipment, although the items appeared to meet AEC's criteria for capitalization The noncapitalization of these items resulted, in our opinion, from the contractors' failure to properly implement AEC's procedures for the classification of equipment and to follow their own established procedures We also noted that, although AEC in 1964 had recognized a problem in the Argonne National Laboratory's distinguishing between capital and expense charges in connection with the zero gradient synchrotron accelerator and had made efforts to correct it, the problem had not been fully resolved at the time of our review

AEC's capitalization policy at the Nevada Test Site provided that property located in certain forward areas be expensed because it may be subjected to damage during nuclear test operations We noted that AEC planned to construct a cafeteria in a forward area at an estimated cost of about $485,000, the cost to be funded from an operating expense appropriation Discussions with AEC personnel indicated that the possibility of

damage to this building from test operations would be fairly remote Also, because of the test ban treaty, atmospheric testing had not been conducted since 1962 Because of these factors, we suggested that AEC reevaluate its capitalization policy regarding property located in forward areas

We found that AEC's onsite reviews of equipment management activities of its field offices and its operating contractors generally appeared to be comprehensive in nature At certain contractor locations, however, the onsite reviews, in our opinion, were too limited in number and/or in scope to permit adequate evaluations of the equipment management activities

At one facility we found that there was a need for improvement in the physical inventory procedures and practices, especially in regard to the timeliness of follow-ups to locate missing items Also, we suggested that AEC's inventory-taking procedures recognize that there may be situations where it would be advantageous for the operating contractors' inventory teams to identify obviously unused or unusable items Notations concerning such items would provide a basis for necessary follow-up review

We discussed our findings on funding and capitalization, physical inventory practices, and onsite reviews with AEC, and actions have either been taken or agreed to, which, if properly implemented, should correct or improve the conditions noted (B-160731, March 14, 1969)

229 ACCOUNTING FOR AND CONTROL OVER NONEXPENDABLE PERSONAL PROPERTY—Our review of the policies, procedures, and practices relating to the management of nonexpendable personal property acquired by the Washington headquarters of the Federal Highway Administration, Department of Transportation, showed a number of weaknesses in the accounting for, and control and utilization of, nonexpendable personal property

We noted, and reported to the Federal Highway Administrator in April 1969, a need for appropriate corrective action to ensure (a) complete, accurate, and reliable property records, (b) uniform accounting for property and a monthly reconciliation of property records with the general ledger, and (c) adequate control by property custodians to provide maximum utilization and physical safeguards against unnecessary waste and loss resulting from theft, deterioration, lack of adequate maintenance, and other forms of diversion We were informally advised that appropriate corrective action was being taken to correct the problems noted (B-164497(3), April 30, 1969)

230 STRENGTHENING SUPPLY MANAGEMENT FUNCTION—Our review confirmed prior expressions by Federal Aviation Administrartion's (FAA's) study groups as to the need for management action to strengthen administration of the supply management function in the European Region Our review of a random selection of reparable and high-cost expendable items showed that, on the basis of FAA's criteria for establishing stock levels, about 68 percent of the reparable items and 85 percent of high-cost expendable items reviewed exceeded authorized stock levels We noted also that, because receipts and issues of FAA-owned inventory in custody of the foreign maintenance contractor were not being posted on a timely basis to the inventory stock cards, the records did not reflect the current inventory at the contractor's plant An examination of invoices for the overhaul of three engines during fiscal year 1965 showed that FAA had paid the contractor about $15,000 for various quantities of parts priced on the U S Air Force in Europe's stock list at about $6,700

FAA officials in Brussels agreed that the control over spare-parts inventories was in need of improvement and stated that steps

would be taken to correct the situation In September 1967, the Assistant Administrator of the European Region informed us that additional manpower had been authorized and that a review of the inventory at the maintenance contractor's plant had been made that resulted in the reduction of the number of line items by about 50 percent

In March 1968, the FAA Administrator stated that additional supply specialist positions had been authorized and that the headquarters logistics function had initiated action to aid the region in implementing existing supply systems and procedures (B-164497(1), September 18, 1968)

231 MANAGEMENT OF STOCKS WITH LIMITED SHELF LIFE—In a report in December 1968, to the Administrator of General Services, we pointed out that the General Services Administration's (GSA's) management information system did not show the quantity and value of disposals of deteriorated limited-shelf-life stocks Although the regional offices maintained memorandum records of individual stock disposals, no effort had been made to accumulate this data and to apprise management of losses being incurred We concluded that GSA was not fully aware of the extent of the problem and, therefore, was not in a position to direct attention to its solution

Therefore, we proposed to GSA that data on disposals of limited-shelf-life stock be accumulated and reported as part of the management information system so that problem areas may be identified and necessary corrective action taken

In May 1968, GSA advised us that, in response to our suggestions, action had been taken to improve the management of limited-shelf-life stocks (B-161319, December 23, 1968)

232 CONTROL OVER EQUIPMENT—Our reveiw showed that the financial and detailed property records at the National Aeronautics and Space Administration's (NASA's) Goddard Space Flight Center (GSFC) were incomplete and, in some cases, inaccurate because GSFC was not complying with agencywide property accounting procedures for controlling equipment and that equipment was not always recorded in the financial and detailed property records when received GSFC had a recorded inventory of $274 million in equipment as of December 31, 1967, which was located at GSFC and at installations throughout the world

Further, we found that GSFC had not taken action to locate 1,277 items of equipment, valued at about $1 7 million, that were missing at GSFC and at 13 other locations as of March 31, 1967

Although the need for better control of equipment was previously brought to the attention of NASA and GSFC officials in 1964 by the NASA Audit Division and corrective action was promised by GSFC, the situation had not been fully corrected at the time of our review partly because of ineffective follow-up action on the internal audit findings

NASA agreed with and initiated corrective action on our recommendation that it (a) take a complete physical inventory of equipment, (b) record equipment not previously recorded, (c) determine the whereabouts of equipment not located during the current and previous physical inventories, and (d) implement the necessary controls at GSFC to reasonably ensure that equipment is properly accounted for and that the data related thereto is reliably reported (B-164674, August 28, 1968)

233 MANAGEMENT OF MATERIALS—Our review of the procedures and practices followed by a contiactor with the National Aeronautics and Space Administration (NASA) for controlling materials, including high-cost complex items, acquired for NASA's Apollo program showed that complete, cur-

rent, and accurate data essential for effective management were not readily provided In certain cases, accountability for materials was lacking completely

We expressed the opinion that accurate and timely information on the status of material resources was essential if responsible management officials were to confine investment in materials to the minimum necessary for effective, efficient, and economical program management Effective materials management is particularly essential for the Apollo program since the total cost of materials will be in the billions of dollars and certain individual parts and components, such as those discussed in this report, cost tens of thousands of dollars

Although several NASA reviews of the contractor's property control system disclosed a number of deficiencies in procedures and practices which were reported to the contractor, NASA approved this system as being adequate to properly protect the interests of the Government We expressed the belief that NASA should not have approved the system because sufficient action to correct the deficiencies had not been taken

Lower echelons in NASA had been aware of many of the problems involved but had taken no steps to inform NASA top management We expressed the belief that, where significant critical issues have developed and resolution has not occurred within a reasonable period of time, the matter should be brought to the attention of top management in order to effect required improvements

NASA stated its agreement with our suggestion that it issue operating instructions requiring property management officials to alert NASA top management to situations—such as those described in our report—where corrective actions had not been accomplished at the operating level on a timely basis Procedures and practices were being revised accordingly Subsequent to our review, the contractor made a number of procedural changes in its property management system to improve organizational practices over the control of property To ensure early and continued improvement in the contractor's program of materials management, NASA arranged to have its responsible field office monitor progress and to report quarterly to NASA Headquarters This arrangement, was discontinued, however, after NASA determined that the contractor had made sufficient improvement in materials management (B-158390, November 8, 1968)

MAINTENANCE, REPAIR, AND OVERHAUL

234 MAINTENANCE OF REAL PROPERTY—We examined into the feasibility of consolidating the eight separate real property maintenance activities operated by the military services on the island of Oahu, Hawaii, and the 16 in the area of Norfolk, Virginia These locations were selected for examination because the relatively limited geographical areas involved contained large concentrations of military installations and facilities Our report on the examination was issued to the Congress in August 1968

On the basis of our examination, we concluded that consolidation of the maintenance activities at the two locations was feasible and would result in economies We estimated that the consolidations could result in

—Annual savings of about $3 4 million in operating costs ($2 4 million on Oahu, $960,000 at Norfolk)

—Annual savings in an indeterminate amount in replacement costs for equipment

—Release of equipment valued at about $2 2 million for possible use elsewhere ($1 million on Oahu, $1 2 million at Norfolk)

We proposed that the Secretary of De-

fense consider consolidating real property maintenance organizations on Oahu and in the Norfolk area, each under a single manager and with supporting subactivities as appropriate We proposed also that the Secretary conduct studies at other locations having large concentrations of military installations, to ascertain the feasibility of consolidation We cited New Orleans, Los Angeles, San Francisco, New York, and Washington, D C , as examples of such concentrations

In response, the Assistant Secretary of Defense (Installations and Logistics) advised us that his office had established an interdepartmental committee, under the Department of the Navy, to develop measures for effecting maximum consolidations on Oahu, at Norfolk, and at other locations of highly concentrated military installations We were further advised that the committee was establishing local interdepartmental committees on Oahu and at Norfolk

The guidelines provided to the local committees indicated that the installation commanding officers involved would decide the extent of consolidation In our report we recommended that decisions as to the extent of consolidation of real property maintenance activities be made on the basis of independent studies and that such decisions be made binding on the installations involved

On October 4, 1968, the Assistant Secretary of Defense (Installations and Logistics) advised us that the recommendations of the local interdepartmental committees would be made binding on the installations involved after review and approval by the military departments, by the Washington Interdepartmental Committee, and by his office (B-164217, August 5, 1968)

235 MAINTENANCE OF VEHICLES —Our report on an earlier review (B-133244, November 30, 1962) presented our findings that the Air Force and the Army could substantially reduce their costs of maintenance and repair of vehicles if their operations were conducted as efficiently as those of the Navy In the report we made a number of recommendations for improving vehicle maintenance operations

In our follow-up review we found that, although action had been taken in the intervening years to improve management, the Air Force and the Army could reduce costs by about $8 million a year if additional controls were established to ensure that only necessary maintenance is performed Our report on the follow-up review was issued to the Congress in December 1968

Maintenance costs of the Air Force and the Army were higher than the Department of Defense goal, which the Navy met, principally because a larger number of maintenance manhours were being expended We concluded that, in most instances, this was attributable to

—Use of military personnel (primarily by the Air Force)

—Too frequent performance of preventive maintenance

—Performance of uneconomical repairs

—Duplication of effort in accumulating needed data

Although the maintenance program of the Department of Defense appeared to provide adequate guidance, effective controls had not been established to ensure uniform interpretation and application of the guidance

We recommended that the Secretary of Defense direct the Air Force and the Army to take the steps necessary to provide more complete and more reliable maintenance data for management use and to provide for periodic internal audits of the reporting procedures and maintenance practices in their respective vehicle maintenance shops

The Assistant Secretary of Defense (Installations and Logistics) agreed, in general, that further economies could be achieved but did not concur with our estimates of potential cost reductions He stated that the Joint Committee for Administrative Use Motor Vehicles had been requested to review both the maintenance practices and the reporting procedures among the military departments to determine those areas lacking uniformity and to make appropriate recommendations The review had been completed, but, as of August 31, 1969, the results had not yet been evaluated (B-133244, December 3, 1968)

236 REPAIR OF ELECTRONIC COMPONENTS AND ASSEMBLIES—The Navy Electronic Supply Office (ESO) is the central inventory control point for electronic components and assemblies and is responsible for managing the repair of such items About 11,000 items have been designated by ESO for mandatory return by the users for depot-level repair when the necessary work is beyond the capability of lower maintenance levels

As stated in our report issued to the Congress in March 1969, we found that there was a need for substantial improvement in the management of the repair program More specifically, ESO (a) had not given appropriate consideration to repair as an alternative to procurement of new items, (b) did not have accurate technical data available regarding the repairability of items or the identification of repair sources, (c) had not established adequate coordination with Navy repair facilities, and (d) had not taken timely action to require field activities to ship unserviceable items to the repair facilities As a result, unnecessary procurements were made, needed items were not repaired, and some items were repaired although stocks of serviceable items on hand were sufficient to meet expected needs

During our review, we discussed our suggestions for improvement with ESO officials and they took certain actions which we considered responsive to our suggestions In addition, we proposed that the Secretary of the Navy ensure that (a) the efforts of ESO in identifying repairable items and appropriate repair sources are effectively coordinated with the efforts of other Navy activities and (b) surveillance by the Department of the Navy is placed over the corrective measures necessary for the prompt implementation of an efficient and effective repair program

The Navy concurred in these proposals and advised us of actions taken to implement them We believe that the actions taken by the Navy should result in a more efficient and effective program (B-133313, March 19, 1969)

237 MANAGEMENT OF REPAIR AND MAINTENANCE OF BUILDINGS AND UTILITIES— Our review of the policies and practices of the Bureau of Indian Affairs (BIA), Department of the Interior, for controlling expenditures to repair, maintain, and rehabilitate buildings and facilities showed that large sums had been programmed and expended to repair, improve, and rehabilitate old buildings Some of these buildings were demolished shortly after they had been extensively repaired or rehabilitated, and others were scheduled for demolition in the near future

We found that this situation had occurred because BIA had no procedures for evaluating systematically existing facilities to determine their remaining useful life, establish replacement standards, and determine dates beyond which it would be uneconomical to make further repairs or improvements In addition, we noted that the Major Alteration and Improvement (MA&I) funds and Repair and Maintenance (R&M) funds had been used interchangeably to finance the same type of projects and that, in some instances, the costs of supporting services had not been charged to the proper fund Use of R&M and MA&I funds in this manner does not ensure the con-

trol of funds by the Bureau in the manner that the Congress intended when it made separate appropriations for those specific purposes

We recommended that the Bureau revise its system for the management of buildings and facilities to provide for (a) information on the condition, economic useful life, and planned uses of all buildings and the historical and foreseeable repair and improvement costs for individual buildings, (b) development of a long-range building replacement program, (c) repair and maintenance criteria concerning the frequency, manner, and extent of repair and improvement work consistent with the economic life of each building, and (d) strong central organization with the necessary authority to guide and control this activity

We recommended also that the Bureau take whatever action is necessary to ensure that R&M and MA&I funds are used only for the purposes for which appropriated

In a letter dated May 14, 1968, the Department agreed with our recommendations and advised us that BIA was developing a management information reporting and control system along the lines of the recommendations Also, the Department informed us that, since such a system was highly complex, considerable time would be required to effectuate it fully On June 18, 1969, we were advised by BIA officials that some of our recommendations had been implemented and that work was continuing on implementing others (B-114868, September 25, 1968)

UTILIZATION AND DISPOSAL OF PROPERTY

238 PROCESSING OF REQUISITIONS FOR MATERIALS—In a prior review of the ability of the military supply systems to respond to increased demands, we observed that the manner in which supply requisitions were processed under the Military Standard Requisitioning and Issue Procedures (MILSTRIP) system precluded realization of the maximum benefits of the system Therefore we undertook a limited examination, at selected installations of the Army, Navy, and Air Force, of the processing of requisitons under the MILSTRIP system Our report on the examination was issued to the Congress in September 1968

The MILSTRIP system is designed to

—Provide uniformity of procedures for all requistioners and suppliers of stock

—Meet essential requirements of all the military services

—Provide for interservice supply transactions and intraservice supply-support operations

—Accommodate the requisitioning on stocks of the General Services Administration

We found that the MILSTRIP system had improved the processing of requisitions Maximum benefits of the MILSTRIP system had not been realized, however, because large numbers of requisitions contained erroneous or incompatible data and could not be processed routinely As a result, many of the requisitions were returned to the originators for additional information or revision and resubmission Resubmission of requisitions is time-consuming, causes significant delays, and reduces supply-support effectiveness

The primary causes of erroneous or noncurrent information on requisitions, in our opinion, were

—Preparation of requisitions by untrained and inadequately supervised individuals

—Inadequate review of requisitions before forwarding them to the next higher supply level

—Absence of current and compatible catalog data at various supply levels

We also found that the Defense Supply Agency (DSA) had not fully carried out its responsibility for surveillance of the MILSTRIP system Systematic surveillance by DSA could have identified the problems so that appropriate corrective actions could have been taken

The Department of Defense agreed, in general, with our findings and proposals for corrective measures The Department stated that DSA had recently organized a separate surveillance group to perform frequent onsite reviews of operations, assess adequacy of training, and make recommendations for systems and training improvements The Department stated further that its directive on the MILSTRIP system had been revised to define responsibilities more explicitly, that a study was being made of the requirement for, and the frequency of, catalog changes, and that, pending completion of the study, a moratorium had been declared on unit-of-issue changes (B-164500, September 17, 1968)

239 DONATION AND USE OF GOVERNMENT-OWNED SURPLUS MERCURY—The General Services Administration (GSA) made surplus mercury available to the Department of Health, Education, and Welfare (HEW) for donation for educational and public health purposes Because most of the mercury used in the United States is imported and because its purchase tends to adversely affect the U S balance-of- payments position, the mercury was made available with the special requirement that State agencies limit donations to a 12-month supply which donees otherwise would have purchased on the commercial market Also, mercury was not to be acquired for use in the furtherance of institutional programs being financed by Government contracts or grants

We found that many donees had received mercury in significantly larger quantities than we believed should have been provided under the special conditions applicable to the mercury donations or could have been justified by apparent need Large quantities of the mercury were stored and remained unused for an extended period of time It appeared to us that some of the mercury had been used for uneconomical purposes or, contrary to the special donation conditions, for donee programs financed under Government contracts or grants Because of the way in which the mercury donation program was carried out, one of the major program objectives intended to be accomplished by the special conditions imposed by GSA--the achievement of maximum favorable effect on the U S balance-of-payments position--was not accomplished

In a report to the Congress in March 1969, we expressed the belief that the adverse conditions surrounding the mercury donation program were caused, in part, by (a) misunderstandings of the special conditions applicable to the program, (b) inadequate warehousing procedures by State agencies and inadequate controls over mercury inventories by donees, (c) allocations and donations based on unrealistic or inadequate determinations of need, and (d) inadequate and untimely surveillance over implementation of the program by HEW and State agencies

HEW agreed, in general, with our recommendations for strengthening the administration of the surplus property program but did not agree with our proposal that State agencies be provided with more explicit guidelines for use in evaluating the reasonableness of institutions' requests for surplus property Instead, HEW preferred to continue to stress to State agencies the need for exercising good judgment and reasonable surveillance to prevent stockpiling (B-164031, March 21, 1969)

240 UTILIZATION OF EQUIPMENT—During our review of the Atomic Energy Commission's (AEC's) policies, procedures, and practices relating to the management of equipment, which was performed at the request of the Joint Committee on

Atomic Energy (JCAE), we found that AEC generally provided for a system of managing the equipment in an effective and efficient manner We noted some areas, however, where, we believed, improvements could be made at one or more of the contractor-operated facilities under the jurisdiction of the seven AEC operations offices reviewed

We found that at certain of AEC's facilities more effective use of some stored and infrequently used equipment could be obtained by (a) closer surveillance of equipment in storage and rejustification of its retention, (b) greater use of equipment pools, and (c) more frequent management walk-through inspections and onsite reviews Although the cost of equipment in storage was substantial, it represented a small percentage of AEC's total investment in equipment For example, the records at two operations offices showed that the investment in capital equipment, at acquisition cost, amounted to about $2 5 billion, of which about $41 million, or about 1 6 percent, represented equipment in storage exclusive of equipment in standby Also, in many cases, the equipment was unique to AEC's operations or would require long lead times to acquire and therefore was retained as backup equipment to ensure continuity of operations

We found that at some facilities, however, equipment had been in storage for a number of years without being properly classified and without adequate reviews for justification for retention In some instances the custodian of the equipment had no further need for it Because this equipment was generally held by or for specific individuals or groups, only limited use was made of reporting procedures to advise prospective users that the equipment was available for potential use

We found that AEC's operating contractors were not taking full advantage of the benefits to be obtained from pooling equipment Although we found that some contractors were operating effective pools, we noted instances where, we believed, AEC could obtain still greater utilization of its equipment through more extensive use of equipment pools and by consolidating machine shops at certain facilities

In a report submitted to JCAE in March 1969, we pointed out the need for AEC to take action at some facilities to obtain better utilization of certain equipment that was in storage and/or infrequently used and to avoid the accumulation of large quantities of such equipment AEC was receptive to our suggestions and took, or agreed to take, actions which, if properly implemented, should result in improved equipment utilization (B-160731, March 14, 1969)

241 USE OF MOTOR VEHICLES AND ESTIMATING VEHICLE NEEDS—We reported to the Congress in September 1968 that the Corps of Engineers, (Civil Functions), Department of the Army, did not consider daily use along with annual mileage in determining the number of vehicles needed by each Corps' district We estimated that the equivalent of 97 vehicles, or slightly more than 10 percent of the general-purpose vehicles reviewed, were not used on at least 80 percent of the workdays of the 3- to 6-month test periods used for our review We estimated that the net replacement value—excess of average acquisition cost over average resale value—of the 97 vehicles was about $113,000

We reported also that annual mileage records for 861 vehicles assigned and available for use for about a 1-year period at the seven Corps' districts reviewed showed that 333 vehicles, or 39 percent, had not met the Corps' standard of 10,000 miles a year and that 78 vehicles, or 9 percent, had been driven less than 5,000 miles during the year

We expressed the opinion that the Corps' utilization criteria, which was based solely on mileage, was not consistent with either the criteria provided by the General Services Administration (GSA) for the guidance of

Government agencies or the criteria that GSA employed for its interagency motor pools

We recommended that the Secretary of the Army direct the Chief of Engineers to establish criteria for evaluating vehicle utilization which would provide that daily usage information be considered in conjunction with annual mileage

We recommended also that the Chief of Engineers initiate a Corps-wide review of vehicle utilization for the purpose of establishing the number of vehicles needed under normal conditions, giving full consideration to daily usage of such vehicles and alternative sources of transportation for meeting peak requirements, and that excess vehicles identified by the review either be transferred to locations needing additional vehicles, with the objective of reducing future vehicle procurement, or be declared excess where appropriate

At some Corps' districts, responsible officials concurred in our findings and took action either to sell the excess vehicles or to use them to meet increased work requirements The Department of the Army, however, did not indicate that any action would be taken to implement our recommendations (B-164534, September 19, 1968)

242 DISPOSITIONS OF SURPLUS HOUSING—In a follow-up to a previous review made in 1962, we examined into the actions taken by the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), for the prompt and economical disposal of surplus housing built under the national defense housing insurance program to serve the needs of workers or military personnel engaged in defense activities

As a result of our previous review, we had recommended that FHA dispose of those properties identified as having only potential salvage value, reappraise the potential market for the remaining properties, and develop an effective plan for the prompt and economical disposal of the remaining properties

Our follow-up review of the disposition of defense housing acquired by FHA in the Savannah River area of South Carolina and Georgia, which was an area covered by our previous review, and in the Lone Star, Texas, area showed that there continued to be inadequate emphasis on the timely disposal of defense housing which appeared to be surplus to housing needs in these areas

We found that FHA had incurred substantial costs, in addition to its initial costs of acquisition, to retain, for extended periods, houses that appeared to have little potential for sale as residential properties because of the oversupply of housing in the areas We found further that the proceeds received by FHA from the sale of these houses—which had been retained for 9 years or longer—had not been sufficient for FHA to recover its investment in the houses and that, in most cases, the costs of retention alone had exceeded the sales proceeds In our opinion, more timely action by FHA to dispose of houses that appeared to be surplus would have reduced the losses incurred by FHA in its investment in these houses

In November 1967, after the results of our review were brought to the attention of the Secretary of HUD, instructions were issued by FHA to all insuring offices emphasizing the need to give special attention to disposing of those acquired properties which had been on hand for an extended period of time In addition, we were later informed that FHA was also placing more emphasis in areas where there appeared to be a limited market for FHA-owned houses, on the sale of the houses for demolition or removal (B-114860, August 16, 1968)

243 UTILIZATION OF AIRCRAFT—We found that, on the basis of the

prescribed criteria used to justify assigning a Beechcraft Queen Air aircraft owned by the Federal Aviation Administration (FAA) to the European regional office and the costs of available commercial transportation, the retention of the aircraft could not be economically justified

We pointed out that, during an 8-month availability period, the aircraft had been flown about 200 hours, or about 43 percent of the anticipated usage projected on an annual basis Also, we could find no evidence of its use as a demonstration aircraft, which had been cited as one of the principal purposes for assigning it to the European Region

On the basis of our analysis, we estimated that, during September and October 1965, the use of commercial air transportation for administrative and parts-delivery trips would have cost about $3,831 less than costs incurred by the use of the Queen Air Also, because only one of the two employees who made the flights was needed to handle FAA's business, 7 man-days were lost and 8 additional days' per diem costs were incurred We therefore proposed that the Queen Air aircraft be reassigned if it could not be effectively utilized at the European regional office The Assistant Administrator to the European Region stated that the Queen Air aircraft would be reassigned to the Frankfurt flight inspection fleet and would be equipped with a portable flight inspection system for use as a backup for the T-29 aircraft now used for flight inspections

In March 1968, the FAA Administrator stated that the Beechcraft Queen Air aircraft had been reassigned to Frankfurt for use in flight inspection, proficiency flying, and demonstrations (B-164497(1), September 18, 1968)

244 USE OF THE COMPETITIVE-BID BASIS OF SELLING SILVER TO SMALL BUSINESS CONCERNS—In a draft report, we proposed that the method of selling silver by the Department of the Treasury to small business concerns be changed from a noncompetitive-bid to a competitive-bid basis so that the Government might receive the full benefits of price competition

The Treasury advised us that it was in accord with our general conclusion that the best assurance to the Government that the silver would be disposed of at a fair price was to obtain competitive bids and that this method for sales of silver to small business concerns was adopted May 27, 1969

We estimated that future sales to small business concerns could result in additional revenue to the Government of about $445,000 for the estimated remaining quantity of silver available for sale (B-163084, August 4, 1969)

245 MANAGEMENT OF LABORATORY EQUIPMENT—In a report submitted to the Congress in July 1968, we expressed the belief that there was a need for improvement in the management of laboratory equipment by the National Bureau of Standards (NBS) and the Environmental Science Services Administration (ESSA), Department of Commerce, at the Boulder Laboratories

Our review showed that NBS and ESSA had not established, for the Boulder Laboratories, a systematic program and adequate procedures to identify and dispose of unneeded equipment Also, we found that the Boulder Laboratories, to a large extent, had not taken advantage of the benefits to be derived through the use of equipment pools Our review showed also that established procedures for the control and administration of rent-free loans of equipment by the Boulder Laboratories were not being followed by the property management office

We recommended (a) that a systematic program be established for periodic and controlled inspections of laboratory facilities to

identify, reassign, or dispose of unneeded equipment, (b) that provision for more extensive use of equipment pools be established, where appropriate, and (c) that all outstanding loans of equipment be reviewed to identify equipment which was not directly benefiting the Laboratories and was unneeded, unneeded equipment be declared excess, and procedures for the systematic periodic follow-up of loans of equipment be instituted

NBS and ESSA expressed general agreement with our findings and recommendations and took corrective action in line with our recommendations In this respect, NBS and ESSA had identified unused or excess equipment having an acquisition cost of $1,184,418, had made more extensive use of equipment pools, and had reviewed all outstanding equipment loans (B-164190, July 9, 1968)

246 CIRCULARIZATION OF EXCESS PROPERTY LISTS TO FEDERAL AGENCIES—The General Services Administration (GSA) is responsible for promoting the maximum use of property that is declared excess by Federal agencies by transferring that property to other Federal agencies where needed Federal agencies are required to report promptly to GSA regional offices excess property generally used by other Government agencies The regional offices then undertake extensive efforts to determine whether other agencies need the property

In March 1969 we reported to the Congress that the Federal Aviation Administration (FAA) was permitted to report its excess property to GSA's Area Utilization Officer who is responsible for undertaking only limited efforts to determine whether other agencies need the property Our review showed that, if GSA had followed the required procedures, it could have transferred some of the FAA property to the Department of Defense (DOD) and thereby reduced the number of DOD's commercial purchases We found that DOD had requirements for about $200,000 worth of FAA excess property After we brought this matter to GSA's attention, property costing about $68,000, which was still available, was transferred to DOD activities

We suggested that GSA take action to ensure that (a) Federal agencies are reporting their excess property to GSA regional offices in accordance with Federal Property Management Regulations and (b) GSA adequately circularize excess property lists to Federal agencies for their review GSA agreed with the suggestions and stated that the agency had taken action to bring about the desired improvements in GSA's utilization program practices (B-146929, March 21, 1969)

247 MANAGEMENT OF GOVERNMENT PARKING FACILITIES—In a report to the Congress in June 1969, we expressed the belief that the General Services Administration (GSA) could increase the utilization of Government parking facilities and reduce the need to rent commercial parking space Our review showed that (a) GSA could increase the utilization of Government parking facilities, where there are many parking spaces, by authorizing more cars to park in the facilities than there were parking spaces, (b) GSA's criteria for the assignment of parking spaces at Government facilities were not being followed, with the result that Government cars were using commercial spaces while low-priority employees' cars were occupying Government-owned spaces, (c) GSA's building managers generally sought to meet the parking needs of tenant agencies by utilizing the parking facilities which they managed and usually did not consider the availability of parking spaces at nearby Federal buildings, and (d) GSA did not consider whether economies would result from centralized procurement of parking spaces where several agencies, located near each other, were independently renting commercial spaces for parking their cars

In response to our proposals, GSA took corrective action and revised the Federal Property Management Regulations in accordance with our suggestions for improving the management of Government parking facilities, and instructed its regional offices to report on their plans for improving the utilization of all parking facilities managed by GSA (B-155817, June 16, 1969)

TRAFFIC MANAGEMENT

248 USE OF MILITARY AIRCRAFT TO TRANSPORT BAGGAGE BETWEEN THE UNITED STATES AND EUROPE—In January 1962 we reported to the Congress on the then-inadequate use of space on military aircraft for transporting unaccompanied baggage of military personnel In response to our review, the Department of Defense (DOD) indicated that steps had been or would be taken to ship as much baggage as possible on military aircraft

Our follow-up review showed, however, that during calendar year 1966 commercial carriers were still being used extensively to move baggage between the United States and Europe even though there was a substantial amount of unused space on military aircraft We estimated that savings in excess of $1 million annually could be achieved if the space on military aircraft were used to the extent practicable for moving baggage

In response to our recommendations, DOD officials agreed that the military aircraft were not fully utilized They indicated that baggage or other priority military material would be used in the future to achieve better utilization of military aircraft (B-133025, September 26, 1968)

249 USE OF MILITARY AIRCRAFT TO TRANSPORT BAGGAGE BETWEEN THE UNITED STATES AND POINTS IN THE PACIFIC AND SOUTHEAST ASIA—In response to our January 1962 report to the Congress, the Department of Defense (DOD) stated that action had been or would be taken to ship as much military baggage as possible on military aircraft

Information developed in our follow-up survey, however, showed that commercial carriers were still being used extensively to transport baggage between the United States and points in the Pacific and Southeast Asia even though there was sufficient unused space on military aircraft to accommodate most of the baggage We estimated that more effective use of this space would result in savings of about $6 million annually

To improve aircraft utilization, DOD made the unused space from Vietnam available to commercial forwarders for returning baggage to the United States The forwarders reduced their rates to compensate for use of the military airlift Our analysis of the rates, however, showed that they were high in relation to the services provided, and we concluded that significantly greater savings could be achieved if the Department of Defense managed its own baggage shipments and used military aircraft directly

DOD officials agreed that greater utilization of military aircraft was possible and that the forwarders' rates on baggage transported on military aircraft may have been high They indicated that measures would be taken to improve aircraft utilization and that they would continue to negotiate for further reductions in the forwarders' rates They did not agree that DOD should manage its own shipments from Vietnam

In view of the difficulties experienced by DOD in attaining maximum use of military aircraft, we intend to evaluate the results of the corrective measures planned by DOD (B-133025, May 6, 1969)

250 TRANSPORTATION AND TRAFFIC MANAGEMENT ACTIVITIES IN THE FAR EAST AND SOUTHEAST ASIA—We surveyed transportation and traffic-management activities in the Far East and Southeast Asia to evaluate the responsiveness of the transportation systems to the supply-

support demands of military forces in Southeast Asia

We found that the systems had been generally responsive and that the difficulties which caused delays in receiving cargo during the earlier stages of the military buildup had, for the most part, been alleviated The problem of backup of vessels waiting to discharge their cargoes had been significantly improved

Several areas, however, were noted which appeared to offer opportunities for substantial savings These areas include opportunities for

—Reductions in port handling costs by routing traffic through the port at Subic Bay rather than the port at Manila in the Philippines

—Reduction of excess airlift between Japan and Korea

—Reduction of transportation costs by establishing a printing plant for the Stars and Stripes newspaper in Vietnam

—Better utilization of existing military facilities

These areas were called to the attention of appropriate Department of Defense (DOD) officials in our survey report, and many of the areas were subsequently reviewed in detail Separate reports were issued as deemed appropriate

DOD officials agreed in general with our overall observations, and measures had been taken or planned to effect improvements in several areas Other areas are being studied in greater depth by DOD in an effort to resolve additional problems indentified during our survey (B-165683, April 30, 1969)

251 COMPARISON OF COSTS OF THE VARIOUS METHODS OF SHIPPING HOUSEHOLD GOODS— Our review of overseas household goods shipments handled by commercial forwarders between the United States and Germany showed that the Department of Defense (DOD) could save about $3 million annually by managing its own shipments and procuring the required underlying transportation services directly The use of the higher cost forwarder services resulted primarily from inaccuracies in the preshipment estimates of the cost of the various shipping methods which made it appear that the forwarder method of shipping was the least costly

We reported our findings to the Congress and recomended that the Secretary, DOD, make a comprehensive study leading to a complete revision of the DOD's methods and policies for management of its overseas household goods program and the procurement of services therefor

DOD officials agreed in general that the method of making cost comparisons was in need of revision, and they indicated that a study to develop a more accurate means to accomplish the comparison was in process (B-152283, January 5, 1969)

252 SAVINGS BY USING THE MILITARY PORT OF SUBIC BAY (Philippines)—Our review of military cargo shipped to the Philippines showed that savings of over $500,000 in port handling costs could be achieved annually by routing all Air Force cargo through the military port of Subic Bay rather than through the commercial port of Manila We found that the Subic Bay port was operating at less-than-full capacity and could accommodate the additional cargo

The use of Subic Bay would result in additional savings and other benefits by (a) greater use of containers for which lower port handling costs are applicable, (b) better utilization of vessels controlled by the Military Sea Transportation Service, (c) a reduction in military personnel at the port of Manila, and (d) improvement in the international balance-

of-payments position of the United States

In response to proposals made during our review, the Department of Defense (DOD) indicated that initiation of containership services at Subic Bay had resulted in the shift of a significant part of the Manila work load to Subic Bay and that a continuation of this trend was expected

In our opinion, this phased reduction based on continued expansion of the containership program at Subic Bay should gradually reduce the cargo work load through Manila to a level that will result in substantial savings We believe, however, that the savings to be achieved from routing cargo through Subic Bay warrants a phased reduction in the use of Manila regardless of whether plans for continued expansion of the containerization program materialize For this reason, we intend to monitor DOD's progress in routing cargo through Subic Bay (B-166017, June 3, 1969)

253 USE OF SURFACE TRANSPORTATION TO DISTRIBUTE PRINTED MATTER—We found that air transportation was used extensively to ship routine printed forms and publications from Japan to Korea, Okinawa, and Vietnam, although less costly surface transportation was available and could have met the delivery requirements

We estimate that the Department of Defense (DOD) can save over $650,000 a year by diverting future shipments of routine printed matter from commercial air to surface transportation In addition, space—valued in excess of $750,000—on military aircraft can be made available for airlifting needed military material if routine printed matter normally shipped on these aircraft is also diverted to surface transportation

The airlifting of routine printed material apparently resulted from the Army's standard practice of sending routine forms and publications through the mail without designating a particular mode of transportation or without restricting the use of costly air transportation

During the review, we made several proposals designed to divert routine printed matter from air transportation to surface transportation In response, DOD agreed with our finding and took corrective measures As a result, 97 percent of the printed matter shipped between the above-named points was moved by surface transportation (B-165683, June 30, 1969)

254 CONSOLIDATION OF SMALL FREIGHT SHIPMENTS—We reviewed the shipping practices of military and civil agencies and identified savings of millions of dollars annually that could be achieved if the Government follows the practice of many private businesses and consolidates its small freight shipments We found that, by consolidating small freight shipments to obtain the lower transportation rates applicable on larger shipments, the Government could save about $3 million a year on shipments from just three consolidation areas to Seattle and San Francisco The potential savings and benefits Government-wide would be significantly greater

Both the Department of Defense (DOD) and the General Services Administration have expressed a willingness to accept and implement proposals made during our review In a recent consolidation test responsive to our work, DOD reported that it was able to consolidate 2 5 million pounds of freight from a single consolidation point (Philadelphia) to a single destination area (Oakland, California) during a 6-month period and thereby save approximately $92,000 This represents a savings of about $3 50 a hundredweight

DOD considered the test highly successful, and it is in the process of establishing Philadelphia as a permanent contract consolidation facility Studies will now be made by

DOD to implement the concept between additional shipping points (B-117196, June 30, 1969)

255 USE OF TRANSPORTATION RESOURCES IN EUROPE—We released a classified report to the Congress on our review of the organizational structure for traffic management in Europe on December 31, 1968

Our review covered the organization and function of all military transportation and traffic management activities in central Europe and revealed a need for more central control and coordination by the Department of Defense (DOD) in the use of transportation resources

As a result of our report, DOD took action and was planning other action to improve traffic management and controls over transportation resources These improvements should significantly influence the effectiveness and operational efficiency of DOD's transportation within Europe (B-165007, December 31, 1968)

USER CHARGES

256 RATES CHARGED FOR FLIGHT INSPECTION SERVICES—We found that reimbursement rates established by the Federal Aviation Administration (FAA) for flight inspection services furnished to foreign countries in the Europe, Africa, Middle East Region were not sufficient to fully recover FAA's costs of providing such services This practice by FAA is contrary to the provisions of title V of the Independent Office Appropriation Act 1952 (31 U S C 483a) and the Bureau of the Budget's policy expressed in its Circular No A-25 which requires that the cost computations cover the direct and indirect costs to the Government of carrying out the activity

Although FAA adopted a policy of requiring the full recovery of all costs incurred in providing services to others, our review showed that charges assessed against foreign governments for flight inspection services were still not sufficient to recover costs Some of the costs incurred in the operation of the flight inspection groups but excluded from the cost base were (a) salaries of the group chief and administrative employees, (b) group overhead costs, and (c) salaries of some European headquarters flight inspection employees During fiscal years 1965, 1966, and 1967, identifiable revenue losses, resulting from the exclusion of these costs from the cost base, totaled about $375,000 We estimated also, on the basis of reimbursement rates for fiscal year 1968, that costs would exceed revenues by about $25,000

Also excluded from FAA's cost base for determination of reimbursement rates were indirect costs, such as depreciation of structures, equipment, and aircraft, interest on the Government's investment in those facilities, and an appropriate share of management and supervisory costs

We recommended that the FAA Administrator direct that reimbursement rates for flight inspection services furnished to foreign countries be increased so that full costs thereof would be recovered as required by law, Circular No A-25, and FAA's stated policy A similar recommendation had been included in a report on rates charged for flight inspection services (B-133127, March 26, 1964) we issued to the Congress Subsequent to our 1964 report, FAA had increased the reimbursement rates for such services, however, the increases were still not sufficient to fully recover the costs of providing the services

In a letter dated March 25, 1968, the FAA Administrator expressed agreement with our proposal, stating that the agency had initiated a review to establish reimbursement rates for flight inspection services furnished to foreign countries in accordance with statutes, Bureau of the Budget circulars, and FAA policies

In June 1969 we were advised by FAA officials that the review had not yet been completed and that a decision regarding the inclusion of indirect costs into the flight inspection rates structure had not yet been reached (B-164497(1), September 18, 1968)

MISCELLANEOUS MATTERS—GENERAL

257 MOVEMENT OF AMERICAN FORCES FROM FRANCE (OPERATION FRELOC)—In response to strong congressional interest concerning the movement of American Forces from France (Operation FRELOC), we undertook a broad survey covering military supply matters, disposition of surplus material, disposition of real property

and related personal property, and construction requirments arising from the movement of supplies and personnel by the Army and the Air Force Our report on the survey was issued to the Congress in August 1968

We found that, despite the magnitude of the move from France and the relatively short period of time available (March 1966 to April 1, 1967), the Army and the Air Force were able to relocate their personnel, supplies, and equipment on time and in a generally effective manner As could be expected in an operation of this nature, however, many difficulties arose, some of which were directly related to problems existing prior to the move

The most significant problems noted by us were as follows

—Control was lost over large quantities of supplies and equipment, including weapons, ammunition, and medical supplies Inaccurate inventory records contributed to this situation

—Supplies were shipped to locations with inadequate storage facilities while available facilities were not used

—Requirements for construction of additional ammunition storage facilities were overstated

—Some of the fixtures and personal property removed from former French bases were used ineffectively

—Some usable personal property was not removed from French bases

Some of these problems were complicated by the fact that the Secretary of Defense did not approve new locations until relatively late dates Officials of the Department of Defense stated that the delays were caused by problems associated with gold flow, relations with foreign governments, and the need to formulate acceptable lines of communications to support American Forces (B-161507, August 7, 1968)

258 LIABILITY OF THIRD PARTIES FOR COSTS OF MEDICAL CARE OF INJURED PERSONNEL—The Federal Medical Care Recovery Act provides for recovery from third parties, under certain circumstances, of costs incurred by the military departments for medical care of military personnel and their dependents injured by the third parties Implementing regulations of the military departments provide that appropriate legal officers be promptly notified when injuries, sustained in circumstances involving potential liability of third parties, are cared for at a military medical facility or at a civilian medical facility and paid for by the military department

We found that these regulations had not been properly implemented The implementing procedures established at the medical facility level were not uniform among, or within, the military departments At some facilities no procedures had been established for reporting information on outpatient visits by military members and their dependents and on care furnished to military members by civilian medical facilities

In a report issued to the Secretary of Defense in December 1968, we recommended that the operating procedures of the military departments at the medical facility level be revised, where necessary, to require that all pertinent data be promptly furnished to appropriate legal officers with respect to all injuries or other circumstances where third-party liability may be involved and where medical care is furnished to military personnel or their dependents On January 31, 1969, the Department of Defense outlined to us certain procedural changes initiated by the military departments, which are generally in consonance with our recommendation (B-133142, December 2, 1968)

259 DISTRIBUTION OF PETROLEUM PRODUCTS IN THAILAND—At the

request of Senator William Proxmire, we made an investigation of the operations of the Navy Fuel Supply Office in Bangkok, Thailand The request was based upon information furnished to the Senator that theft of petroleum, oil, and lubricants in Thailand was widespread and that this was due to weaknesses in the systems for distributing the petroleum products and for processing the documents which initiated payment for the products and for related services

In our report, issued to the Senator in January 1969, we expressed the opinion that the control systems for distribution and the procedures for processing of Government documents for payment were deficient and did not adequately protect the interests of the Government The principal weakness was that the Sub-Area Petroleum Office in Thailand and the Inspector of Petroleum in Bangkok signed documents which acknowledged deliveries of petroleum products by contractors without having obtained independent and documented verification from the receiving bases that the deliveries had, in fact, been made to them

Theft of petroleum products was apparently perpetrated primarily by collusion and forgery Therefore even a more sophisticated system of control may not have detected such irregularities

We proposed to the Commander, U S Military Assistance Command, Thailand, that

- All procedures currently in effect in Thailand for controlling receipt of, and payment for, bulk aviation fuel also be extended to bulk ground fuel

- A system be established at a reasonably high level of responsibility for monitoring the full implementation of all prescribed procedures for both aviation and ground fuels at all levels of responsibility

The Command furnished us with data showing that action had been taken in line with these proposals

We proposed also, and the Department of Defense agreed with our proposal, that the distribution and management of petroleum products in Thailand be included in future audits of activities in Thailand (B-163928, January 9, 1969)

260 SECURITY CONTROLS AT AIR ROUTE TRAFFIC CONTROL CENTERS—Certain of the radarscopes located in the air route traffic control centers (centers) and used by the Federal Aviation Administration (FAA) to control air traffic display information which is used also by the Aerospace Defense Command (ADC), U S Air Force, and other military elements Because of the joint-use aspect of these radarscopes, classified information about the national air defense system is obtainable by correlating data displayed over the radarscopes and other data pertaining to equipment settings and the aircraft Radarscope displays of this nature are classified by ADC as secret, and FAA therefore is required to maintain appropriate security controls over such displays

In May 1969, we reported to the Secretary of Transportation that although uncleared persons were generally denied access to classified information displayed over these radarscopes at most centers, violations still occurred at some locations We found that guards without clearance, janitors, and, in some instances, the general public had been permitted access to classified information displayed on joint-use radarscopes

In our opinion these conditions occurred because (a) field personnel had not complied with security instructions which permit only guards with clearance to patrol areas where classified information is stored or displayed over joint-use radarscopes, (b) FAA had not established adequate procedures to ensure that janitors would be prevented from gaining access to classified information while working

in areas where classified information was either stored or displayed over joint-use radarscopes, and (c) FAA's Office of Compliance and Security had not made sufficient reviews of security practices at the centers for the purpose of ascertaining whether security instructions were being complied with

We proposed that the FAA Administrator direct that action be taken to improve the security practices at the centers We also suggested that such actions include (a) periodic reviews of FAA headquarters security practices at the centers, including evaluations as to the adequacy of inspections made by regional office security personnel, and (b) obtaining security clearances for all center personnel, including janitors, who have access to restricted areas We proposed further that, where it is not practicable to obtain security clearances, action be taken to ensure that all such persons are kept under continuous observation and that the classified data is covered or otherwise protected from observation

The Commander, ADC, agreed with our proposals that (a) contractor guards and janitors whose duties require unescorted entry into areas containing classified data should have "secret" security clearances and (b) contractor guards be required to patrol restricted areas at the centers when those areas are not occupied by security-cleared FAA operating personnel or otherwise protected by adequate security measures

The Assistant Secretary for Administration, Department of Transportation, agreed with our findings and cited certain specific corrective actions, consistent with our proposals, that had been taken or were planned to improve security practices at the centers

We believe that the corrective actions taken and planned by the Department should, if properly implemented, strengthen the security controls and practices at the centers (B-157073, May 23, 1969)

FINANCIAL SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE

The measurable savings attributable to the work of the General Accounting Office during fiscal year 1969 are summarized in the following schedule and, except for collections, are described more fully in the accompanying listing

There are also savings resulting from our work which are not fully or readily measurable in financial terms A number of examples of savings of this nature have also been described

Also described are several examples of where our examination of agency and contractor operations resulted in savings and benefits to others (i e , realized or potential benefits other than those directly to the Government)

A number of the savings included in this section have also been discussed in more detail in the related sections on findings and recommendations

Collections and Other Measurable Savings

(000 omitted)

	Collections	Other Measurable Savings	Total
DEPARTMENTS			
Army	$ 933	$ 18,083	$ 19,016
Navy	339	36,057	36,396
Air Force	166	2,454	2,620
Defense	365	39,844	40,209[a]
Agriculture	8	462	470
Commerce	1	193	194
Health, Education, and Welfare	891	3,419	4,310
Housing and Urban Development	15	602	617
Interior	8	10,545	10,553
Justice	-	1	1
Labor	8	780	788
Post Office	7	142	149
State (including AID, Peace Corps, and USIA)	31	20,013	20,044
Transportation	188	29,270	29,458
Treasury	2	105	107
AGENCIES			
Atomic Energy Commission	-	213	213
Civil Service Commission	244	496	740
General Services Administration	-	950	950
National Aeronautics and Space Administration	-	2,284	2,284
National Science Foundation	-	123	123
Office of Economic Opportunity	164	-	164
Railroad Retirement Board	1	-	1
Selective Service System	-	13	13
Veterans Administration	3	824	827
Regulatory agencies	-	342	342
Total for departments and agencies	3,374	167,215	170,589
Transportation audit	14,167	-	14,167
General claims work	2,819	-	2,819
Total	$20,360	$167,215	$187,575

[a] Includes $1,606,000 resulting from reviews of Defense international activities

DETAILS OF OTHER MEASURABLE SAVINGS

Details of other measurable financial savings including additional revenues attributable to the work of the General Accounting Office during the fiscal year 1969 totaling $167,215,000 are listed below Approximately $65 million of the savings or additional revenues are recurring in nature and will continue in future years The items listed consist largely of realized or potential savings in Government operations attributable to action taken or planned on findings developed in our examination of agency and contractor operations In most instances, the potential benefits are based on estimates and for some items the actual amounts to be realized are contingent upon future actions or events

ACTION TAKEN OR PLANNED	Estimated Savings
Supply Management	
Savings resulting from reducing the number and size of Coast Guard buoy tenders commensurate with expected levels of operations—Transportation (estimated annual savings, $2,120,000, nonrecurring, $26,500,000)	$ 28,620,000
Savings due to a reduction in stock levels at Navy supply depots in the Far East as a result of eliminating duplicate and invalid demand data used in determining stock needs—Navy (nonrecurring)	12,705,000
Avoidance of procurement as a result of revised Department of Defense policy under which there is more extensive recapping of aircraft tires—Army, Navy, Air Force (estimated annual savings)	10,000,000
Savings due to a reduction in inventories resulting from a reduction in the time allowance for obtaining stock for use in Vietnam Time experienced obtaining stock had been substantially less than that used in establishing stockage objectives and enabled corresponding reductions in procurement funds required and appropriated—Army (nonrecurring)	9,600,000
Savings due to cancellation of requisitions for supplies which were excess to Marine Corps needs in the Far East—Navy (nonrecurring)	$ 9,400,000
Savings resulting from reduction in inventories due to revision of procedures in eliminating duplication between Navy inventories and GSA inventories held for Navy use and from reduced investment, management, and warehousing costs—Navy (estimated annual savings, $473,000, nonrecurring, $6,500,000)	6,973,000
Savings resulting from funds relinquished from an amount that was earmarked for the procurement of fertilizer and insecticides, which had been over programmed, and was excess to requirements of an aid-receiving country—Agency for International Development (nonrecurring)	3,200,000
Price reductions under existing contracts or proposed admendments resulting from reviews of prices negotiated—Army, Navy, and Air Force (nonrecurring)	2,059,000
Savings resulting from reduction by the Army in Europe of its depot-level inventory for sub-	

ACTION TAKEN OR PLANNED	Estimated Savings
Supply Management--Continued	
sistence to support Air Force requirements—Army (nonrecurring)	$ 2,027,000
Savings resulting from use of less costly rations by the Army in Europe and overstocked "C" rations made available to meet requirements in Southeast Asia—Army (estimated annual savings, $1,400,000, nonrecurring, $500,000)	1,900,000
Cancellation of plans to procure material for the Far East in excess of needs—Army, Navy, and Air Force (nonrecurring)	1,755,000
Procurement of packaged petroleum products will be avoided through the use of stock previously held as prepositioned war reserves—Defense (nonrecurring)	1,100,000
Savings by reclaiming needed aeronautical spare parts and components from excess modification Kits—Navy and Air Force (nonrecurring)	1,043,000
New procedures adopted to ensure full recovery of messing and merchandising losses previously absorbed by the Government in connection with contract for logistical support at Kwajalein Missile Test Site—Army (nonrecurring)	579,000
Savings by reclaiming engine parts and components from excess aircraft engines and using them to satisfy stock requirements—Navy (nonrecurring)	559,000
Cancellation of plans to purchase radio equipment from an Italian contractor and procuring the equipment from U S sources at lower prices—Defense (nonrecurring)	522,000
Savings resulting from the deobligation of funds which were provided for the procurement of petroleum, oil, and lubricants for the police department of a foreign country that no longer needed assistance from the United States—Agency for International Development (nonrecurring)	$ 500,000
Cancellation of plans to purchase equipment for armored personnel carriers from an Italian contractor, which will be acquired from U S sources at lower prices—Defense (nonrecurring)	416,000
Savings by canceling purchase request for material identified as being unnecessary in the Navy's program for repair of electronic items—Navy (nonrecurring)	400,000
Savings resulting from the increased use by agencies and contractors of General Services Administration formally advertised contracts for rental cars (estimated annual savings)	350,000
Savings realized through use of requirements contracts for repetitive small purchases and greater use of the General Services Administration as a supply source—Defense (estimated annual savings)	252,000
Price reduction resulting from review of administration of the price-escalation clause in a contract for ammunition items—Army (nonrecurring)	216,000
Savings resulting from reduction in cost of acquiring a computer for the Grand Junction Office —Atomic Energy Commission (nonrecurring)	148,000
Savings through procurement of more economical containers for the shipment and short-term storage of external fuel tanks for F-4 aircraft—Air Force (nonrecurring)	147,000
Cancellation of plans to procure	

ACTION TAKEN OR PLANNED	Estimated Savings
Supply Management–Continued	
industrial plant equipment for use in contractor's plant—Air Force (nonrecurring)	$ 101,000
Cost reduction effected by requiring engine contractors to prepare their engine maintenance instructions in reproducible rather than final form and thus eliminate the need for aircraft contractors to process such data—Army (estimated annual savings)	100,000
Microfilm procurement practices revised to obtain maximum discounts through ordering sufficient quantities and lengths compatible with needs—Treasury (estimated annual savings)	92,000
Procurement of industrial plant equipment canceled after disclosure that similar equipment was in storage—Army (nonrecurring)	85,000
Savings by canceling orders with aircraft contractor and procuring aerospace ground equipment at lower cost from equipment manufacturers—Defense (nonrecurring)	75,000
Cancellation of work requests to prevent manufacture of unneeded aeronautical parts—Navy (nonrecurring)	59,000
Savings by obtaining ice cream products and certain other perishable subsistence items through combined procurement with other installations and through existing contracts—Veterans Administration (estimated annual savings)	29,000
Savings resulting from changing pricing practice for vendor repair of Government equipment to provide industrial pricing of all items over $5,000—Navy (estimated annual savings)	15,000
Payments to Government Employees and Other Individuals	
Termination of unauthorized family separation allowance payments being made to military personnel—Defense (estimated annual savings)	$ 9,700,000
Savings resulting from using civil service employees for work previously performed by contractor-furnished employees—National Aeronautics and Space Administration (estimated annual savings)	2,100,000
Reduction of labor costs in the contracts of two federally financed military housing projects because of adjusted wage rate determination—Labor (nonrecurring)	779,000
Termination of variable reenlistment bonus payments to Navy and Air Force enlisted personnel who reenlisted to serve in positions not requiring the use of their critical skills—Defense (nonrecurring)	764,000
Savings in per diem payments resulting in rehabilitation of Government quarters and messing facilities for prospective crew members assigned to ships under construction—Navy (estimated annual savings)	700,000
Savings in night differential compensation resulting from adjustments to the working hours of certain city delivery carriers serving residential areas—Post Office Department (estimated annual savings)	128,000
Correction of the method of computing the pay of school teachers of the Overseas Dependents' School—Army (estimated annual savings)	72,000
Reduction in or elimination of preferential allowances paid to some individuals employed by	

ACTION TAKEN OR PLANNED	Estimated Savings
Payments to Government Employees and Other Individuals--Continued	
Atomic Energy Commission contractors (nonrecurring)	$ 40,000
Savings resulting from revision of procedures relating to the work hours and compensation of couriers and escorts engaged in shipment duties—Atomic Energy Commission (nonrecurring)	25,000
Savings resulting from the use by Customs employees of a rough-duty type uniform instead of a full-dress uniform—Treasury (estimated annual savings)	12,000
Loans, Contributions, and Grants	
Reduction in Government share of costs incurred under the demolition grant program resulting from changes in administrative practices and regulations—Housing and Urban Development (estimated annual savings, $434,000, nonrecurring $168 000)	602,000
Increase in interest rates charged on storage equipment and facility loans—Agriculture (estimated annual savings)	400,000
Cancellation of the undisbursed portion of a loan because the borrower failed to construct approved facilities—Commerce (nonrecurring)	185,000
Reduction in the amount of Federal financial participation in employee fringe benefits and other program costs incurred by a city school district—Health, Education, and Welfare (nonrecurring)	124,000
Reduction in grant for hospital construction resulting from adjustment of cost allocation between Federal and non-Federal shares—Health, Education, and Welfare (nonrecurring)	74,000
Discontinuance of use charge being made against Federal grants and contracts financing the operations of a university-owned research vessel after the vessel's acquisition cost had been fully recovered—National Science Foundation (estimated annual savings)	$ 11,000
Interest Costs	
Reduction in interest costs resulting from revised letter-of-credit procedures for withdrawing Government funds under health research grants—Health, Education, and Welfare (estimated annual savings)	95,000
Savings in interest costs resulting from procedural improvement enabling earlier deposit of postal receipts—Post Office Department (estimated annual savings)	11,000
Leasing and Rental Costs	
Cancellation of leased circuits in Europe and transfer of circuitry from lease to Government-owned—Defense (estimated annual savings, $453,000, nonrecurring, $374,000)	827,000
Savings on intercompany leasing of automatic data processing equipment by limiting the allowability of intercompany leasing costs to normal ownership costs—Navy (nonrecurring)	783,000
Savings by including the cost of space rental in the total amount required to be repaid to the U S Treasury from power revenues of the Bonneville Power Administration—Interior (estimated annual savings)	760,000
Savings resulting from exercising a	

ACTION TAKEN OR PLANNED	Estimated Savings
Leasing and Rental Costs--Continued	
purchase agreement entered into by the Air Force for a building in Colorado Springs, Colo.—Air Force (nonrecurring)	$ 527,000
Savings resulting from purchasing rather than continuing to lease printing and reproduction equipment by Rock Island Arsenal—Army (nonrecurring)	8,000
Reduction in laboratory space rental cost resulting from renegotiation of lease agreement—Commerce (nonrecurring)	8,000
Rental Income	
Increased rental rates and utility charges for Government-owned quarters—Health, Education, and Welfare (estimated annual savings)	92,000
Increased rental rates charged private telephone companies for pole attachments—Transportation (estimated annual savings)	12,000
Additional rental income for use of Government-owned industrial equipment in the possession of a contractor—Air Force (estimated annual savings)	6,000
Construction, Repair, and Improvement Costs	
Cancellation of plans to construct ammunition storage facilities in Europe—Army (nonrecurring)	1,900,000
Savings resulting from negotiating reduction in price proposed for modification to contract for construction in the Philippines—Navy (nonrecurring)	1,000,000
Savings through improved specifications for construction of transmission towers—Interior (estimated annual savings)	911,000
Savings through the conversion of boiler plants to enable the use of more economical fuels—Veterans Administration (estimated annual savings)	$ 657,000
Reduction in Federal participation in the cost of a frontage road because of revised design standards—Transportation (nonrecurring	423,000
Manpower Utilization	
Labor efficiency increased in the repair program for inoperable and overage aeronautical components at Naval Air Rework Facility, Norfolk, Va.—Navy (nonrecurring)	1,230,000
Savings resulting from consolidation of the activities of the Federal Aviation Administration's Beirut and Frankfurt groups that are responsible for inspecting and testing navigational systems—Transportation (estimated annual savings)	215,000
Reduction in the use of military personnel at nonappropriated-fund activities at military bases—Army and Air Force (estimated annual savings)	99,000
Utilization of U.S.-owned Foreign Currencies	
Savings resulting from the utilization of U.S.-owned excess Ceylon rupees in lieu of dollars to finance the People to People Health Foundation, Inc.—Agency for International Development (nonrecurring)	243,000
Savings resulting from the utilization of U.S.-owned excess foreign currencies in lieu of dollars to pay salaries and other benefits to non-American employees in certain foreign countries—State (estimated annual savings)	70,000

ACTION TAKEN OR PLANNED	Estimated Savings
Transportation.	
Savings resulting from the elimination of payments of port charges for shipments to aid-receiving countries—Agency for International Development (estimated annual savings)	$ 16,000,000
Savings in cost of transporting baggage between the United States and points in the Pacific through direct Government management of shipments, more effective use of military trans-Pacific airlift, and reductions in commercial transportation rates—Defense (estimated annual savings)	5,938,000
Savings from consolidation of Government small freight shipments to obtain lower transportation rates offered by carriers on larger shipments—Defense and General Services Administration (estimated annual savings)	3,000,000
Reduction in cost of moving household goods of military personnel between the United States and Europe by more accurate comparison of shipping mode costs—Defense (estimated annual savings)	2,900,000
Savings in commercial transportation costs resulting from use of available space on military aircraft to transport baggage or priority military cargo between the United States and Europe—Defense (estimated annual savings, $1,282,000, nonrecurring, $412,000)	1,694,000
Cancellation of plans to build a new cold storage warehouse in Vietnam to store perishable subsistence items—Defense (nonrecurring)	1,200,000
Savings in cost of transporting routine printed matter from Japan to points in the Pacific by diverting shipments from commercial air carriers to less costly surface transportation—Defense (estimated annual savings)	$ 650,000
Reduction in operation costs of LOGAIR (airlift service under contract to Air Force) by substituting a stop at Whiteman Air Force Base, Mo , on an as-needed basis for a daily stop on a regularly scheduled basis—Air Force (estimated annual savings)	202,000
Savings in administrative costs resulting from revised procedures for payment and audit of small transportation claims—Army (estimated annual savings)	170,000
Savings resulting from the use of LOGAIR aircraft for shipping parcel post type items—Air Force (estimated annual savings)	97,000
Savings by distributing ammunition shipments in sufficient quantities to meet the guaranteed minimum weight for each vehicle—Army (estimated annual savings)	51,000
Savings in air transportation costs resulting from the substitution of less costly truck transportation for LOGAIR service—Air Force (estimated annual savings)	32,000
Reduction in transportation costs by comparing the potential charges of the available air carriers—National Aeronautics and Space Administration (estimated annual savings)	31,000
Savings by the elimination of service of two passenger boats operating between Bolling Air Force Base and the Pentagon—Air Force (estimated annual savings)	26,000

ACTION TAKEN OR PLANNED	Estimated Savings
Other Items	
Reallocation of nonreimbursable flood control benefits in connection with the San Luis Unit Central Valley Project—Interior (nonrecurring)	$ 5,000,000
Estimated savings due to cancellation of plans to acquire land at Bureau of Sport Fisheries and Wildlife Migratory Waterfowl Refuges—Interior (nonrecurring)	3,624,000
Recognition of additional costs—principally overhead allocable to certification and other reimbursable services performed by the Food and Drug Administration—resulting in transfer of surplus funds from the Administration's Revolving Fund to lapsed appropriation accounts—Health, Education, and Welfare (nonrecurring)	1,934,000
Additional annual revenue resulting from increases in fees charged by the Food and Drug Administration for certification of antibiotics—Health, Education, and Welfare (estimated annual savings)	1,100,000
Elimination of annual appropriation for 1969 for Medical Education for National Defense Program—Defense (nonrecurring)	700,000
Elimination of a 15-percent premium payment for contract air support services furnished to U S contractors by the Government of Vietnam—State (estimated annual savings)	567,000
Additional interest income to the Government-wide Service Benefit Plan under the Federal employees' health benefits program resulting from the contractor's investing program funds not immediately required to meet current obligations—Civil Service Commission (estimated annual savings)	400,000
Savings resulting from the Federal Communications Commission arrangement for sharing use of its computer and thereby obviate the need for lease of a computer by another agency (nonrecurring)	$ 342,000
Savings through change in the method of financing the operations of the Office of the Government Comptroller of the Virgin Islands from Federal appropriations to revenues which otherwise would be transferable to the insular government—Interior (estimated annual savings)	250,000
Reduction of management fees paid to contractors for operation of three national research centers—National Science Foundation (estimated annual savings)	105,000
Savings in utility costs in West Germany as a result of obtaining certain tax exemptions—Air Force (estimated annual savings, $85,000, nonrecurring, $10,000)	95,000
Savings resulting from participation of more hospital departments in the program to recover silver from X-ray and photographic processes—Veterans Administration (estimated annual savings)	92,000
Reduction of corporate general and administrative charges to certain cost-type contracts—National Aeronautics and Space Administration (nonrecurring)	80,000
Reduction in a contractor's minimum fee as a result of using the most current cost data available before the start of negotiations—National Aeronautics and Space Administration (nonrecurring)	73,000
Savings from improved coordination in the use of office copy	

ACTION TAKEN OR PLANNED	Estimated Savings
Other Items--Continued	
machines by constituent agencies of the Department of Agriculture (estimated annual savings)	$ 62,000
Savings resulting from the reduction in charges allowed under a segment of the Federal Employees' Group Life Insurance program—Civil Service Commission (estimated annual savings)	57,000
Additional interest income resulting from revised method of computing interest on contingency reserve funds held by an insurer under the Federal Employees' Group Life Insurance program—Civil Service Commission (estimated annual savings)	39,000
Savings through charging the servicemen's group life insurance program with direct administrative expenses, the cost of which will be borne by covered members—Veterans Administration (estimated annual savings, $7,000, nonrecurring, $19,000)	$ 26,000
Savings as a result of a bulk-bid contract for roof repairs on houses acquired through foreclosure by the Veterans Administration (estimated annual savings)	20,000
Saving through revision of administrative leave policies relative to State holidays—Selective Service System (estimated annual savings)	13,000
Annual reimbursement from nonappropriated-fund activities increased for utility services provided by military bases—Army and Air Force (estimated annual savings)	12,000
Miscellaneous items (estimated annual savings)	13,000
Total other measurable savings	$167,215,000

ADDITIONAL FINANCIAL SAVINGS NOT FULLY OR READILY MEASURABLE

Many significant financial benefits, either one-time savings or recurring savings, that are attributable to the work of the General Accounting Office are not fully or readily measurable in financial terms These benefits result from actions that are taken or that are to be taken by the departments and agencies to eliminate unnecessary expenditures or otherwise correct deficiencies brought to light in our audit reports A few examples of these actions identified during the fiscal year 1969 are described below

CHANGES IN AGENCY POLICIES, PROCEDURES, AND PRACTICES

Redistribution of Excess Supplies from Vietnam to Activities with Requirements for the Supplies

We found significant quantities of excess supplies in Vietnam resulting from (1) inadequacies in management data, (2) errors in data processing programs, (3) unforeseeable fluctuations in consumption rates, and (4) receipt of unusable items

In our opinion, prompt identification and redistribution of excesses were required not only because the depots in Vietnam had limited storage space but also because other military activities could probably have utilized substantial quantities of this material in lieu of placing additional requirements on the supply system

We discussed the matter of excesses with Department of Defense officials in November 1967 and suggested that there was a need to identify and redistribute these excesses to the maximum extent possible to fulfill alternate requirements As a result, the Secretary of Defense designated the Department of the Army, as executive agent for the Department of Defense, to ensure that excess materials of all services in the Pacific area would be promptly identified and made available for redistribution The Commander in Chief, Pacific, was given the task of establishing a special agency to supervise the redistribution of such material

In May 1968 the Pacific Utilization and Redistribution Agency (PURA) was established to screen excesses within the Pacific Command and to arrange for redistribution to ensure full utilization of known excesses During the period May 1968 to April 1969 about $98 6 million worth of excess materials were redistributed by PURA to fill alternate requirements Operating costs of PURA for the same period amounted to about $300,000 Making these excess supplies available to activities with requirements for them enables very significant reductions in procurement funds which would otherwise be required to obtain such supplies

Air Force Procedures Revised to Preclude Condemnation of Unserviceable Items That Can Be Economically Repaired

During previous survey work, we found that spare parts—pumps, filters, cylinders, valves, etc —repairable at the depot level were being scrapped at several Air Force bases During a 6-month period in 1967, Air Force bases condemned and disposed of unserviceable parts, designated as depot repairable, valued originally at $6 7 million We selected 78 items from the scrap yards of five Air Force bases and found that 51, or 65 4 percent could have been repaired for amounts significantly less than replacement costs

We issued a report to the Congress in October 1968 The report included our proposal that the Air Force revise its regulations to require bases to return all items to depot-level repair activities unless the bases have been advised that the items are (1) not needed in Air Force stock, (2) obviously beyond repair, or (3) authorized for disposition under Air Force technical orders

In January 1969, Air Force instructions were revised to prohibit condemnation at field level of all items that are designated as being repairable and that have a unit cost of $300 or more We expect this action to result in significant recurring savings

Redistribution and Use of Inactive Industrial Plant Equipment at Rock Island Arsenal, Illinois

We found that the Army's Rock Island Arsenal had about $2 million worth of industrial plant

equipment in preserved storage, most of which had not been used for periods ranging from 5 to 10 years The equipment was being retained and reported to the Defense Industrial Plant Equipment Center as actively in service

We reported our findings at the Rock Island Arsenal to the Commanding Officer of the Army Weapons Command in April 1967 We also issued a report to the Congress in May 1968, which included this matter

We suggested that arsenals retain only inactive equipment when it is scheduled for use within the immediate future and approved by the U S Army Materiel Command, or when it is held as part of a mobilization package which is approved by the Assistant Secretary of Defense

Subsequent to our review, Rock Island Arsenal performed a study of the equipment we identified, and it placed about $810,000 worth of the equipment in active use at Rock Island Arsenal and reported about $400,000 worth of equipment to the Defense Industrial Plant Equipment Center as excess, thereby making it available for redistribution

Action Taken By Military Supply Depots to Redistribute Excess Items

Our work at various locations disclosed that certain items, managed by supply depots in the United States, were in excess stock positions at supply activities in the Far East Although many of these items were currently being purchased, cancellation actions could not be taken by the depots

We recommended that the supply depots review those items for which we had identified excesses to determine whether other supply activities had current need for their use

The supply depots confirmed that the excesses did in fact exist and therefore took action to have them redistributed As a result supplies worth more than $1 million which were excess to various Far East activities of the military services were made available to other activities which had current needs that the supply depots had not been able to fill

Savings by Consolidating Small Freight Shipments

The section, "Details of Other Measurable Savings," contains our estimate of savings of $3 million that will be achieved on freight shipments consolidated at only three points to obtain the advantage of lower transportation rates The overall potential for savings by consolidating shipments at additional points is significantly greater and could amount to many millions of dollars annually

Savings in the Cost of Transporting Routine Printed Matter from Japan to Points in the Pacific

Included under measurable savings is $650,000 in commercial air transportation costs that will be avoided by the Department of Defense through utilization of less costly surface transportation to distribute routine printed matter In addition to identifying these savings, we identified space valued at $750,000 on military aircraft that will be made available for airlifting priority military material by diverting routine printed matter from military aircraft to surface transportation The actual savings that will result from the diversion of routine printed matter from military aircraft will depend on the type and quantity of cargo loaded in the space vacated by the printed matter and the transportation costs avoided by such action

Savings by Routing Cargo Through the Military Port of Subic Bay in the Republic of the Philippines

In a classified report to the Congress, we identified savings of over $500,000 a year in port handling costs which could be achieved by routing cargo to and from Clark Air Base through the military port at Subic Bay, rather than through the port of Manila A significant reduction in the workload at the Manila port has taken place since the time of our review The Department of Defense has indicated that some of the workload was shifted as a result of the containership program which was initiated prior to our review Therefore, the actual savings attributable to our work cannot be determined precisely

Payment of Dollars in Lieu of U S -owned Local Currency to Certain Annuitants Residing in Yugoslavia

Our report to the Department of State in December 1968 showed that dollar benefit payments,

in lieu of U S -owned excess foreign currency payments, were being made to certain annuitants residing in Yugoslavia Generally annuities are paid in foreign currency, however, annuitants who wish to receive dollar payments are required by regulations to justify the need for payment in dollars

The conditions under which annuitants may be paid dollars rather than local currency include (1) unusual situations in which U S citizens might find themselves in Yugoslavia, when the needs for dollar payments are substantiated, and (2) meeting financial obligations in the United States, such as payment of life insurance premiums In these cases the payees are required to submit written statements and documentary evidence of the obligations, stating the amounts, purposes, and addresses of the remittees in the United States

As of September 1967, about $18,700 worth of pension payments were being made in dollars each month to annuitants residing in Yugoslavia, mostly on a permanent basis In our opinion these dollar payments were largely unnecessary

We examined into the propriety of paying annuitants dollars rather than local currency in 17 instances In all instances the annuitants resided in the Belgrade consulate region We were unable to locate any records showing the basis for approving dollar payments in 11 of these cases In the six cases where records were available, the justification for approving the dollar payments consisted of a general statement by the applicant as to why the dollars were needed, such as travel or medical purposes

We recommended that the Department amplify existing instructions pertaining to approving requests for dollar annuity payments to recipients residing in Yugoslavia to provide guidelines as to the circumstances under which requests for dollar payments may be approved, particularly in the case of U S citizens In addition, we recommended that the Department direct the Embassy to undertake a review of all cases of current dollar payments to annuitants with the view of terminating those payments which are not justified and that periodic follow-up reviews be made on dollar payments to annuitants

Although our review was limited to Yugoslavia, we suggested that the Department might wish to consider furnishing American Embassies in other excess currency countries with amplifying instructions as in the case of Yugoslavia

On February 4, 1969, the Department informed us that it was amplifying existing instructions to provide guidelines as to the circumstances under which dollar payments may be approved in lieu of local currency payments and to emphasize the necessity for immediate and periodic reviews of the need for continuing dollar payments The instructions will be furnished to American Embassies in all countries in which it is the policy to pay resident U S Government annuitants in excess or near-excess currency

Deobligation of Funds for a Development Loan Project in Nigeria

Our review disclosed that a $1 6 million Agency for International Development (AID) loan project in Nigeria, to finance the procurement of 85,000 telephone instruments and related equipment in a telecommunications expansion program, was not being implemented as planned and was not being effectively monitored by the Mission

At the time of our review, we found that (1) only 3,100 of the 33,000 telephones which had been delivered to the telephone company had been installed, (2) one phase of the expansion program involving the installation of 10,000 telephones had been indefinitely postponed, (3) about 60 percent of the telephones currently on order had not been delivered, and (4) the Mission had not been monitoring this procurement and had not received required reports on the project's status

We concluded that better monitoring of this loan was essential to ensure that the equipment procured would be effectively utilized and that the revenues anticipated from placing the telephones in service would accrue We discussed the matter with the Mission, and we were subsequently informed by AID that, since efforts to speed up telephone installations had proven only partially successful, agreement had been reached with the Nigerian Government to reduce the loan coverage from 85,000 instruments to 59,000 and that negotiations were under way to amend the contract with the supplier

On June 25, 1969, AID deobligated $300,000 from the loan AID informed us that it was issuing

instructions to ensure that reports required under AID loan agreements would be obtained

Savings by Use of Excess Federal Personal Property

In our report to the Congress in September 1968, we stated that the Department of Labor had allowed certain Youth Opportunity Centers in California to be equipped with new furniture and equipment at a time when excess Federal furniture and equipment were available We estimated that, if excess Federal personal property—furniture and equipment—had been made available to the State of California to furnish Youth Opportunity Centers, about $68,000 could have been saved on purchases made during the last half of fiscal year 1965 In addition, to the extent that excess Federal personal property is available, substantial savings to the Federal Government could be possible through reduced expenditures for the replacement and purchase of additional equipment in the more than 2 000 State and local employment offices in the country and for the furnishing of equipment to new offices

In bringing this matter to the attention of the Secretary of Labor, we suggested that the Department reexamine its legislative authority applicable to the administration of the employment security programs with a view toward establishing a policy that would provide for the use of excess Federal personal property by State employment security agencies

Departmental officials advised us that (1) the Department did have legislative authority to make excess Federal personal property available to the State employment security agencies, (2) the Department was in the process of revising its procedures to require all State agencies which were permitted by their State laws, to make use of such property to the extent possible, and (3) the other State agencies would be instructed to request exemptions from the provision of the State laws which precluded the utilization of the excess property The Department anticipated that all State agencies would ultimately make use of excess Federal personal property and advised the States that the fiscal year 1970 grants appropriation request for supplies and equipment had been reduced by $2 million in anticipation of the savings to be realized by State agency procurements through General Services Administration supply sources

Increased Program Effectiveness Through Improvement in Controls Over Urban Rehabilitation Activities

From the inception of the rehabilitation program in 1954 through December 31, 1967, the Department of Housing and Urban Development (HUD) approved 380 urban renewal projects involving rehabilitation of 212,849 dwelling units The Federal grants in connection with these projects totalled over $1 8 billion The established goal for the rehabilitation program for fiscal years 1969 through 1971 was 130,000 dwelling units, or about 43,000 units a year

In a report to the Congress in April 1969, we pointed out that (1) in the 4-1/2-year period ended December 31, 1967, the rehabilitations reported as completed amounted to only 13,000 units a year and (2) our review indicated that even these reported rehabilitation accomplishments were questionable

Our report cited certain weaknesses which had impeded the completion of projects These weaknesses were (1) the lack of local public agency (LPA) supervisory close-out inspections of rehabilitated properties before they were classified as rehabilitated, (2) the lack of systematic reinspections of rehabilitated properties as a means of ensuring their continued maintenance, and (3) the lack of complete HUD inspections of rehabilitated properties and evaluations of results achieved by the LPAs

We recommended that the Secretary of HUD undertake a reassessment of the rehabilitation program We recommended also that the Secretary take certain steps to strengthen HUD reviews and administration of rehabilitation projects

In line with our recommendations, all HUD regional administrators were instructed (1) to require LPAs to issue a certificate of completion when a project property meets rehabilitation standards, (2) to require LPAs to carry out a program of periodic sampling and surveillance of rehabilitated properties to ensure their continued maintenance, and (3) to develop an inspection system to evaluate LPA compliance with project rehabilitation standards

Provision for Repayment of Federal Funds

In a report to the Department of Commerce in June 1968, we commented on several of the Economic Development Administration's (EDA's) technical assistance projects for which recipients had not been required to enter into repayment agreements, although the projects appeared to be similar in scope to other approved projects for which EDA had entered into repayment agreements with project recipients EDA policy provides that repayment of technical assistance funds is to be considered when projects will benefit a private individual or business

Subsequent to the beginning of our review, new repayment guidelines were agreed to by EDA's Office of Technical Assistance (OTA) and EDA's Office of Business Development (OBD), which require EDA to enter into repayment agreements with all recipients of Management and Operations (M&O) technical assistance, except for unusual situations to be specially handled by arrangements between OBD and OTA We were informed that these guidelines were expected to strengthen the implementation of the agency's repayment policy and ensure its uniform application

We noted that the new guidelines provided only for repayment of the Federal costs of M&O technical assistance projects and not for other technical assistance projects We noted further that the provisions of the guidelines had not been established as agency procedures We therefore recommended that the provisions of the new guidelines be incorporated into the agency's formal written procedures and that the procedures also include provisions for repayment of the Federal costs for all applicable technical assistance

In January 1969 the Director of the Office of Technical Assistance informed us that procedures had been issued in line with our recommendation

Savings Available by Improving Administration of the Small Reclamation Projects Loan Program

In our August 1968 report to the Congress concerning the administration of the small reclamation projects loan program by the Bureau of Reclamation, we pointed out that, in our opinion, the Bureau had not established adequate procedures for administering the program and that, where procedures had been established, the Bureau had not required their consistent application in making loans

Generally, the portion of a loan attributable to providing water for irrigation purposes is repayable without interest, the portion attributable to providing water for domestic, municipal, and industrial purposes is repayable with interest The legislation establishing the small reclamation projects loan program indicates that the projects constructed with loan funds are to be primarily for irrigation purposes Our review indicated a need for the Bureau to establish procedures to ensure that loans are made for projects which are primarily for irrigation

Also, we found that (1) some loans were not required to be repaid as rapidly as was justified by the increased earnings resulting from the projects constructed with loan funds and, as a result, the delay in the return of funds to the Government in these cases will cost about $3 2 million in interest, (2) an underrecovery of about $3 1 million would result due to the inappropriate allocation of cost and construction advances between interest-bearing and non-interest-bearing project purposes, and (3) the Government was incurring additional interest costs of about $515,000 because two loan recipients had been permitted an inordinate amount of time in which to begin repayment of their loans

Our report contained several recommendations directed at eliminating similar deficiencies in the future The Department of the Interior officials agreed that the small reclamation loan program could be improved with more positive and formal policies and procedures and subsequently advised us that procedures had been issued or action had been taken to accomplish several of our recommendations We were also advised that other procedures and actions were being considered consistent with the remainder of our recommendations

Improvement in Instructions Governing the Relocation of Railroad Facilities

Our report to the Congress in December 1968 disclosed that the Bureau of Reclamation could have saved about $436,000 by providing railroad companies only those replacement facilities needed to meet the Government's obligation for equivalent replacement

We proposed that Bureau instructions be revised to (1) require more formal descriptions of existing facilities and detailed comparisons between existing and proposed replacement facilities to determine the Government's obligation for equivalent replacements, (2) require that proposed relocation agreements be reviewed by the Chief Engineer for policy compliance and that significant concessions be approved by the Commissioner of Reclamation, (3) ensure Bureau negotiators that condemnation is an available recourse action when the railroads are requesting improved replacement facilities which should not be provided, and (4) require that nominal or salvage value be considered as the basis for payment for facilities that will not be relocated

The Department of the Interior has agreed with our four suggestions, and Bureau instructions have been issued which are consistent with the first three of our proposals We expressed the belief that these instructions if properly implemented by the Bureau, will be effective in reducing the costs of future railroad relocations

Savings by Reduction in Costs of Medical Treatment Provided to Disabled Federal Employees

Our report to the Congress in May 1969 revealed that the Bureau of Employees' Compensation, Department of Labor, had not made adequate use of less costly available Federal medical facilities for the treatment of disabled Federal employees We estimated that annual savings of $120,000 would have been possible at just one of the Bureau's 10 district offices if Federal rather than private facilities had been used for treating one common type of disablement requiring hospitalization

In bringing this matter to the attention of the Secretary of Labor we proposed that the Bureau use available Federal medical facilities to the maximum extent possible for the treatment of disabled Federal employees

In January 1969, the Bureau issued instructions to the 10 district offices to remind its personnel to make every effort to use Veterans Administration and military medical facilities whenever possible We expressed the belief that the action taken will result in substantial savings

Policy Revised to Require Airport Sponsors to Use the Proceeds Derived from the Sales of Donated Federal Land for Specific Airport Purposes

Our report to the Congress in September 1968 showed that airport sponsors had used proceeds derived from the sales of donated Federal land to offset (1) the sponsors' share of the cost of Federal-aid airport program (FAAP) projects and (2) the cost of airport developments not eligible for Federal participation under FAAP In some cases, funds derived from the Government (proceeds from sale of Federal-donated land and FAAP funds) were sufficient to offset substantially all of a sponsor's investment in its airport We reported that Federal Aviation Administration (FAA) policy relative to Government surplus land donated to sponsors of public airports provided that such land could be disposed of by airport sponsors if, among other things, the sponsors agreed to apply the net proceeds from the sale of such property to the operation maintenance, or improvement of public airports

This policy resulted in the matching of FAAP funds with funds derived from sale of land formerly owned by the Government, and we suggested that FAA establish a policy to require airport sponsors to use the proceeds derived from the sales of donated Federal land to offset costs of airport development eligible for Federal assistance before giving additional FAAP funds to the sponsors

FAA revised its policy to eliminate the inequitable matching aspect caused by applying proceeds from the sales of donated Federal land to meet the sponsors' share of project costs and to provide greater assurance that such proceeds would be used for specific airport purposes

Opportunity for Economies in Counseling Services Provided by the Veterans Administration

In a report to the Congress in November 1968 concerning counseling services provided to children eligible for educational benefits under the War Orphans Educational Assistance Act of 1956, we pointed to a need for the Veterans Administration (VA) to (1) obtain and consider all pertinent information relating to the beneficiaries' education and counseling background to determine whether referral

to guidance centers for counseling was necessary and (2) encourage potential applicants attending high schools and beneficiaries who have been accepted for admission to, or are enrolled in, colleges or technical schools to utilize the counseling services available to them in their schools

We estimated that, of the $941,000 in fees which VA paid guidance centers to counsel war orphans during fiscal year 1967, about $376,000 was for counseling beneficiaries who were attending secondary schools that had approved counseling programs under the National Defense Education Act and about $312,000 was for counseling beneficiaries who were in colleges or technical schools that provided counseling services to students

As a result of our review, VA adopted new mandatory procedures to ensure that beneficiaries needing less than comprehensive counseling would not be referred to guidance centers but would be counseled by VA on the basis of greatly abbreviated interviews In addition, VA reported that (1) it had improved its procedures for directing beneficiaries to available outside counseling services to ensure that full advantage is taken of all counseling services and that no duplication of effort occurs and (2) a substantial improvement in utilization of overall resources had resulted and would continue to accrue

Savings by Requiring Municipalities Participating in Demolition Grant Programs to Award Demolition Contracts on a Competitive Basis for Groups of Structures

Our review of demolition activities of various cities to which the Department of Housing and Urban Development (HUD) made grants amounting to two thirds of the costs of demolition indicated that the practices followed by some cities of awarding demolition contracts for individual structures instead of groups of structures and of using city employees instead of contractors to demolish unsafe buildings may not have resulted in the lowest possible costs under the demolition grant program

After we brought our findings in this regard to the attention of the Secretary of HUD revised regulations were issued providing that (1) demolition contracts be awarded for groups of structures contemplated for demolition within reasonable periods and located in the same neighborhoods and (2) maximum use be made of competitive bidding in awarding demolition contracts

Improved Management and Utilization of Laboratory Equipment

In a report to the Congress in July 1968, we pointed out that the National Bureau of Standards (NBS) and Environmental Science Services Administration (ESSA) had not established, for the Boulder Laboratories, a systematic program and adequate procedures to identify and dispose of unneeded equipment We also found that the Boulder Laboratories, to a large extent, had not taken advantage of the benefits to be derived through the use of equipment pools and that established procedures for the control and administration of rent-free loans of equipment by the Boulder Laboratories were not followed by the property management office On the basis of our review, we concluded that there was a need for improvement in the management of laboratory equipment at the Boulder Laboratories

As a result of our review, walk-through inspections by NBS officials at the Boulder Laboratories during March and April 1968 resulted in the identification of 950 pieces of unused or excess equipment with an initial acquisition cost of $730,000 During the period July through November 1968, ESSA identified property having an acquisition cost of $273,346 as being excess to the needs of the individual laboratory to which it was assigned, and property having an acquisition cost of $181,072 was determined to be excess to the needs of the ESSA Research Laboratories and was turned over to GSA NBS planned to establish a systematic program of walk-through inspections by August 1, 1969

As of August 1968, NBS had two division-level equipment pools in operation and consideration was being given to the establishment of a central pool During fiscal year 1968 ten equipment loans were terminated as a result of a review of all outstanding loans

At June 30, 1969, ESSA had equipment pools in operation in two individual laboratories and a central equipment pool containing general purpose type equipment ESSA was planning to develop means for expanding the central pool and/or establishing additional individual laboratory pools by July 1, 1969

All outstanding equipment loans had been reviewed and ESSA had implemented improved procedures for the systematic periodic follow-up of equipment loans effective July 1, 1969

Savings Through Improved Management of Automatic Data Processing Operations and Facilities

In our report to the Attorney General, Department of Justice, in April 1969, we commented on the increased use and expansion of Automatic Date Processing (ADP) operations and facilities within the Department without the benefit of feasibility studies and the possible acquisition of separate ADP facilities by the two constituent organizations

We recommended that the Department establish a central ADP management group responsible for directing and coordinating the development and operation of ADP facilities on a Department-wide basis

The Department informed us in April 1969 that central ADP authority had been assigned to its Office of Management Support for the acquisition and operation of ADP facilities for the Department, excepting only the Federal Bureau of Investigation

Improvement in Reviews of Drawings and Specifications Prepared by Architect-Engineers Before Solicitation of Construction Bids

In a report to the Congress in September 1968 concerning review in the Veterans Administration (VA) of drawings and specifications prepared by architect-engineers (A-Es), we pointed to a need for the VA to improve its scheduling and reviewing process of these documents

Our findings indicated that, for two hospital projects, (1) VA had not detected numerous errors and omissions in drawings and specifications and (2) officials of one of the hospitals had recommended certain design changes after the construction work had been started We concluded that many of the errors and omissions in the contract documents were of the type that should have been foreseen before the award of the construction contracts and that VA should have given more attention to the scheduling and reviewing of these documents

VA informed us that it agreed with our recommendations and that it had established standard operating procedures for scheduling and reviewing the work of A-Es Subsequently, we were further informed that written procedures concerning reviews of drawings and specifications by hospital officials were under review by agency officials In this regard, we noted that during the design phase of a recent hospital project, the contract drawings and specifications were furnished to hospital officials for their review

SAVINGS AND BENEFITS TO OTHERS

Savings and benefits to others consist of realized or potential benefits other than those directly to the Government, which are attributable to action taken or planned on findings developed in our examination of agency and contractor operations The more significant savings or benefits to others identified during the fiscal year are described below

Improved Procedures for Implementing Amendatory Legislation Affecting Railroad Retirement Annuities

At least 2,500 and possibly as many as 6,300 persons had not been paid additional or increased annuities to which they were entitled under amendatory legislation enacted in 1965 These persons included 358 spouses of railroad employee annuitants who had not been paid primarily because Railroad Retirement Board notices concerning their possible entitlement to additional annuities had not been understood by the persons involved The persons involved included some with language difficulties, some with limited education, and some with mental or physical disabilities Other persons had not been paid because they had not requested their annuity increases or because of an inadequacy in the Board's automated operations

After we brought the cases noted in our review to the Board's attention, steps were taken (1) to pay appropriate persons the annuities due them and (2) to establish procedures for evaluating the general effectiveness of Board notices and to make timely reviews of the procedures used to implement amendatory legislation We estimated that, during the first year following the effective dates of the amendatory legislation, the additional annuity payments to the persons noted in our review would total at least $157,400 and possibly as much as $273,200 The additional payments would continue to be paid during the remainder of the individuals' periods of eligibility

Increased Student Participation in an Educational Laboratory Theatre Project in Los Angeles at No Extra Cost

In our review of the activities of the educational laboratory theatre project in Los Angeles during its initial period—April 1967 to September 1968—we found that only about 73 percent of the available seats purchased by the Los Angeles Unified School District for students' viewing of plays were being used This percentage subsequently dropped to 67 The theatre project is jointly funded by the Office of Education in the Department of Health, Education, and Welfare and the National Endowment for the Arts of the National Foundation on the Arts and the Humanities and has provided for showing four plays to students in the initial and subsequent project period

Since the contract between the School District and the group presenting the plays required a fixed payment for each performance, regardless of the number of students attending, we inquired by letter into the possibilities for increasing the use of available seats

After we made our inquiry, we found that about 81 percent of the available seats had been utilized for the first two plays presented in the 1968-69 school year We estimated that about 4,300 more students would view the four plays in that school year than had viewed the four plays shown during the previous year with no increase in the fixed payments made under the contracts with the School District The increase in seat utilization was due primarily to the addition of students from schools not previously participating Further increases in seat utilization are planned

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